



باديكو القابضة
PADICO HOLDING

*2012 United Nations Global
Compact Communications on Progress Report*



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H.E. Ban Ki-moon
Secretary-General
United Nations
New York, NY 10017
USA

Dear Mr. Secretary-General,

I am pleased to reiterate once more for the second consecutive year that PADICO HOLDING continues to support and adhere to the ten principles of the Global Compact with respect to human rights, labor, environment and anti-corruption. Although these principles are deeply embedded within the value system of our founders and our corporate culture, but we have further streamlined our operations and business practice towards becoming more systematic and disciplined in applying these principles in everything we do.

Allow me Sir, to express our intent to help promote those principles within our expanded community and sphere of influence. As you can tell from our report, we have already made the Global Compact and its principles part of the strategy, modus operandi of our company. It is almost more important for us and our country that these values be sustained because of the special and precarious situation of Palestine. We operate in a very challenging environment and it is key that we devote maximum effort to sustainable good business practice and remain ever sensitive to our stakeholder and our business impact on the local physical and human environment. We see ourselves as role models and therefore, willing to exert more effort to ensure the proper implementation of these values and goals. We hope that together and with the good support of all stakeholders we can achieve the Millennium Development Goals.

PADICO HOLDING makes a clear statement of this commitment to the stakeholders and the general public in all our publications and communications channels. We therefore; are happy to submit the Communication on Progress (COP) for the period between October, 2011 and September, 2012 that provides an update on our company's efforts to implement the ten principles. In the report, we are happy to account for new milestone achievements in our community and stakeholder engagement in response to needs of our community and the various stakeholders.

Sincerely yours,

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PADICO HOLDING operates in a very unstable environment subject to extreme situations of political uncertainty and socio economic pressures. This has influenced the company's management approach and strategic outlook. The company has restructured its operations to remove redundancies and create economies of scale and has also increased its community intervention and stakeholder engagement to sustain its operations under these strenuous conditions. The long-term approach is also important to safeguard current investments and react with more agility to the increasing exogenous pressures imposed by fluctuating conditions and new social demands by society.

Commitment to Sustainability & Future Outlook

PADICO HOLDING continued to forge ahead with a long-term approach that factors in the socio-economic constraints and the political uncertainty. It has adopted an investment strategy and a social investment strategy that responds to some of these challenges both directly and indirectly, while remaining committed to its own value system and the global principles of the UN Global Compact of sustainable business practice. To be able to undertake this mission PADICO HOLDING completed its internal restructuring process to be able to properly and effectively manage the numerous changes and challenges.

PADICO HOLDING's investments in the financial and services sectors amounted to 65% of the company's overall investment portfolio, mainly represented by PADICO HOLDING's direct investment in PALTEL Group. It is important to note that the financial and services sector's majority of PADICO's portfolio is due to their low vulnerability to regional political and economic conditions (defensive sector). The company's investments in the real estate sector amounted to almost 14% of the company's total direct investments, while the tourism sector constitutes 10% of the total investments. As for the company's investments in the industry, agriculture, energy and environmental sectors, these currently constitute 11% of PADICO HOLDING's investments. The company's future strategy however will involve further job creating and land utilization projects that are also seen as good for business and good for the community.

PADICO HOLDING will adopt a more prudently conservative strategy premised on maintaining stability and profitability of both existing and new projects. The company aims to achieve performance excellence through its restructured management, and sustainability in both commercial and social investments in cooperation with all our partners and stakeholders. To achieve the above-mentioned objective, the company will concentrate its efforts on the following:

1. Strengthening our internal structure at PADICO HOLDING via:

- a. Adherence to our value system and leading vision while anticipating a renewed spring in Palestine.
 - b. Preparing contingency plans to handle with any political instability.
 - c. Human resource skill development of our staff.
 - d. Enhancing partnerships with the government by joining forces to implement investments in infrastructure projects.
2. Continued practice of the principles of good governance and transparency.
 3. Engagement with other stakeholders in the community such as labor unions, trade associations and all segments of society to remain part to the ongoing social and economic dialogue taking place in the country.
 4. Empowering new social investments and engagements and creating impact through PADICO HOLDING's community interventions.

Socially Responsible Investments in the Environmental Sector

Agriculture: Cultivating the Land and Safeguarding the Environment

PADICO HOLDING's investments in the agricultural and industrial sectors amounted to USD \$33.1 million, representing 6% of the company's total investment portfolio at the end of 2011.

One of the most important investments in agriculture and in land cultivation and greening is the *Nakheel Palestine for Agricultural Investment*. A USD \$11 million company with a main mission to develop the Palestinian date production industry, and produce high quality dates that can be exported to foreign markets, especially those of Europe. The Palestinian date industry is still young despite the high level of demand that currently exceeds the supply level. Palestinian dates therefore do not yet have a substantial foreign market share.

