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باديكو القابضة
PADICO HOLDING

Annual Report
2016

Committed to investing in Palestine

باديكو القابضة

PADICO HOLDING

Palestine Development and Investment, Ltd.
(PADICO HOLDING)

Foreign, limited, public shareholding limited Liability Company, registered in the Republic of Liberia Under the Liberian Business Law of 1976

Annual Report 2016

Contents

General Overview

Palestine Development and Investment, Ltd. (PADICO Holding) was founded in 1993 as a foreign public shareholding limited Liability Company, registered in The Republic of Liberia. The company was incepted as vigorous initiative and the outstanding make of high-profile Palestinian and Arab businessmen for the purpose of vehemently taking the role in building the Palestinian economy through the implementation of plethora of development projects in vital economic sectors.

The company's paid-in capital stands at USD 250 million, with a par value of one USD 1 per share. The company has been listed on the Palestine Stock Exchange (PSE) since 1997.

The base of PADICO HOLDING shareholders has been gradually growning over the years, from 710 shareholders in 1998 to about 7,810 shareholders in 2016, attracting investors from Palestine and Jordan as well as the Middle East and North Africa Region (MENA) as well as investors from international markets.

Our Investments

By the end of 2016, the total amount of PADICO HOLDING direct investments in numerous economic sectors amounted to USD 599 million in book value. Twenty-two years over the leading startup immense of PADICO HOLDING journey of investment, the company managed to have tens of investments in various sectors of economy.

Celebrating twenty two years of investment in Palestine

2016 has eclipsed. PADICO has been steadily stepping into 2017 in giant strides with as a company known for its steadfastness, perseverance and determination to fulfill its mission and vision.

As at the beginning of every year, PADICO HOLDING proudly grasps the opportunity to celebrate the previous year remarkable achievements which would not have been possible without the invaluable faith and sincere admiration our stakeholder have bestowed upon this long-standing company and the trust they have instilled deep in us. As we embark on a third decade of PADICO remarkable two-decade journey of success, we renew our gratitude and commitment to a leading and pioneer company striving for a bright and better future for our country and our people; serving as a root deep cornerstone and key player in building a national economy in the future State of Palestine and contributing for shaping a future oriented towards decent life hood, plethora of job opportunities and full citizenship

These achievements would not have seen the light without the tremendous and perseverance efforts of the founders of PADICO HOLDING, home and abroad; who have been working relentlessly to create this remarkable landmark investment facility.

Today, as we celebrate Our Company anniversary, we look at the future with optimism; we are looking forward for the day when the Palestinian dream of liberty, independence and self-determination comes true.

Our Values and Mission

PADICO HOLDING is strictly dedicated to the model role it is tasked to building a viable Palestinian economy, hence, Our Company, its founders, subsidiaries, affiliates, and shareholders abide to fostering and implementing investment projects in vital sectors in Palestine. This engagement can be gauged by the ability of the implemented projects to creating job opportunities, launching pioneer economic initiatives and developing partnerships between the public and private sectors. To this end, the Company is a key player in attracting local and international investors to Palestine.

Along with its commitment to viably engage in Palestine, PADICO HOLDING is, as well, committed to its social and moral obligations to its employees and to the local community. The Company upholds to high standards within its corporate value system; it embraces strong corporate governance principles that are compliant with global best practices. As a leading national company, PADICO HOLDING abides by an ethical code of conduct throughout all of its professional practices and activities, aiming at ensuring good citizenship practices and dedication in workplace. Additionally, the Company continuously endeavors to enhance its internal work environment, adopt socially responsible choices of our investment projects, and implement community developmental initiatives

Our Strategy

PADICO HOLDING strategy strongly builds upon both the diverse and wide range portfolio of subsidiary and affiliate investments in various basic and vital economic sectors and the targeted expansion of investments to the Palestinian governorates. This practice aims at fulfilling Our Company commitment to the development of the Palestinian economy. Therefore, PADICI HOLDING has been managing its investments through a group of subsidiaries and affiliate companies implementing various projects in several vital economic sectors including real estate, communications, tourism, industry, agriculture, environment, energy and financial services. The successful engagement of PADICO HOLDING in the Palestinian economy is perfectly mirrored in the solid effect of the implemented projects to create thousands of job opportunities in various Palestinian governorates both in the West Bank and Gaza Strip.

Our Competitive Advantage

PADICO HOLDING is a leading investment company with a long-term development orientation; it occupies a leading position on the map of economy in Palestine. Over the past years, the company has demonstrated a recognized ability to engage in large-scale and promising guaranteed profit-generating projects. Members of PADICO HOLDING Board of Directors have international expertise in various sectors of the economy and entrepreneurship, contributing to the enhancement of its vision, approaches and development of a flexible strategy based on diversification of investment to ensure Our Company accumulated returns that support both sustainability and engagement in active development.

The thoughtful vision and sensible planning of the Board of Directors have contributed to maintain the investment-oriented approaches of PADICO HOLDING despite all challenges. This became possible because of PADICO HOLDING investment diversification-oriented strategy, enabling the company to continuously achieve cash returns over the past years despite the difficult circumstances.

Despite the grave challenges amidst which the Palestinian economy is sprouting, it is worthy reaffirming that the Board of Directors' perseverance efforts and prudent plans contributed to maintaining profitable investment-oriented approach. PADICO HOLDING strategy is based on investment diversification, which has enabled the company to achieve continuous returns over the past years.

Our Social and Development Responsibility

In recognition of the importance of its role in supporting economic development in the country, and in recognition of the need of the Palestinian society to develop and support small projects and creative initiatives, PADICO HOLDING has evolved in response to its social responsibility towards main social groups such as youth and women and other less privileged and disadvantaged sectors of the Palestinian society. This responsibility is an intrinsic part of the PADICO HOLDING System. It mirrors a well-developed concept of a systematic and sustainable development–oriented social responsibility that will strengthen the grounding pillars of the Palestinian society, especially the youth who are unquestionably be the cornerstone of leading and steering the building power tank of the future of Palestine

Our System of Good Governance

PADICO HOLDING has evolved in response to systematically incorporate the concept of good governance to enhance the company ability to control management and quality management. Good Governance has been the key to PADICO HOLDING excellence; it enabled a wider scope for regulating administrative and supervision operations in the economic unit, foreseeing opportunities and optimizing recourses. This practice serves as a guiding framework for determining responsibilities and duties in the economic unit the way performance is improved and investment is consolidated. Strategic and systematic governance added to the market values of Our Company, more precisely, it protected corporate shareholders rights and equity and encouraged development and investment by virtue of rules that, as a result, increase shareholder confidence in the economic unity.

PADICO HOLDING considered incorporating the principles of good governance in the company management system. The restructuring of the investments under a diverse portfolio of four holding companies reinforced the incorporation an practice of the principles of good governance and strengthened the company commitment to work hard in order to improve the efficiency and effectiveness of our company management systems.

PADICO HOLDING recognizes governance an integral part of the administrative principles. It is a strategic inevitable necessity to ensure the conduct and progression of the company, widen scopes for foreseeing future prospects, ensure optimal utilization of resources, and guarantee the distribution of tasks and authorities between the members of the Board of Directors on the one side, and the Board of Directors and the executive management; on the other. This practice has improved the efficiency and effectiveness of the system that the Company has evolved. Basically, it is a fundamental principle ensuring the company›s commitment to international standards including safe work environment regulated by a code of conduct; and organizing the relationship between our company and the community.

PADICO HOLDING has become a success model for Palestinian companies. It has made great strides in implementing the principles of good governance, both in terms of defining the functions the Board of Directors, disclosing the company›s financial statement and circulating the company information, activities, contracts and investment plans. Annual reports are issued in accordance with the requirements of the Palestine Capital Market Authority (PCMA). To sum, the commitment to the principles of transparency and governance is manifested best by PADICO HOLDING signing the Code of Corporate Governance in Palestine.

In 2012, PADICO HOLDING signed an agreement with the International Finance Corporation (IFC), the investment arm of the World Bank Group, to enhance the company adherence to international standards and best practices, and make the utmost benefit of international experiences in this regard. The agreement stipulates that the latter i.e. IFC, shall conduct a study to facilitate incorporating and developing the principles of good governance in PADICO HOLDING practices. The study entailed a comprehensive review of our company current practices of both good governance and transparency; recommendations shall be excluded, accordingly..

The commitment of PADICO HOLDING to the standards of good governance is not only recognize by signing the Code of Corporate Governance in Palestine, but also by its success to be the first Palestinian company to join the United Nations Global Compact (UNGC). Needless to say, this reflects PADICO HOLDING recognition of the importance of the company presence in the international arena, its keenness to the maximum international standards of transparency governing every single detail of its activities and practices in various fields of work, including environment, labor rights and governance and transparency. Under this commitment, the Company provides annual progress reports to the UNGC showing best practices of the company in terms of the international standards.

Nonetheless, PADICO HOLDING issues quarterly and annually financial disclosures and press releases to indicate recent activities in various programs such as the Corporate Social Responsibility Program, Sustainability Programs as well as Environment Program. In this regard, the company publishes quarterly newsletter to shed light on the latest activities and investment plans of PADICO HOLDING, subsidiaries and affiliates.

The Company also unfolds annual reports fulfilling the requirements set by Palestine Capital Market Authority (PCMA) and Palestine Exchange (PEX)

Sustainability and Responsible Investments

PADICO HOLDING is dedicated to the principles of sustainability and transparency; it pursues responsible investments in the fields of energy and environment along with its continuous support of the social development programs.

PADICO HOLDING membership of the United Nations Global Compact (UNGC) has improved the Company's scope of work in regards to the standards of human rights, labor rights, environmental practices and the enforcement of business ethics as advocated by the UNGC Charter. PADICO HOLDING also seeks to expand the membership network of other Palestinian companies in the UNGC.

Investor Relations and Communication with Shareholders

PADICO HOLDING, through the Shareholders Affairs Unit and the Sustainability and Investor Relations Department, demonstrate keenness to maintain proactive and effective communication and coordination with all investors and shareholders to keep them abreast of all the details that help them understand the future prospects of their investments and recognize the company achievements and activities.

Various means of communication are employed to ensure better communication, including telephone calls, the company website, e-mails, the annual report, quarterly newsletters, media outlets and social networking.

The annual General Assembly meeting of PADICO HOLDING is regularly held between April and May. This meeting is a forum to discuss the Company financial position, investments outcomes and future plans. During the meeting, shareholders approve the statements of Directors and auditors and approve any recommendations for the distribution of profits. Shareholders are invited to attend the General Assembly meeting one month prior to the date set for the meeting. Invitations and the annual report are usually sent via e-mail, advertised in local newspapers and posted to the company website.

Financial Disclosures

PADICO HOLDING discloses its financial statements through its quarterly reports, the annual report, and during the meetings of its General Assembly. Financial data is presented to the Palestine Capital Market Authority (PCMA) and the Palestine Exchange (PEX) pursuant to the regulations in force in Palestine. Financial statements and reports are regularly posted to Our Company website; when necessary, financial statements are disclosed in a press conference.

Internal Auditing

PADICO HOLDING emphasizes the importance of internal auditing. The Internal Audit Department, enjoying full autonomy, reports directly to the audit committee of Our Company Board of Directors. International standards are applied for audits of financial reports of PADICO HOLDING and all its subsidiaries. The relationship of the Internal Audit Department with the affiliate and subsidiary companies is regulated by resolutions early approved by the Board of Directors and the Internal Audit Charter.

Board of Directors

Munib R. Masri
Chairman

Nidal M. Sukhtian
Vice Chairman

Sabih T. Masri
Board Member

Nabil G. Sarraf
Board Member

Zahi W. Khouri
Board Member

Ammar A. Aker
Board Member

Kameel A. Saad Edeen
Board Member representing
.Al-Masira Investments Co

Jamal S. Hourani
Board Member representing the Arab Bank

Yazid A. Mufti
Board Member representing Cairo Amman Bank

Omar A. Bitar
Board Member representing Palestine Technology Transfer Co

Bashar F. Masri
Massar Group

Paltel Group
Board Member

Iyad N. "Darwish Hajji"
Board Member/ Representative of Arab Supply and Trading Co

Ziad M. Turk
Secretary General

Samir O. Hulileh
Chief Executive Officer

Functions of the Board of Directors, Committees and Work Procedures

Responsibilities

PADICO HOLDING Board of Director consists of thirteen members who are charged with oversight of the implementation of the strategic plans and endorse future strategies. They are responsible of examining political and economic environments and variables affecting next phases of work. The Board of Directors is tasked approving budgets and financial and investment policies and endorsing regulations, and pass financial statements. Functions of the Board are executed through various committees.

PADICO HOLDING is strongly committed to the best practices of the principles of good governance; decisions are routinely taken through majority vote. The Board members are required to hold a minimum of 100,000 shares of the Company's stock. Neither the Chairman nor the other board members are entitled to any executive positions in the Company or in any of its affiliates. Missions are executed by a variety of permanent and ad hoc committees entitled to specific duties and responsibilities within a specific time table. Throughout 2016, the Board of Directors conducted six official meetings, in addition to a number of toolbox talks and workshops as part of good governance best practices.

Committees

The Board executes its functions through various permanent and ad hoc committees:

The Executive Committee:

- Omar Bitar, Eng
- Bashar F. Masri
- Ammar Aker

The Audit Committee

- Yazid A. Mufti- Head of Committee
- Kameel Saad Edeen
- Ziad Turk

The Legal advisors to the board

- Al Musanadah Law Firm (Sanad Law Group in association with Eversheds)- International
- Zaher Jardaneh
- Haytham Al-Zubi

The Executive Management

- Samir O. Hulileh- Chief Executive Officer
- Amjad Y. Hassoun- Chief Financial Officer
- Kareem S. Bitar -Manager of Investments and Business Development Department
- Jamal M. Barahmeh - Head of Shareholders Management Unit
- Saeed Y. Dwekat - Head of Project Development
- Rawan R. Juha - Manager of Sustainability and Corporate Communications Department
- Jihad Zamari - Manager of the Internal Audit Department
- Samer M. Safadi - Head of Shareholders Affairs Unit

External Auditors

- Ernst &Young

Main Banks

- Arab Bank
- Cairo Amman Bank

Shareholders Structure

At the end of 2016, PADICO HOLDING had 9,040 shareholders, distributed as follows:

Shareholders Distribution by Type	Number of shareholders	Number of Shares	Shareholders' equity ratio
Individuals	7,706	105,781,323	%42.31
Companies	104	144,218,677	%57.69
Total	7,810	250,000,000	%100.00

Number of Shares	Number of shareholders
%42.31	7,706
%57.69	104

Shareholders Distribution by Nationality	Number of shareholders	Number of Shares	Shareholders' equity ratio
Jordan	764	60,693,856	%24.28
Palestine	6,715	109,702,015	%43.88
Rest of the World	331	79,604,129	%31.84
Total	7,810	250,000,000	%100.00

Shareholders, equity ratio	Number of shareholders	Shareholders Distribution by Nationality
%24.28	764	Jordan
%43.88	6,715	Palestine
%31.84	331	

Main shareholders in PADICO HOLDING until Dec. 31, 2016

\\\\	Shareholders	Capital ratio
1	PALTEL Group	16.77%
2	Sabih Masri– Group	12.66%
3	Saraj for Investment Funds Group	9.10%
4	Massar International Group for Investment	8.30%
5	Munib Masri – Group	5.25%
6	Nidal Sukhtian – Group	2.23%
7	Sideeq Omar Abu Sido	1.92%
8	Ramzi Dalloul – Group	1.75%
9	Rasmala Investment Banking Group	1.66%
10	Abdul Mohsen Hassan Qattan	1.19%
11	Sheikh Mohammad bin Hamad Al-Thani and relevant entities	1.02%
12	Hanaa International Company Limited	1.00%
13	General Social Security Corporation	0.96%
14	Al-Sa’eed Company Limited	0.74%
15	Saudi Olayan Investment Company LtD	0.72%
16	Etihad Bank/ Jordan	0.65%
17	Arab Jordan Investment Bank	0.62%
18	Adel Sa’eed Ibrahim Al-Qassem	0.58%
19	Riyad Tawfiq Al-Sadeq	0.56%
20	Dubai National Investment Company	0.56%
21	Ahmad Yusuf Qassem Hammouri	0.52%
22	Nabil Sarraf and relevant entities	0.45%
23	Cairo Amman Bank	0.43%
24	Mohammad Zuhair bin Hamza bin Ibrahim Fatayerji	0.40%

Cash dividends were distributed to shareholders within 22 years with the amount of 219.1 million USD. The distribution of free shares to shareholders was 40 million USD . As a total, 259.1 million USD until the end of year 2016.

PADICO HOLDING Milestones: twenty two years of investment activity and a diverse investment portfolio

1993

A group of Palestinian and Arab investors founded PADICO HOLDING with a paid-in capital of USD 250 million.

1994

PADICO HOLDING founded the Palestine Real Estate Investment Company (PRICO), one of Palestine largest real estate development companies at the time.

1995

- PADICO HOLDING founded the Palestine Telecommunications Company (PALTEL), the first telecommunications company in Palestine.
- PADICO HOLDING founded the Palestine Securities Exchange as a private shareholding company, name was later changed to the Palestine Exchange (PEX), after becoming a public shareholding company.
- PADICO HOLDING founded Palestine Industrial Investment Company (PIIC).

1997

- The Palestine Exchange (PEX) opened for trading.
- PADICO HOLDING was listed on Palestine Exchange (PEX).
- Palestine Industrial Investment Company (PIIC) founded Palestine Poultry Company (PPC), which is one of the largest poultry companies in Palestine.
- PADICO HOLDING and a number of major Palestinian and international economic institutions established Palestine Mortgage and Housing Corporation, which is one of the first mortgage companies to finance mortgage loans to support the housing sector in Palestine.
- PADICO HOLDING established Palestine Industrial Estate Development and Management Company (PIDECO Gaza), known to be the first industrial zone in Palestine.

1998

PALTEL- PADICO HOLDING's affiliate- launched JAWWAL, the first Palestinian Telecommunication company

1999

PADICO HOLDING distributed dividends to shareholders for the first time.

2000

- PADICO HOLDING opened The InterContinental Hotel in Bethlehem, the first 5-star hotel in Palestine
- PADICO HOLDING established Al Mashtal Investment Company to manage the implementation of the first 5-star hotel in Gaza

2006

PADICO established Jerusalem Holding Company (JEDCO), the tourism sector investment arm of PADICO.

2009

PADICO HOLDING opened the Al Hambra Palace, the first investment in Jerusalem

2010

- PADICO Holding has established The Agricultural Investment Company (Nakheel Palestine), known to be one of the largest agricultural companies in Palestine.
- The Movenpick Hotel, the first five-star hotel in Ramallah, was opened.
- In partnership with a number of Palestinian and regional companies, PADICO HOLDING incorporated Palestine Power Generation Company (PPGC to establish the first power plant in the West Bank, with 450 MW at full capacity.

2011

- Al Mashtal Arc Med, a subsidiary of Al Mashtal Investment Company, was opened as the first five-star hotel in the Gaza Strip
- .PADICO HOLDING established Jericho Gate in partnership with PALTEL Group, to execute the largest residential, recreational and entertainment developmental project in Palestine.
- PADICO HOLDING issued USD 85 million in corporate bonds, becoming the first company to issue corporate bonds in Palestine

2012

- PADICO HOLDING completed its restructuring, which placed the majority of its investments under three main holding companies – Palestine Real Estate Investment Company (PRICO), Jerusalem Development & Investment Company (JEDICO), and Palestine Industrial Investment Company (PIIC).
- PADICO HOLDING opened the St. George Landmark Hotel in Jerusalem.
- The Palestine Exchange (PEX) made the initial public offering (IPO) of its stock

2014

- The Business Club project was opened in Ramallah to serve the business community in the center of the West Bank.
- Rabiat Al-Quds Real Estate Project was incorporated, procedures for opening 82 apartments files at a Jerusalem Municipality were taken as part of a Jerusalem based housing project..

2015

The Supreme Planning Council final approval of the detailed structural plans for the Jericho Gate Project was obtained.

2016

- Building permits were obtained for the construction of 82 apartments as part of the first phase of the Rabiat Al-Quds Real Estate Project from Jerusalem Municipality.
- For the second time since its inception, PADICO HOLDING issued the largest grants commercial loans in Palestine, with a nominal value of USD 120 million dollars.
- Laying the foundation stone for Palestine Power Plant, near Jenin, which will be the first of its kind in the West Bank.
- Palestine Industrial Investment Company (PIPICO), PADICO Holding›s industrial arm, completed its acquisition of Al Pinar General Trading Co., a company specialized in the manufacture of cheese and dairy products.

Board of Directors' Message

Esteemed Shareholders,

Twenty-two years ago, the milestones journey of the remarkable achievements of PADICO HOLDING embarked. Our Company was able to outnumbering various challenges and managed to overcome the turbulences of the unstable economic situation and the absence of a political solution that ends the occupation and guarantees the Palestinian citizens decent life in an independent state, we desire.

Our dream is an integral part of the great Palestinian dream, we are viciously working to realize our vision so as our people would enjoy a prosperous independent economy where pillars of citizenship, including diversity and human dignity, are respected.

Bearing this in mind, we aspire towards powerful Palestinian economy that shapes a bright future and maintains the utmost dreams of our children, dreams that has been an intrinsic part of the passion and judgment of Our Company founders and shareholders and heads of departments and units and the executive team of PADICO HOLDING , homeland and in diaspora. The very basic idea of construction and Our Company contributions to building has emerged from the womb of wishes and aspirations; therefore, this continuous saga of many wants would undoubtedly become real.

It is inevitably acknowledged that the steadfastness of the Palestinian people is very inspiring and motivating, thus, PADICO HOLDING clearly expressed rooted believes in the feasibility of investing in Palestine, in an effort to build a cohesive economy that serves the people of this benevolent country. We have made great efforts in attracting Arab and foreign investors to Palestine in order to ground-root the very long-term projects that will leverage a strong Palestinian national economy and support the process of construction and development motivated by our sense of belonging to the basic right of the Palestinians to establish an independent Palestinian State with its capital as East Jerusalem.

Dear Shareholders,

A fact that is often depicted, achievements would not have been possible amid unstable internal and external political circumstances. The Political challenges on the way to liberation and independence, the turmoil in the Arab region along with the intra-Palestinian division, which is the most painful of all, continue to disturb Palestinian unity and hindrance our vulnerability to facing difficulties. For this simple reason, our commitment to investment in our homeland will be always paired with our dedication to exerting all efforts to end this exotic situation. By way of this introduction, we will sincerely work on restoring Palestinian national unity, creating partnerships, realizing the Palestinian basic dream to independence from the Israeli occupation and having an independent Palestinian state.

Against the backdrop of these complicated circumstances, our believe in our vision and the key role we play to support our peoples' struggle for freedom and liberation and the trust our dear shareholders bestowed upon us give Our Company the strength, the will and the unswerving determination to confront all obstacles. As for, PADICO HOLDING was able to surpass the atypical circumstances in the Arab region, instability of the situation along with AL Aqsa Uprising and the consequent most recent Israeli aggression on the Gaza Strip in 2016. Each and every time, PADICO HOLDING succeeded to remove the dust of the battle, overcome political crises, and stand firmer and more determined to continue the process of construction and development

Dear Shareholders,

It is worth recalling that Our Company lengthy experience of investment, marking the twenty-two anniversary of establishing PADICO HOLDING, has been motivated by a national spirit and a sincere will for bolstering the Palestinian economy. We have never been motivated by any frantic economic desire for material profit. Today, after twenty-two years of its inception, PADICO HOLDING has created strong investment entities in various economic sectors, including telecommunications, real estate, tourism, agriculture, industry, financial services, and many other investment activities implemented through a group of subsidiaries. These investments are today the skeleton for the process of comprehensive economic development that would be the leverage for the future Palestinian state, we aspire.

In addition to bolstering the Palestinian economy, PADICO HOLDING is an outstanding operator of the labor force in Palestine. Our Company hires about 5,000 he/ she employees either directly or through subsidiaries and affiliates.

After more than two decades of hard work and leadership, PADICO HOLDING has become the investment model and the pioneer of the private sector in Palestine. Added to that, it is the key player in various investment sectors. The great achievements and remarkable ongoing successes of PADICO HOLDING continue; thanks to invaluable trust bestowed by our shareholders and the strength of Our Company cadres despite instabilities and exotic circumstances.

PADICO HOLDING has made significant strides in implementing current projects: the Jericho Gate, a promising real estate project located at the southern entrance to Jericho, implemented by PADICO HOLDING in partnership with Palestinian telecommunication Company (PALTEL); Rabiyat Al-Quds Real Estate Project, Beit Safafa, Jerusalem; Nakheel Palestine project, known to be one of the biggest agricultural companies in Palestine promoting Palestinian dates in local and international markets and the Palestine Power Generation Company (PPGC), Jenin, among others. PADICO HOLDING projects foster the Palestinian economy and contribute to the welfare and prosperity of Palestinian society. They are the baseline for the Palestinian economy in the future Palestine.

During 2016, PADICO HOLDING has been issuing commercial bonds for the second time in its history in order to reinforce existing projects. Needless to say, the clear impact of these projects is tangible: fostering the Palestinian economy and advancing a long-standing sustainable economic development led by PADICO HOLDING for more than two decades.

PADICO HOLDING 2016 achievements, clearly stated in PADICO HOLDING 2016 Annual Report are a physical demonstration of the Our Company well-planned investments, wise vision and flexible management over the past years. Fruitful results would not have been attainable without our valued shareholders trust and faith in PADICO HOLDING for the investment of their capital. Over the past year, Our Company has distributed dividends to its shareholders in the amount of USD 12.5 million.

Dear Shareholders,

PADICO HOLDING has taken upon itself to be the lifeline of the Palestinian society. There are grounds to believe that is attainable through the company positive practices to support the neediest sectors. Our Company has left mark prints in vital and influential investment sectors embodying a more comprehensive vision towards investment and development. Over the past year, the company continued to sponsor targeted and developmental programs and projects for the best interest of key sectors of the local community. It supported young people, taking the form of either direct sponsorship to education, culture, arts and entrepreneurship or launching initiatives in different sectors. PADICO HOLDING has not only taken a unilateral approach in this context, it has entered into strategic partnerships with many official, community and international parties to strengthen PADICO›s approach towards inclusive community development. All in all, this has tangible impact on the company service-oriented programs targeting all segments of society so as to enhance citizenship sense of belonging and the culture of giving.

Dear shareholders,

The Palestinian cause is still going through delicate and critical circumstances that oblige us all to stand up to our responsibilities and show responsible comprehension of the national and moral positions at this acute present historical era. The city of Jerusalem has been suffering systematic Judaization and isolation, the Israeli settlement activity is rapidly expanding at the expense of the Palestinian land and existence; the national unity is still unreachable due to the intra-Palestinian division, so far not reined. Therefore, ending the Palestinian division, arranging the internal house and conducting comprehensive elections are top priorities, we strongly believe. Speaking thoughtfully, determined attempts must be intensified and different efforts must be mobilized towards building our independent state.

In conclusion, allow me to take this opportunity to express deep gratitude and appreciation to PADICO HOLDING Executive Management and executive staff who have spared no effort to make the success of Our Company and increase its prosperity.

We are pleased to present to you PADICO HOLDING 2016 annual report. I conclude with a renewed commitment to remain loyal to the slogan we have raised since the establishment of your company: “We are committed to Investment in Palestine”.

Yours respectfully,
Munib Rasheed Al Masri

Executive Management Report

Dear Shareholders,

Now that another year of hard working under acute political circumstances had eclipsed. Regardless, we have been striving to move forward; armed with determination and confidence to achieve Our Company missions and visions, mainly, launching new projects, creating job opportunities, expanding investments and enhancing performance and investments. On yearly basis, we are pleased to review with you the annual report of 2016 that inclusively sheds light on the performance of our company, sums the most important achievements and highlights the qualitative strides made by the company last year. More to this, the report illustrates the repercussions of the difficult surrounding circumstances on the Palestinian economic status-quo and PADICO HOLDING investments, in particular. Needless to say, Our Company is a focal cornerstone to the Palestinian economy; it is further recognized as a top privately-held company and an added value considering its octopus investments in various vital sectors of the Palestinian economy.

At this meeting, we look forward to open the doors wide at the unparalleled experience and unique process of construction and development instilled by the former founders of PADICO HOLDING. The fruitful experience has been safeguarded by The Board, the Executive Managements as well as the staff of our company maintaining teamwork with a spirit full of hope, ambition and determination towards success.

Dear stakeholders,

We tell no secret, the political turbulence and extreme changes during 2016 casted their shadow on the economic status in Palestine and the Arab region as a whole. In view of the political instability, the Palestinian economy has negatively impacted; off-hand, affecting the financial performance of PADICO HOLDING, which was no exception. However, Our Company long-standing and exceptional experience in the investment environment in Palestine and its ability to deal with more difficult situations in the past two decades, enabled us it to handle the volatility of 2016 with great flexibility and wisdom.

By the end of 2016, PADICO HOLDING total consolidated revenues amounted to USD 132.36 million, compared to USD 129.82 million in 2015. Total consolidated assets increased from USD 820.52 million at the end of 2015 to USD 842.57 million at the end of 2016, with a decrease rate of 2.687%. Total consolidated liabilities increased to USD 305.66 million at the end of 2016 compared to USD 276.70 million at the end of 2015, with an increase growth of USD 28.96 million, equivalent to 10.5%.

As for PADICO HOLDING profits, numbers indicate profits reached USD 19.01 million for 2016, compared to USD 22.30 million in 2015, with a decrease rate by 14.46%; despite the noticeable improvement in the performance of Subsidiary and affiliate PADICO HOLDING companies operating in the industrial and tourism sectors.

2016 profits were affected by the financial performance of Palestine Real Estate Investment Company, affected by earlier changing in the international accounting standards of projects implemented by the company during 2015 - 2016.