The project represents the largest Medjool dates plantation in Palestine set up over a total land area of 3,000 dunams. In 2011, 'Nakheel' finished planting 13,000 palm trees, and a significant number of which are expected to start producing dates in 2012. The entire area of the designated land will be planted by 2014. The company currently employs 120 people, and the number is expected to double.

Solid Waste Management

Solid waste and lack of environment sustainability solutions have plagued several West Bank localities. It is often the case that local governments in several West Bank towns are only able to collect solid waste, however, treatment and recycling of the waste was not available due to lack of resources. The involvement of PADICO HOLDING in such activities will not only create an

investment activity for the company but it will be a contribution by the it towards environmental protection especially in key population centers. PADICO HOLDING's investments in the sustainable energy and environment sectors amounted to USD \$29.8 million, representing 5% of the company's total investment portfolio at the end of 2011.

In 2010, PADICO HOLDING founded the Palestinian Solid Waste Recycling Company (TADWEER), as the first Palestinian company to offer specialized, environmentally sound solutions for solid waste recycling. The company has already established its first project in the city of Nablus. The project aims to provide suitable solutions for reducing the environmental burden of household and commercial solid waste in Nablus. Municipal waste will be sorted into recyclable components such as plastic, steel and carton that will be used as input materials, while organic waste will be turned into compost.

The recycling and composting facility was established in northern Nablus. 75% of municipal waste discharged in the facility (150 tons) will be recycled, while the remaining 25% will be transferred to a dumping site.

In 2010, TADWEER acquired a 25% stake in "Al Kubra Solid Waste Management" company, which has established a solid waste management facility in Zahrat Al Finjan landfill in the city of Jenin. The facility's recycling capacity amounts to 500 tons per day, and actual operations commenced in 2011.

TADWEER currently plans to identify new investment opportunities within different Palestinian regions, especially in the Gaza Strip. It also intends to expand its recycling services to include the treatment of medical and hazardous waste.

Promoting Environmental Awareness and Practice

In addition to hard investments by PADICO HOLDING in two important environmental projects; the solid waste recycling plants in Jenin and Nablus; the company was involved in creating environmental awareness among publics. PADICO HOLDING supported a new award dedicated to pioneers and innovators in the environmental sector. This award was designed to encourage environmental awareness and protection, in partnership with Maan Center for Development. The company also sponsored a conference on renewable energy in cooperation with Birzeit University.

Jacir Palace InterContinental Hotel; an investment of PADICO HOLDING in the hospitality sector earned the Energy Efficiency Award after an energy audit survey. The survey was considered an excellent approach to improving energy efficiency and rationalizing energy consumption. It also showed a substantial impact on energy savings at the Jacir Palace InterContinental Hotel. Based on analysis over consecutive years, the hotel's energy

consumption reflected a reduction of 22% in 2011 compared to 2010. The hotel also received the trophy for the Best Green Hotel. In a competition with the IHG hotels in Jordan and Palestine, the Jacir Palace InterContinental Hotel received the 2010 Award for the Best Electricity Saving Hotel as well as the 2011 Award for the Best Water Saving Hotel.

PADICO HOLDING's Corporate Bonds: Towards Strategic Projects of Important Environmental, Social and Economic Impact

The first corporate bonds issued by PADICO HOLDING in 2011 saw a tremendous turnout by banks and financial institutions. The value of subscription reached US\$ 85 million, marking a US\$ 15 million surplus on top of the US\$ 70 million original initial offering.

10 banks and financial institutions subscribed to PADICO HOLDING-issued corporate bonds. These included the Palestine Monetary Authority (PMA), Arab Bank, Bank of Palestine, Cairo-Amman Bank, Union Bank, Capital Bank, Alrafah Microfinance Bank, Jordan-Kuwait Bank, Bank of Jordan, and Commercial Bank of Palestine. This is by far the first private issuance of corporate bonds in Palestine. Based on the bond prospectus, corporate bonds were entirely allocated for the interest of subscribing banks. Successful issuance reflects PADICO HOLDING's strength, solvent financial position, and positive projections of its future performance. Accordingly, the Company will be capable of repaying bonds on the maturity date in five years. Especially during grave political and economic uncertainty in Palestine and the region, the corporate bond issuance demonstrates a deep trust and confidence in the issuing Company on the part of both private corporations and official authorities.

These bonds will help finance several significant strategic projects of important environmental, social and economic impact, these projects include: the electricity generation station in northern West Bank, Jericho Gate Real Estate Investment project, solid waste recycling initiatives, seawater desalination plant in Gaza, and a number of environmental and agricultural projects. In addition to enabling a proper debt restructuring, the new investment plan is consistent with PADICO HOLDING's investment policy and need for a mid-term financing tool that is compatible with projected cash profits to be generated by new projects.