Flexibility and dynamism in the face of complexities

This decrease in the operating profits of PADICO HOLDING during 2016 was not easy, but a great achievement considering the political complexities and their negative effects on the Palestinian economy during that period. With hard work, flexibility and high dynamism, the company has overcome the very complex political and economic conditions. Nonetheless, the rise in the rate of assaults and constraints on different aspects of life and sectors in Palestine was not only inclusive to the political level; they have negatively impacted the Palestinian economy.

One of the most striking features, the Palestinian tourism sector was of the most negatively affected; resulting in a decline of performance. Bearing this in mind, the performance of Our Company investments, precisely mentioning, our investments in the tourism sector, have been affected. To best exemplify, Our Company continues to operate the Gaza located Al Mashtal Hotel and the Blue Beach chalets despite the continued weakness of revenues. By virtue of PADICO HOLDING strong commitment to our collective national and moral obligation towards our community in Gaza, therefore, Our Company is still providing distinguished hotel services and leaving a space for job opportunities.

On account of these facts, PADICO HOLDING sold its stake in Arab Hotels, the owner of Movenpick Hotel in Ramallah, in 2016. This procedure was a choice to escape weak profits and reduce financial exposure in the tourism sector, known to be highly sensitive to the extreme political conditions in Palestine and the region. In view of this procedure, including others, PADICO›s annual losses were brought to the bottom. Currently, the company is focusing on promising investments in other sectors to ensure high profitability.

Quality achievements and sincere efforts to develop existing projects

Against the backdrop of the aforementioned difficult complicated circumstance and complexities, PADICO HOLDING and subsidiaries achieved remarkable progress in 2016. The company has taken a historic decision by launching commercial loan bonds for the second time since 2011, with s total value of USD 20 million. The loan was covered by 12 banks and financial institutions from Palestine and abroad. For the Palestinian territories, this is the largest private placement of loan bonds since the establishment of the Palestinian National Authority; as universally acknowledged, bonds are one of the best debt instruments that best suits the nature of medium to long-term investments commonly taking quite a while to become cash- generating projects.

The latest initial public offering (IPO) re-gained PADICO HOLDING a remarkable trust in the Palestinian market; the IPO saw a large turnout since its inception by most operating banks in Palestine. The Arab Bank, Jordan Bank, Cairo Amman Bank, Jordan Kuwait Bank, The National Bank, Palestine Investment Bank, Capital Bank of Jordan, Al Osool Al Arabia Inc., Jordan Ahli Bank, Al Quds Bank, Jordan Commercial Bank, the Palestinian Monetary Authority were listed as lead underwriters

The face value of the bonds, amounting to USD 120 million, was fully covered. The majority of banks underwrote the IPO with even higher overall subscription than the first 2011 IPO. Clearly, this reflects state of satisfaction bondholders have during the previous five years to take the risk of funding this IPO.

PADICO HOLDING used part of the loan proceeds of the second IPO, with a total value of USD 120 million, to repay off bonds issued in 2011. Another part went to fund short-term bank loan payments and developmental projects. The amount of USD 21 million will be invested in developmental activities and to finance and support existing projects towards stability and maturity. Hence, the intent here is to generate a stream of income on medium-term investments.

Our strategy for the coming years will focus primarily on developing and expanding our existing projects in order to increase profitability. All in all, we will yield our efforts to meet our obligations towards our esteemed stakeholders. Last year, statistically saying, the total of USD 12.5 million, equivalent to 5%, of the value of cash dividends and shares were distributed to shareholders; a decision taken in the Ordinary General Assembly of PADICO holding on May 17,2016.

Within the framework of PIIC strategy to implement horizontal expansion plans, PRICO, PADICO HOLDING investment arm in the real estate sector, expanded the industrial zone (AL Mintar), the City of Gaza up to 10,000 square meters to allow for more space to accommodate more investment projects and the ready-to-Hangars in the agro-industrial city, Jericho. A 13 km road connecting Jericho›s agricultural industrial zone directly to the King Hussein Bridge and a number of roads offers project management services are undergoing construction

The necessary surveys and drawing designs of the road to link the agro-industrial city to Al Karama Crossing (the border crossing between Jordan and Palestine) are concluded; so, the 9.7 km road which will be the main trade route for exporting goods to the Jordanian and international markets.

The company concluded an agreement with the Ministry of Waqf and Religious Affairs to demolish the old building next to Al-Bireh Central Station, a modern seven-floor commercial complex on an area of 4000 square meters will be established. Another agreement was concluded with Ramallah Municipality to exploit part of the municipality›s public squares; The Company seeks to start implementing similar projects adhering to the Build–operate–transfer system (BOT) in Jenin and Ramallah during 2017.

In a relevant context, Palestine Industrial Investment Company (PADICO), the investment arm of PADICO HOLDING in the industrial sector, continued to implement plans for horizontal expansion in the food industry. It completed the acquisition of Al Pinar General Trading Company for cheese and dairy production, with a production capacity of 22-25 thousand liter of milk daily.

PADICO INDUSTRIAL is working on developing Al-Pinar production lines and adopting the back integration method by establishing a cattle farm to achieve the adequacy of raw milk required for production during 2017.

With regard to Rabiyat Al Quds Real Estate Project, being implemented by PADICO HOLDING, Beit Safafa, in the heart of the City of Jerusalem, the company has succeeded in obtaining all necessary permits and approvals from all the relevant departments in the Municipality of Jerusalem. The company was able file plans in order to pull permits Jerusalem Municipality to build 82 apartments. This was a giant step paving the road to implementation of the project upon the conclusion of the executive plans and tender documents.

PADICO HOLDING has also made great strides in implementing the Jericho Gate project, a huge integrated real estate development project under construction at the southern entrance to Jericho. The project is being implemented by PADICO HOLDING through a strategic partnership with PALTEL. The Jericho Gate project aims at developing various tourism and leisure facilities including residential villas, resorts and hotels and commercial complexes, as well as the largest aquatic city in the region, among other facilities, tourism and unprecedented entertainment projects in Palestine. The first half of 2016 witnessed rapid construction activity in the Jericho Gate project. In early 2016, the Jericho Gate Company completed the construction of 64 dirt roads as part of the project, which the total length of about 36 km. the road project is completed. Work began on the installation of underground high pressure power lines at the site of the project. The expansion of offices and work units is undergoing process.

In addition, the company has signed development agreements with six local developers to implement the first phase of the project, expected to commence within a short period of time. Procurement and tendering processes for main bids has started; aiming at the implementation of infrastructure networks, Phase 1 in April 2017.

Nakheel Palestine Company is one of the largest agricultural companies in the country with the biggest high quality Medjoul Dates plantations in Palestine. The company has increased the production lines to 6 instead of two; accordingly, it became the most sophisticated company in terms of grading and classification of dates, incorporating the cutting-edge technology based on the highest technological standards in the Middle East.

Notably, the productive capacity of the Packaging Unit has multiplied by about 3-folds, as the productive capacity of the production lines increased to about 3 tons per hour. Currently, the company is undergoing the process of the acquisition of Sultan Fresh Fruit Company, a major company for the production of the Medjoul dates in Jericho which owns, roughly saying, more than 15,100 Majdoul dates plantations. The enterprise will cultivate palm trees over an area of more than 4,000 dunums in the Jordan Valley, all in area (C).

The inauguration of Jenin Power Plant, implemented by the Palestine Power Generation Company is remarkably a top achievement. PADICO HOLDING share constituted 20 % of Palestine Power Generation Company. The Power Plant is one of the most important and largest infrastructure projects in Palestine, with an electricity generation capacity of about 450 MW and an annual production volume of about 3,500 GW. Consequently, the project will meet about 40% of market demand for electricity, reducing electricity imports currently mounting to more than 90%. PADICO HOLDING total investment in the project is expected to reach USD 600 million.

An overall community commitment

Throughout its professional journey, PADICO HOLDING has always given considerable attention to developmental and societal programs. This responsibility is an intrinsic part of the PADICO HOLDING System. It mirrors a well-developed concept of a systematic and sustainable development–oriented social responsibility that mirrors a national and moral responsibility and a sense of belonging to the Palestinian society. in 2016 PADICO›s corporate social responsibility strategy has evolved into a holistic and inclusive approach to all vital and influential aspects of society, taking the form of direct support to education, culture and entrepreneurship, launching of initiatives in different sectors, and supporting the marginalized most needy community segments.

Inspired by this vision, PADICO HLDING launched in 2016 the 5th phase of “Tamayyaz” program, implemented in cooperation with a number of universities and community organizations. Our Company has participated and incubated several conferences, activities and development seminars. Moreover, PADICO HOLDING allocated some of the company services and facilities in this charitable direction; hence, it hosted art and cultural exhibitions.

As well, Our Company is committed to support developmental and community projects in the Palestinian governorates in recognition of its social corporate responsibility, keenness to enable the Palestinian society - especially young people to face the ongoing challenges and ardor to give the necessary support by all possible means to foster the relentless efforts to building our independent Palestinian state.

Our Future Outlook

In the upcoming stage, PADICO HOLDING looks forward to maintaining and developing its investments, finalizing the implementation of some of projects launched at an earlier time, and improving the performance and profitability of the current existing projects, namely Jericho Gate; NAKHEEL Palestine (in which PADICO HOLDING share amounts to USD 25 million, net profits are expected in 2017); the Power Generation Project, northern West Bank and Rabiyat Al-Quds, Shurufat area, Jerusalem among other projects.

We will also work on restructuring some investments and reducing investment exposure in other sectors in order to improve the performance and financial results of PADICO Holding Group.

Esteemed Shareholders,

The several major and remarkable cornerstone achievements of PADICO HOLDING we are reviewing with you today ,is the result the profound trust you have bestowed upon us, and continuous support , which was our primary source of motivation for these achievements. The hope you have instilled in us also continues to inspire our determination and perseverance, enabling us to carry on with this path, face all the challenges that lie ahead and achieve the prosperity and growth of Our Company.

Samir Hulileh

CEO

Overview of the Palestinian Economy in 2016, Economic outlooks for 2017

The Palestinian Economy

A continuous turbulence has escorted the Palestinian economy during 2016, mounting the peak during Al Aqsa uprising. The least to say, this revolution sprouted in response to the Israel arbitrary aggressions and policies; the political stalemate that curtailed reaching at a just solution to the Palestinian cause and the absence of any horizon for resuming the peace process under the current Israeli government and the continued intransigence. During the second half of 2016, Al Aqsa uprising has declined, still, this has not been linked to any tangible improvement in the political atmosphere or significant positive changes on the ground regarding the peace process between the Palestinian and Israelis. Yet, cloudiness and uncertainty were further strengthened in the fourth quarter of 2016, especially with the access of the new US President Donald Trump to power.

So far, final figures about the performance of the Palestinian economy in 2016 were not officially announced; however, preliminary estimates issued by Palestinian Central Bureau of Statistics demonstrate a Gross Domestic Product. Based on these positive indications, economic analysts revealed a growth rate of 3.9% during 2016, resulting in a slight increase in per capita gross domestic product (GDP) of 1% during the same year compared to the previous year. These results are very close to the economic forecasts announced at the beginning of the year (according to the basic scenario) GDP growth was expected to stand at 3.8%.

The growth in 2016 was concentrated in the main economic activities with a relatively higher contribution to GDP. the industrial sector comes in the first place as preliminary estimates revealed a rise of 9.5% and an increase in the total number of employees by 12.3%. The construction and real estate sector comes second; estimates reveals a rise in the total added value by 4.2% compared to 5.9% in 2015, meanwhile, the total workforce increased by 12.3%.

As for the Palestinian local labor market, preliminary estimates indicate a rise in the total number of workers in the Palestinian local labor market by 3.0% during 2016 compared to 2015, due to the increase in the number of workers in construction, industry and services, Palestinian workers in Israel to 12.1% of the total workforce compared to 11.5% in 2015. However, the total unemployment rate increased slightly in 2016 to 27.2% from 26.2% in 2015 due to the increase in the Gaza Strip compared with a slight decline in the West Bank.

As for the foreign trade in Palestine, which is represented by total exports and imports, the year 2016 witnessed an increase in the value of exports by 6.3% compared to 2015, and the value of imports increased by 7.3% compared to 2015, The Palestine Consumer Price Index (CPI) has stabilized in 2016 compared to 2015.

Economic Outlook for 2017

As for the economic forecasts for 2017, the Palestinian Central Bureau of Statistics, in consultation with the Palestinian Ministry of Finance and the Palestinian Monetary Authority, prepared 3 scenarios for the Palestinian performance economy in 2017, based on identifying some aspects and features of the political and economic environment of 2017, including the siege imposed on the Gaza Strip, foreign aids, Israeli policies in Palestine and the number of Palestinian workers inside Israel, as well as a host of other important economic and social variables

The basic scenario builds up on a number of assumptions as follows: the economic and political situation in Palestine would continue as it was during 2016; the status quo of political stalemate between the Palestinian and Israeli sides continues; donor countries financial support to the State of Palestine (the Central Government) would persist; the transfer of tax revenues would not be interrupted by Israel and the obstacles imposed by Israel on the movement of people and goods inside Palestine or between Palestine and neighboring countries stands at the same pace during 2016.

Internally, tax collection techniques are supposed to improve; the Palestinian government transfers to beneficiaries would increase; the value of credit facilities would increases provided the number of employees in the government sector would not change and the natural growth in population numbers inside Palestine perpetuates.

Apparently, the expected results of this scenario indicate an increase of 3.6% in GDP in 2017, a 0.6% rise in per capita GDP, an increase of 3.3% in total private and public consumption, an increase of 8.0% in total investments, taking into consideration that the total number of workers in Palestine is 5.2%, and the unemployment rate is expected to stick to around 27.2%.

Expectedly, the total government revenues will increase by 9.5% as a result of the improvement in tax collection; the value of government expenditures would increase by 2.6% and the budget deficit would decrease by 16.6%. Prices, especially of imports, would increase to approximately 1.3% for 2017.

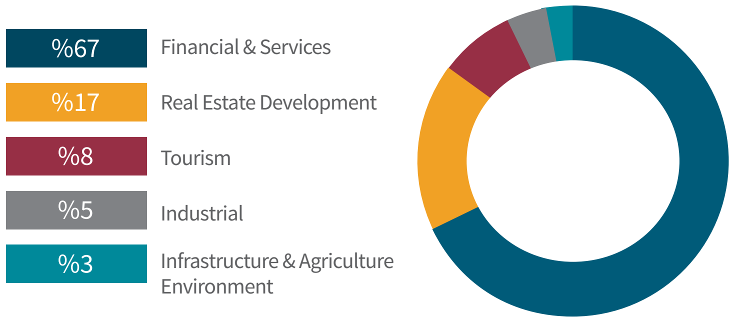
As for foreign trade, deficit in the current account in Palestine is expected to increase by 4.6% and the deficit the trade balance may amount to 4.9% due to the expected increase in the value of Palestinian imports by 6.1%, the value of Palestinian exports by 8.5%, the net income by 9.2%, and General national Income and gross national disposable income by 4.2% and 3.9%, respectively.

To sum, if this optimistic scenario becomes alive, the GDP growth will be amount 6.7%. If the pessimistic scenario becomes real, the GDP index will fall by 1.9% in 2017.

Economic Sectors and Investments

Investment sectors

By 2016, the total direct investments of PADICO HOLDING at a book value stood at UDS 601.6 million, distributed to diversity of investments across a number of economic sectors. Figures below show the relative distribution of these sectors until the end of 2016.



The financial and services sector encompassed 68% of PADICO HOLDING total direct investments, mainly the Palestinian Telecommunications Company. It is worth mentioning, this sector is the least affected by the political and economic volatility and instability. Real estate development sector comes second as PADICO Holding's investments in this sector constitute 17% of the total direct investments, implemented mainly by Palestine Real Estate Investment Company (PRICO, including the Jericho Gate and Rabiyat Al Quds Real estate projects.

Investments in the tourism sector accounted for 8% of the company's total investment through the contribution of Al-Quds Development and Investment Company (PADICO), the investment arm of PADICO HOLDING in the tourism sector.

As for investments in the industrial, agricultural, infrastructure and environment sectors, PADICO's total direct investments account for 7%. As for its plan for the coming years, PADICO HOLDING attaches importance to increasing its investments in these sectors.

Classification of investments for financial reporting purposes

For the purposes of financial reporting, direct investments are classified into three main categories: subsidiaries, associates and other companies. The following table shows the distribution of PADICO's portfolio of direct investments based on its accounting classification as at the end of 2016:

Distribution of direct investments by accounting category

	Million USD
Investment in Subsidiary Companies	198.8
Investment in Affiliate Companies	374.6
Other Investments	28.2
Total	601.6

Subsidiaries are those companies in which PADICO HOLDING owns more than 50%, granting it control over the decision making process in terms of operating and financial policies. Affiliate companies are those in which PADICO HOLDING holds 20%-50%, granting it influence over financial and operational policies. Others represent investments in which PADICO HOLDING owns less than 20% and therefore has limited influence on the decision making process

“We are with you and the company is with you, we are on the right track and whose on the right track don’t be afraid.”

Sabih Masri
The story of origin Book

“JAWWAL is small villages, whose the least to mention is the interconnectedness and family-like community life. JAWWAL back bone employees come from the womb of the Intifada; they have unmatchable unique sense of loyalty”

Mr. Munib Rasheed Al-Masri

Summary of the performance of PADICO HOLDING investments for 2016

Financial and services sector

PADICO Holding investments in the financial and services sector amounted to USD 379.7 million, equivalent to 65% of PADICO HOLDING total investments by the end of 2016.

The following is a summary of the most important companies operating in the financial and services sector, and the most important achievements in 2016:

Palestine Telecommunications Company (PALTEL)

The Palestinian Telecommunications Group (PALTEL) is the pioneer in the telecommunications sector in Palestine. PALTEL started its operations in 1997 as a public shareholding company to provide telecommunications services and the Internet in Palestine through the processing and development of the infrastructure necessary for the operation and capable of providing the best and latest services to subscribers. Palestine Telecommunications Company (PTC) became the largest telecommunications operator in Palestine and the largest company in terms of market value for the total market capitalization of the Palestine Stock Exchange (PEX) to reach 27.3% at the end of 2016.

One of the most significant achievements of 2016 was the renewal of the Palestinian Government license for the Palestinian Telecommunications Company (PALTEL) and the license of the Palestinian Cellular Telecommunications Company (JAWWAL) for the period of 20 years for USD 290 million.

Today PALTEL Group consists of the following subsidiaries:

- Palestine Telecommunications Company (PALTEL) which provides fixed line, internet access via BSA and other value-added services
- Palestine Cellular Communications Company (JAWWAL) the first mobile operator in Palestine
- HADARA Technology Investment Company the biggest internet service provider in Palestine
- REACH for Communications Services Company the first contact center in Palestine
- PALMEDIA for Multimedia Services Company the media arm of PALTEL Group

Telecommunications Company (PALTEL)

Palestine Telecommunications Company PALTEL) recorded outstanding achievements during 2016, as the company has increased the rate of high-speed Internet lines (ADSL); so, Palestine would have the highest internet speed compared to neighboring countries. The company succeeded in achieving a marked increase providing fixed land line and other value-added services.

The growth rate of fixed lines reached 6.29%, despite the global trend saying cell phones make it hard to escape low telephone usage. The growth rate in ADSL reached 16.8%.

At the international level, ETISALAT has signed new agreements with the world›s largest telecommunications companies. By doing so, it will provide more high quality and cutting edge services on the international level and connect Palestine to the world.

Palestine Cellular Communications Company (JAWWAL)

JAWWAL has translated its affiliation to the Palestinian people by a distinguished ability to escape recurrent barriers and challenges since its establishment in 1999. Today, it has researched 2,950 million subscribers by the end of 2016; proudly saying, an important achievement. Over the past year, the company has launched numerous new campaigns, services and programs such as the “I am Free”, a program targeting the youth sector; the «Palestinian Pound» program; the most flexible programs ever; many other campaigns were launched, last not least, «Millions of Pounds and Cars” campaign.

JAWWAL has also increased its visibility through various media and e-advertising. It has succeeded to be the top leading social networking site in Palestine, indicated by various independently conducted polls and reports. Last year was remarkable for professionally leading customer care services through all social media networks; hence, the company topped mobile service providing companies in Palestine. Subsequently, this has positively affected JAWWAL citizen-oriented services and the quality of its performance.

The company has signed international roaming agreements with more than 436 operators in more than 170 countries. This is, in one aspect, an important and necessary requirement to easily manage the ongoing JAWWAL season connected campaigns such as Hajj, Umrah and various summer offers.

HADARA Technology Investment Company

HADARA has been deeply committed to employing modern state-of-the-art technology and improve internet services. The company is striving hard to promote the internet services sector in Palestine by using advanced cutting-edge technologies.

Maintaining the pioneering role in providing subscribers with the latest innovative services - able to compete globally, the company launched an internet-based HD quality home TV device, which enables users to follow up and watch the largest films and TV series library, along with a variety of nteractive applications and programs.

REACH for Communications Services Company

Reach is the first information-dedicated center to offer high quality performance-driven services. It aims to fundamentally reshape the dynamics of call-center customer-relationship management to fulfill the overall needs of clients while assisting companies in terms of their needs and work strategies. Reach makes sure its services enable companies achieve the best level of customer satisfaction. It is keen to employ innovative and unconventional solutions to systematically communicate with customers, transfer their inquiries and needs to the companies. Services are all documented and followed up for best results as requested.

Reach agents field over 45,000 calls per day. Reach team, working around the clock to serve both local and international markets, is keen to provide innovative services at competitive prices and outstanding performance.

PALMEDIA for Multimedia Services Company

PALMEDIA is keen to meet the needs of its customers through the provision of specialized media services, a hybrid content distribution solution using fiber optic (FO) based media transmissions provided by the Palestine Telecommunication Co. (PALTEL) and satellite based teleporting. Palmedia is also designed to provide numerous satellite channels , news outlets, and international media agencies around the world with on- the-spot breaking news coverage and high quality production services through its extensive distribution of its prime studio locations, production facilities, media control centers, and satellite news gathering (SNGs) vehicles. It has become a preferred address for both official government organizations and private-based enterprises to provide critical event coverage and real time distribution through the deployment of its highly qualified production crews.

At the end of 2016, the PALTEL Group achieved a consolidated net profit of JD 80.1 million, compared to JD 83.1 million at the end of 2015, with a decrease of 3.6%. Consequently, it resulted in a decrease in earnings per share, which reached JD 0.61 compared to the amount of 0.63 JD by the end of 2015.

As for investments, PALTEL Group continued its domestic investment activities in 2016 in various sectors in a way that would enhance its shareholders best interest and manage profit generating investments, on the one hand; the development of existing investments and finding new investment opportunities and projects, on the other.

As for PALTEL, the performance of stocks on the Palestine Exchange (PEX) over the past 20 years has been characterized in terms of the adopted policy of consistent distribution of dividends and the transparent disclosure. By virtue of this excel, PADICO HOLDING earned investors confidence in stock trading. The total issued PALTEL shares are mounted to131, 625,000 shares with a par value of JD1 per share. PALTEL share tops the stock market as a result of its excel in terms of the PEX classification criteria of stock performance qualification of the listed companies. The number of traded shares reached 11.8 million shares during 2016, valued at 87.8 million US dollars, traded through more than 6,626 transactions. As for the shareholders, the number of shareholders reached 8,233, and the free circulation was 48.6% as at the end of 2016.

VTEL Holding

VTEL Holding was established in the United Arab Emirates in 2006 with a total capital of USD 377 million. The company provides wired and wireless telecommunication services in the Middle East, Africa, Eastern Europe and Central America; VTEL HOLDING runs investments in the telecommunications sector in Jordan, Iraq, Georgia, Armenia, Ukraine, Burundi and Barbados. PADICO HOLDING owns 10% of VTEL HOLDING capital, while Palestine Telecommunications Group owns over 25%.

The company›s operations are characterized by its sophisticated and powerful operational modeling systems. It provides 4G services through its most important current investment i.e. The Nooruz Telecom Company in Kurdistan of Iraq; with continuous expansions and growing annual revenues. The company holds 45% of the shares of Nooroz Telecom. In a different context and according to VTEL HOLDING preliminary financial statements for 2016, profits, roughly saying, are expected to reach over USD 100 million; as estimations of earnings is calculated before the interest, depreciation and taxation.

Palestine Stock Exchange (PEX)

In 2016, Palestine Stock Exchange (PEX) celebrated numerous clearly visible accomplishments, especially at the level of internal operations; obviously active in comparison to 2015. The rate of daily trading value increased to 39%, due to the cautious optimism that prevailed in the market last year and the overall score of positive achievements of the listed companies in parallel with the high distribution of dividends to shareholders, compared to last year.

The banking and financial services sector accounted for 42% of the value of trading in 2016 as a result of a number of institutional transactions represented in both: the Bank of Palestine acquisition of the Commercial Bank of Palestine and purchase of a large share of Arab Islamic Bank; and the changes in the ownership structure of the Palestinian Takaful Insurance Company and the Arab Hotels Company.

As for the Jerusalem index, it closed the 2016 trading at about 530.16 points, with of 0.48%. During 2016, 49 listed companies were traded; one company, the Palestine Commercial Bank, was delisted; still, a number of companies were suspended from trading. The number of shares traded on the Palestine Stock Exchange during the last year was 232,817,327 with a total value of 445,152,368.52 USD compared to 2015, the increase percentage of the previous two indicators reached about 33% and 39%, respectively,

At the beginning of November 2016, Palestine Exchange has achieved important strides towards globalization; gaining the full membership of the World Federation of Exchanges (WFE). In other words, PEX marked a qualitative leap in the international relations of the Palestine Exchange and its position within the global investment map. In the broader context, the membership in international forums is an implicit recognition of the State of Palestine and one of its most important economic institutions.

In this perspective, this membership is an international recognition of the commitment of Palestine Stock Exchange to all international standards and practices. Based on this, a seat was reserved for Palestine among the most important international securities industry umbrella institutions. Now, PEX is the 67th member of WFE along with a wide range of financial markets such as New York, NASDAQ, Euronext, the Tokyo Stock Exchange, the German Stock Exchange, Hong Kong and others. Nonetheless, there is still more than 300 financial markets and stock exchanges around the world.

In a related context, based on previous maturity in September 2015 and as part of its annual review in September, the Financial Times Group (FTSE) designated Palestine Exchange as eligible Frontier market since Sep. 16, 2016. This promotion is recognition of the efforts exerted in the stock market to meet the five FTSE standards and supporting its regional competitiveness.

in recognition of its regional and international role, PEX was elected in the second half of November 2016 as a member of the Executive Board of the Board of Directors of the Federation of Euro-Asian Stock Exchanges during last meeting held in Egypt by majority vote.

Last year, PEX held a series of conferences, seminars and workshops to discuss stock and stock dealing relevant issues, participants gained awareness, training, capacity building capacities and a brief know-who about PEX and its potential capacity to lead the Palestinian economy towards a broader horizon. As a matter of fact, the Investor Relations Conference organized by the Association of Investor Relations – Palestine Branch and the Association of Investor Relations- Middle East Branch in the first half, last May was one of the important PEX conferences. To add to the success of this conference, a number of papers were submitted by high-profile specialists. In a related context, The Stock Exchange also held a number of workshops, the most important of which were the two workshops held in Hebron and Ramallah under the title «Family Companies and Prospects for Sustainability».

Maintaining an internal developmental approach, Palestine Exchange launched a self-developed e-subscription system in 2016, in cooperation with the Palestinian Capital Market Authority, the permanent sponsor of the development process of the Palestine Exchange. With respect to PEX excel, it has had a distinguished international participation in a series of international conferences and meetings tackling financial markets related issues. For example, PEX has participated in the World Federation of Exchanges meeting, Colombia and the Eighth Annual Conference of the Association of Investor Relations - Middle East, among others. As part of its efforts to expand and develop the investment base in the Gaza Strip, PEX organized a series of meetings aimed at both listed companies, brokerage companies and a number of financial and educational institutions to open new horizons of cooperation and raise awareness about the importance of investing in the stock exchange.

In terms of financial results, the company achieved a net profit of about USD 0.64 million in 2016 compared to USD 0.37 million in 2015, with an increase amounted to 73%.

“They, PADICO HOLDING shareholders, proved they were right and this is possible; THEY ventured with their money, THEY were pioneers. We conceded their vision; THEY brought experts and were able, accordingly, to gain the confidence of the Palestinians and companies”

Mr. Samir Hulleileh

“We afford the ordinary Palestinian work opportunities in our factories; thus, enabling ordinary Palestinians to put up a resilient stability, belonging to the land, renting PRICO outstanding and modern state-of-the-art apartments and unlimited possibilities to purchase the house of dreams in the future. Everyone’s participation in work and building is our most intimate dream and goal. We raise high our valuable motto: “Development and Continuity, it is not merely business”

Mr. Ziad Al Turk

Real Estate Sector

By the end of 2016, the total amount of PADICO HOLDING investments in the real estate sector amounted to USD 81.22 million, equivalent to 14% of PADICO›s total investments managed through investment in Palestine Real Estate Investment Company (PRICO)- PADICO's investment arm in the real estate sector, Jericho GateProject and Rabiyat Al Quds Real Estate Project.

The following is a summary of Palestine Real Estate Investment Company (PRICO) performance, projects and the most important achievements in 2016:

Palestine Real Estate Investment Company (PRICO)

PRICO was established in 1994 as a public limited liability shareholding company in accordance with the Palestinian laws and regulations; it is further listed on the Palestine Stock Exchange. In 2007, PRICO registered a subsidiary company in Jerusalem, (PRICO Jerusalem) as well as a subsidiary in Jordan (PRICO Jordan) to expand the scope of investments to the Holy City and Amman-Jordan.

From the very first moment, PRICO has specialized in real-estate development projects and real-estate operations management.

1. Real Estate Development Projects

PRICO House 2 Project

It is located in a fast-growing commercial hub of five storey building designated for commercial use and office space for rent. The project is located a kilometer away from Ramallah's city center. The Ministry of Justice, as well as head offices of a number of businesses and banks, including the Arab Bank, Al Quds Bank, Bank of Palestine and several five-star hotels, are located in the immediate vicinity.

The project is the first commercially licensed project in the Ramallah, with an additional value i.e. providing buyers with title deeds (Tabo), which is lacking elsewhere in commercial buildings. BRICO has completed the legal documents for the completion of the office securitization in 2015.

Scouts Building Project, Ramallah

PRICO was tasked the development of Ramallah Municipality and Ramallah First group- Sariyyat Ramallh scouts building; recognized as one of the oldest buildings in the city of Ramallah. The company renovated the building and added another floor with a modern design that adds aesthetics to the site while preserving the historic value.

Al-Ghadeer Neighborhood

This is one of the first residential highly–finished complexes in Palestine. The neighborhood, located in Ramallah and Al-Bireh Governorate, has been designed with expertise to provide residents with all facilities. By virtue of this complexity and modernity, the project, boasting 374 various sized residential units housed in 34 buildings, with some space reserved as private parking lots, markets comfort.

By the end of 2016, the company finished working on street lighting network to facilitate the life of the residents of the suburb, public playgrounds, recreational green spaces with modern games and fashion sensitive seating areas taking into account general safety conditions and open public facilities.

Al Ghadeer district also has a large commercial center located in the center of the suburb to cater to the needs of the residents and a nursery.

PRICO is currently engaged in marketing, sales and transfer of title deeds with special facilities for families with low and middle income.

Al-Masayef Project – 2nd phase, Ramallah

This project is located in al-Masayef area on one of northern hills of Ramallah, with a view of the coast and the villages west of Ramallah. The development consists of 39 residential units housed in three buildings. The project began at the end of 2012 and was completed by the end of 2014. PRICO is currently engaged in marketing and sales, and expects all title deeds to be transferred by the end of 2016.

2: Operations Managment

The Commercial Center Project (Waqaf Building), Al-Bireh

As part of a public-private partnership contract in effect until 2023, PRICO manages and operates Al-Bireh Central Station, a major hub for taxi and bus transport services both around Ramallah / Al-Bireh and across the West Bank. PRICO is in underway to upgrade the levels over the station as up-market and commercial space; it is further exploring an option of developing an adjacent 300 m2 lot owned by the Islamic Waqf Committee into a double storey commercial space.

The project took BRICO six months to hand in a turn-key facility despite the difficulty of moving in the site. Business speaks down town Ramallah. A joint mechanism for investment in Ramallah Governorate is realized to public interests. This project is the premise for several similar future projects in cooperation with the Ministry of Waqf and Religious Affairs.

PRICO and Ramallah Municipality had concluded an agreement to to exploit part of the municipality›s public squares; The Company seeks to establish of modern commercial spaces and parking during 2017.

Al Bireh Central Station

As part of a public-private partnership contract in effect until 2023, PRICO manages and operates Al Bireh Central Station, a major hub for taxi and bus transport services both around Ramallah and Al Bireh and across the West Bank. PRICO is in the process of developing the levels over the station as up-market commercial space , it is further exploring the possibility of developing an adjacent 300 m2 lot owned by the Islamic Waqf Committee into a double storey commercial space.

Bethlehem Tourist Bus Station

PRICO also manages the Bethlehem Tourist Bus Station, which provides state-of-the-art services to the tourism sector in Bethlehem, used by thousands of people each year, estimations indicate. The station contains two commercial floors above the bus and taxi garage.

Al Marafiq Construction and Operation Co

The company was established in 2007 as a limited liability company Al Marafiq was founded to develop lands, manage projects, invest in parking lots and buildings, manage shopping centers and invest in residential and industrial complexes.

BRICO owns the company with a paid in capital of JOD 8.5 million.

Park Plaza Project

This is the first project undertaken by a high-profile public-private partnership between PRICO’s subsidiary Al-Marafeq Construction and Operation Company and the Greater Amman Municipality, Jordan. The project was launched in 2010; still, ownership will be transferred to the municipality 25 years later. The project, implemented based on BOT, is a prosperous eleven floor commercial hub with car parking (750 spaces), retail space and offices.

Blue Beach Resort

It is located on the northern side of Gaza City adjacent to Al Mashtal Hotel; this project boasts 300 meters of beachfront on the Mediterranean Sea with a breathtaking view of the sky-clear water. Since its launch in 2015, the 160 chalets, housed in four building, have offered unique family-oriented recreational and entertainment facilities and a well-trained team to provide state-of-art services. The privacy-oriented design of the chalets took into consideration the psychological effect of the colors and harmony to match the blue sea view and provide visitors with tranquility and unforgettable memories.

The resort was an ample destination for Palestinian society and international institutions in Gaza, either in terms of tourism and recreation, or for the organization of seminars, conferences and workshops, as the resort provides a highly-equipped conference rooms.

By the end of 2016, the management of the Blue Beach Chalets Project and Al Mashtal Tourism Hotel were brought under one umbrella. This procedure was taken to increase effectiveness and efficiency of the two establishments and reduce operating expenses which will reflect positively on net profits in the future.

Industrial Zones

Jericho Agro-Industrial Park (JAIP)

Jericho Agro-Industrial Park Development Company was established in 2012, in cooperation with the Palestinian National Authority and in support of the Japanese Government, as Palestine's first agro-industrial multi-sectoral company. It offers investment incentives for companies and investors in the agro-industrial sector providing industrial space, comprehensive storage solutions and logistical services to companies in Jericho. PRICO's vision is to develop the Park as a hub that will attract local and international investment in the agricultural sector so as to promote Palestinian agricultural products in regional and international markets.

Construction of the foundations and some of the buildings for the industrial area was completed in 2016 on 115 dunums. Numerous contracts were signed with investors looking to set up factories in the industrial zone and take advantage of the storage spaces (hangers).

The company has expanded constructions of the first phase in the industrial city of Jericho. At the end of 2016, 60% of the industrial buildings were so far constructed on an area of 12000 m2. 40% of the construction work of 11 new industrial buildings was implemented in support of the Japanese Government. As a result, there was a dare need to increase the number of the follow-up administrative staff working in the city until the project ends.

Preliminary approval was obtained from the Israeli side for the construction of a 13 km long road connecting the agricultural industrial zone, Jericho with the King Hussein Bridge. Efforts are under way to secure the necessary funding for the project.

The company is now working on the implementation of 2nd phase of the project; at the time, many investors have arrived in the city to start the establishment of new factories and investments. The company has also set up regulations and policies for working within the city, it has even issued a special instruction customer- guidance booklet to organize the work within the region.

BRICO equipped the staff tasked to develop the city and operated the administrative building within the industrial zone to serve investor, enable acceleration of the pace of work and maintain keen follow up of investors inquires and requirements.

It is worth mentioning that Jericho agro-industrial city is located in the area of the Jordan Valley on the border with the Hashemite Kingdom of Jordan, about 4.5 km from the city center and 7 km from the King Hussein (Allenby) Boarder. The project aims at developing the Palestinian industrial market internally and externally, and developing the region to become a free zone serving the Palestinian territories, thus the city will serve the Palestinian society in terms of creating different job opportunities in different sectors.


Jericho agricultural industrial city

Gaza Industrial Zone (Al Mintar)

The project for the expansion and development of Gaza Industrial estate (Al-Mintar) was established by the Palestinian Industrial Estate Development & Management Company (PEDCO). The infrastructure, designed to offer several services and satisfy the very needs of long-term investments, attracted many investors. The Company is preparing to offer more space in order to meet the rising demand.

During 2016, PRICO initiated various expansions in the industrial city of Gaza, both in terms of providing additional spaces for investors, prefabricated hangars and warehouses, with a total of 11,200 square meters. An additional 6,500 square meters were rehabilitated to give better space for loading and unloading goods.

The company proposed installing a Solar Energy System on the rooftops of the hangers on an area, with a system capacity of 7 MWp. The company is investigating the World Bank and the International Finance Corporation (IFC) set up to fund reconstruction and development of the project as Gaza suffers from electricity outages where Factories are limited to operate according to the electric distribution schedule .

At an earlier time, PRICO has implemented a small-scale power production project to fulfill electricity needs of the Blue Beach chalets and Al Mashtal Hotel in the Gaza Strip.

Gaza Industrial City is built above an area of approximately 485 Dunums splits into industrial and administrative lands, streets and green areas. It›s located at the east of Gaza City, 4 Km to the east away from Martyrs Square (Palestine Square) and close to the Al Mintar (Karni) Crossing.

“ We were ambitious to rebuild Gaza, from those ashes, Gaza rises – renewed and reborn. It is our dream that Gaza becomes a commercial destination as it has always be ”

Mr. Nabil Al-Sarraf

The Gaza Industrial City (GIE) is the door gate of PEDCO series of projects and the first industrial zone in Palestine. The Palestinian National Authority, donor countries, the World Bank and USAID has been to support the project, considered an important economic and cultural milestone in the Gaza Strip as it contributed to solving a number of problems such as the outspreading of infringing industrial facilities within residential communities. It encouraged the establishment of small and medium enterprises, believed to be the arteries of large industries.

PEDCO is viciously working to develop Gaza Industrial City to bolster the Palestinian economy, to meet the long-term demand of the Palestinian investors and ensure resources efficient manufacturing process.

PEDCO is a subsidiary of PRICO, a leading company in the establishment and management of industrial zones, which aims at developing the Palestinian investment sector by attracting local and foreign investments and creating job opportunities.

Development of the concept of infrastructure in Palestine through alternative energy programs:

Palestine Real Estate Investment Company (PRICO) is keen to incorporate green energy projects (solar energy)power generating technologies in the infrastructure of under development projects, aiming at providing alternatives and solutions for power cuts and managing consumption with a total of installed power generation capacity of 25 megawatts in 2017. BRICO is recognizing the implementation of several green energy projects inside and outside Palestine, especially in the Gaza Strip to overcome the widely spread problems in the infrastructure on the Gaza Strip caused by the Israeli aggression.

Renewable Energy and Photovoltaic System, Amman:

PRICO has implemented Park Plaza Solar Energy Project Park Plaza at the building rooftop, on an area of 400 m3, Al-sweifiye, Amman, with a system capacity of around 420 kw, a total cost of JD 275. The project resulted in significant annual decrease on the electricity bills of Park Plaza of about USD 120 thousand.

Gaza Industrial Estate Solar Energy Project

The very basic idea of the project is on finding practical long lasting solutions to the problems of power outages depending on the solar energy, through an automatic interconnection system connected to generators that continue to work in case of any outages. The system continues to store solar energy and convert it to continuous current supply, with a total capacity of 467 MW.

Practically, the system supplies Blue Beach Resort with electricity. The surplus is sold to Gaza Electricity Company for the approved tariffs.

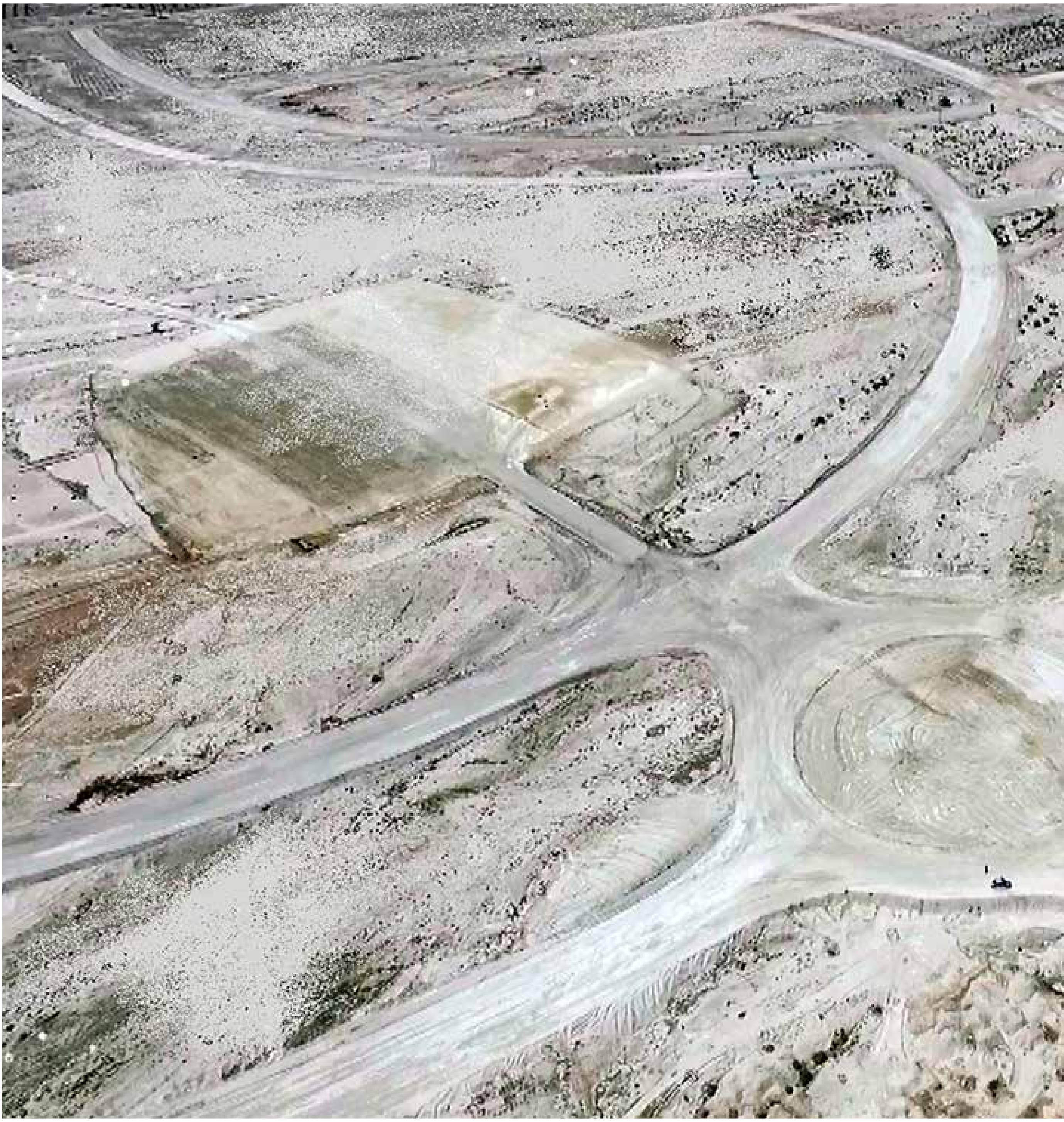
Future projects

BRICO is considering a number of other projects aimed at developing the concept of green energy in Palestine and abroad. To this end, it supports waste recycling and integrating parking lots, in order to raise the level of community awareness regarding many concepts including green energy, the importance of maintaining clean environment, the deep understanding of the evitable implications on health and the Palestinian society and the necessity of contributing safeguard the environment in Palestine and the world.

Jericho Gate Real Estate Investment Company

Jericho Gate Real Estate Investment Company was established in 2011 by PADICO HOLDING, Palestine Telecommunications Company (PALTEL) and Palestine Real Estate Investment Company (PRICO), with an initial capital of JD 35 million. The company was established to manage the development of a massive tourism complex that will provide a range of accommodation housed in villas, hotels and a resort, a sports complex, amusement parks and a commercial center. The complex targets both Palestinian and international tourists.

During 2016, significant progress was made on the project. Separate extracts of land title deeds (Tabu) were obtained from Land Registry. The first half of 2016 witnessed rapid construction activity in the Jericho Gate project. In early 2016, the Jericho Gate Company completed the construction of 64 dirt roads as part of the project, which the total length of about 36 km. the road project is completed. Work began on the installation of underground high pressure power lines at the site of the project. The expansion of offices and work units to accommodate more technical and administrative staff to carry out infrastructure works for the first phase of the project and work units is undergoing process.



The company is currently preparing bids of infrastructure-related works to be implemented by the end of the first phase of the project. The company has knockdown the tender, so as, to extend part of the overhead power lines and other infrastructure networks of the infrastructure networks of the first phase.

The company also signed sale and development agreements with six developers to establish typical modern residential villas with different spaces and designs that respond to the needs

of the market on an area of 122 dunums, as part of the first phase of the project which entails the development of two hotels on an area of 12500 square meters each, 11000 square meters of commercial space, the development of the largest water sports city in the region, a playground for motor vehicles and the development of a public square infrastructure of 177000 square meters with a lake on an area of 40,000 square meters

Rabiyat Al-Quds Real Estate Project

Rabiyat Al-Quds is a real estate project launched by PADICO HOLDING. It consists of 22 residential buildings in the southern part of Jerusalem. In 2016, plans for 82 apartments were approved; approvals include permits of the land, apartments, water, special needs facilities, firefighting facilities, road construction, etc. licenses from the electricity company were as well obtained.

The company has obtained licenses for 82 apartments from Jerusalem Municipality. The company will begin implementation work on the ground after completing the preparation of the executive plans and execution tender documents.

After the issuance of approvals for the licenses from Jerusalem Municipality for 82 apartments issued in 2016 and paying the fees, the company will start implementation of the project upon finalizing the executive plans and documents of the tender.

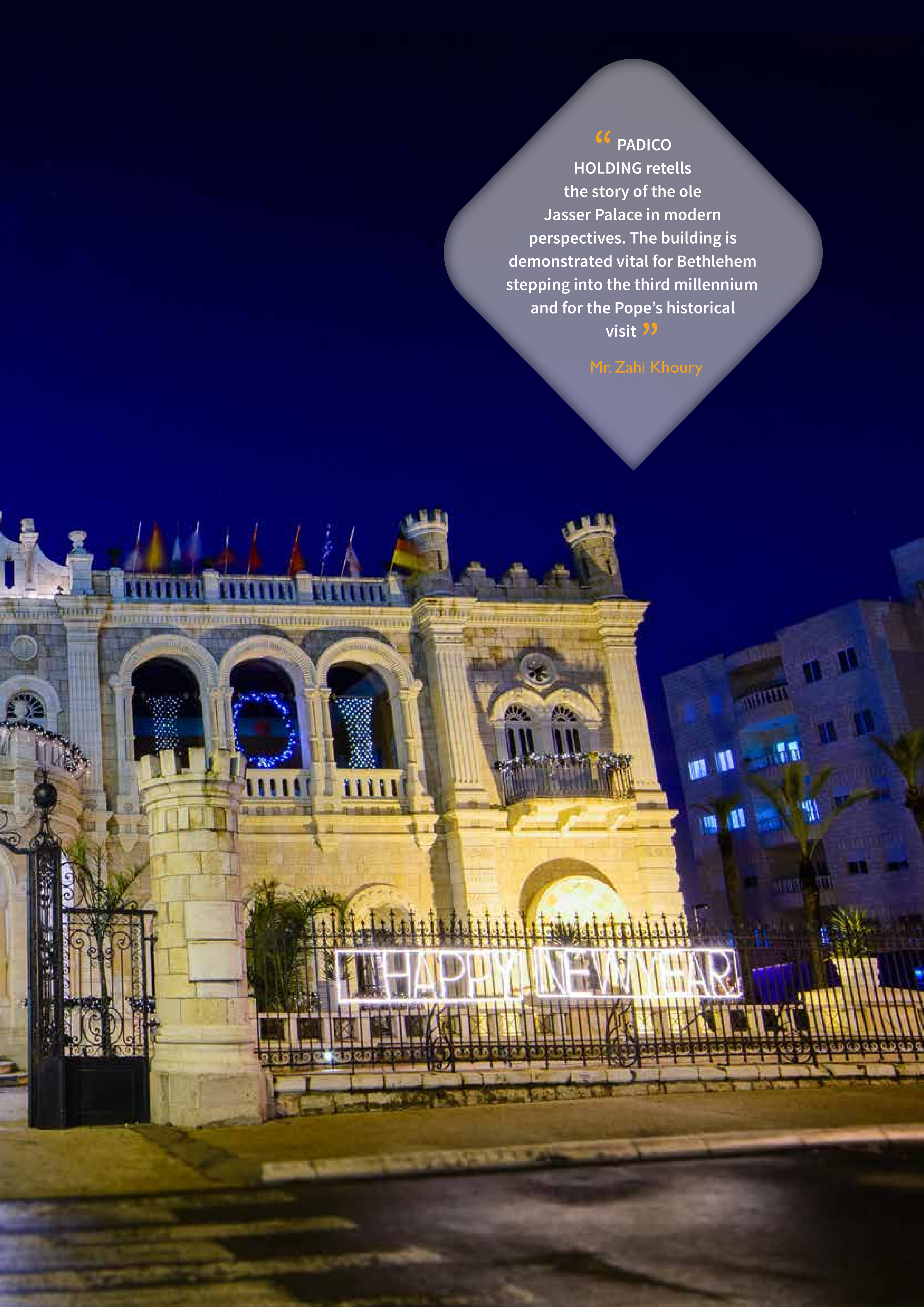
While initial plans were approved for the first stage of the project, The Company increased the first phase of the project to maximum of 96 units; initial plans for the additional units were developed in addition to the new classification of land, as 12 pieces of land encompass both commercial classifications (offices, coffee shops, supermarkets) and residential classifications; resulting in an increase in the number of apartments to be licensed.

The project mainly targets all segments of Jerusalem ID holders, as they greatly suffer the acute shortage of licensed apartments that comply with the conditions and specifications determined by the Jerusalem Municipality, alike, it targets Palestinian citizens inside Israel who work in Jerusalem or those like to grasp wonderful investment opportunities.

Rabiyat Al-Quds is a state-of-the-art housing project characterized by its innovative modern design. The design concept is unique in Jerusalem; it is based on creating an integral neighborhood with common green area that allows residents to interact within the local community and encourages them to socialize. Privacy of each building is sacredly preserved. Moreover, there is a protected recreational l environment for children, offering children maximum safety. This characteristic would not be allowed without the special design of the architectural spaces and the beautiful and protected environment. The company would implement the project using cutting-edge materials and the latest modern engineering artifacts internally and externally, in order to reflect the importance of the quality investment PADICO HOLDING promotes.

“ PADICO HOLDING retells the story of the ole Jasser Palace in modern perspectives. The building is demonstrated vital for Bethlehem stepping into the third millennium and for the Pope’s historical visit ”

Mr. Zahi Khoury



Tourism Sector

PADICO HOLDING's investments in the tourism sector were worth USD 45.79 million at the end of 2016, equivalent to 8%of our total investments, implemented by Jerusalem Development and Investment Company (JEDICO), PADICO's investment arm in the tourism sector.

Jerusalem Development and Investment Company (JEDICO)

PADICO Tourism is a holding company that manages PADICO HOLDING investments in the tourism sector. Following the reconstruction of PADICO HOLDING, our tourism portfolio managed to include under its broad banner Jerusalem Tourism Investment Company, Palestine Tourism Investment Company, Al-Mashtal Tourism Investment Company, the Arab Hotels Company and the First specialized Entertainment Company. JEDICO manages a number of five-star hotels including Jacir Palace in Bethlehem, Mövenpick in Ramallah, Al-Mashtal Hotel in Gaza and St. George Hotel in Jerusalem. In addition, Our Company manages a number of properties in the tourism sector, including the Executive Club, Ramallah and Al-Hambra Palace, Jerusalem

PADICO HOLDING performance in the tourism sector during 2016

Jerusalem Tourism Investment Company

St George Hotel

During 2016, St. George Hotel had a reasonable occupancy rate; reservations were made by tourists from Greece, Italy and Spain, including many other countries, despite the instability and exotic circumstances in the region, in general, and Jerusalem, in particular. The hotel staff was distinguished for the LER consecutively reserved especially by groups of tourists preferring to in- hotel main meal expressing estimation to the overwhelming passion of the Jerusalemite hospitality and delicious Cuisine.

During 2016, many events and meetings of wedding ceremonies, graduation parties, Ramadan Iftars, exhibitions and seminars even weddings sparkle at an indoor contemporary style lounge indulgence hall. The hotel event calendar, and eventually, the Conference Hall reservations were mostly full.

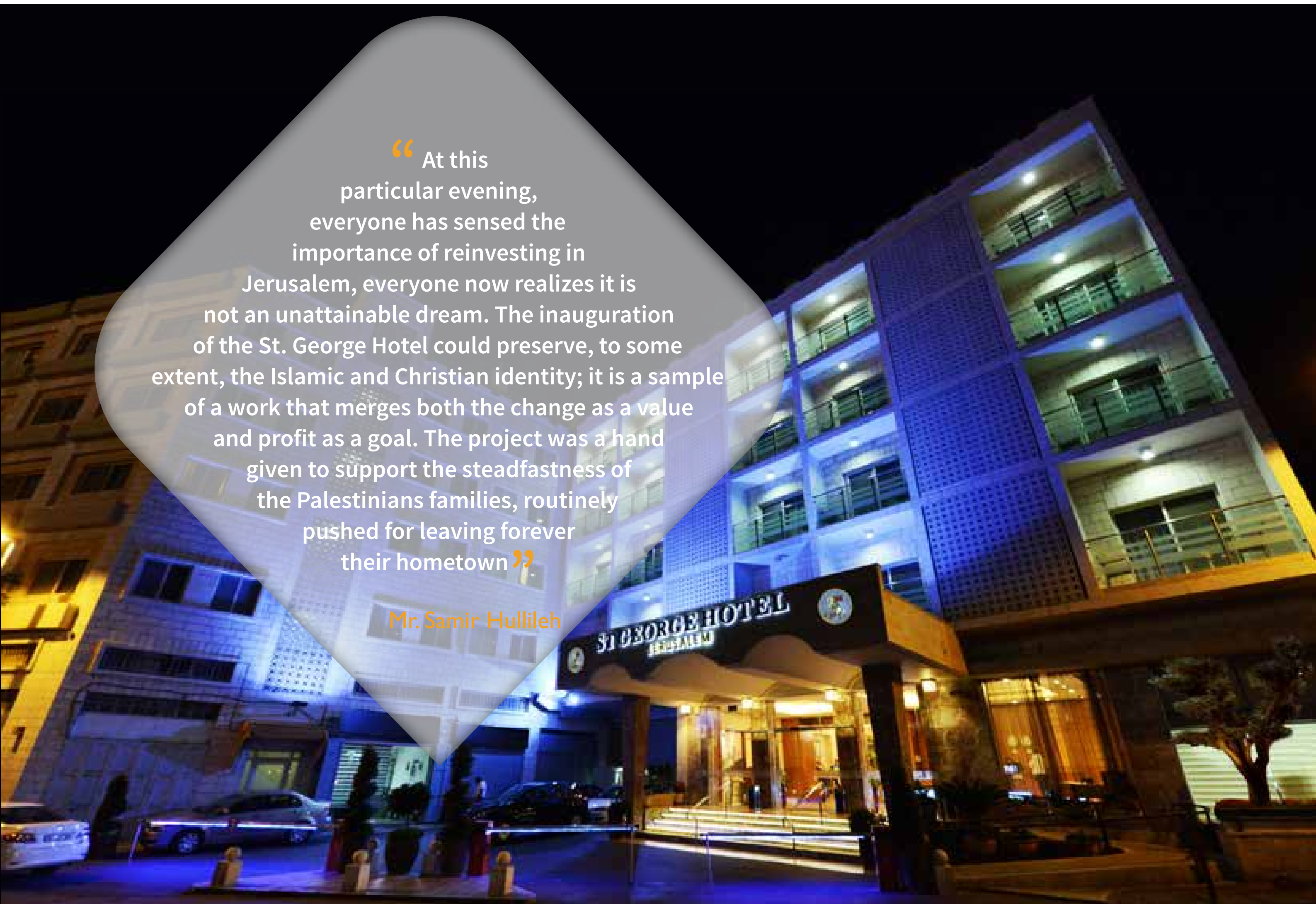
The St. George Hotel also opened the hotel main restaurant, The Megana with a view blending modernity and Orientalism; best demonstrated in the Arabic letters inscribed on the restaurant›s table tops and a fabulous outdoor terrace overlooking the Holy City. The restaurant provides competitive prices and delicious variant dishes.

In 2016, St George Hotel was awarded the World Luxury World Award following intensive training of its management team for the 3rd time consecutively, Luxury City Hotel category. The award is one of the most recognized international awards in the hospitality industry.

As part of the St George Hotel's management keenness to developing its human resources, the hotel was keen to enroll employees in training courses, including: T he Vocational Training Program held at the University of Bethlehem (Institute of Community Partnership) with the support from USAID and in partnership with PADICO Tourism (the investment arm of PADICO HOLDING In the tourism sector). Training programs included various areas such as marketing, event organization and food safety program (HACCP). A number of employees participated in the Leadership and Mentorship classes. The staff also participated in training on the central reservation system, in partnership with the Arab Hotel Association. The training aims to pass the knowledge on modern central hotel reservation systems to increase management capacity in the sales and marketing unit.

The hotel has also expanded its presence throughout the year in the world›s leading travel and tourism exhibitions. It participated in the 19th International Exhibition of the Middle East for Tourism and Travel in Istanbul, the fifth largest tourism exhibition in the world. St George Hotel was also part of the ITB exhibition in Berlin-Germany, which is one of the most prominent and largest tourist exhibitions in the world. The hotel also has a distinguished presence at the ITM and MITT tourism and travel exhibitions in Moscow - Russia and many other tourism exhibitions. The aim of the hotel to participate in these exhibitions to identify the field of international tourism and show programs and work hard to attract tourism from all countries of the world to the Holy Land, especially Jerusalem.

St George Hotel gave an overview of its social responsibility strategy and highlighted its role in sponsoring for Sanid Group, a youth group that aims at activating the role of Jerusalemite youth towards the various societal issues in Jerusalem and raise active youth participation in the field of culture and volunteering in all available fields.