Community and Social Investments

A new vision for community responsibility has evolved in response to an urgent social and development need. Since its founding, PADICO HOLDING has been governed by an unyielding set of values and principles insisting that all commercial investment activity must be paralleled with community social investment for Palestine. The company therefore places a great deal of importance on its community programs. This responsibility is considered an innate part of its corporate citizenship, and a voluntary act of commitment to the community and its values and practices.

PADICO HOLDING is continuously encouraging companies to join the UN Global Compact because of its dedication to spread the culture of sustainability in Palestine. PADICO HOLDING strongly believes that a place such as Palestine, with all its development issues, deserves the best practices from all its corporate entities. The company's community projects are evident of its commitment to corporate social responsibility.

After engaging with various sector representatives and local community organizations in addition to analyzing the needs of Palestine, PADICO HOLDING has determined that the best community intervention is with the youth. The company is working towards bridging the skill-gap in the education system that is adversely affecting the employability of fresh graduates in Palestine, therefore, tackling problems in more than one sector at the same time, education, youth, and job employment specifically. Although this is both a global and regional predicament, in the case of Palestine this social crisis has become more urgent and compounded. In 2011, the company took a strategic decision, not deterred by the magnitude of the problem, to determine the best course for a dedicated intervention in the education skill gap of Palestine's youth.

Solving Graduates' Skill Set Gap: A New Breed of Leaders and Entrepreneurs

PADICO HOLDING understood that by enhancing both skills sets, critical thinking and the sense of innovation among the youth, the results would not be confined to only better employment chances but also in providing the local economy with a new breed of empowered leaders and entrepreneurs. Only with such an ambitious pipeline, will Palestine be able to continue to grow and build its economy, competing regionally, and thriving in the face of adversity and an era of technological innovation.

PADICO HOLDING was busy during the last year in partnering with local, regional, and international entities supporting a host of events and training modules all focused on the subject matter of youth employability and the skill gaps. These activities and entities included: the Oasis 500- Boot Camp in Ramallah, several events and town meetings with Sharek Youth Forum-Palestine, involvement with Amideast-USA events, speaking opportunities with the International Youth Forum- Palestine/USA, knowledge sharing with the World Bank/IFC, in addition to

meetings and visits with world-renowned academic institution like Harvard and Stanford Universities.

The results of this busy year of stakeholder engagement and sharing of knowledge was a decision by management; supported by the Board of directors, to channel all of the company's financial contribution into community investments into the flagship 'Tamayyaz' community intervention program focusing on the education skill gap, leadership skills and entrepreneurship. The main unique aspect of PADICO HOLDING's intended community social intervention is that the company engaged all the stakeholders involved, even from other initiatives, in order to avoid overlap, duplication and wasted resources. 'Tamayyaz' initiative was launched in a big event that was attended by the Palestinian Prime Minister who described the program as a "strategic" one.

As a result of this approach PADICO HOLDING has partnered with the following entities in 2012 in its milestone youth employability program:

1. *Shareq Youth Forum*: the most active youth empowerment organization in the West Bank and Gaza with strong credentials in providing youth with a platform for social change and innovation.
2. *International Youth Foundation (IYF)*: is an internationally recognized network for youth involved in flagship programs throughout the world that tackle youth issues and entrepreneurship. IYF runs the Entrepreneurship Development program in Palestine and brings on board best practice from different regions and different models.
3. *An-Najah National University, Polytechnic University and Birzeit University*: the program will be kicked off with three universities as the first phase pilot and will grow to include other universities in the Palestine.
4. *The Palestinian IT Association of Companies (PITA)*: an organization that represents more than 100 major companies from the ICT sector.

'Tammayaz' is a multi disciplinary program and will include in its first phase the following activities and program components:

1. Training of third year university students. First pilot of 240 students shall be included and the program is designed to be expanded after evaluation and feedback from the students.
2. Students can choose between two tracks: employment track and entrepreneurship track. Both Tracks are competitive one provides students with a chance for practical training and the other provides access to financing start up projects
3. Program offers 40 hours training in skills needed for the job place: crisis management, planning skills, team work, self empowerment and initiative taking.

4. Life skills training provided via a series of lectures by successful role models from different sectors in life: business leaders, social entrepreneurs and innovators, academics and peers.
5. Field trips to private sector entities and factories for hands own experience
6. Improvement of academic skills in selected materials such as: Math, science, engineering, ICT in order to tie the academic training with real life skills needed by the job market.
7. Career guidance starts with an orientation exam to examine character and create matches between character and careers
8. In house training opportunities inside renowned corporate entities for a hands-on experience of the corporate culture.
9. Enhancement of Good Citizenry and encouragement of volunteering among youth as an essential character building exercise.