“ At this particular evening, everyone has sensed the importance of reinvesting in Jerusalem, everyone now realizes it is not an unattainable dream. The inauguration of the St. George Hotel could preserve, to some extent, the Islamic and Christian identity; it is a sample of a work that merges both the change as a value and profit as a goal. The project was a hand given to support the steadfastness of the Palestinians families, routinely pushed for leaving forever their hometown ”

Mr. Samir Hullileh

Palestine Tourism Investment Company

Jacir Palace- Bethlehem

Jacir Palace Hotel is a flagship touristic attraction. Keeping in mind its iconic historic value, the palace is a landmark for high-quality hotel services. The hotel is now considered to be the top five-star hotel in Bethlehem. During 2016, it hosted numerous high ranking personnel and local and international delegations.

The hotel has been working on regular basses to increase reservations; it proposes outstanding offers, discounts and promotions to serve marketing the best image. To this end, Jacir Palace Hotel stands high as an attainable destination for all segments of customers; it provides all services and the dreams and wishes of its customers in their celebrations and related services. The Management of the hotel is keen to developing human resources in the hotel periodically. Guests' satisfaction is best manifested through the hotel›s ratings according to independently conducted surveys, scoring 85%.

During 2016, the political situation has negatively impacted the rate of bookings; many reservations were cancelled, especially during periods of confrontation with the Israeli side; this recession used to extend for months. Regardless, the Jacir Palace Hotel managed to host a number of prominent high-ranking international and Palestinian political figures, foremost among them President Mahmoud Abbas. In addition many events and meetings of companies, institutions and banks, as well as hosting of social events even weddings sparkled at an indoor contemporary stylish lounge.

As a result of the hotel's management efforts to develop services and staff, it was in 2016 when Jacir Palace Hotel received the Trip Advisor Certificate of Excellence. Comments and evaluations posted to the institution webpage rated the hotel a top five star. They expressed customer satisfaction; showed the loyalty of customers and expressed their desire to try this fabulous experience. The hotel is also nominated for the 2016 World Luxury Hotel Awards

In Nov. and Dec. 2016 and Jan. 2017, Jacer Palace Hotel witnessed significant rise in room occupancy rates due to strong, wide-range and intensive publicity in all media channels and social media networks(sponsored and non-sponsored) and intensified media campaigns and field visits.

The hotel hosted numerous conferences and other events, including the Palestinian Monetary Authority conference, the International Palestinian Conference for Orthodontics and the Fifth Palestinian Conference on Environmental Awareness and Education.

As part of the hotel management keenness to developing its human resources, the hotel organized its staff training courses, including: Hazard analysis and critical control points, Hotel Event Management, Public Administration, Marketing, Guidance Classes, Civil Defense and Public Safety, and an advanced social media marketing course.

During 2016, Jacir Palace Hotel gave an overview of its social responsibility strategy and highlighted its role in sponsoring the graduation ceremony of the children of the future kindergarten, Aida camp. The hotel donated 160 meals to chaste families during Ramadan in cooperation with the Zakat Committee, Aida camp. The hotel organized a Ramadan breakfast for the children of the tourist village in Bethlehem (SOS), as well as a ladies breakfast on the International Women›s Day. As part of the social responsibility, the staff of Jacir Palace Hotel scheduled a volunteer day to perform civil community service in cooperation with the Municipality of Bethlehem and the Bethlehem Governorate. That's how; the staff cleaned the Jerusalem – Hebron Street, repaired and painted sidewalks, restored traffic Signals and hanged in flags of the countries of the world.

Al Mashtal Tourism Investment Company

Al Mashtal Hotel,Gaza

The performance of the tourism sector in the Gaza Strip dwindled. Various factors contributed to this decline: the continued closure of the border crossings, the continuous power outage, as well as the shrink in internal tourism movement due to the closure and high costs. Unsurprisingly, the number of hotel reservations decreased.

As a result of the prevailing conditions in the Gaza Strip, the stalemate of the political process and the persistent efforts to realize reconciliation, Al Mashtal Company and ArcMed signed an operating agreement; highly-experienced and efficient Palestinian staff took on the responsibility of the hotel management.

Despite the difficult conditions overwhelming the Gaza Strip, the financial performance during the fourth quarter of 2016 was promising within the limits of the allocated budget. Many events, including wedding ceremonies, conferences and workshops sparkled in the hotel. Nonetheless, positively affected the performance, and contributed to the revitalization of the hotel despite the fierce competition. Al Mashtal hotel hosted in a Palestinian Monetary Authority (PMA) delegatio; a celebration organized by Al Quds Bank and the New Year›s celebration organized by the hotel management.

Al Mashtal Hotel is the only 5-star hotel in the Gaza Strip. It consists of 222 rooms and suites decorated with the latest and finest furnishings; guests have the advantage to enjoy all services provided by the Hotel such as food lounges, wedding ceremony hall, six luxurious meeting rooms, conferences halls, lavish swimming pool and cafes and restaurants. These facilities are designed to serve various needs of businessmen, institutions and community organizations. The hotel is one of the largest tourism projects in Palestine; the latest international approaches to hotel designing were integrated.

SPA and Executive Health Club

As part of the restructuring of PADICO HOLDING investment portfolio to improve the performance of the Group›s investments, the Executive Club, managed by the first specialized leisure company since the beginning of November, has suspended the restaurant business, systematically transforming in accordance with the club restructuring plan into health club and gym.

The club made attractive offers, including special fitness classes for members and sport program for children aged 4-12. Training programs are diverse, including swimming, gymnastics, Kick Boxing, and yoga. The new plan proposes new Facial & Beauty Services for members and non-members.

As part of the club›s identity changes, a new club name has been adopted to reflect the new identity «EC Health Club & SPA». The new name and services were promoted through business correspondences, social media networks, advertising campaigns and various local media outlets.

During2016, number of activities and events sparkled in the club as part of the Speakers Forum. The forum hosted a panel discussion entitled «The Palestinian Issue: the Israeli Public Opinion and the Jewish State»; Dr. Ahmad Tibi, the lecturer, got into contact with high-ranking personalities of politics and economy., ministers, business men and women and many other Business Club members.

The club hosted Mr. Donald Bloom, the US Consul General in Jerusalem to talk about the «The European Union and Palestine» and Mr. Ralph Trav, Representative of the European Union in Palestine to talk about "the European Union in Palestine". The forum hosted many other "keep the vision and dialogue" seminars. In terms of social activities, the club arranged a number of recreational activities celebrating the «Family Day».

The club is very keen to the cultural interaction with the world. To this end, it organized a French Cuisine celebration for the second year, consecutively. The club also hosted «Companies Quiz Night». Co-sponsored by a number of considerable business institutions including the Arab Bank, BMW, Wataniya Mobile, Friends School, PalTrade and Coca Cola,

The club held several charity events, among which a symposium organized in cooperation with the National Bank on the importance of early detection of breast cancer presented by Dr. Nafouz Muslamani , The Medical and Administrative Director, Donia Specialist Center for Women›s Gynecology. A panel discussion was also organized in partnership with Dr. Laila Al-Atshan titled "Honoring women in March through mass healing and coping with stress».

The Arab Hotels Company

Mövenpick Hotel

The Arab Hotel Company was established in 1996. The company was tasked the development of the Mövenpick Hotel in Ramallah, which opened in 2010. The hotel, which overlooks Ramallah and has views all the way to Jerusalem, is located only a few minutes away from Al Masyoun, where the majority of Ramallah's shopping malls and entertainment centers are located. In 2014, the hotel resumed its evening musical program, organizing a number of musical activities in cooperation with local artists and cultural centers

During 2016, PADICO HOLDING sold its stake in the Arab Hotels Company, the owner of Mövenpick Hotel. The company has restructured its operations in the tourism sector to reduce costs and improve the performance of the Group›s investments. In other words, PADICO HOLDING tried to reduce its investment exposure in the tourism sector, highly vulnerable to political fluctuations in Palestine and the region in general, and focus on promising investments in other sectors, ensuring its shareholders cash generating investments.

“States are entitled to grounding Infrastructural work and environment; still, in the absence of the superior form of a state, the private sector has the vital duty to play this role. My friend Nidal Sukhtian, the industry officer at PADICO, reported that PADICO bore the responsibility of payment for installation cost of electricity network to its farms in Area C; residents in the surrounding areas are now using the network”

Mr. Munib Rasheed Al Masri

“Palestine will rise from the ashes – renewed and reborn. Success is our legacy. We have very unique outstanding success stories in neighboring Arab countries, in the West and in the United States. Every one of us has his success story in his homeland; a story of departure and a story of success”

Mr. Nidal Soukhtian

Industrial Sector

Since its inception, PADICO HOLDING has paid special attention to investments the industrial sector implemented by the Palestine Industrial Investment Company (PIPICO), the investment arm of PADICO HOLDING in the industrial sector, at the value of USD 28.74 million, representing 5% of PADICO HOLDING total investments by the end of 2016.

Palestine Industrial Investment Company

Palestine Industrial Investment Company, which was established in Nablus in 1995, is our investment arm in the industrial sector. The company invests in light, medium and heavy industries and offers administrative and technical support to local industries.

The investments of Palestine Industrial Investment Company are summarized below:

- Palestine Poultry Company “AZIZA”
- National Carton Industries Company
- Palestinein Plastic Industrial Company
- Al Pinar General Trading Co. (Dairy Industry and Milk Products)

PADICO HOLDING has considerable shares in The Golden Wheat Mills Company and the Vegetable Oil Industries Company.

Preliminary financial statements of the fiscal year 2016 reveal the consolidated net profit of PIIC investments in subsidiaries and affiliates amounting to JD 4.83 million, compared to JD 4.11 million during 2015, with an increase of 18%.

The Company›s consolidated revenues increased by 26% during 2015 and reached JD 44.92 million compared to JD 35.58 million in 2015 as a result of the increase in Al-Pinar General Trading Company and Palestine Poultry Company revenues in 2015.

The most important investments of Palestine Investment Company as follows:

1. Palestine Poultry Company “AZIZA”

Established by Palestine Industrial Investment Company in 1997, Palestine Poultry Company, also called AZIZA, has become one of Palestine’s largest livestock producers. The company’s main activities include manufacturing feeds, breeding broiler chicken, producing and selling hatching eggs and managing the abattoir.

In 2016, the company continued to improve its performance and develop its projects resulting in an improvement in the financial results of the company and profits. The company has achieved growth in sales in various production centers, in particular the fodder factory and the abattoir. Consequently, it reflected positively on the market share of the company diversified products and marketing.

The company systematically plans to develop and expand the many production centers to meet the increasing demand and the growth in its market share of the various products where it addresses lifting operations and lifting equipment. The company does not neglect the importance of maintaining strong channels of communication with the network of customers. It is very keen to achieve the highest degree of satisfaction before or after the sale.

According to preliminary financial statements for the year 2016, the company›s sales increased by approximately 13% compared to the year 2015, reaching about JD 34.31 million compared to JD 30.44 million. The net profit after tax amounted to JD 3.23 million for the year 2016 compared to JD 3.09 million for the year 2015.

2. National Carton Industries Company

The National Carton Industries Company was established in 1993 and produces a range of cartons for the local Palestinian market. It was the first company licensed to produce cartons in Palestine and holds the highest market share in the industry in Palestine. The company is well positioned to identify new investment opportunities in the dynamic and rapidly growing packaging industry. The National Carton Industries Company is committed to its strategy for development even in the volatile investment market in Palestine.

In 2016, the company added a new production line for open pack which is now fully operational, ensuring the efficiency of production and quality in its products, which form the basis of the trust of the company›s customers.

In 2016, the National Carton Company signed an agreement with Oxfam to guarantee a persistent supply of grape juice cartons under the project «Improving Market Access for Small Producers in the West Bank». This step will increase the competitiveness of Palestinian agricultural companies in foreign markets in terms of raising the quality of packaging of these products and reducing their costs on Palestinian farms, as well as enhancing the integrity between the industrial and agricultural sectors in Palestine.

Preliminary financial statements for the fiscal year 2016 indicate that net profit of the National Carton Industries Company for the period after tax mounted USD 303 thousand compared to net profit after tax deduction of about USD 483 thousand for 2015.

3. Al Pinar General Trading Co

At the beginning of 2016, Palestine Industrial Investment Company acquired the shares of Al Pinar General Trading Private Limited Company(Dairy Industry and Milk Products) which was established in Ramallah in 1999 as part of the company strategy to expand into the food sector and Integrate production.

During 2016, the company achieved remarkable growth in the operating performance ratios and financial performance indicators, revenues increased by 16% to reach JD6.3 million for 2016 compared to JD5.4 million in 2015. Net profit reached JD631 thousand for 2016 compared to 247 thousand for the year 2015, with an increase of 155%.

During this exact year, product development plan was put in action. The company will inject more capital, so as to become one of the most important dairy companies in Palestine. The company plans to establish a model cattle farm so as to ensure healthy milk supplies to the production lines. The company plans to establish new headquarters soon.

As part of its promotional campaigns, the company recently launched its «Saltak Alina» campaign, targeting West Bank governorates, under the slogan «Buy one, get a basket of products for free». The basic idea of this campaign is simply honoring Al Pinar customers.

As for diary industry, Al Pinar was able to introduce the first healthy long-life, proteins, vitamins and minerals rich and preservative-free milk to the basket of products, to be continuously undersigned to the many firsts list in 2017.

4. Palestine Plastic Industries Company (PPIC)

Established in 1998, Palestine Plastic Industries Company mainly focuses on plastic pipes for water distribution networks as well as bottles of juice and water in different sizes and shapes. The products of the company are promoted in the local Palestinian market and exported in part to Jordan.

The company exerted its utmost efforts to manage the production and marketing operations since its inception until 2015, under very difficult conditions i.e. the Israeli restrictions and impediments to the industrial sector and tight regulations imposed on importing raw materials and exporting products. Add to this, the drainage of Israeli and foreign goods into the Palestinian market causing unfair competition and, for sure, inability to generate profits.

The Company›s operations have been discontinued in 2015. The Board of Directors negotiated comprehensive restructuring plans on the company›s capital and operations and developing a solid business plan to open space for developing the business and start strategic partnerships with new investors, so as o ensure the manufacturing and commercial operations profitability. The company is currently working to complete all the legal procedures and financial arrangements for a new project, expected to start 2017.

5. The Vegetable Oil Industries Company

The Vegetable Oils Industries Company was established in 1953 and is one of the longest operating companies in Palestine. It produces vegetable oil products from non- hydrogenated palm oil, refined corn oil, soybean oil and sunflower oil which comply with international quality standards. In addition to meeting the needs of the local Palestinian market, the company exports to other Arab countries in the region, where it has developed a favorable reputation. The company's investments have done well. It owns 25% of the capital of the Palestinian Beverages Company, a Coca Cola producer.

In the course of its 2016 efforts to improve the quality of production, the company used the Dutch Expert Group to benefit from its great expertise and consultations in the field of identifying quality problems and improving production and competitiveness in international markets. The Dutch expert Cees Nieuwenhuizen, a technical expert, undertook the work of the company; a detailed report will be prepared.

The Netherlands Expert Group is a Dutch volunteer non-profit organization, working in 70 countries and in 75 fields of work for more than 30 years, to transfer expertise and consultations to private sector companies. The group members are mostly retired international experts.

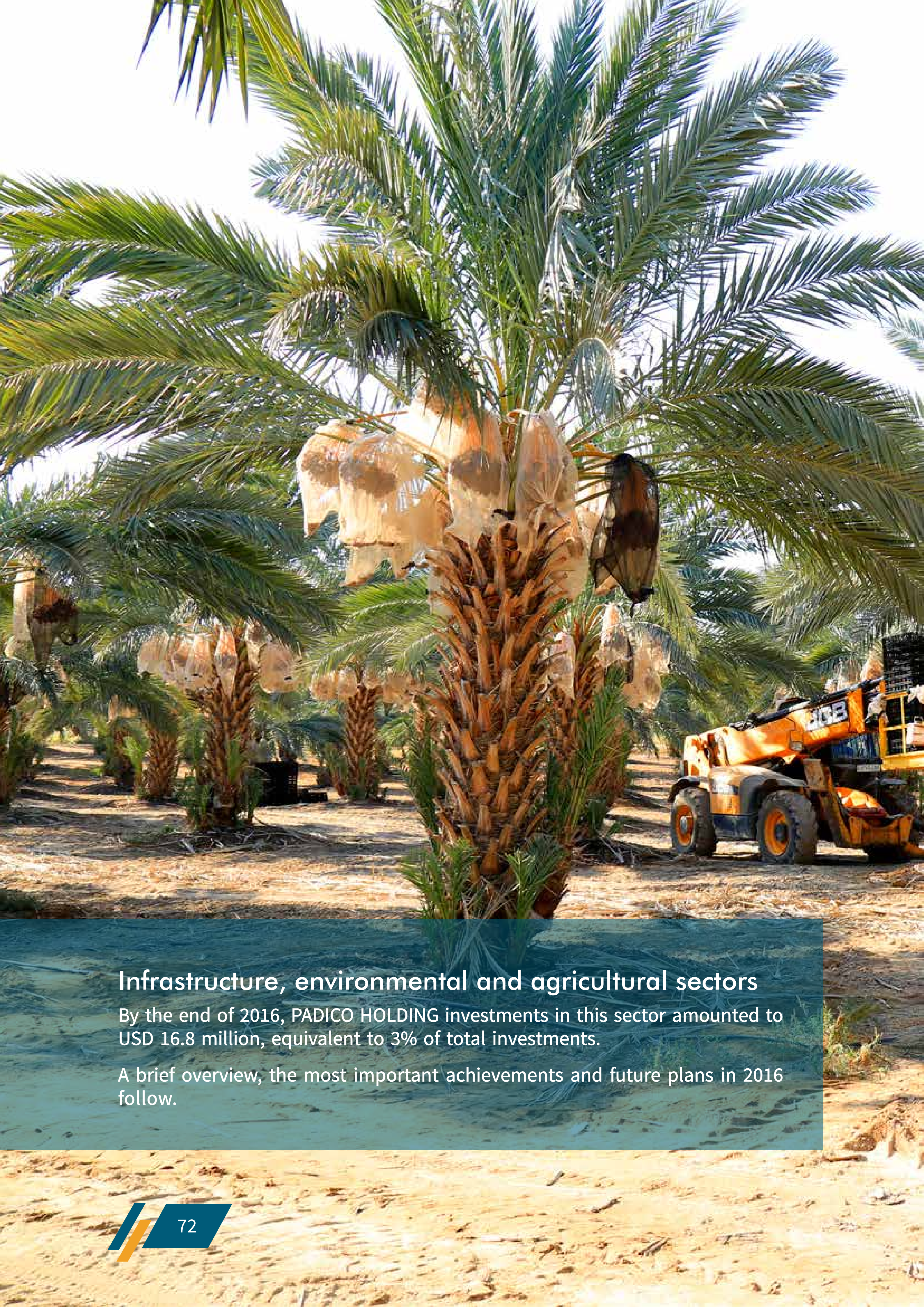
As part of its interaction with the local community, the company hosted a number of students from Birzeit University from various disciplines (Business Administration, Accounting, Industrial Engineering, Media and Journalism). Students had a great trip in the company being presented to the products and marketing plans in the Palestinian market and abroad.

In 2016, the company achieved a growth of 8% selling liquid oils and a growth of 7.5% selling vegetable oils compared to last year as indicated by the financial results of the company. Profits reached JD 5.25 million for 2016 Compared to JD5.14 million for 2015 and net profit after tax deduction of JD5.61 million for the year 2016 compared to JD5.36 million for 2015.

6. The Golden Wheat Mills Company

The Golden Wheat Mills Company was established in 1995 and is among the most sophisticated companies in the Middle East in terms equipments and facilities, with a production capacity of 450 tons per day. The mill produces a range of flours as well as other products such as semolina and bran. The company is currently investigating opportunities to produce other flour-made products such as corn flour, pasta and biscuits.

Preliminary financial statements of the fiscal year 2016 reveal the company achieved a significant growth in retail that mounted to JD 11.42 million in 2016 compared to JD 6.36million for the year 2015, with an increase of 78%. Net income after tax amounted to JD 27 thousand for the year 2016 compared to a net loss of JD 1.13 million for 2015.



Infrastructure, environmental and agricultural sectors

By the end of 2016, PADICO HOLDING investments in this sector amounted to USD 16.8 million, equivalent to 3% of total investments.

A brief overview, the most important achievements and future plans in 2016 follow.

Nakheel Palestine Company

A number of PADICO HOLDING's subsidiaries launched Nakheel Palestine Company in March, 2010, as a private limited shareholding company with a total capital of USD 13 million. Nakheel Palestine specializes in the cultivation, packaging and marketing of the best types of Palestine dates such as the Medjoul and Al-Barhi. The company›s six palm plantations are located in the outskirts of Jericho. High- profile agricultural experts pay close attention to 26,000 palm trees on daily basis on a total area of 3,000 dunums.

The company is proposing to undergo an acquisition of all shares of Sultan Fresh Fruit Company, a major company for the production of the Medjoul dates in Jericho, roughly owning more than 15,100 trees of Medjoul palms. The landscape of Nakheel Palestine, in the Palestinian Jordan Valley will increase, accordingly, to more than 4,000 dunnums, all in area (C).

At the marketing level, the company has successfully marketed its products (Jericho Dates, Moon City and Burhi Dates) in more than fourteen markets worldwide; including Turkey, Qatar, UAE, Indonesia, Malaysia, United Kingdom, Japan, Lebanon , Norway, United States of America and New Zealand. The company products, a successful brand, compete with the world›s top brands; today they are known for their high quality and rich flavor.

Nakheel Palestine became the only holder of the international quality certificates (FSSC22000, GAP GLOBAL, ISO22000), the Palestinian Quality Certificate and Halal Certification. Confidently saying, the company is commitment to provide high-quality products and achieve operational excellence in best hands.

During 2016, Nakheel Palestine started a campaign to increase the number of date plantations. The company planted about 2,500 new trees of date palms, thus, expanded its production line to six stat-of-the-art production lines rather than two. Hence, Nakheel Palestine, incorporating the cutting-edge technology and adhering to the highest technological standards in the Middle East, became the most sophisticated company in terms of grading and classification of dates, noting that the productive capacity of the Packaging Unit multiplied by about 3-folds, as the

productive capacity of the production lines increased to about 3 tons per hour. Currently, the storage capacity of the company›s refrigerators is gradually being increased. The company aims to reach a storage capacity of more than 2000 tons over the next two years. This goes in line with the increased date production and maturity of the newly planted trees. Refrigerators will not be solely used by Nakheel Palestine; rather, farmers working in the date sector will be most welcomed.

Operating new automatic packaging machine in line with the semi-automatic packaging machine in service, Nakheel Palestine is pursuing continuous development, saving time and increasing efficiency and effectiveness.

The Institute of International Tasting and Quality (iTQi), Brussels awarded Nakheel Palestine three gold stars for the third time consecutively since 2013; an achievement that opened to road wide for Nakheel Palestine to win the Crystal Taste Award. Proudly saying, winning this competition is the remarkable achievement of 2016

Palestine Electricity Company

Palestine Electricity Company was established in 1999 with a total paid capital of USD 60 million. It began its commercial operations in 2004 and was listed on Palestine Exchange since March 28, 2004. The company's mandate is to establish and run electrical plants in the areas under the jurisdiction of the National Palestinian Authority. The company has been given exclusive rights by the National Palestinian Authority to produce electricity and energy in Gaza Strip and has been authorized to sell its products to entities owned or managed by the Palestinian Authority for its first twenty years of operation. This contract may be extended for two five year terms.

Palestine Power Generation Company

Palestine Power Generation Company was established in 2010 in cooperation with a number of other companies within Palestine and in the region. PADICO HOLDING owns 20% of the shares of the company. The company has signed a contract with the Palestinian Energy and Natural Resources Authority to build the first electrical station in the West Bank. The station will produce 400 MW. This represents an important step towards achieving independence in the Palestinian energy sector and by making energy prices more competitive will pave the way for industries such as cement and steel to enter the Palestinian market. The project is based on the concept of build, operate and own (BOO).

Last November, the Company celebrated laying the foundation stone of for the construction of The Power Plant, which is one of the most important and largest infrastructure projects in Palestine, with an electricity generation capacity of about 450 MW and an annual production volume of about 3,500 GW, which will meet about 40% of market demand for electricity, reducing electricity imports currently mounting to more than 90% . PADICO HOLDING total investment in the project is expected to reach USD 600 million.

Palestinian natural gas will be used to operate the plant, thus, contributes to the exploitation and development of the natural resources of the State of Palestine. Palestine will be placed on the map of natural energy producing countries. Most prominently, this will reduce energy imports by USD 1 million annually.

The project will help liberalizing the Palestinian energy sector, pave the way for large industries to enter the Palestinian market such as the cement and steel industry, provide competitive sources of energy at lower prices, and create thousands of permanent job opportunities in Palestine.

Palestine Power Generation Company is a true and active manifestation of the partnership between many public and private sector institutions which are to say the Palestinian Investment Fund, PADICO Holding, Arab Bank Group, Palestine Telecom Group (Paltel) Palestine Electric Company, Palestinian Arab Investment Company (APIC), Bank of Palestine Limited, Gulf Metal Industries Company, Palestinian Pension Fund, Al Quds Bank, Cairo Amman Bank, Palestine Real Estate Investment Company, National Insurance Company, including others.

Looking to the future

The next stage, PADICO HOLDING looks forward to maintaining, developing and completing current investments, improving performance and increasing profitability. The company is undergoing a process of restructuring and reducing investment exposure to improve performance and financial health of PADICO Holding Group.

Against the backdrop of the aforementioned difficult complicated circumstance and complexities, PADICO HOLDING and subsidiaries achieved a remarkable progress in 2016. The company has taken a historic decision by launching commercial loan bonds for the second time since 2011, with s total value of USD 20 million. The loan was covered by 12 banks and financial institutions from Palestine and abroad, in the largest private placement of loan bonds in the Palestinian territories since the establishment of the Palestinian National Authority

Part of the IPO proceeds were used to fund short-term bank loan payments and develop existing projects towards stability and maturity, namely, the Jericho Gate, Rabiyat Al Quds Real Estate Project and the Palestine Power Generation Company, in full compliance to the Board of Directors thoughtful directions and the strategy in-action.

Our Social Responsibility

Over twenty-two years of professional inspiring journey, PADICO HOLDING has always given considerable attention to developmental and societal programs, mirroring a profound belief in its social role. Our Company corporate social responsibility strategy has evolved into a holistic and inclusive approach to all vital and influential aspects of society including economic, social, educational, technical, cultural and entrepreneurship initiatives; and segments, especially by the youth who must unquestionably the cornerstone of lead and the steering power of building the future of Palestine

PADICO HOLDING is dedicated to the principles of sustainability and transparency, and pursues responsible investments in the fields of energy and environment, while remaining committed to the community. PADICO HOLDING membership of the United Nations Global Compact (UNGC) has improved the Company's scope of work in regards to the standards of human rights, labor rights, environmental practices and the enforcement of business ethics as advocated by the UNGC charter.

PADICO's community-based strategy has four main features:

First: conducting preemptive study of status-quo of the community

Ahead to launching any community initiative, PADICO HOLDING seeks to explore the community status to set priorities and sectors of much need for support and development. Community programs adaptation is based on observation.

Second: sustainability and the strategic approach

PADICO HOLDING community-based initiatives are principled as long-term strategies and methodologies alike many PADICO ongoing initiatives. The company has adopted this approach out of thoughtful evaluation of the minimal tangible impact and benefit of the temporary individual community activities on the developmental process or community level. Tangible well-grounded development in any area can be only achieved through long-term projects, to allow the process of development become self-sustaining. Needless to say that short and long term societal attitudes have always shown random short term developmental projects always have temporary effects. As a result, wide sectors of the community are deprived from sustainable effects.

Third: deliberate development assistance for vital influential sectors

PADICO HOLDING is committed to providing elaborated development assistance to vital sectors at the core of the developmental process, which are to say, education, economy, culture, leadership, youth and arts. Accordingly, PADICO HOLDING is capable of achieving long-term viability that will benefit wide segments of the community and foster a better future for our homeland.

Fourth: Partnership and institutionalization of community work

PADICO HOLDING's corporate social responsibility programs are basically characterized by institutional community partnership which opens the doors wide for exchanging experiences, consultations and sharing ideas and making the utmost benefit from the experiences of specialized institutions. Most likely, their community contributions are institutionalized and an integrated joint effort that achieves a sustainable social impact is developed. Recalling back, PADICO HOLDING consciously realizes the partial and overall deficiencies of the individual work. It is why, PADICO HOLDING has woven wide and deep network of relationships; it, further, launched several joint initiatives with partners in official institutions, private and community sectors as well as international institutions.

Education

PADICO HOLDING believes education is the cornerstone of achieving the desired development goals. This sector has always been a constant concern for PADICO HOLDING. Unsurprisingly, developmental assistance goes to educational funds, scholarships, networking with universities and sponsoring various educational activities.

2016 witnessed a diversification of PADICO HOLDING investments in education. The company continues its annual direct support to university students through its special scholarship program, which aims at helping hundreds of the needy local university students throughout Palestine by annually covering tuition fees in the amount of USD 50 thousand have

Subsequently, as part of PADICO HOLDING supported projects relevant to education, the Company sponsored Notebook and Pen Erase Pain Campaign implemented by El-Ata Charitable Society in order to help meet the basic needs of the needy schools students at the beginning of the new academic year. Bags and stationery were distributed to elementary school students from the first grade to the fourth. The society is leading in the fields of development and humanitarian projects in the Gaza Strip, Jerusalem and marginalized West Bank villages. Hundreds of Palestinians benefited from the services of hundreds of Palestinian families and children. It has had a good impact on strengthening the steadfastness of the citizens under difficult circumstances, especially children who received psychological and cultural support.

PADICO HOLDING is keen to needy community segments with exceptional circumstances limiting their proper involvement in society and normal active role. In this regard, it sponsored SOS Village, Bethlehem; a leading global institution operating in more than 130 countries, to empower children. By supporting the Education for a Better Future Program PADICO HOLDING covered the school tuitions for more than 270 children and youngsters registered in Family Care programs implemented by the institution in Bethlehem and Rafah located SOS villages.

PADICO HOLDING is devoted to sponsor the activities and educational programs of INJAZ Palestine, a non-profitable organization led by private sector companies. It works on providing Palestinian students with series of practical lectures conducted by volunteers from the private sector to promote economic opportunities among the Palestinian youth.

PADICO HOLDING has sponsored the Arab Digital Expression Camp (ADEC), a non-profit development-oriented organization that seeks to empower Arab youngsters and youth by creating supportive education and learning environment, supporting free culture, developing skills, building knowledge tools in Arabic and using numerological tools to express viewpoints.

PADICO HOLDING has also sponsored several educational projects, such as The Diana Kamal Scholarship Fund for Educational Research through the AMIDEAST, and continued to sponsor The Student Program, Mahmoud Abbas Foundation which works on providing financial support to Palestinian students in Lebanon refugee camps. Over the past several years, PADICO HOLDING has also sponsored the late Rashid Khalil Erekat Foundation; funding undergraduate students educational process.

Leadership and creativity

Equipping students with entrepreneurial spirit and self-imitativeness would structurally support the Palestinian economy and pin out the cumbersome difficulties facing Palestinian university graduates, PADICO HOLDING believes. The Palestinians people have an impressive youth and university graduates potential. PADICI HOLDING manifested admirable attention by creating the most strategic program "TAMAYUZ", a program that provides university graduates with incentives for continuous learning and to enhance their ability to keep up with the latest developments in their field of work, and build up their critical thinking spectrums.

TAMAYUZ: Citizenship, Leadership, Creativity

TAMAYUZ is a strategic program launched by PADICO HOLDING in late 2012 in partnership with Sharek Youth Forum and the International Youth Foundation (IYF), later, Silatech Foundation became partner. To this end, the program aims at facilitating the integration of Palestinian graduates into the labor market by exposing expose them to a wide range of experiences designed to increase their competitive edge in the job market.

In order to enrich the content of the program and its suitability to the labor market, PADICO HOLDING held preparatory meetings, several preparatory workshops and brainstorming sessions to launch the program. It was very keen to engage Local experts from Palestinian universities, as well as international experts who explored the most important obstacles facing Palestinian graduates. As concluded, there is a mismatch between the skills of Palestinian graduates and the labor market needs which are constantly changing at an accelerated pace.

The students of TIMAZ are presented to a long-term quality experience; hence, they can acquire various life and individual skills required in the labor market, such as communication skills and time management skills. Students are introduced to inspiring experiences, success stories. They are given the opportunity to experience life in coexistence camps held in coordination with the Palestinian National Security Forces. Tamayuz organizes group tours such as camping in the rural areas of Palestine. All these experiences together contribute to refining the personality of the graduates, enhancing his competitiveness and facilitating his engagement in the labor market.

Five years ago today, Tamayuz has undoubtedly become a national program of nine partner universities in the West Bank and two universities in the Gaza Strip. Since its inception, the program has benefited more than 800 she/he students, many of whom have achieved remarkable success stories in their careers.

The Tamayuz program allocates most activities to firmly entrench volunteering as a culture it in the spirits and minds of the beneficiary graduates, and instill the idea of giving gratis along with other national and moral values that entrench the spirit of belonging and citizenship among the graduates of the program. At the end of the program, students receive practical training opportunities in various companies and institutions.

Economy

PADICO HOLDING sought to pin out the cumbersome difficulties facing Palestinian economy and discuss feasible solutions. Therefore, PADICO HOLDING sponsored The Policy Research Institute (MAS) 2016 economic conference, Ramallah, and titled "Towards a New Vision for the Advancement of the Palestinian Economy". PADICO HOLDING grasped the opportunity to present a thesis summarizing its vision towards promoting the Palestinian economy.

Environment

PADICO HOLDING developed a corporate environment- sensitive social responsibility strategy. Our Company strives to maintain healthy green environment through environmental-friendly management practices, and incorporates these concepts in its activities and investment projects. As part of this endeavor towards environmental commitment, the company has been funding the Arab Nature Protection Organization over the past years. A joint agricultural activity with the organization was carried out in Palestine

Networking and openness to global institutions

As part of its endeavor to cultivated relationships with some of the world's top institutions, PADICO HOLDING has hosted delegations of students from the Kennedy School of Government and the Business Management School, Harvard University. The program has been running for six years now. t also seeks to familiarize students with the political, economic and social realities in Palestine.

PADICO HOLDING brought more than one hundred students together to learn about the status-quo of the Palestinian economic; feasible investment opportunities; to have a who's who high profile Palestinian capabilities and distinguished potentials. The visiting delegation was presented to the major challenges facing the active and productive Palestinian economy and hindrance natural growth. A briefing about PADICO HOLDING role as a pioneering investment experience representing the contributions of the Palestinian private sector in the construction and development process was presented.

Culture

PADICO HOLDING values culture as the most important tool of intellectual enlightenment that contributes to the promotion of public awareness of the society. Culture is an integral component of national identity. It plays a key role in preserving the national memory from erosion and the Palestinian identity from melting and decay. Cultural globalization, a classy term for information inundation and overloading, threatens the cultural identity of societies beyond all geographical barriers. Sponsoring cultural activities has always been a vital task that is directly integrated with the sustainable development of PADICO HOLDING social responsibility agenda. Based on this comprehensive vision of the development process, PADICO HOLDING has particularly sponsored the cultural activities closely tackling the Palestinian cause and stimulating the collective memory in the face of the attempts to take away the awareness of the Palestinian people.

During 2016, PADICO HOLDOING has made significant sponsorship to a diversity of cultural activities, most importantly the 10th Annual Conference on Palestinian Culture organized by the Palestinian Studies Institute.

PADICO HOLDING continues sponsors for the Digitalization of Audio and Visual Archives Project, implemented by the United Nations Relief and Works Agency for Palestine Refugees (UNRWA), a project aimed at preserving the Palestinian audio-visual heritage.

PADICO HOLDING sponsors several cultural programs implemented by Al Ata›a Benevolent Association such as the National Reading Week, the Book Fair (on the scene) and encouraging children to read campaigns.

PADICO HOLDING sponsors activities held by Haidar Abdul Shafi Center for Culture and Development, Gaza Strirp including training, educational meetings and awareness raising sessions.

PADICO HOLDING also funds the annual conference of the Palestinian Center for Israeli Studies (MADAR), which is held annually to discuss the results of the Strategic Report.

Arts

PADICO HOLDING prioritized the Palestinian art as it is expresses the noble national values and conveys the message of the Palestinian people to the world using aesthetic language, PADICO HOLDING has sponsors many artistic bodies and activities, the most important of which are the Palestinian Performing Arts Network, The Ishtar International Youth Theater Festival and the Cinema Days Festival.

The Gift Art Fair was organized by the Al Ma›mal Foundation for Contemporary Art in partnership with PADICO HOLDING. The event took place at the PADICO HOLDING hall, Ramallah in conjunction with Christmas, at the end of 2016. Works of art, craftsmanship, art exhibitions and silent auction by more than 45 Palestinian artists from various parts of Palestine, including Jerusalem, Haifa, Nazareth, Majdal Shams, Ramallah, Bethlehem, Gaza and the Diaspora were exhibited.

PADICO HOLDING also hosted Palestine Inside Out festival - the New Palestinian Scene, an exceptional event that provides a model example of the artistic capacities of emerging talents from Gaza, Jerusalem, Haifa, Ramallah, Nablus and Majdal Shams. This event was carried out by the French council under the patronage and presence of the Minister of Culture Dr. Ihab Bseiso and a host of artists and representatives of sponsoring institutions and companies. The Rebuild Links exhibition is an exceptional event that offers a great example of artistic production from emerging talents. During the exhibition, the vision of this young generation, characterized by intellectual courage and artistic freedom, was honored through photography, video, sculpture, art installations archive, and art crafts.

The lineup of the festival was outstanding, featuring a variety of concerts, master classes, performing arts and variety of art exhibitions in which young Palestinian artists participated. The new Palestinian Art Scene Festival is a unique artistic project that opens the door to talented young Palestinian artists under the age of 35; they have competition, creativity and artistic performances through various forms of art, including artistic photography, the video industry, music and contemporary dance. This is the first time that Palestine has hosted this artistic project, organized for the first time in Paris, June, 2015.

This support comes in the context of PADICO HOLDING efforts to leverage its strong relationships with many international organizations and institutions. This was one of the kind opportunities to show up and crystallize talented of Palestinian artists globally by opening them up to new opportunities and connecting them with technical bodies and encouraging environments. .

PADICO HOLDING has also sponsored the musical evening organized by the Palestinian Foundation for Cultural Development (NAWA titled "Laylat Sama'a". The company also sponsored the «The Second Crossing» project, a musical art project that includes the production of six musical works by Palestinian artists and teams, as well as international musicians.

PADICO HOLDING has supported «Destination Berlin" project, a documentary by Khaled Jarrar, which highlights the suffering of refugees fleeing away from Syria. The film presents the bitter journey to escape war, but eventually awarded a new life. In this film, Jarrar introduces a real-life experience fleeing with a Syrian family for 26 day of bitter and painful journey from Athens to Germany. Jarrar filmed 65 hours of suffering day after day, refugees were taking their lives on their shoulders to search for a new life and a new beginning. The film highlights many human values and sad situations of suffering and pain.

The company also sponsored the performance of the late Palestinian writer Ghassan Kanafani's great play «Men in the Sun» on the Kasbah theater and cinematheque. The performance was attended by a number of TAMAYUZ students who stressed the importance of culture and arts in shaping awareness towards serving his country. The students also expressed their admiration for the experience of the theater, which embodied Ghassan Kanafani›s description of the political, social and humanitarian realities that characterized the lives of the Palestinian people at a critical period in its history. PADICO HOLDING also supported The Return, a film telling a story about the dialectic of diaspora and return of a Palestinian family expelled from Haifa during the 1948 Nakba. In this regard, the company supported the Young Artists Forum, which encourages children to express themselves using diverse arts

Last not least, PADICO HOLDING supported Al Waleed Charitable Society, providing services to the local community in Khan Younis Governorate, Gaza Strip. Our Company supported the summer camp project IN Khuza›a, located at the eastern gate of Khan Younis, a marginalized boarder Governorate repeatedly targeted by the Israeli Occupation.

PADICO HOLDING sponsors a diversity of community-based programs including the annual charity lottery total Lottery revenues go to fund the Jordanian Society for Palestinian Medical Aid, a charitable organization that aims at providing special medical care to refugee camps and surrounding areas through PHC centers in the Palestinian camps. PADICO HOLDING also sponsored a charity breakfast for Palestinian refugees in Jordan.

PADICO HOLDING renew sponsorship of a diversity of relief based programs implemented by Palestine Benevolent Charity in the West Bank and Gaza Strip, the heart-to-heart campaign targeting 200 disadvantaged families and the distribution of food parcels and blankets to chaste families. The company also supported the Palestinian-Bulgarian Friendship Association, Beit Hanoun Sports Club and Society of Inash EL-Usra

Financial Performance in 2016

Financial Performance in 2016

PADICO HOLDING's Artibuted to the equity holders of the parent profits amounted to USD 19.01 million dollars in 2016, compared to USD 22.30 million dollars in 2015, a decrease of 14.76%. The decline in profits is mainly due to the shrinkage of the earrings of Palestine Real Estate Investment Company (PRICO), Profits fell in part from USD 1.76 million in 2015 after a loss of USD 4.21 million dollars. The results on the other hand show a fall in PRICO's revenue despite the completion of a number of residential and commercial projects in 2015 and 2016, especially Al Ghadeer Neighborhood Project, Al-Masayef Project, and PRICO House. This is in addition to selling apartments and commercial units projects in 2015, the company achieved remarkable profits. PRICO is seeking to sell the remaining units at the best prices possible and a good take-up despite real estate sector market conditions; suffering a significant decline in the last two years. If the market price falls below a firm›s average total cost, the firm will incur losses according to the law supply and demand law. This will result in lower prices and less economic profit.

In 2016, PRICO hand in a turn-key facility Alawqaf project in Ramallah. The majority of the project was leased during 2016; but, its revenues and profits were not recognized in the income statement for the year 2016 and according to the accounting policies adopted by the company in line with the International Accounting Standards. Revenue recognition has been delayed and distributed over the duration of the contract. This will help PRICO achieve stable returns over the coming years, in line with its strategic directions in this regard.

At the same time, PALTEL's profit drop from USD 117.15 million in 2015 to USD 112.91 million in 2016, down 3.6% was reported, reflecting the fierce competition in the Palestinian market, particularly by Israeli telecommunication companies. In contrast, expenses incurred by the license renewal fees has a limited effect on PALTEL revenues.

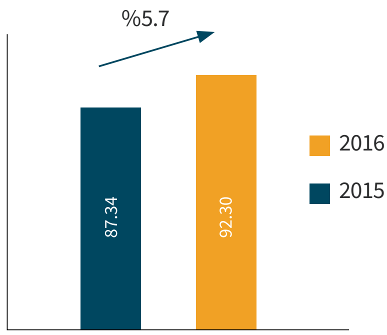
On the other hand, there was an improvement in the performance of other PADICO HOLDING subsidiaries, especially Palestine Industrial Investment Company (PIIC), which achieved a growth ratio in net profit of 17.62% increased from USD 5.79 million in 2015 to USD 6.81 million in 2016 and Palestine Stock Exchange, with a growth of 0.64 million compared to USD 0.37 million for the year 2015.

The main new projects, mainly, Jericho Gate Project, Rabiyat AlQuds residential project, Nakheel Palestine for agricultural investment did not contribute to PADICO output rewarding returns during 2016. And, it is expected to start to generating income in 2017. It is worth noting the company made tangible achievements towards completing the aforementioned projects during 2016. As for Rabiyat AlQuds Project (Shurufat), Jerusalem, the company received all approvals and final licenses for launching the first Phase. As for Jericho Gate Project, the development of all related infrastructure for the first phase was implemented. Agreements with developers to develop part of the first phase of the project were also conducted; Jericho Gate will become money generating project in 2017, and on.

Consolidated Revenues

Consolidated revenues increased from USD 129.82 million in 2015 to USD 131.93 million in 2016, an increase of 5.7% from USD 87.34 million to USD 92.30 million. This growth is mainly attributed to both the increase of the operating income by 26.24%, mounting to USD 63.35 million compared to USD 50.18 million in 2015 and the growth of the operating income came from Al Pinar Dairy Co which was taken over by Palestine Industrial Investment Company (PIIC) in 2016.

On the other hand, BRICO operating income decreased by 37.68% to reach USD 14.90 million in 2016 compared to USD 23.91 million in 2015.



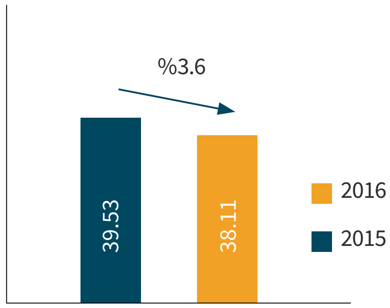
Operating income

Table (1): Consolidated Revenues

USD Million

Item	2016	2015	change %
Operating income of subsidiaries	92.30	87.34	5.7
Company's share of Operating income of affiliates	38.11	39.53	(3.6)
Financial assets portfolio gains	0.76	1.02	(26.1)
Sale of investment properties gains	0.76	1.93	(60.6)
Total consolidated revenues	**131.93**	**129.82**	**1.6**

PADICO HOLDING's share of affiliates results of operations amounted to USD 38.11 million in 2016 compared to USD 39.53 million in 2015, a decrease of 3.60%. The profit from the financial assets portfolio decreased from USD 1.02 million to USD 0.76 million. This decrease is mainly due to the decrease in the profit on available-for-sale investments. The revenues of sale of real estate investments decreased from USD 1.93 million in 2015 to USD 0.76 million in 2016.



Share of asociate result of operations

Consolidated Expenses

Consolidated expenses increased by 8.5% from USD 102.86 million in 2015 to USD 111.62 million in 2016. This increase is mainly due to subsidiaries' operating expenses, which increased by 8.49% to reach USD 70.54 million in 2016 compared to USD 65.02 million in the same period of last year. This increase in operating expenses was accompanied by a greater increase in the operating income of the subsidiaries, especially Palestine Industrial Investment Company (PIIC), as mentioned above.

Consolidated general and administrative expenses increased by 9.1% from USD 17.41 million in 2015 to USD 19.00 million in 2016. which includes sales and marketing expenses of subsidiaries and the administrative and general expenses in new operational projects, established in 2016, such as the Blue Beach Project In addition to the administrative expenses of Al-Pinar Diary CO., which was taken over in 2016. The new projects were a major reason for the increase in administrative expenses compared to 2015.

Table (2): Consolidated Expenses

USD Million

Item	2016	2015	change %
Operating expenses	70.54	65.02	8.5
General, Administrative, Sales & Marketing expenses	19.00	17.41	9.1
Depreciation and amortization	9.61	8.78	9.5
Finance costs	12.47	11.66	6.9
Total consolidated expenses	111.62	102.86	8.5

Consolidated depreciation and amortization expenses increased by 9.5%, reached USD 9.61 million. This increase was due to the amortization expenses related to the Blue Bitch Project in Gaza which were not counted last year. The consolidated financing expenses also increased by 6.9% from USD 11.66 million at the end of 2015 to USD 12.47 million at the end of 2016. This increase is due to the high level of consolidated borrowing, as indicated below.

Summary of Consolidated Financial Position

Consolidated Assets

Consolidated assets grew from USD 820.52 million at the end of 2015 to USD 842.18 million at the end of 2016. The table below illustrates the distribution of the company's assets and investments at the end of 2016 compared to the end of the year 2015.

Table (3): Distribution of Assets and Investments

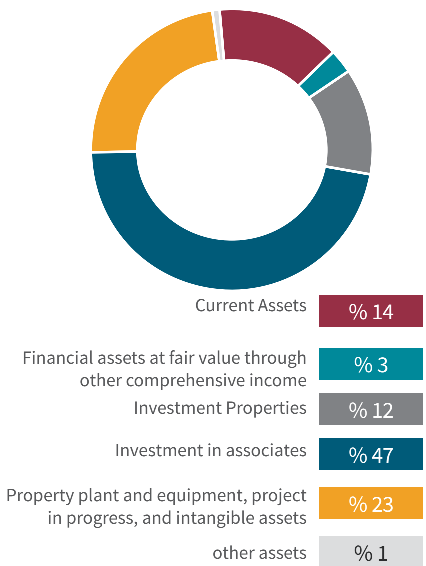
USD Million

Item	31/12/2016	% of total	31/12/2015	% of total	% Change
Cash and financial assets at fair value through profit or loss	42.00	5.0	26.96	3.3	55.8
Accounts receivables and other current assets	51.79	6.1	48.91	6.0	5.9
Inventories, ready for sale properties, and biological assets	36.01	4.3	39.36	4.8	(8.5)
Financial assets at fair value through other comprehensive income	24.55	2.9	32.82	4.0	(25.2)
Investment properties	102.40	12.2	93.98	11.5	9.0
Investment in associates	397.27	47.2	394.45	48.1	0.7
Property, plant and equipment, projects in progress, and intangible assets Total Assets	188.17	22.3	184.05	22.4	2.2
Average Total	842.18	100.0	820.52	100.0	2.6

The balance of cash and financial assets at fair value through the income statement increased by 55.8% from USD 26.96 million at the end of 2015 to USD 42.00 million at the end of 2016. Accounts receivable and other current assets also increased by 5.9% from USD 48.91 million at the end of 2015 to USD 51.79 million at the end of 2016. The increase is mainly due to an increase in PRICO`s and PIIC receivables.

The balance of inventories, ready for sale properties and biological assets decreased by 8.5%, from USD 39.36 million at the end of 2015 to USD 36.01 million at the end of 2016.

The portfolio of financial assets at fair value through the comprehensive income statement decreased by 25.2% from USD 32.82 million at the end of 2015 to USD 24.55 by the end of 2016. This portfolio includes PADICO HOLDING and its subsidiaries and affiliated companies shares and contributions in companies inside Palestine and abroad.

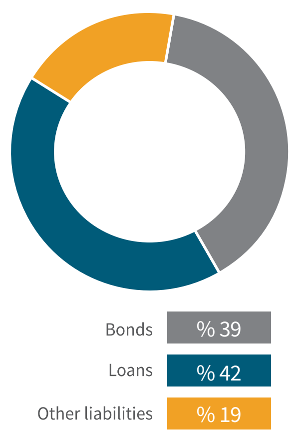


Investment properties increased by 9.0% from USD 93.98 million at the end of 2015 to USD 102.40 million at the end of 2016. They include all property investments of PADICO HOLDING and its subsidiaries, including PRICO and Jericho gate which led this sector. The value of these investments appears at its historical cost on the consolidated financial statements, in which unrealized gains from the valuation of these assets are not reflected in the income and equity statements, according to the accounting policy adopted by PADICO HOLDING.. As for investments in associates, increased a 0.7% rise to reach USD 397.27 million at the end of 2016.

On the other hand, the property, plant, and equipment, projects in progress, and intangible assets increased by 2.2% from USD 184.05 million at the end of 2015 to USD 188.17 million at the end of 2016.This increase is mainly due to the goodwill arising after PIIC concluded an acquisition and integration of all assets and liabilities of Al Pinar Diary Co. in 2016.

Consolidated Liabilities

Total consolidated liabilities amounted to USD 305.16 million at the end of 2016 compared to USD 276.70 million at the end of the year 2015, an increase of USD 28.46 million or 10.3%. The increase was mainly due to the increase in the debt balance from USD 85 million to USD 120 million



Total debt (bonds, loans, credit facilitations) constitutes 81% of the total consolidated liabilities; debt level increased by 11.83% from USD 222.31 million at the end of 2015 to USD 248.62 million at the end of 2016. Total consolidated loans comprise 29.52% and 46.3% of the total consolidated assets and consolidated equity, respectively

It should be mentioned that debt bonds in the amount of USD 120 million was successfully completed in 2016 as part of a private placement with 12 banks and financial institutions PADICO used the proceeds to repay the previous Bonds in the amount of USD 85 million. The remainder of the cash proceeds will be injected into the company's projects and investments as part of PADICO's investment plan

The following table illustrates the distribution of consolidated debt at the end of 2016 among PADICO HOLDING and its subsidiaries:

USD Million

Company	Debt	% of total
PADICO HOLDING	180.36	72.55
Palestine Real Estate Investment Company (PRICO)	43.21	17.38
PADICO Tourism	13.95	5.61
Palestine Industrial Investment Company (PIIC)	7.34	2.95
Other Subsidiaries	3.76	1.51
Total Debt	248.62	100.00

Other liabilities constitute 19% of total liabilities, which amounted to USD 56.54 million at the end of 2016 compared to USD 54.39 million. These include accounts payable, due date checks, trade payables related to subsidiaries operations, in addition to dividends payable for PADICO HOLDING and stakeholders, provisions for income tax and provisions for employees` indemnity

Equity

Equity attributable the shareholders of the parent company decreased by 1.4% from USD 442.79 million at the end of 2015 to USD 436.70 million at the end of 2016, mainly due to PADICO distributing cash dividends to shareholders in 2015, and re-evaluating PADICO HOLDING and its subsidiaries available-for-sale investments.

Equity attributable the shareholders of the parent company consists of paid-in capital of USD 250 million, and retained earnings of USD 172.09 million compared to USD 167.25 million at the end of 2015, in addition to the reserves and other items, which amounted to USD 14.61 million at the end of 2016. Thus, the book value per share reached USD 1.75 at the end of 2016, exceeding the market value per share by 50.8% (at USD 1.16 per share). Non-controlling interests (the interest of other subsidiaries shareholders equity) amounted to USD 100.32 million at the end of 2016, representing 18.7% of the total equity of USD 537.02 million compared to USD 543.82 million at the end of 2015, a decrease of 1.25%, as illustrated in the following table.

Table (4): Equity

USD Million

Item	31/12/2016	% of total	31/12/2015	% of total	% Change
Paid-in capital	250.00	46.6	250.00	46.0	-
Reserves and Other Items	14.61	2.8	25.54	4.7	(42.8)
Retained earnings	172.09	32.0	167.25	30.8	2.9
Equity attributable the shareholders of the parent company	436.70	81.3	442.79	81.4	(1.4)
Non-controlling interests	100.32	18.7	101.03	18.6	(0.7)
Total Equity	537.02	100.0	543.82	100.0	(1.2)

Key Financial Indicators

USD Million

Key Items of Consolidated Income Statement and Indicators	2016	2015	% Change
Total consolidated revenues	131.93	129.82	1.6
Subsidiaries' operating income	92.3	87.34	5.7
PADICO HOLDING's share of affiliate's operations income	38.11	39.53	(3.6)
Profit attributable to equity holders of the parent company	19.01	22.30	(14.8)
Consolidated profit	18.91	23.43	(19.3)
Earning per share	7.6	9.0	(15.6)
Return on average equity	%3.50	%4.34	(19.4)
Return on average assets	% 2.27	%2.84	(20.1)

Key Items of Consolidated statement of financial position and indicators	31/12/2016	31/ 12/ 2015	% Change
Total assets	842.18	820.52	2.6
Total liabilities	305.16	276.70	10.3
Equity	537.02	543.82	(1.3)
Debt	248.62	222.31	11.8
Debt / equity	%46.29	%40.88	13.2
Debt / total assets	%29.52	%27.09	9.0
Current ratio (time)	%0.6	%1.26	106.6

Discrepancies between initial and audited consolidated financial statements of 2016

There are minor differences between the initial and audited consolidated financial statements for 2016. As noted in the consolidated financial statements, the consolidated profit amounted to USD 18.91 million slightly higher than the disclosure of the initial financial statements in February 15, 2017; noting that there are some differences in the revenues and expenses items as a result of reclassification.

The same applies to the consolidated statement of financial position, as there are some differences in various assets and liabilities items due to reclassification as required by International Accounting Standards and International Financial Reporting Standards. The reclassification resulted in a reduction of total assets by the amount of USD 400 thousand, accompanied by a reduction in total liabilities and equity by the same amount.

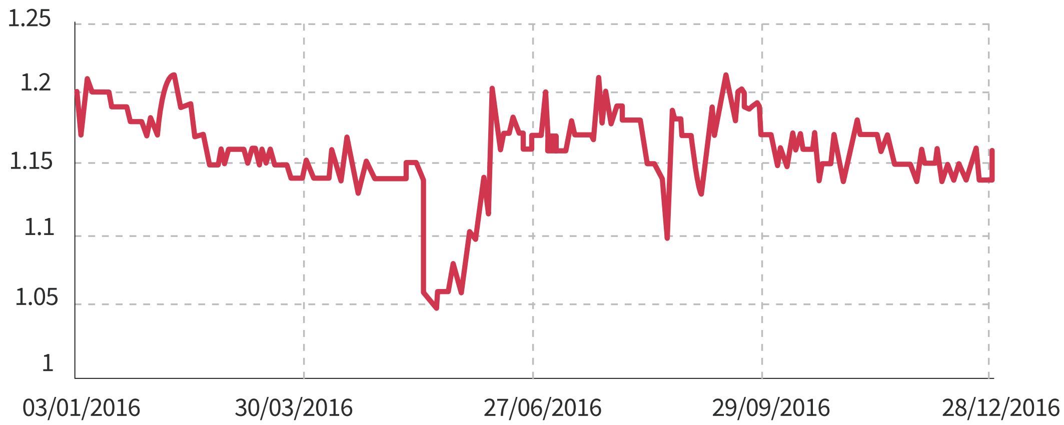
Compensation of Key Management personnel and Board of Directors

The compensation for the Board of Directors of PADICO HOLDING and its subsidiaries amounted to USD 767 thousand in 2016; USD 390 thousand of this amount was allocated to PADICO HOLDING's board of directors. The salaries and benefits of the top management of PADICO HOLDING and its subsidiaries amounted to USD 3,690 thousand; USD 1194 thousand of this amount was allocated to the upper management of PADICO HOLDING itself.

Performance of PADICO HOLDING's Share during 2016

The trading volume of PADICO HOLDING's share increased to reach USD 42.81 million, with an increase of 42.5% compared to 2015, the trading values of PADICO HOLDING's share reach to USD 49.59 million in 2016. The share turnover increased from 12.02% in 2015 to 17.12% in 2016 PADICO HOLDING's share closed at USD 1.16 at the end of 2016, an increase of USD 1.05 per share to the low-end of its previously communicated range in the second-quarter of 2015.

Key Share Indicators



Indicator	2016	2015	% Change
Paid-in capital (million shares)	250.00	250.00	-
Year end Book value per share (USD)	1.75	1.77	(1.1)
Year end share market price (USD)	1.16	1.21	(4.1)
P/E	0.66	0.68	(2.9)
P/BV	15.23	13.54	12.5
Trading volume (million shares)	42.81	30.05	42.5
Trading value (USD million)	49.59	36.74	35.0
Turnover ratio	%17.12	%12.02	42.4
Week high (USD)	1.23	1.32	(6.8)
Week low (USD)	1.05	1.06	(0.9)

Palestine Development and Investment Limited (PADICO)

Consolidated Financial Statments
December 31, 2016

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90 Years in MENA

Building a better working world

Independent Auditors' Report
To the shareholders of Palestine Development and Investment Limited (PADICO)

Opinion

We have audited the consolidated financial statements of Palestine Development and Investment Limited and its subsidiaries (PADICO), which comprise the consolidated statement of financial position as at December 31, 2016, and the consolidated income statement and the consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position of PADICO as at December 31, 2016, and its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards (IFRSs).