Governance and Sound Business Practice

PADICO HOLDING adheres to a strict governance structure within its various activities, in compliance with international standards and best practices. The restructuring process completed in 2011, resulted in the formation of four principle holding companies. This contributed significantly to the governance capabilities of the company, and enhanced the effectiveness of the implemented procedures. Governance principles are binding to all members of PADICO HOLDING's family. Board members guide the company's progress and future strategies. They also approve annual budgets and policies. As for the executive management, it maintains the company's current investments and identifies new investment opportunities, thereby establishing new projects and laying the financial and administrative structures. Staff members perform their duties and work together as one team, guided by a well-defined organizational structure.

The board of directors at PADICO HOLDING is comprised of ten members who are charged with oversight of the company's strategic direction, future outlook, and budget. They supervise all financial and investment decisions and all related policies and procedures. The Board of Directors executes its functions through various steering committees. To ensure transparency, the board of directors is organized into an Executive Committee and an Audit & Governance Committee, in addition to several interim committees mandated to perform certain tasks at specific times. The Board held six meetings during 2011.

The company adheres to the principles of good governance taking decisions by way of majority vote, with the minimum share ownership of 100,000 per board member. Additionally, neither the chairman nor board members have an executive management position with the company or any of its affiliates.

PADICO HOLDING does not offer any inducements with the intention of altering the behaviour or judgement of the recipient. The company does not provide any allurements of any value in order to retain, obtain, or inapt advantages over other businesses.

Our accounting system guarantees accountability for all shareholder assets; all our employees have an obligation to report truthfully, and accurately to be certain that all payments are endorsed by legal documents. Moreover, an internal auditor is appointed to verify all financial statements to warrant that financial records are not adulterated for any illegitimate reasons.

Our Employees

PADICO HOLDING is strongly committed to its employees, and continuously works to provide a healthier environment where employees can thrive, grow and become more achieved. Our company aims to achieve this objective through sound employment practices and active community engagement. The company and all of its subsidiaries and affiliates abide by all the applicable Palestinian labor laws, which are in harmony with international labor standards set by the International Labor Organization. Particularly, PADICO HOLDING devotes special attention to the elimination of discrimination in respect to employment and occupation, abolishing all forms of child labor and ensuring that all forms of compulsory or forced labor are eradicated.

Compliance and Labor Practices

PADICO HOLDING is highly regarded as an employer of choice in the Palestinian community it employs directly and indirectly through subsidiary and affiliates companies more than 4000 employees. This is due to the way we conduct business as well as to the competitive compensation packages and benefits we offer employees. Our wages are considered highly competitive and the package of benefits we offer is unique and designed to ensure employee satisfaction, wellness, and retention. We offer employees a comprehensive medical and dental plan at no cost, a provident fund, hedge against currency fluctuations, and a bonus scheme in addition to many other benefits and discounts at partner businesses and organizations. We also comply with all the applicable national laws in regards to pay including overtime compensation. Finally, our Human Resources department ensures that all regulation in regards to working hours and duties and breaks to employees are completely satisfied.

Ethics

At PADICO HOLDING, our code of ethics aims to clarify the organization's mission, values and principles, linking them with standards of professional conduct. We believe that this is crucial to ensuring integrity and creating a culture of compliance, respect, and harmony amongst our team

members. All employees are required to review the corporate Code of Conduct in order to comprehend professional and ethical expectations in performing their duties and responsibilities.

PADICO HOLDING's code of conduct reflects the covenant that our company has made to uphold corporate values in dealing with matters such as our commitment to employees, standards for doing business and our relationship with the community. All of our staff, employees and members of the executive management are mandated to conform to the principles outlined in the Code of Conduct, and must ensure that business activities and work responsibilities are carried in a highly ethical manner.

Operating Environment

Our Policies and Procedures manual illustrates our organization's policies for operation and the procedures necessary to fulfill those policies. It also serves as a guide to guarantee our fundamental organizational processes are performed in a consistent way that meets the organization's needs. Moreover, the manual serves as a guide that provides existing and prospective employees with a clear job description in order to better comprehend the expectations of a particular position or work assignment. This in turn ensures that employees are well-informed about their work duties, and are not required to perform any responsibilities beyond those assigned to them, or that were not communicated to them prior to assuming a role in our company.

Maintaining Diversity

Diversity is a key part of PADICO HOLDING's identity and a major contributor to our success. Our Company fights all forms of discrimination in the workplace in respect to employment and hiring. We recruit a diverse workforce including men and women, people of many generations and diverse geographic backgrounds. Our employees come from across all regions and cities in Palestine including the West Bank and the Gaza Strip. PADICO HOLDING also focuses on advancing the role of women in the workplace. In fact, the company has one of the highest rates of female representation amongst senior management with three women managers heading key departments within the organization including Human Resources, Public Relations and Investor Relations.