Basis for Opinion

We conducted our audit in accordance with International Standards on Auditing (ISAs). Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Consolidated Financial Statements section of our report. We are independent of PADICO in accordance with the International Ethics Standards Board for Accountants' Code of Ethics for Professional Accountants (IESBA Code), and we have fulfilled our other ethical responsibilities in accordance with the IESBA Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Key Audit Matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the consolidated financial statements as at December 31, 2016. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

We have fulfilled the responsibilities described in the Auditor's Responsibilities for the Audit of the Consolidated Financial Statements section of our report, including in relation to these matters. Accordingly, our audit included the performance of procedures designed to respond to our assessment of the risks of material misstatement of the consolidated financial statements. The results of our audit procedures, including the procedures performed to address the matters below, provide the basis for our audit opinion on the accompanying consolidated financial statements.

Revenue recognition

As referred to in note (26) to the accompanying consolidated financial statements, total revenues generated by PADICO and its subsidiaries for the year ended December 31, 2016 amounted to U.S. $ 92,304,000. These revenues were generated from a range of services and sales transactions resulted from a variety of contractual relationships with customers.

We considered revenue recognition a key audit matter due to the contracting nature of the business of PADICO and the significant degree of judgment in relation to the timing and value of revenues to be recognized.

Building a better working world

We examined the relevant clauses of key contracts and inquired management to obtain an understanding of the specific terms and risks and rewards involved for the purpose of assessing whether revenue for these contracts was appropriately and consistently recognized and disclosed in accordance with IFRSs. In addition, we performed substantive testing of contracts and other documents to support occurrence, the accuracy and timing of revenues recorded and disclosed in the consolidated financial statements.

Impairment of accounts receivable

As referred to in note (13) to the accompanying consolidated financial statements, the total accounts receivable and other current assets balances amounted to U.S. $ 57,258,000 as at December 31,2016 and the impairment provision against these receivables amounted to U.S. $ 5,473,000.

The determination of collectable trade receivables and allowance for doubtful accounts is based on management judgment with regard to assessment of the age of the balance, existence of disputes or arbitrations, recent historical payment patterns and any other available information concerning the creditworthiness of counterparties. We focused on this area because it requires a high level of management judgment and due to the materiality of the amounts involved in the consolidated financial statements.

The audit included selecting a sample of the larger receivable balances to ensure the sufficiency of recorded provisions and understand the basis on which Management has assessed these provisions. We also examined the aging analysis report generated from the accounting system and tested aged balances to check the adequacy of the impairment provision for non-performing customers or pending arbitrations. In assessing the appropriateness of the overall provision for impairment, we also considered the consistency of management's application of policy for recognizing provisions with the prior years.

Investment in financial assets at fair value through other comprehensive income

As referred in note (11) to the accompanying consolidated financial statements, PADICO's unquoted financial assets at fair value through other comprehensive income as at December 31, 2016 amounted to U.S. $ 16,867,000 which were valued using unobservable inputs that involves the exercise of judgement by management and the use of assumptions and estimates. Given the inherent subjectivity in the valuation of these unquoted financial assets, we determined this to be a key audit matter.

Our audit procedures included assessing reasonableness of assumptions and inputs used in its valuation for these investments and inquiring management about the relevance and reliability of assumptions and input. Further, we performed additional procedures to evaluate estimate made by management with the assistance of our valuation specialists. We also obtained the most recent audited financial statements of the investees, examined their profitability and equity strength and received confirmation reply from the investees. In addition, we assessed PADICO's related disclosures in the financial statements in accordance with IFRSs.

Other Information Included in PADICO's 2016 Annual Report

Other information consists of the information included in PADICO's 2016 Annual Report other than the consolidated financial statements and our auditor's report thereon. Management is responsible for the other information. PADICO's 2016 Annual Report is expected to be made available to us after the date of this auditor's report.

Our opinion on the consolidated financial statements does not cover the other information and we will not express any form of assurance conclusion thereon.

In connection with our audit of the consolidated financial statements, our responsibility is to read the other information identified above when it becomes available and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated.

Responsibilities of Management and Board of Directors for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with IFRSs, 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.

In preparing the consolidated financial statements, management is responsible for assessing PADICO's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate PADICO or to cease operations, or has no realistic alternative but to do so.

The Board of Directors is responsible for overseeing PADICO's financial reporting process.

Auditor's Responsibilities for the Audit of the Consolidated Financial Statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion.

Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

As part of an audit in accordance with ISAs, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of PADICO's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.

- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on PADICO's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause PADICO to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within PADICO to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of PADICOs audit. We remain solely responsible for our audit opinion.

We communicate with the Board of Directors regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide the Board of Directors with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with the Board of Directors, we determine those matters that were of most significance in the audit of the consolidated financial statements as at December 31, 2016 and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

Ernst + Young

Amman - Jordan
April 2, 2017

Palestine Development and Investment Limited (PADICO)

CONSOLIDATED STATEMENT OF FINANCIAL POSITION
As at December 31, 2016
(U.S. $ 000's)

	Notes	2016 U.S. $	2015 U.S. $
Assets			
Non-current assets			
Property, plant and equipment	6	140,667	139,910
Intangible assets	7	31,380	23,344
Investment properties	8	102,395	93,975
Projects in progress	9	16,126	20,793
Investment in associates	10	397,269	394,452
Financial assets at fair value through other comprehensive income	11	24,549	32,819
Long term accounts receivable	13	10,541	8,197
		722,927	713,490
Current assets			
Inventories and ready for sale properties	12	36,007	39,361
Accounts receivable and other current assets	13	41,244	40,709
Financial assets at fair value through profit or loss	14	11,132	11,378
Cash and short-term deposits	15	30,866	15,580
		119,249	107,028
Total assets		842,176	820,518
Equity and liabilities			
Equity			
Paid-in share capital	16	250,000	250,000
Share premium		16,932	16,932
Treasury shares	17	(361)	(387)
Statutory reserve	18	30,417	28,741
Voluntarily reserve	18	1,594	1,594
Fair value reserve	11	(34,804)	(21,964)
Foreign currency translation reserve		827	627
Retained earnings		172,092	167,248
Equity attributable to equity holders of the parent		436,697	442,791
Non-controlling interests	5	100,321	101,025
Total equity		537,018	543,816
Non -current liabilities			
Long-term loans and borrowings	20	82,392	93,959
Debt bonds	21	120,000	-
Provision for employees' indemnity	22	8,406	7,815
Other non-current liabilities		-	269
		210,798	102,043
Current liabilities			
Credit facilities and short-term loans and borrowings	20	46,229	43,349
Debt bonds	21	-	85,000
Accounts and notes payable	23	17,849	14,040
Other current liabilities	24	29,108	30,387
Provision for income tax	25	1,174	1,883
		94,360	174,659
Total liabilities		305,158	276,702
Total equity and liabilities		842,176	820,518

Palestine Development and Investment Limited (PADICO)

CONSOLIDATED INCOME STATEMENT
For the Year Ended December 31, 2016
(U.S. $ 000's)

	Notes	2016 U.S. $	2015 U.S. $
Revenues			
Operating income	26	92,304	87,339
Share of associates' results of operations	10	38,114	39,530
Gain from financial assets portfolio	27	757	1,024
Gain from sale of investment properties	8	755	1,928
		131,930	129,821
Expenses			
Operating expenses	28	(70,538)	(65,015)
General and administrative expenses	29	(18,996)	(17,406)
Finance costs		(12,469)	(11,660)
Depreciation and amortization	30	(9,614)	(8,783)
		20,313	26,957
Other expenses, net		(608)	(1,911)
Profit before income tax		19,705	25,046
Income tax expense	25	(796)	(1,612)
Profit for the year		18,909	23,434
Attributable to:			
Equity holders of the parent		19,009	22,300
Non-controlling interests		(100)	1,134
		18,909	23,434
Basic and diluted earnings per share attributable to equity holders of the parent	31	0.076	0.089

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME
For the Year Ended December 31, 2016
(U.S. $ 000's)

	2016 U.S. $	2015 U.S. $
Profit for the year	18,909	23,434
Other comprehensive income items		
Items not to be reclassified to profit or loss in subsequent periods:		
Net loss in fair value of financial assets at fair value through other comprehensive income	(8,488)	1,860
Share of associates' other comprehensive income items	(4,398)	(2,292)
	(12,886)	(432)
Items to be reclassified to profit or loss in subsequent periods:		
Foreign currency translation differences	404	(203)
Total other comprehensive income items for the year	(12,482)	(635)
Net comprehensive income for the year	6,427	22,799
Attributable to:		
Equity holders of the parent	6,369	21,673
Non-controlling interests	58	1,126
	6,427	22,799

Palestine Development and Investment Limited (PADICO)

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
For the Year Ended December 31, 2016
(U.S. $ 000's)

	Attributable to equity holders of the parent										
	Paid-in share capital	Share premium	Treasury shares	Statutory reserve	Voluntarily reserve	Fair value reserve	Foreign currency translation reserve	Retained earnings	Total	Non-controlling interests	Total equity
2016	U.S. $	U.S. $	U.S. $	U.S. $	U.S. $	U.S. $	U.S. $	U.S. $	U.S. $	U.S. $	U.S. $
Balance at January 1, 2016	250,000	16,932	(387)	28,741	1,594	(21,964)	627	167,248	442,791	101,025	543,816
Profit for the year	-	-	-	-	-		-	19,009	19,009	(100)	18,909
Other comprehensive income items	-	-	-	-	-	(12,840)	200	-	(12,640)	158	(12,482)
Net comprehensive income for the year	-	-	-			(12,840)	200	19,009	6,369	58	6,427
Transferred to statutory reserve	-	-	-	1,676	-	-	-	(1,676)	-	-	-
Distributed cash dividends (note 19)	-	-	-	-	-	-	-	(12,492)	(12,492)	-	(12,492)
Distributed cash dividends from subsidiaries (note 19)	-	-	-	-	-	-	-	-	-	(2,387)	(2,387)
Treasury shares	-	-	26	-	-	-	-	3	29	-	29
Change in non-controlling interests	-	-	-	-	-	-	-	-	-	1,625	1,625
Balance at December 31, 2016	250,000	16,932	(361)	30,417	1,594	(34,804)	827	172,092	436,697	100,321	537,018
2015											
Balance at January 1, 2015	250,000	16,932	(426)	26,773	1,594	(15,495)	843	153,357	433,578	101,595	535,173
Restated profit for the year (Note 3)	-	-	-	-	-	-	-	22,300	22,300	1,134	23,434
Other comprehensive income items	-	-	-	-		(411)	(216)	-	(627)	(8)	(635)
Net comprehensive income for the year	-	-	-	-	-	(411)	(216)	22,300	21,673	1,126	22,799
Transferred to statutory reserve	-	-	-	1,968	-	-	-	(1,968)	-	-	-
Distributed cash dividends (note 19)	-	-	-	-	-	-	-	(12,490)	(12,490)	-	(12,490)
Distributed cash dividends from subsidiaries (note 19)	-	-	-	-	-	-	-	-	-	(1,632)	(1,632)
Net gain from sale of financial assets transferred directly to retained earnings (note 11)	-	-	-	-	-	(6,058)	-	6,058	-	-	-
Treasury shares	-	-	39	-	-	-	-	(9)	30	-	30
Change in non-controlling interests	-	-	-	-	-	-	-	-	-	(64)	(64)
Balance at December 31, 2015	250,000	16,932	(387)	28,741	1,594	(21,964)	627	167,248	442,791	101,025	543,816

CONSOLIDATED STATEMENT OF CASH FLOWS
For the Year Ended December 31, 2016
(U.S. $ 000's)

	Notes	2016 U.S. $	2015 U.S. $
Operating Activities			
Profit before income tax		19,705	25,046
Adjustments for:			
Depreciation and amortization		9,614	8,783
Share of associates' results of operations		(38,114)	(39,530)
Gains from financial asset portfolio		(757)	(1,024)
Finance costs		12,469	11,660
Gain from sale of investment properties		(755)	(1,928)
Gain from sale of ready for sale properties		(1,450)	(2,191)
Gain from sale of property, plant and equipment		(68)	(134)
Other non-cash items		1,824	5,437
		2,468	6,119
Change in working capital:			
Accounts receivable and other current assets		(2,333)	(8,254)
Inventories and ready for sale properties		8,000	13,053
Change in financial assets at fair value through profit or loss		64	(50)
Accounts and notes payable		4,522	(76)
Other current liabilities		(1,336)	3,885
End of service indemnity and tax payments		(2,696)	(2,388)
Net cash from operating activities		8,689	12,289
Investing Activities			
Financial assets at fair value through other comprehensive income		(40)	18,665
Investments in associates		3,021	(274)
Purchase of property, plant and equipment		(5,153)	(5,192)
Sale of property, plant and equipment		471	710
Cash from acquisition of subsidiaries	4	808	-
Investment properties		(4,112)	3,355
Projects in progress		(10,572)	(8,599)
Purchase of subsidiary's shares		(4,996)	-
Treasury shares		26	30
Dividends received		28,333	28,254
Net cash from investing activities		7,786	36,949
Financing Activities			
Distributed cash dividends		(16,352)	(16,214)
Credit facilities and long-term loans		(8,687)	(11,797)
Debt bonds		34,140	-
Change in restricted cash		(493)	(224)
Finance costs paid		(12,881)	(13,506)
Change in non-controlling interest		1,625	(64)
Net cash used in financing activities		(2,648)	(41,805)
Increase in cash and cash equivalents		13,827	7,433
Foreign currency translation differences		106	(29)
Cash and cash equivalents, beginning of the year		15,180	7,776
Cash and cash equivalents, end of year	15	29,113	15,180

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
December 31, 2016

1. Corporate Information

Palestine Development and Investment Limited (PADICO) was incorporated on October 14, 1993 under the Liberian Off Shore Business Corporation Act in Monrovia, Liberia. PADICO shares are publicly traded in Palestine Securities Exchange. On December 3, 2009, PADICO was registered in Palestine as a foreign company under registration No. (562801332).

The main objectives of PADICO are to develop and encourage investment in various sectors including industrial, real estate, tourism, housing and agricultural services, and to provide technical and consultancy services through the establishment of companies, joint ventures and associations with other companies.

The consolidated financial statements of PADICO as at December 31, 2016 were authorized for issuance in accordance with a resolution of the Board of Directors on April 2, 2017.

2. Consolidated Financial Statements

The consolidated financial statements comprise the financial statements of Palestine Development and Investment Limited (PADICO) and its subsidiaries as at December 31, 2016. PADICO's direct and indirect ownership in its subsidiaries' subscribed capital was as follows:

			Ownership %	
	Activity type	Country of origin	2016	2015
Palestine Real Estate Investment Company (PRICO)	Real estate	Palestine	74.49	74.49
Jericho Gate for Real Estate Investment (JG)	Real estate	Palestine	50	50
TAICO for trade and investment company	Real estate	Jordan	100	100
Palestine Industrial Investment Company (PIIC)	Industrial	Palestine	56.72	56.72
The Palestinian Waste Recycling Company (Tadweer)	Industrial	Palestine	100	100
Palestine Securities Exchange Company (PSE)	Financial market	Palestine	74.72	74.72
Jerusalem Development and Investment Company Ltd. (JEDICO)	Tourism	Britain	100	100
Palestine Development and Investment Company Private Shareholding	Investment	Palestine	100	100
Rawan International Investment Company	Investment	Jordan	100	100
Palestine General Trading Company Ltd.	Investment	Palestine	100	100
Palestine Company for the Transfer of Technology Ltd.	Investment	Palestine	100	100
Palestine Company for Canning and Packaging Ltd.	Investment	Palestine	100	100
Palestine Company for Basic Chemical Products Ltd.	Investment	Palestine	100	100
PADICO Services Company	Investment	Palestine	100	100

3. Accounting Policies

3.1 Basis of preparation

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

The consolidated financial statements have been presented in U.S. Dollars, and all values, except when otherwise indicated, are rounded to the nearest thousand (U.S. $ 000's).

The consolidated financial statements have been prepared under the historical cost basis, except for financial assets at fair value through profit or loss and financial assets at fair value through other comprehensive income that have been measured at fair value as at the consolidated financial statements date.

Basis of consolidation

The consolidated financial statements comprise the financial statements of PADICO and its subsidiaries as at December 31, 2016.

PADICO controls an investee if, and only if, PADICO has:

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

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

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

PADICO re-assesses whether or not it controls an investee if facts and circumstances indicate that there are changes to one or more of the three elements of control. Consolidation of a subsidiary begins when PADICO obtains control over the subsidiary and ceases when PADICO loses control of the subsidiary. Assets, liabilities, revenues and expenses of a subsidiary acquired or disposed of during the year are included in the consolidated financial statements from the date PADICO gains control until the date PADICO ceases to control the subsidiary. A change in the ownership interest of a subsidiary, (without a loss of control), is accounted for as an equity transaction.

All intra-group balances, transactions, unrealized gains and losses resulting from intra-group transactions and dividends are eliminated in full.
Non-controlling interest share of losses is recognized even if there is a deficit in the balance of non-controlling interest.

If PADICO loses control over a subsidiary, it derecognizes the related assets (including goodwill), liabilities and carrying value of non-controlling interest while any resultant gain or loss is recognized in consolidated income statement. Any investment retained is recognized at fair value.

3.2 Changes in accounting policies

The accounting policies adopted in the preparation of the consolidated financial statements are consistent with those of the previous financial year, except for the following amended standards effective as at January 1, 2016. PADICO has not early adopted any other standard, interpretation or amendment that has been issued but is not yet effective. The adoption of these new and amended standards did not have any effect on the financial performance or position of PADICO except for the effect of the amendments on IAS 16 and IAS 41 that are related to fruitful plants.

<u>IFRS 11 (Amendments) – Joint arrangements: Accounting for acquisition of interest</u>

The amendments to IFRS 11 require that a joint operator accounting for the acquisition of an interest in a joint operation, in which the activity of the joint operation constitutes a business, must apply the relevant IFRS 3 Business Combinations principles for business combination accounting. The amendments also clarify that a previously held interest in a joint operation is not remeasured when additional interest in the same joint operation is acquired if joint control is retained. In addition, a scope exclusion has been added to IFRS 11 to specify that the amendments do not apply when the parties sharing joint control, are under common control of the same ultimate controlling party.

The amendments apply to both the acquisition of the initial interest in a joint operation and the acquisition of any additional interests in the same joint operation.

<u>Amendments to IAS 16 and IAS 38: Clarification of Acceptable Methods of Depreciation and Amortization</u>

The amendments clarify the principles in IAS 16 Property, Plant and Equipment and IAS 38 Intangible Assets that revenue reflects a pattern of economic benefits that are generated from operating a business (of which the asset is a part) rather than the economic benefits that are consumed through use of the asset. As a result, a revenue-based method cannot be used to depreciate property, plant and equipment and may only be used in very limited circumstances to amortize intangible assets.

<u>Amendments to IAS 16 and IAS 41 Agriculture: Bearer Plants</u>

The amendments change the accounting requirements for biological assets that meet the definition of bearer plants. Under the amendments, biological assets that meet the definition of bearer plants will no longer be within the scope of IAS 41 Agriculture. Instead, IAS 16 will apply. After initial recognition, bearer plants will be measured under IAS 16 at accumulated cost (before maturity) and using either the cost model or revaluation model (after maturity). The amendments also require that produce that grows on bearer plants will remain in the scope of IAS 41 measured at fair value less costs to sell.

Government grants relating to bearer plants will be accounted for in accordance with IAS 20 Accounting for Government Grants and Disclosure of Government Assistance, instead of IAS 41.

PADICO has adopted the standard effective from January 1, 2016, which resulted in allocating the change in fair value to palm trees which were recorded in 2015 for an amount of U.S. $ 1,399,000. The standard was applied retrospectively as the company restated the opening balances of palm trees as at January 1, 2015 and recorded a depreciation on these assets for an amount of U.S. $ 149,000 during the year 2015. PADICO reclassified palm trees from Biological assets to property, plant and equipment account. The effect of restatements as at December 31, 2015 is as follows:

December 31,2015	Before adjustment U.S. $	Adjustment U.S. $	After adjustment U.S. $
Profit for the year attributable to equity holders of Parent company	23,074	(774)	22,300
Non-controlling interest	101,799	(774)	101,025
Property, plant and equipment (Palm trees)	13,348	(1,548)	11,800
Basic and diluted earnings per share attributable to equity holders of Parent company	0.092	(0.003)	0.089

Amendments to IAS 27 and IFRS 1: Equity Method in Separate Financial Statements

The amendments allow entities to use the equity method to account for investments in subsidiaries, joint ventures and associates in their separate financial statements. Entities already applying IFRSs and electing to change to the equity method in their separate financial statements have to apply that change retrospectively.

These amendments do not have any impact on PADICO's consolidated financial statements.

Amendments to IAS 1 Disclosure Initiative

The amendments to IAS 1 clarify, rather than significantly change, existing IAS 1 requirements, as follows:

- The materiality requirements
- That specific line items in the statement(s) of Income Statement and OCI and the statement of financial position may be disaggregated
- That entities have flexibility as to the order in which they present the notes to financial statements
- That the share of OCI of associates and joint ventures accounted for using the equity method must be presented in aggregate as a single line item, and classified between those items that will or will not be subsequently reclassified to profit or loss

  Furthermore, the amendments clarify the requirements that apply when additional subtotals are presented in the statement of financial position and the statement(s) of profit or loss and OCI. These amendments do not have any impact on the company.

Amendments to IFRS 10, and IAS 28 Investment Entities: Applying the Consolidation Exception

The amendments address issues that have arisen in applying the investment entities exception under IFRS 10 Consolidated Financial Statements. The amendments to IFRS 10 clarify that the exemption from presenting consolidated financial statements applies to a parent entity that is a subsidiary of an investment entity, when the investment entity measures all of its subsidiaries at fair value.

Furthermore, the amendments to IFRS 10 clarify that only a subsidiary of an investment entity that is not an investment entity itself and that provides support services to the investment entity is consolidated. All other subsidiaries of an investment entity are measured at fair value. The amendments to IAS 28 Investments in Associates and Joint Ventures allow the investor, when applying the equity method, to retain the fair value measurement applied by the investment entity associate or joint venture to its interests in subsidiaries.

Issued but not yet effective

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

IFRS 9 - Financial Instruments:

During July 2014, the IASB issued IFRS 9 "Financial Instruments" with all the three phases. IFRS 9 sets out the requirements for recognizing and measuring financial assets, financial liabilities and some contracts to buy or sell non-financial items. IFRS 9 replaces IAS 39 "Financial Instruments: Recognition and Measurement". IFRS 9 as issued will be implemented at the mandatory date on January 1, 2018, which will have an impact on the recognition and measurement of financial assets.

IFRS 15 Revenue from Contracts with Customers

IFRS 15 specifies the accounting treatment for all revenues arising from contracts with customers. It applies to all entities that enter into contracts to provide goods or services to their customers, unless the contracts are in the scope of other IFRSs, such as IAS 17 Leases.

IFRS 15 supersedes the following standards and interpretations:

- IAS 11 Construction Contracts,
- IAS 18 Revenue,
- IFRIC 13 Customer Loyalty Programs,
- IFRIC 15 Agreements for the Construction of Real Estate,
- IFRIC 18 Transfers of Assets from Customers; and
- SIC-31 Revenue—Barter Transactions Involving Advertising Services.

The standard is effective for annual periods beginning on or after January 1, 2018, and early adoption is permitted.

IFRS 16 Leases

IFRS (16) "Leases" was issued by the IASB in January 2016. IFRS (16) sets out the principles for the recognition, measurement, presentation and disclosure of leases.

Lessor accounting under IFRS 16 is substantially similar to the accounting requirements of the lessor under IAS 17. Lessors will continue to classify all leases using the same classification principle as in IAS 17 and distinguish between two types of leases: operating and finance leases, where each is treated differently.

IFRS 16 requires the lessee to recognize the assets and the liabilities for all leases exceeding 12 months period except for those of a low value. It requires the lessee to recognize the right-of-use of the asset representing the recognition of the leased assets and a liability to make lease payments.

IFRS 16 is effective for annual periods beginning on or after January 1, 2019 with early adoption permitted.

3.3 Significant accounting judgments, estimatets and assumptions

The preparation of PADICO'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.

Other notes that reflect the degree of risks that PADICO is subject to include:

- Risk Management Objectives and Policies (Note 35)
- Capital Management (Note 35)

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

Impairment of non-financial assets

Impairment exists when the carrying value of an asset or cash generating unit exceeds its recoverable amount, which is the higher of its fair value less costs to sell and its value in use. The fair value less costs to sell calculation is based on available data from binding sales transactions in an arm's length transaction of similar assets or observable market prices less incremental costs for disposing of the asset. The value in use calculation is based on a discounted cash flow model.

Provision for doubtful accounts, notes receivable and loans

PADICO's subsidiaries provide services to a broad base of clients using certain credit terms, while PADICO grants loans to some associates. Estimates, based on PADICO's and its subsidiaries' historical experience, are used in determining the level of debts that PADICO and its subsidiaries believe will not be collected.

Impairment of inventories

PADICO's subsidiaries estimate the net realizable value of their inventories at each financial year end based on their past experience, and adjust the carrying amounts, if needed.

Impairment of ready for sale property

PADICO's subsidiaries estimate the net realizable value of their properties available for sale at each financial year end based on their past experience, and adjust the carrying amounts, if needed.

Taxes

PADICO and its subsidiaries establish provisions, based on reasonable estimates, for possible consequences of audits by the tax authorities of the respective countries in which it operates. The amount of such provisions is based on various factors, such as experience of previous tax audits and differing interpretations of tax regulations by the taxable entity and the responsible tax authority.

Fair value of financial instruments

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

Useful lives of tangible and intangible assets

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

Investment Properties

PADICO's management relies on real estate experts to reassess investment properties.

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.

3.4 Summary of significant accounting policies

Revenue recognition

Revenues are recognized to the extent that it is probable that the economic benefits will flow to PADICO 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:

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.

Leases

Operating lease contracts are those that retain all the significant risks and benefits of ownership to the lessor. All costs and expenses paid are added to the leased assets book value and are recognised as rent revenue during the leasing period.

Operating lease payments are recognized as revenue in the income statement on a straight line basis over the lease term. All leases payments and other services paid by lessee related to the period after the date of the consolidated financial statements are recognised as unearned revenue. While unpaid leases as of the consolidated financial statement date are recognised as accrued revenues.

Rendering of services

Revenues from security trading and transfer commissions, membership of brokerage firms, registration fees for listed companies, and collateral commissions are recognised when the outcome of the transaction can be estimated reliably, by reference to the stage of completion of the transaction at the consolidated financial statements date.

Interest income

Revenue is recognised as interest accrued 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.

Dividends

Dividend revenue is recognised when the shareholders right to receive the dividends is established.

Sale of completed property

A property is regarded as sold when the major risks and the real estate ownership are transferred to the buyer, which is usually when the property is delivered.

Construction contracts revenue

Construction contracts revenue is recognised based on the percentage of completion method which is calculated by multiplying the percentage of completed work by the total contract revenue including any changes.

Bus stations revenue

Revenue from operating bus stations is recognised based on the accrual basis of accounting which is usually when the different operating services are delivered.

Rooms services revenues

Revenues from rooms' 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 consolidated financial statements date.

Food and beverage revenues

Revenues of food and beverage are recognized when sold.

Expenses recognition

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

Current versus non-current classification

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

- Expected to be realized or intended to be sold or consumed in normal operating cycle
- Held primarily for the purpose of trading
- Expected to be realized within twelve months after the reporting period
- Cash and cash equivalent unless restricted from being exchanged or used to settle a liability for at least twelve months after the reporting period

All other assets are classified as non-current.

A liability is current when:

- It is expected to be settled in normal operating cycle
- It is held primarily for the purpose of trading
- It is due to be settled within twelve months after the reporting period
- There is no unconditional right to defer the settlement of the liability for at least twelve months after the reporting period

PADICO classifies all other liabilities as non-current.

Deferred tax assets and liabilities are classified as non-current assets and liabilities.

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 capitalized as part of the cost of the respective assets. All other finance costs are expensed in the period they occur. Finance costs consist of interest and other costs that an entity incurs in connection with the borrowing of funds.

Income tax

PADICO and its subsidiaries provide for income taxes in accordance with the Palestinian and Jordanian Income Tax laws and IAS (12) which requires recognizing the temporary differences, at the date of financial statements between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes, as deferred taxes.

Deferred tax is provided on temporary differences at the consolidated statement of financial position between the tax bases of assets and the liabilities and their carrying amounts for financial reporting purposes. Deferred income tax assets and liabilities are measured at the tax rates that are expected to apply in the year when the asset is realized or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted at the consolidated statement of financial position date

Income tax expense represents the accrued income tax which is calculated based on taxable income. Taxable income may differ from accounting income as the later includes non-taxable income or non-deductible expenses. Such income or expenses may be taxable or deductible in the following years.

Property, plant and equipment

Property, plant and equipment are 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 recognised 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 and constructions	10-50
Machinery and equipment	14-20
Furniture and Office equipment	4-7
Motor vehicles	7
Computers	5
Leasehold improvements	7
Irrigation systems and land preparation	10-14
Fruitful palm trees	19

An item of property, plant and equipment and any significant part initially recognised is derecognised 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 derecognised.

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

Fair value measurement

PADICO measures financial instruments and non-financial assets, such as investments properties at fair value at each consolidated financial statements date. PADICO also discloses the fair value of the held to maturity financial assets in the notes to the consolidated financial statements which include the following:

- Disclosure of evaluations, estimates and assumptions (Note 3,7)
- Disclosure of fair value measurement hierarchy for assets (Note 33)
- Investment properties (Note 8)

Fair value is the price that would be received to sell assets or paid to transfer liabilities in an orderly transaction between market participants at the measurement date. The fair value measurement is based on the presumption that the transaction to sell the asset or transfer the liability takes place either:

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

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

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

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

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

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

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

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

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, PADICO measures the non-controlling interest in the acquiree at fair value. Acquisition costs incurred are expensed.

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

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

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

After initial recognition, goodwill is measured at cost less any accumulated impairment losses. For the purpose of impairment testing, goodwill acquired in a business combination is, from the acquisition date, allocated to each of PADICO'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.

Projects in progress

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

The carrying values of projects in progress are reviewed for impairment when events or changes in circumstances indicate that the carrying value may not be recoverable. If any such indication exists and where the carrying values exceed the estimated recoverable amount, the projects are written down to their recoverable amount.

Intangible assets

Intangible assets acquired separately are measured on initial recognition at cost. The cost of intangible assets acquired in a business combination is its fair value as at the date of acquisition. Following initial recognition, intangible assets are carried at cost less any accumulated amortization and any accumulated impairment losses. Internally generated intangible assets, excluding capitalized development costs, are not capitalized and expenditure is reflected in the consolidated income statement.

The useful lives of intangible assets are assessed as either finite or infinite.

Intangible assets with finite lives are amortized over the useful economic life and assessed for impairment whenever there is an indication that the intangible asset may be impaired. The amortization period and the amortization method for an intangible asset with a finite useful life are reviewed at least at each financial year end. Changes in the expected useful life or the expected pattern of consumption of future economic benefits embodied in the asset is accounted for by changing the amortization period or method, as appropriate, and are treated as changes in accounting estimates. The amortization expense on intangible assets with finite lives is recognised in the consolidated income statement.

Intangible assets with indefinite useful lives are not amortized, but are tested for impairment annually, either individually or at the cash generating unit level. The assessment of indefinite life is reviewed annually to determine whether the indefinite life continues to be supportable. If not, the change in useful life from indefinite to finite is made on a prospective basis.

Gains or losses arising from derecognition of an intangible asset are measured as the difference between the net disposal proceeds and the carrying amount of the asset and are recognised in the consolidated income statement when the asset is derecognised.

Intangible assets are amortized using the straight line method over the useful lives as follows:

	Investment period (years)	Useful lives (years)
The right to use Al-Bireh central station	24	22
The right to use Tourist bus station - Bethlehem	17	17
The right to lease the industrial zone	49	20
The right to lease coast land - Chalet project	49	31
The right to lease the industrial and agricultural zone - Jericho	49	45

Investment properties

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

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

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

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

Investment properties classification
Investment properties are classified as follow:

- Investment properties that include lands and buildings (offices and stores) that kept for rental and capital appreciation, rather than to be used for the business activities nor to resell it in the ordinary course of business.
- Inventory property that acquired or being constructed for sale in the ordinary course of business which primary includes residential real estate that constructed to be sold before or at the completion of construction.

Inventories and ready for sale properties
Inventories are valued at the lower of cost or net realizable value.

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

- Raw materials: purchase cost on weighted average cost basis
- Finished goods and work in progress: cost of direct materials and labor and a proportion of manufacturing overheads based on normal operating capacity
- Ready for sale properties costs include construction costs, research, design, finance costs and land in addition to indirect costs

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

Mature and immature biological assets (Poultry ranch) are stated at costs less any impairment losses, as their fair value cannot be measured reliably.

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

Under the equity method, the investment in the associates is carried in the consolidated statement of financial position at cost plus post acquisition changes in PADICO'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 consolidated statement of comprehensive income reflect the share of the results of operations of the associates. Unrealised gains and losses resulting from transactions between PADICO and the associate or joint venture are eliminated to the extent of the interest in the associate or joint venture.

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

After application of the equity method, PADICO determines whether it is necessary to recognise an additional impairment loss on PADICO's investment in its associates. PADICO determines at each reporting date whether there is any objective evidence that the investment in the associate is impaired. If this is the case PADICO calculates the amount of impairment as the difference between the recoverable amount of the associate and its carrying value and recognises the amount in the consolidated income statement.

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

Investments in financial assets

All financial assets are recognised and derecognised on trade date when the purchase or sale of a financial asset is under a contract whose terms require delivery of the financial asset within the timeframe established by the market concerned. Financial assets are initially measured at fair value, plus transaction costs, except for those financial assets classified as at fair value through profit or loss (FVTPL), which are initially measured at fair value.

All recognised financial assets are subsequently measured in their entirety at either amortised cost or fair value.

<u>Financial assets at amortised cost and the effective interest method</u>

Debt instruments are measured at amortised cost if both of the following conditions are met:

- The asset is held within a business model whose objective is to hold assets in order to collect contractual cash flows; and
- The contractual terms of the instrument give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

Debt instruments meeting these criteria are measured initially at fair value plus transaction costs (except if they are designated as at FVTPL- see below). They are subsequently measured at amortised cost using the effective interest method less any impairment, with interest revenue recognised on an effective yield basis.

Subsequent to initial recognition, PADICO is required to reclassify debt instruments from amortised cost to FVTPL if the objective of the business model changes so that the amortised cost criteria are no longer met.

The effective interest rate is the interest rate used to discount future cash flows over the life of the debt instrument, or less in certain cases, in order to equal the carrying value at initial recognition.

PADICO may irrevocably elect at initial recognition to classify a debt instrument that meets the amortised cost criteria above as at FVTPL if that designation eliminates or significantly reduces an accounting mismatch had the financial asset been measured at amortised cost.

<u>Financial assets at FVTPL</u>

Debt instrument financial assets that do not meet the amortised cost criteria or that meet the criteria but PADICO has chosen to designate as at FVTPL at initial recognition, are measured at FVTPL. PADICO has not designated a debt instrument financial asset as at FVTPL.

Subsequent to initial recognition, PADICO is required to reclassify debt instruments from FVTPL to amortised cost if the objective of the business model changes so that the amortised cost criteria starts to be met and the instrument's contractual cash flows meet the amortised cost criteria. Reclassification of debt instruments designated as at FVTPL at initial recognition is not permitted.

Investments in equity instruments are classified as at FVTPL, unless PADICO designates an investment that is not held for trading as at fair value through other comprehensive income (FVTOCI) at initial recognition.

Financial assets at FVTPL are measured at fair value, with any gains or losses arising on remeasurement recognised in the consolidated statement of income.

Dividends income on investments in equity instruments at FVTPL is recognised in the consolidated statement of income when PADICO's right to receive the dividends is established.

Financial assets at FVTOCI

At initial recognition, PADICO makes an irrevocable election (on an instrument-by-instrument basis) to designate investments in equity instruments as at FVTOCI. Designation at FVTOCI is not permitted if the equity investment is held for trading.

Equity instruments at FVTOCI are initially measured at fair value plus transaction costs. Subsequently, they are measured at fair value with gains and losses arising from changes in fair value recognised in other comprehensive income and accumulated in the fair value reserve. Where the asset is disposed of, the cumulative gain or loss previously accumulated in the fair value reserve is not reclassified to the consolidated income statement, but is reclassified to retained earnings.

Dividends on these investments in equity instruments are recognised in the consolidated statement of income when PADICO's right to receive the dividends is established, unless the dividends clearly represent a recovery of part of the cost of the investment.

Impairment of financial assets at amortised cost

Financial assets that are measured at amortised cost, including receivables and notes receivable, are assessed for indicators of impairment at the date of the financial statements. Financial assets are considered to be impaired when there is objective evidence that, as a result of one or more events that occurred after the initial recognition of the financial asset, the estimated future cash flows of the financial asset have been affected.

Derecognition of financial assets

PADICO derecognises a financial asset only when the contractual rights to the cash flows from the asset expire, or when it transfers the financial asset and substantially all the risks and rewards of ownership of the asset to another entity. If PADICO neither transfers nor retains substantially all the risks and rewards of ownership and continues to control the transferred asset, PADICO recognises its retained interest in the asset and an associated liability for amounts it may have to pay. If PADICO retains substantially all the risks and rewards of ownership of a transferred financial asset, PADICO continues to recognise the financial asset and also recognises a collateralised borrowing for the proceeds received.

Interest bearing loans and borrowings

At initial recognition, loans & borrowings are recognized at fair value net of directly attributable transaction costs. After initial recognition, interest bearing loans and borrowings are subsequently measured at amortised cost using the effective interest rate method.

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 Effective Interest Rate (EIR). The EIR amortisation is included in finance cost in the consolidated income statement.

Debt bonds

After the initial recognition at fair value, debt bonds are subsequently measured at amortized cost using the effective interest rate method. All costs incurred by PADICO for issuing the bonds are amortized over a period of five years.

Accounts payable and accruals

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

Accounts and notes receivables

Notes 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.

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.

Cash and short term deposits

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

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.

Leases

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

PADICO as a lessee

Finance leases, which transfer to PADICO 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 life of the asset. However, if there is no reasonable certainty that PADICO obtain 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 contracts are those contracts that retain all the significant risks and rewards of ownership to the lessor. Operating lease payments are recognised as an expense in the consolidated income statement on a straight line basis over the lease term.

PADICO as a lessor

Leases where PADICO 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. Contingent rents are recognised as revenue in the period in which they are earned.

Provisions

Provisions are recognised when PADICO 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.

Treasury shares

Treasury shares are stated at cost. Any gains or losses resulting from reissuing of these shares are recognised in the consolidated statement of changes in equity.

Foreign currency

PADICO consolidated financial statements are presented in U.S. $, which is also the parent company's functional currency. PADICO'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 PADICO's subsidiaries at their respective functional currency rates prevailing at the date of the transaction.

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

PADICO subsidiaries

The assets and liabilities of PADICO's subsidiaries with functional currency other than U.S. $ are translated into U.S. $ at the rate of exchange prevailing at the reporting date and their income statements at the weighted average exchange rates for the year. The exchange differences arising on the translation are recognised in other comprehensive income.

Earnings per share

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

Diluted earnings per share is calculated by dividing the profit attributable to ordinary equity holders of the parent by the weighted average number of ordinary shares outstanding during the year plus the weighted average number of ordinary shares that would be issued on the conversion of all the dilutive potential ordinary shares into ordinary shares.

4. Business Combination

During the year 2016, PIIC (a subsidiary) acquired all shares of Pinar for General Trading (Pinar) which amounted to 1,500,000 shares. Accordingly, PIIC has the ability to control Pinar through its full voting rights.

The financial statements of Pinar were consolidated with the consolidated financial statements of PIIC. PIIC's net share of results of Pinar was a gain of U.S. $ 890,106 for the period from the date of acquisition until December 31, 2016.

The acquisition price distribution is initially determined in the acquisition and will be completed within one year from the date of the acquisition in accordance with the standards. The fair value of Pinar's assets and liabilities is as follows:

	U.S $ 000's
	Fair value at the date of the acquisition
Assets at fair value	
Property, plant and equipment	1,335
Inventories	310
Accounts receivable	252
Cash and short-term deposits	808
	2,705
Liabilities at fair value	
Accounts payable	1,196
Income tax provision	24
Other liabilities	31
Provision for employees' indemnity	346
	1,597
Net assets at fair value	1,108
Pinar acquisition cost	(4,996)
Goodwill from acquiring Pinar	(3,888)

5. **Material partly-owned subsidiary**

Financial information of subsidiaries that have material non-controlling interests are provided below:

Proportion of equity interest held by non-controlling interests:

Name	Country of incorporation	2016	2015
		%	
Palestine Real Estate Investment Company	Palestine	25.51	25.51
Palestine Industrial Investment Company	Palestine	43.28	43.28
Palestine Securities Exchange Company	Palestine	25.28	25.28
Jericho Gate for Real Estate Investment	Palestine	50	50

Accumulated balances of material non-controlling interests:	2016	2015
	U.S 000's	
Palestine Real Estate Investment Company	21,827	23,206
Palestine Industrial Investment Company	29,294	27,299
Palestine Securities Exchange Company	2,154	2,056
Jericho Gate for Real Estate Investment	23,779	24,059
(losses) Profits allocated to material non-controlling interests:		
Palestine Real Estate Investment Company	(1,228)	356
Palestine Industrial Investment Company	3,086	2,695
Palestine Securities Exchange Company	59	(3)
Jericho Gate for Real Estate Investment	(280)	(216)
Other comprehensive income to material non-controlling interests:		
Palestine Real Estate Investment Company	(16)	(37)
Palestine Industrial Investment Company	(69)	34
Palestine Securities Exchange Company	39	(5)
Change of material subsidiaries non-controlling interests:		
Palestine Real Estate Investment Company	1,012	-
Palestine Industrial Investment Company	14	(11)

The summarized financial information of these subsidiaries are provided below. This information is based on amounts before inter-company eliminations.

Summarized Statement of Financial Position as at December 31, 2016:

	U.S 000's			
	Palestine Real Estate Investment Company	Palestine Industrial Investment Company	Palestine Securities Exchange Company	Jericho Gate for Real Estate Investment
Current assets	52,111	25,072	9,187	10,333
Non-current assets	115,032	55,507	3,748	50,673
Current liabilities	(36,558)	(14,972)	(455)	(13,370)
Non-current liabilities	(27,692)	(6,379)	(1,054)	(91)
Total equity	102,893	59,228	11,426	47,545
Attributable to non-controlling interests in PADICO	21,827	29,294	2,154	23,779

Summarized Statement of Financial Position as at December 31, 2015:

	U.S 000's			
	Palestine Real Estate Investment Company	Palestine Industrial Investment Company	Palestine Securities Exchange Company	Jericho Gate for Real Estate Investment
Current assets	62,831	21,385	8,508	1,407
Non-current assets	109,471	49,227	3,368	48,729
Current liabilities	(33,538)	(14,283)	(252)	(1,993)
Non-current liabilities	(28,409)	(1,732)	(919)	(40)
Total equity	110,355	54,597	10,705	48,103
Attributable to non-controlling interests in PADICO	23,206	27,299	2,056	24,059

Summarized Statement of Profit or Loss for the year ended December 31, 2016

	U.S 000's			
	Palestine Real Estate Investment Company	Palestine Industrial Investment Company	Palestine Securities Exchange Company	Jericho Gate for Real Estate Investment
Revenues	15,003	63,355	2,659	-
Operating expenses	(12,024)	(51,482)	-	-
General, administrative and marketing expense	(3,861)	(5,703)	(2,514)	(501)
Finance costs	(2,400)	(374)	-	-
Other (expenses) revenues	(755)	1,643	638	(51)
(loss) profit before tax	(4,037)	7,439	783	(552)
Income tax expense	(175)	(631)	(140)	-
(loss) profit for the year	(4,212)	6,808	643	(552)
Other comprehensive income items	177	288	78	-
Net comprehensive income for the year	(4,035)	7,096	721	(552)
Attributable to non-controlling interests in PADICO	(1,228)	3,086	59	(280)

Summarized Statement of Profit or Loss for the year ended December 31, 2015

	U.S 000's			
	Palestine Real Estate Investment Company	Palestine Industrial Investment Company	Palestine Securities Exchange Company	Jericho Gate for Real Estate Investment
Revenues	24,267	50,179	2,057	-
Operating expenses	(15,828)	(40,497)	-	-
General, administrative and marketing expense	(4,620)	(4,498)	(2,189)	(376)
Finance costs	(1,779)	(292)	-	-
Other revenues (expenses)	220	1,607	584	(55)
Profit (loss) before tax	2,260	6,499	452	(431)
Income tax expense	(503)	(707)	(77)	-
Profit (loss) for the year	1,757	5,792	375	(431)
Other comprehensive income items	(125)	70	(21)	-
Net comprehensive income for the year	1,632	5,862	354	(431)
Attributable to non-controlling interests in PADICO	356	2,695	(3)	(216)

Summarized Cash flow information for year ended December 31, 2016:

	U.S 000's			
	Palestine Real Estate Investment company	Palestine Industrial Investment company	Palestine Securities exchange company	Jericho Gate for Real Estate Investment
Operating activities	3,207	4,572	1,030	10,562
Investing activities	(10,487)	(4,500)	(54)	(2,006)
Financing activities	1,088	1,191	-	-
Net (decrease) increase in cash and cash equivalents	(6,192)	1,263	976	8,556

Summarized Cash flow information for year ended December 31, 2015:

	U.S 000's			
	Palestine Real Estate Investment company	Palestine Industrial Investment company	Palestine Securities exchange company	Jericho Gate for Real Estate Investment
Operating activities	6,674	8,002	50	1,346
Investing activities	(2,883)	(500)	367	(1,495)
Financing activities	1,376	(5,416)	-	-
Net increase (decrease) in cash and cash equivalents	5,167	2,086	417	(149)

6. Property, Plant and Equipment

	U.S. $ 000's									
December 31, 2016	Lands	Buildings and constructions	Machinery and equipment	Furniture and Office equipment	Motor vehicles	Computers	Leasehold improvements	Irrigation systems and land preparation	Palm Trees	Total
Cost										
Balance at January 1, 2016	19,623	94,005	28,181	9,082	3,602	2,365	13,648	1,960	11,949	184,415
Additions	72	1,186	2,127	290	418	65	83	148	998	5,387
Transferred from projects in progress (Note 9)	-	1,063	667	-	-	-	-	-	-	1,730
Disposals	-	-	(595)	(66)	(293)	-	-	-	-	(954)
Acquisition of subsidiary (Note 4)	-	64	1,024	48	190	9	-	-	-	1,335
Foreign currency translation differences	56	219	188	8	21	4	-	-	-	496
Balance at December 31, 2016	19,751	96,537	31,592	9,362	3,938	2,443	13,731	2,108	12,947	192,409
Accumulated Depreciation										
Balance at January 1, 2016	-	18,252	12,275	3,916	2,312	2,056	4,937	608	149	44,505
Depreciation charge for the year	-	2,578	2,031	738	406	103	1,155	221	279	7,511
Disposals	-	-	(248)	(39)	(266)	-	-	-	-	(553)
Impairment of property, plant and equipment	-	-	93	-	-	-	-	-	-	93
Foreign currency translation differences	-	77	88	6	12	3	-	-	-	186
Balance at December 31, 2016	-	20,907	14,239	4,621	2,464	2,162	6,092	829	428	51,742
Net book value										
At December 31, 2016	19,751	75,630	17,353	4,741	1,474	281	7,639	1,279	12,519	140,667

Property, plant and equipment include U.S. $ 17,873,000 of fully depreciated assets that are still operational in PADICO and its subsidiaries as at December 31, 2016

Based on long-term loan agreements, PADICO's subsidiaries, mortgaged lands and real estates and all the constructions on them as collateral to local banks. The book value of the assets on them amounted to U.S. $ 34,497,000 as at December 31, 2016. Depreciation for an amount of U.S. $ 233,000 was allocated to palm trees as at December 31, 2016.

Property, Plant and Equipment (Continued)

	U.S. $ 000's									
December 31, 2015	Lands	Buildings and constructions	Machinery and equipment	Furniture and Office equipment	Motor vehicles	Computers	Leasehold improvements	Irrigation systems and land preparation	Palm Trees	Total
Cost										
Balance at January 1, 2015	18,946	92,871	34,009	8,792	3,698	2,364	11,832	1,785	11,160	185,457
Additions	677	642	783	295	197	43	1,819	175	789	5,420
Transferred from projects in progress (Note 9)	-	817	-	-	-	-	-	-	-	817
Disposals	-	(325)	(3,454)	(5)	(293)	(42)	(3)	-	-	(4,122)
Foreign currency translation differences	-	-	3	-	-	-	-	-	-	3
Transferred to Assets held for sale (Note 12)	-	-	(3,160)	-	-	-	-	-	-	(3,160)
Balance at December 31, 2015	19,623	94,005	28,181	9,082	3,602	2,365	13,648	1,960	11,949	184,415
Accumulated Depreciation										
Balance at January 1, 2015	-	15,687	16,388	3,169	2,161	1,930	2,785	390	-	42,510
Depreciation charge for the year	-	2,566	1,885	751	362	165	1,252	218	149	7,348
Disposals	-	(188)	(3,104)	(4)	(211)	(39)	-	-	-	(3,546)
Transferred to Assets held for sale (Note 12)	-	-	(2,894)	-	-	-	-	-	-	(2,894)
Impairment of property, plant and equipment	-	-	-	-	-	-	900	-	-	900
Foreign currency translation differences	-	187	-	-	-	-	-	-	-	187
Balance at December 31, 2015	-	18,252	12,275	3,916	2,312	2,056	4,937	608	149	44,505
Net book value										
At December 31, 2015	19,623	75,753	15,906	5,166	1,290	309	8,711	1,352	11,800	139,910

Property, plant and equipment include U.S. $ 15,789,000 of fully depreciated assets that are still operational in PADICO and its subsidiaries as at December 31, 2015.

Based on long-term loan agreements, PADICO's subsidiaries, mortgaged lands and real estates and all the constructions on them as collateral to local banks. The book value of the assets on them amounted to U.S. $ 40,460,000 as at December 31, 2015. Depreciation for an amount of U.S. $ 296,000 was allocated on projects in progress and palm trees as at December 31, 2015.

7. Intangible Assets

	U.S. $ 000's			
	Goodwill	Leasing rights*	Bus stations	Total
Cost				
Balance at January 1, 2016	3,516	18,402	8,180	30,098
Additions (Note 4)	3,888	–	–	3,888
Transferred from projects in progress (Note 9)	–	5,557	–	5,557
Balance at December 31, 2016	7,404	23,959	8,180	39,543
Amortization				
Balance at January 1, 2016	–	558	6,196	6,754
Amortization for the year	–	835	574	1,409
Balance at December 31, 2016	–	1,393	6,770	8,163
Net book value				
At December 31, 2016	7,404	22,566	1,410	31,380
At December 31, 2015	3,516	17,844	1,984	23,344

*On November 2, 1995, PRICO (a subsidiary) signed a lease contract with the Palestinian National Authority to rent a piece of land for a period of 49 years for tourism investment purposes. During the year 2015, the company completed the construction of the project (Blue beach hotel) and transferred it to leasing rights. The project cost is amortized over the remaining term of the lease, which expires on October 20, 2044.

During the year, PRICO (a subsidiary) completed the construction works of the first phase of the industrial and agricultural city project in Jericho and transferred it to intangible assets (Leasing rights). The project cost is amortized over the period of 49 years with an amount of U.S. $ 5,557,000.

Impairment testing of goodwill

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

	U.S. $ 000's	
	2016	2015
Financial market segment	1,445	1,445
Real estate segment	2,071	2,071
Industrial segment	3,888	–
	7,404	3,516

Financial market segment

The recoverable amount of the financial market segment has been determined based on the value in use calculation using the discounted cash flow method based on financial budgets approved by senior management covering a five-year period. The pre-tax discount rate applied to cash flow projections is 12%. Cash flows beyond the 5 year period are extrapolated using a 2% growth rate.

Real estate segment

For the purpose of impairment testing, the carrying value of the goodwill acquired through business combinations is allocated to the cash generating unit which is the reportable segment of the subsidiary.

The recoverable amount of the subsidiary has been determined based on the fair value of the asset less cost to sell. The fair value less cost to sell was determined based on evaluations performed by licensed appraisers. These evaluations didn't result in any indication of impairment.

Key assumptions used in the calculation of the value in use

The calculations of the value in use for the real estate segment 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. The pre-tax discount rate applied to cash flow projections is 14.5%.

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

Growth rate estimates

Growth rates are based on the value of the business segment's operations after the explicit budget period. In determining appropriate growth rates, regard has been given to the competitive forces that are expected to prevail after the explicit budget period. The growth rate applied to cash flow projections is 3% for periods exceeding 7 years.

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

Industrial Segment

This segment represents the goodwill resulting from purchasing Pinar's shares (Note 4). For the purposes of impairment testing, the goodwill is allocated on the cash generating unit (Milk and dairy production) that presents part of Padico's business segments.

The recoverable amount of milk and dairy production has been determined based on the "value in use" in accordance with the projected cash flows covering a five-year period through future financial budgets approved by Management. The pre-tax discount rate of 17.19% was applied to cash flows during the next five years. Cash flows beyond the 5 year period are extrapolated using a 2.7% growth rate.

Key assumptions used in the calculation of the value in use

The calculations of the value in use for the industrial segment 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 with regard to the time value as well as the risks related to assets that are not included in future cash flows projections. The discount rate calculation is based on factors related to the company and business segments and is derived from the weighted average cost of capital. The weighted average cost of capital calculation is based on borrowing and capital costs. The cost of capital is calculated based on the expected return on investment and the borrowing cost is calculated based on the interest bearing borrowings of the company that the company is committed to repay. Segment- specific risks are recognized by using beta transactions separately. Beta transactions are evaluated based on available market data.

Growth rate estimates

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

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

8. Investment Properties

Investments properties as at December 31, 2016 and 2015 includes the following:

	U.S. $ 000's	
	2016	2015
Lands	80,899	76,108
Buildings	21,496	17,867
	102,395	93,975

The fair value of the lands and buildings as at December 31, 2016 amounted to U.S. $ 201,357,000 and as at December 31, 2015 amounted to U.S. $ 197,951,000. The carrying value of investment properties which were mortgaged for the benefit of banks as collateral against loans to PRICO is approximately U.S. $ 34,237,456 (Note 20).

During the years 2016 and 2015, Padico sold part of its investment properties which resulted in a gain of an amount of U.S. $ 755,000 and U.S. $ 1,928,000, respectively. Gain is recognized in the consolidated income statement.

Following is the movement on the investment properties

	U.S. $ 000's	
	2016	2015
Balance, beginning of the year	93,975	99,420
Additions	7,715	6,516
Transferred from (to) inventory and ready for sale properties	4,480	(929)
Sales	(2,848)	(9,813)
Amortization	(927)	(922)
Impairment	-	(297)
Balance, end of year	102,395	93,975

9. Projects in Progress

	U.S. $ 000's	
	2016	2015
Balance, beginning of the year	20,793	69,640
Additions	10,572	8,667
Disposals	(586)	(110)
Transferred to inventory and ready for sale properties	(7,366)	(38,694)
Transferred to intangible assets (Note 7)	(5,557)	(17,893)
Transferred to property, plant and equipment (Note 6)	(1,730)	(817)
Balance, end of year	16,126	20,793

Following are the projects in progress as at December 31, 2016 and 2015:

		U.S. $ 000's	
		Cost	
Project Name	The Company	2016	2015
Al-Sharafat project	TAICO for trade and Investment Company	11,264	7,643
Awqaf building project	Palestine Real Estate Investment Company	2,937	-
Jericho project to develop the industrial and agricultural zone	Jericho Agro Industrial Park	1,006	5,499
Cows Farms project	Palestine Industrial Investment Company	657	649
Industrial hanger housing expansion project	Palestine Industrial Investment Company	246	-
PRICO house (2) project	Palestine Real Estate Investment Company	-	5,766
Industrial zone project- Gaza	Palestine Industrial Estate Development and Management Company	-	858
Other projects	Other companies	16	378
		16,126	20,793

The projects cost are expected to reach a total of U.S. $ 47,759,000 and the projects are expected to be completed in 2 to 4 years.

10. Investment in Associates

This item represents investments in associates as follows:

	Country of origin	Ownership %		U.S. $ 000's Carrying Amount	
		2016	2015	2016	2015
Palestine Telecommunications Company (Listed)	Palestine	31.40	31.40	374,924	370,177
Vegetable Oil Industries Company (Listed)	Palestine	32.67	32.67	13,557	12,141
Golden Wheat Mills Company (Listed)	Palestine	18.35	18.35	3,066	3,072
Jordan Vegetable Oil Industry Company (Listed)	Jordan	17.00	17.00	1,749	1,704
PAL Aqar for Real Estate Company (listed)	Palestine	25.02	25.02	414	378
Palestine Power Generating Company (Not listed)	Palestine	20.00	20.00	2,406	1,457
Mawaqef investment company (Not listed)	Jordan	49.00	49.00	917	453
Arab Hotels Company (Listed)	Palestine	-	21.22	-	4,831
Other				236	239
				397,269	394,452

- PADICO mortgaged part of its investments in associates to the benefit of local and regional banks. The carrying value of the mortgaged shares as at December 31, 2016 and 2015 amounted to U.S. $ 226,324,000 and U.S. $ 241,700,000 respectively.
- Although PADICO's ownership percentage in some associates is less than 20%, PADICO has representation in these associates' board of directors that can influence the financial and operating policies of these companies. Accordingly, PADICO investments in these companies are classified as investment in associates.
- The market value of PADICO's listed associates amounted to U.S. $ 313,042,000 as at December 31, 2016.
- The extraordinary general assembly of Mawaqef Investment Company decided on July 23, 2016 to amortize company's losses in partners' accounts which resulted in increasing the value of PADICO investment in Mawaqef.
- During the year, Jedico (a subsidiary) sold its full investment in Arab Hotels Company which resulted in a loss in the consolidated financial statements for an amount of U.S. $ 429,000.

The following tables summarize the financial information related to PADICO's investment in associates:

	December 31, 2016 U.S. $ 000's						
	Palestine Telecommuni-cations Company	Vegetable Oil Industries Company	Arab Hotels Company	Golden Wheat Mills Company	Jordan Vegetable Oil Industry Company	Others	Total
Associates' statement of financial position:							
Non-current Asset	992,201	31,150	40,009	13,733	2,436	13,335	1,092,864
Current Asset	448,153	8,305	2,114	15,191	7,278	7,615	488,656
Non-current Liability	(173,560)	(588)	(12,480)	(508)	-	(2,060)	(189,196)
Current Liability	(484,582)	(1,703)	(6,218)	(7,832)	(1,733)	(2,825)	(504,893)
Equity	782,212	37,164	23,425	20,584	7,981	16,065	887,431
Equity attributable to Parent	245,615	12,141	-	3,777	1,357	3,870	266,760
Embedded Goodwill	129,309	1,416	-	(711)	392	103	130,509
Carrying amount of investment	374,924	13,557	-	3,066	1,749	3,973	397,269
Revenues and Results of Operations:							
Revenues	468,810	15,723	2,525	16,106	7,481	2,034	512,679
Results of Operations	112,911	7,911	(839)	39	513	(357)	120,178
PADICO's Share of Results of Operations	35,748	2,585	(178)	7	87	(135)	38,114
PADICO Share of Other Comprehensive Income	(4,403)	-	-	-	5	-	(4,398)

	December 31, 2015 U.S. $ 000's						
	Palestine Telecommunications Company	Vegetable Oil Industries Company	Arab Hotels Company	Golden Wheat Mills Company	Jordan Vegetable Oil Industry Company	Others	Total
Associates' statement of financial position:							
Non-current Asset	720,511	27,476	40,383	14,149	2,335	12,960	817,814
Current Asset	332,117	7,662	2,050	15,034	6,525	3,660	367,048
Non-current Liability	(66,852)	(655)	(12,923)	(402)	-	(2,761)	(83,593)
Current Liability	(219,858)	(1,652)	(5,355)	(7,584)	(1,139)	(3,364)	(238,952)
Equity	765,918	32,831	24,155	21,197	7,721	10,495	862,317
Equity attributable to Parent	240,498	10,726	5,127	3,889	1,314	2,577	264,131
Embedded Goodwill	129,679	1,415	(296)	(817)	390	(50)	130,321
Carrying amount of investment	370,177	12,141	4,831	3,072	1,704	2,527	394,452
Revenues and Results of Operations:							
Revenues	468,638	7,244	6,229	8,816	7,180	1,759	499,866
Results of Operations	117,148	7,566	(1,389)	(1,593)	512	(625)	121,619
PADICO's Share of Results of Operations	37,727	2,472	(295)	(292)	87	(169)	39,530
PADICO Share of Other Comprehensive Income	(2,298)	-	-	-	6	-	(2,292)

11. Financial Assets at Fair Value Through Other Comprehensive Income

	U.S. $000's	
	2016	2015
Quoted equities	7,682	6,741
Unquoted equities	16,867	26,078
	24,549	32,819

Following is the movement on the fair value reserve:

	U.S. $000's	
	2016	2015
Balance, beginning of year	(21,964)	(15,495)
Net losses in fair value of financial assets at fair value through other comprehensive income	(12,840)	(411)
Net losses from sale of financial assets transferred directly to retained earnings	-	(6,058)
Balance, end of year	(34,804)	(21,964)

12. Inventories and Ready for Sale Properties

	U.S. $000's	
	2016	2015
Land and ready for sale properties*	27,980	31,159
Feed mill, eggs, poultry and dates	3,051	2,300
Raw materials	1,529	1,430
Biological assets - mature and producing	1,090	912
Biological assets - immature	870	1,936
Carton sheets and cans	440	454
Sundry	1,047	1,170
	36,007	39,361

* In accordance to some loans agreements signed by PRICO, part of the ready for sale properties of Al Ghadeer, Al Masayef and PRICO House (2) projects were mortgaged.

13. Accounts Receivable and Other Current Assets

	U.S. $000's	
	2016	2015
Checks under collection	22,486	19,287
Trade receivables	21,596	23,520
Due from Value Added Tax	5,906	2,810
Due from associates and sister companies	2,006	3,620
Prepayments to suppliers	1,657	1,838
Prepaid expenses	806	422
Notes receivable	191	191
Other receivables	2,610	1,686
	57,258	53,374
Provision for doubtful accounts	(5,473)	(4,468)
	51,785	48,906
Long term accounts receivable	(10,541)	(8,197)
	41,244	40,709

Total impaired accounts receivable, checks under collection and notes receivable amounted to U.S. $ 5,473,000 as at December 31, 2016, where it amounted to U.S. $ 4,468,000 as at December 31, 2015.

As at December 31, 2016 and 2015, the aging analysis of unimpaired trade receivables, checks under collection and notes receivable is as follows:

	U.S. $ 000's				
			Past due but not impaired		
	Total	Neither past due nor impaired	Less than 90 days	91 to180 days	More than 181 days
2016	38,800	22,465	4,524	2,195	9,616
2015	38,530	23,992	3,969	2,193	8,376

PADICO's management expects, based on past experience, to recover all unimpaired receivables. PADICO management does not obtain any guarantees against these receivables. As for notes and accounts receivable resulting from sale of real estate, PADICO does not transfer ownership of the sold properties unless the selling price is wholly recovered.

14. Financial assets at fair value through profit or loss

This item represents financial assets listed in local and regional markets as follows:

	U.S. $ 000's	
	2016	2015
Investment funds	8,343	8,530
Investment portfolio in local and regional equities	2,789	2,848
	11,132	11,378

15. Cash and Short Term Deposits

	U.S. $ 000's	
	2016	2015
Cash on hand and current accounts at banks	10,714	12,870
Term deposits at banks	20,152	2,710
	30,866	15,580

Term deposits at banks as at December 31, 2016 include deposits with an original maturity of three months or less. During 2016, the average interest rates on deposits in U.S. $ was 3.79%, and the average interest rate on deposits in Israeli shekel was 4.8%.

Term deposits at banks include restricted cash of U.S. $ 892,000 and U.S. $ 400,000 as a security against certain credit facilities granted to subsidiaries as at December 31, 2016 and 2015, respectively (Note 20). In addition, current accounts at banks include a total amount of U.S. $ 861,000 restricted against debt bond (Note 21).

For the purpose of the consolidated statement of cash flows, cash and cash equivalents comprise the following:

	U.S. $ 000's	
	2016	2015
Cash on hand and current accounts at banks	10,714	12,870
Term deposits at banks	20,152	2,710
	30,866	15,580
Restricted cash (Note 20,21)	(1,753)	(400)
	29,113	15,180

16. Paid-in Share Capital

Paid-in share capital as at December 31, 2016 and 2015 as follows:

	U.S. $ 000's	
	2016	2015
Authorized capital	300,000	300,000
Subscribed and paid in capital	250,000	250,000

The par value per share is U.S. $ 1.

17. Treasury Shares

This item represents the net cost of the treasury shares as a result of consolidating the financial statements of PADICO and its subsidiaries.

18. Reserves

Statutory reserve

The statutory reserve amounted to U.S. $ 30,417,000 and U.S. $ 28,741,000 as at December 31, 2016 and 2015, respectively. PADICO's By-Laws require a deduction of 5% before consolidation of the net annual profit to be appropriated to statutory reserve account until such reserve balance reaches 40% of the authorized share capital. The reserve cannot be distributed to the shareholders, except by an extraordinary General Assembly resolution.

Furthermore, in accordance with the companies' Articles of Association and the Companies' Law in Palestine, a deduction of 10% of the net annual profit is to be appropriated to a statutory reserve account. The reserve is not available for distribution to the shareholders.

Voluntarily reserve

Voluntarily reserve amounted to U.S. $ 1,594,000 as at December 31, 2016 and 2015. This reserve is available for distribution to the shareholders.

19. Distributed and Proposed Cash Dividends

PADICO's General Assembly decided in its meeting held on May 17, 2016, a cash dividends distribution of U.S. $ 0.05 per share for the result of operation of the year 2015, which amounted to U.S. $ 12,500,000. For the purpose of preparing the consolidated financial statements, an amount of U.S. $ 8,000 was deducted from cash dividends which belong to PADICO's subsidiaries that own shares in PADICO's capital.

PADICO's General Assembly decided in its meeting held on May 18, 2015, a cash dividend distribution of U.S. $ 0.05 per share for the result of operations of the year 2014, which amounted to U.S. $ 12,500,000. For the purpose of preparing the consolidated financial statements, an amount of U.S. $ 10,000 was deducted from cash dividends which belong to PADICO's subsidiaries that own shares in PADICO's capital.

Cash dividends from subsidiaries

PIIC's (a subsidiary) General Assembly decided in its meeting held on May 4, 2016, a cash dividend distribution of JD 0.06 per share for the result of operations of the year 2015, which amounted to U.S. $ 1,586,700. Non-controlling interest's share of the dividends was U.S. $ 687,000.

Palestine Poultry Company's (a subsidiary of PIIC) General Assembly decided in its meeting held on May 4, 2016, a cash dividend distribution of JD 0.15 per share for the results of operations of the year 2015, which amounted to U.S. $ 2,843,000. Non-controlling interest's share of the dividends was U.S. $ 325,000.

National Carton Industry Company's (a subsidiary of PIIC) General Assembly decided in its meeting held on April 27, 2016, a cash dividend distribution of U.S. $ 0.08 per share for the results of operations of the year 2015, which amounted to U.S. $ 400,000. Non-controlling interest's share of the dividends was U.S. $ 228,000 as at December 31, 2016.

PRICO's (a subsidiary) General Assembly decided in its meeting held on May 8, 2016, a cash dividend distribution of JD 0.05 per share, which amounted to U.S. $ 4,496,531. Non-controlling interest's share of the dividends was U.S. $ 1,146,750.

20. Long-term Loans, credit facilities and Islamic Financing

	U.S. $000's	
	2016	2015
Long term loans from banks and financial institutions	108,076	115,842
Long term loans from related parties	2,167	2,379
Overdraft accounts	8,841	10,395
Murabaha and Istusna'a' contracts	9,537	8,692
	128,621	137,308
Credit facilities, financing and current portion of long term loans	(46,229)	(43,349)
	82,392	93,959

Loans, credit facilities and Islamic financing maturities are as follows:

		U.S. $000's
Mature in	2017	46,229
Mature in	2018	26,038
Mature in	2019	20,074
Mature in	2020	15,112
Mature in	2021	20,228
Matures later		940
		128,621

- PADICO and its subsidiaries signed several long term loan agreements with local and regional banks in U.S. Dollars and Jordanian Dinars. These loans are subject to a variable interest rates between 1% and 5% in addition to LIBOR, and to a fixed interest rate between 3% and 7%. These loans are to be settled within a five year period. The balance of outstanding loans amounted to U.S. $ 108,076,000 and U.S. $ 115,842,000 as at December 31, 2016 and 2015 respectively.

- During the year and past years, JEDICO's subsidiaries (a subsidiary) signed loan agreements with some shareholders to cover their financial needs for an amount of U.S. $ 2,167,000 as at December 31, 2016. These loans are subject to an annual interest rate between 5% and 7.5% and are settled in quarterly installments.

- PADICO's subsidiaries were granted overdraft accounts and credit facilities from local and regional banks in U.S. Dollars and Israeli Shekel with a total ceiling of U.S. $ 11,301,000 as at December 31, 2016. The total balance used of these credit facilities reached a total of U.S. $ 8,841,000 as at December 31, 2016. These facilities are subject to interest rates between 4% and 7.5%.

- During the year and past years, PADICO was granted Murabaha financing from banks and local financial institutions with a total ceiling amounting to U.S. $ 5,000,000 as at December 31, 2016. These Murabaha agreements are subject to an annual profit margin of 5%. In addition, PRICO signed an Istusna'a agreement during 2014 with one of the local banks for an amount of U.S $ 3 Million subject to an annual fixed profit margin of 4.5%. The installments are paid after the completion of the preparation phase and the passage of an additional grace period for the project. During the year, The Palestinian Waste Recycling Company (a subsidiary) signed Murabaha agreement with a local financing institution with a fixed annual profit margin ranging from 3% to 5%. The installments are paid during a period of 6 years starting from 2017. The total balance used of these facilities reached a total of U.S. $ 9,537,000 and U.S. $ 8,692,000 as at December 31, 2016 and 2015 respectively.

- These loans and facilities were granted by mortgaging assets with a book value of U.S.$ 235,855,000 a check guarantee of U.S. $ 2.1 Million and cash margins for an amount of U.S.$ 892,000 and U.S. $ 400,000 as at December 31, 2016 and 2015 respectively (Note 15).

21. Debt bonds

During August 2016, PADICO issued 240 debt bonds with a nominal amount of U.S. $ 500,000. The bonds were underwritten in full with a fixed annual interest rate of 5% for the first 36 months, and an annual interest rate of 3% plus six months LIBOR for the remaining 24 months with a minimum of 5%. The interest is to be paid at the end of each six months starting February 15, 2017 and the bonds principle is to be paid in one installment after five years from the issuing date of August 2021. These debt bonds were issued to repay the amount of the previous debt bonds of U.S. $ 85 Million that matured on September 15, 2016 as well as finance Padico's future projects and activities. Accordingly, PADICO mortgaged shares in subsidiaries and associates, total market value of the mortgaged shares amounted to U.S. $ 153,785,614 as at the date of the consolidated financial statements in addition to a reserve of an amount of U.S. $ 861,000 (Note 15).

22. Provision for Employees' Indemnity

	U.S. $000's	
	2016	2015
Balance, beginning of the year	7,815	7,179
Additions during the year	1,667	1,682
Acquisition of a subsidiary (note 4)	346	-
Payments during the year	(1,422)	(1,046)
Balance, end of year	8,406	7,815

23. Accounts and Notes Payable

	U.S. $000's	
	2016	2015
Trade payable and outstanding checks	16,237	13,494
Other payables	1,612	546
	17,849	14,040

24. Other current Liabilities

	U.S. $000's	
	2016	2015
Accrued cash dividends	9,061	6,833
Deferred revenues	7,423	8,576
Accrued interests and expenses	6,432	9,479
Due to related parties	2,673	1,627
Contractors' retentions	1,278	997
Others	2,241	2,875
	29,108	30,387

25. Provision for Income Tax

	U.S. $000's	
	2016	2015
Balance, beginning of the year	1,883	1,613
Additions during the year	796	1,612
Acquisition of a subsidiary (note 4)	24	-
Tax refunds	(253)	-
Payments during the year	(1,276)	(1,342)
Balance, end of year	1,174	1,883

The provision for the year represents subsidiaries' provision for their results of operations for the year 2016. The subsidiaries are working on reaching a final tax settlement with the income tax authority on their results of operations for several taxable years. Subsequent to the date of the consolidated financial statements, PADICO reached a final tax settlement with the tax authority for its results of operations up to year 2015.

26. Operating Income

	U.S. $000's	
	2016	2015
Sales of mills, eggs, poultry, dates and dairy products	60,200	45,461
Operating revenues from hotels, restaurants and tourist facilities	8,823	8,885
Revenues of properties sold	7,303	12,419
Sales of carton sheets and cans	6,241	6,806
Rent revenue	4,601	4,317
Securities exchange fees and commissions	2,582	2,003
Cars and busses parking revenues	1,903	1,991
Construction contracts and key money revenues	559	4,439
Sales of plastic bottles and pipes	73	667
Others	19	351
	92,304	87,339

27. Gain from Financial Assets Portfolio

	U.S. $000's	
	2016	2015
Distributed dividends income	939	808
Change in fair value of financial assets at fair value through profit or loss	(182)	216
	757	1,024

28. Operating Expenses

	U.S. $000's	
	2016	2015
Cost of mills, eggs, poultry, dates and dairy products sold	45,807	34,410
Operation cost of hotels, restaurants and tourist facilities	9,198	9,758
Cost of properties sold	5,413	10,228
Cost of carton sheets and cans	5,242	5,352
Construction contracts costs	442	244
Cost of plastic bottles and pipes sold	43	726
Other operating expenses	4,393	4,297
	70,538	65,015

29. General and Administrative Expenses

	U.S. $000's	
	2016	2015
Salaries and related benefits	8,410	8,726
Selling, advertising and public relations expenses	2,726	1,997
Rent and general services	1,647	1,764
Consultancy and professional fees	1,645	1,332
Board of directors' fees and expenses	767	722
Travel and transportation	860	742
Subscriptions, fees and licenses	816	613
Donations and sponsorships	488	385
Insurances	357	306
Telephone, fax and courier	226	238
Conferences, meetings and hospitality	180	162
Stationery and printings	93	113
Others	781	306
	18,996	17,406

30. Depreciation and amortization

	U.S. $000's	
	2016	2015
Property plant and equipment	7,511	7,348
Investment properties	927	922
Intangible assets	1,409	809
	9,847	9,079
Depreciation allocated to projects in progress and palm trees	(233)	(296)
	9,614	8,783

31. Basic and Diluted Earnings Per Share

	U.S. $000's	
	2016	2015
Profit for the year attributable to equity holders of PADICO (U.S. $ 000's)	19,009	22,300
Weighted average for subscribed capital during the year (Shares 000's)	250,000	250,000
Less: Treasury shares	(361)	(387)
	249,639	249,613
Basic and diluted earnings per share (U.S. $ 000's)	0.076	0.089

32. Related Party Transactions

Related parties represent associates, major shareholders, Board of Directors members and key management personnel of PADICO, and entities controlled, jointly controlled or significantly influenced by such parties. Pricing policies and terms of these transactions are approved by PADICO's Board of Directors.

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

	Nature of Relationship	U.S. $000's 2016	2015
Consolidated statement of financial position balances:			
Accounts receivable and other current assets	Associates and sister companies	2,006	3,620
Other current liabilities	Associates and sister companies	2,673	1,627
loans and credit facilities	Banks - Members of the Board of Directors	73,157	84,346
Long term loans	Major Shareholders	2,167	2,379
Debt Bonds	Banks - Members of the Board of Directors	43,000	30,000

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

	Nature of Relationship	U.S. $000's 2016	2015
Finance costs	Banks - Members of the Board of Directors and Major Shareholders	5,874	4,946
Finance costs	Associate Company	43	1,028
Key management personnel and Board of Directors' compensations:			
Salaries and related expenses		3,690	3,053
Board of Directors' fees and expenses		767	722

33. Fair Value Measurement

The following table provides the fair value measurement hierarchy of PADICO's assets. Following are quantitative disclosures fair value measurement hierarchy for assets as at December 31, 2016:

	Date of Valuation	Total	Fair value Measurement using Quoted Prices in active markets (Level 1)	Significant observable inputs (Level2)	Significant unobservable inputs (Level3)
		U.S. $000's			
Financial assets measured at fair value					
Financial assets at fair value through other comprehensive income (note 11):					
Quoted	December 31, 2016	7,682	7,682	-	-
Unquoted	December 31, 2016	16,867	-	-	16,867
Financial assets measured at fair value through profit or loss (note 14):	December 31, 2016	11,132	11,132	-	-
Assets disclosed at fair value					
Investment properties (note 8)	December 31, 2016	201,357	-	-	201,357

Following are quantitative disclosures fair value measurement hierarchy for assets as at December 31, 2015:

	Date of Valuation	Total	Fair value Measurement using Quoted Prices in active markets (Level 1)	Significant observable inputs (Level2)	Significant unobservable inputs (Level3)
		U.S. $000's			
Financial assets measured at fair value					
Financial assets at fair value through other comprehensive income (note 11):					
Quoted	December 31, 2015	6,741	6,741	-	-
Unquoted	December 31, 2015	26,078	-	-	26,078
Financial assets measured at fair value through profit or loss (note 14):	December 31, 2015	11,378	11,378	-	-
Assets disclosed at fair value					
Investment properties (note 8)	December 31, 2015	197,951	-	-	197,951

There have been no transfers between Level 1, Level 2 and level 3 during the year.

34. Fair Values of Financial Instruments

Set out below is a comparison by class of the carrying amounts and fair values of PADICO's financial instruments carried in the financial statements as at December 31, 2016 and 2015:

	U.S. $000's			
	Carrying amount		Fair value	
	2016	2015	2016	2015
Financial assets				
Accounts receivable and other current assets	49,322	46,646	49,322	46,646
Financial assets at fair value through profit or loss	11,132	11,378	11,132	11,378
Cash and short-term deposits	30,866	15,580	30,866	15,580
Financial assets at fair value through other comprehensive income				
Quoted	7,682	6,741	7,682	6,741
Unquoted	16,867	26,078	16,867	26,078
	115,869	106,423	115,869	106,423
Financial liabilities				
Debt Bonds	120,000	85,000	120,000	85,000
Loans and credit facilities	128,621	137,308	128,621	137,308
Accounts and notes payable	17,849	14,040	17,849	14,040
Other financial liabilities	21,683	21,811	21,683	21,811
	288,153	258,159	288,153	258,159

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 (except for long term accounts receivable), cash and short term deposits, accounts and notes payable, other financial liabilities and credit facilities approximate their carrying amounts largely due to the short-term maturities of these instruments.
- The fair value of long term accounts receivable is estimated by discounting future cash flows using rates currently available for receivables and credit facilities on similar terms.
- Fair value of financial assets at fair value through profit or loss and financial assets at fair value through other comprehensive income that are actively traded in active financial markets is determined by reference to quoted prices at the date of the consolidated financial statements.
- The fair values of unquoted financial assets at fair value through other comprehensive income were determined using appropriate valuation techniques.
- The fair value of loans and debt bonds is estimated by discounting future cash flows using rates currently available for debt on similar terms.

35. Risk Management

Principal financial liabilities of PADICO and its subsidiaries comprise long and short term loans and borrowings, debt bonds, credit facilities, accounts payable, notes payable and other financial liabilities. The main purpose of these financial liabilities is to raise finance for operations of PADICO and its subsidiaries. In addition, PADICO and its subsidiaries have various financial assets such as accounts receivable, cash and short-term deposits, financial assets at fair value through other comprehensive income, and financial assets at fair value through profit or loss and which arise directly from PADICO's operations.

The main risks arising from PADICO's financial instruments are interest rate risk, credit risk, liquidity risk, equity price risk, and foreign currency risk. PADICO's Board of Directors reviews and approves policies for managing these risks which are summarized below:

Interest rate risk

PADICO's exposure to the risk of changes in interest rates relates primarily to PADICO's loans and borrowings, debt bonds, credit facilities, and short-term deposits with floating interest rates.

The following table demonstrates the sensitivity of PADICO's consolidated income statement to reasonably possible changes in interest rates, with all other variables held constant. The effect of decreases in the interest rate is expected to be equal and opposite to the effect of the increase shown:

	Increase in interest rate	Effect on profit before tax
2016	(basis points)	U.S. $000's
Currency		
U.S .$	20	(186)

	Increase in interest rate	Effect on profit before tax
	(basis points)	U.S. $000's
2015		
Currency		
U.S .$	20	(424)

Credit risk

PADICO's subsidiaries have a broad client base. The credit risk associated with the accounts receivable is widely distributed among a large number of individual customers. PADICO's subsidiaries are currently managing its credit risks by receiving collaterals from some customers and monitoring the accounts receivable collections in coordination with the legal consultant. The maximum exposure of the accounts receivables to the credit risk is the carrying amount as disclosed in (note 13). In addition, PADICO and its subsidiaries sell the majority of their ready for sale properties in several installments maturing in several years. PADICO's real estate companies limit the credit risks by not transferring the ownership of the sold properties to customers unless all notes and accounts receivables are collected.

With respect to credit risk arising from other financial assets, including cash and short term deposits, accounts receivable and other current assets, PADICO and its subsidiaries' 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

PADICO and its subsidiaries limit its liquidity risk by ensuring credit facilities are available, and monitoring the collections of accounts and others receivable.
The table below summarizes the maturity profile of PADICO's undiscounted consolidated financial liabilities as at December 31, 2016 and 2015, based on their maturity.

	U.S. $000's				
	On demand	Less than 3 month	3 to 12 months	1 to 5 years	Total
December 31, 2016					
Loans, credit facilities, and debt bonds	1,596	13,057	35,413	237,343	287,409
Accounts payable and notes payable and other current liabilities	12,421	19,825	5,970	8,738	46,954
	14,017	32,882	41,383	246,081	334,363
December 31, 2015					
Loans, credit facilities, and debt bonds	186	16,246	114,282	99,449	230,163
Accounts payable and notes payable and other current liabilities	24,604	6,177	2,887	1,185	34,853
	24,790	22,423	117,169	100,634	265,016

Equity price risk

The following table demonstrates the sensitivity of the consolidated income statement and consolidated statement of comprehensive income 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:

		U.S. $000's	
2016	increase in equity price (%)	Effect on consolidated income statement	Effect on equity
Shares listed in Palestine Securities Exchange	10	21	620
Shares listed in Amman Stock Exchange	10	97	207
Shares listed in other markets	10	995	1,623

		U.S. $000's	
2015	increase in equity price (%)	Effect on consolidated income statement	Effect on equity
Shares listed in Palestine Securities Exchange	10	21	840
Shares listed in Amman Stock Exchange	10	95	277
Shares listed in other markets	10	1,022	2,165

Foreign Currency Risk

The following table demonstrates the sensitivity of the consolidated income statement to a reasonably possible change in the U.S. $ exchange rate, with all other variables held constant. The Jordanian Dinar (JOD) is linked to U.S. $ therefore, no effect, resulting from the fluctuations in JOD rate, is expected on the consolidated income statement. The effect of decrease in foreign currency exchange rate is expected to be equal and opposite to effect of increase shown below:

	Increase in New Israeli Shekel to U.S. $	Effect on consolidated income statement	Increase in other currencies to U.S. $	Effect on consolidated income statement
	%	U.S. $000's	%	U.S. $000's
2016				
U.S.$	20	(2,394)	20	(17)
2015				
U.S.$	20	(1,746)	20	(9)

Capital management

The primary objective of PADICO's capital management is to ensure that it maintains healthy capital ratios in order to support its business and maximize shareholder value. PADICO manages its capital structure and makes adjustments to it in light of changes in business conditions. No changes were made in the objectives, policies or processes during the two years ended December 31, 2016 and 2015.

Capital comprises share capital, share premium, retained earnings, other reserves and non-controlling interest, and is measured at U.S. $ 537,018,000 as at December 31, 2016 and U.S. $ 543,816,000 as at December 31, 2015.

36. Concentration of Risk in Geographic Area

PADICO and its subsidiaries are carrying major part of their activities in Palestine. The political and economic destabilization in the area increases the risk of carrying out business and could adversely affect performance.

37. Commitments and Contingent Liabilities

- The unpaid portion of investment of PADICO and its subsidiaries in the associates consolidated financial assets at fair value through profit or loss amounted to U.S. $ 133,538 and U.S. $ 183,000 as at December 31, 2016 and 2015 respectively.
- During the year and previous years, PRICO (a subsidiary) signed a partnership and investment agreements with Governmental Authorities (Ramallah Municipality, Ministry of Waqf and Ministry of Public Works and Housing) under which investment projects are developed and established during the different periods of investments. The current annual contractual commitments related to those agreements amounted to U.S. $ 226,196. This amount is subject to change as a result of the completion of current investment contracts and entering into new partnerships and signing new contracts.

- The contractual commitments resulting from contracts and agreements signed with suppliers in relation to PADICO's and its subsidiaries projects amounted to U.S. $ 1,198,040 as at the date of the consolidated financial statements. This amount represents the difference between the total contract value and the completed amount as at the date of the consolidated financial statements.

- There has been several lawsuits against PADICO's subsidiaries which are within the normal course of business. PADICO's management and their legal advisors believe that provisions and consequences related to these cases are not material to the consolidated financial statements and results of operations of these subsidiaries.

- In addition, There is an appeal filed by PIIC (a subsidiary) to the court of cassation to challenge the decision of the Income tax department officer and the judge to impose tax on the subsidiary for an amount of ILS 1,514,531 (equivalent to U.S. $ 395,392 as at the date of the consolidated Financial Statements) for the tax years from 1999 till the year 2004. There is also an administrative estimate for the years 2005 until 2010 for an amount of U.S. $ 282,652 (equivalent of U.S. $ 72,791 as at the date of the financial statements) which is appealed during the given legal period.

- PADICO and its subsidiaries have entered into commercial property leases on its investment property portfolio and intangible assets. These non-cancellable leases have remaining terms between 6 and 11 years.

- Following is a schedule showing the minimum value of non-cancellable lease values:

	U.S. $000's	
	2016	2015
Within one year	3,546	3,332
After one year but not more than five years	13,844	13,690
More than five years	69,669	56,309
	87,059	73,331

38. Segment Reporting

PADICO's reporting segments as PADICO's risks and rates of return are affected predominantly by differences in the products and services provided. PADICO and its subsidiaries segments are real estate, industrial and agricultural, tourism, securities markets, in addition to the investment sector.

The following table presents revenue and profit information and certain asset and liability information regarding PADICO's business segments:

December 31, 2016	Investment sector	Real estate sector	Industrial and agricultural sector	Securities market sector	Tourism sector	Eliminations	Consolidated
	U.S. $	U.S. $	U.S. $	U.S. $	U.S. $	U.S. $	U.S. $
Revenues							
External revenues	36,243	14,966	69,178	2,619	8,924	-	131,930
Inter-segment revenues	65	58	-	427	-	(550)	-
Total revenues	36,308	15,024	69,178	3,046	8,924	(550)	131,930
Other information							
Depreciation and amortization	220	2,075	3,020	201	3,124	974	9,614
Finance cost	9,161	2,402	624	-	666	(384)	12,469
Profit (loss) before income tax	23,060	(5,014)	5,631	784	(5,490)	734	19,705
Capital expenditures	76	20,443	2,889	2	263	-	23,673
Share of associates' results of operations	35,784	(85)	2,593	-	(178)	-	38,114
Assets and liabilities							
Assets	641,282	229,161	103,655	12,935	83,371	(228,228)	842,176
Liabilities	200,196	78,948	33,001	1,509	19,267	(27,763)	305,158
Investment in associate companies	379,780	1,331	17,160	-	-	(1,002)	397,269

Segment Reporting (Continued)

December 31, 2015	Investment sector U.S. $	Real estate sector U.S. $	Industrial and agricultural sector U.S. $	Securities market sector U.S. $	Tourism sector U.S. $	Eliminations U.S. $	Consolidated U.S. $
Revenues							
External revenues	38,495	25,232	55,501	2,003	8,590	-	129,821
Inter-segment revenues	51	61	2	403	-	(517)	-
Total revenues	38,546	25,293	55,503	2,406	8,590	(517)	129,821
Other information							
Depreciation and amortization	227	2,657	2,823	205	3,231	(64)	9,079
Finance cost	9,077	1,779	494	-	667	(357)	11,660
Profit (loss) before income tax	24,861	4,265	4,068	452	(5,895)	(2,705)	25,046
Capital expenditures	38	7,040	2,705	7	1,926	-	11,716
Share of associates' results of operations	37,768	(122)	2,179	-	(295)	-	39,530
Assets and liabilities							
Assets	624,616	233,093	92,489	11,823	86,606	(228,109)	820,518
Liabilities	177,834	72,615	26,097	1,118	20,895	(21,857)	276,702
Investment in associate companies	374,490	831	15,751	-	5,514	(2,134)	394,452

39. Comparative Figures

Some of the consolidated financial statements balances of 2015 were reclassified to correspond with the classifications of the consolidated financial statements for year ended December 31, 2016.