# PALESTINE ELECTRIC COMPANY
# ANNUAL REPORT
# 2015

Always Moving Forward

الشركة الفلسطينية للكهرباء م.ع.م
PALESTINE ELECTRIC COMPANY P.L.C

# CONTENTS

I would like to thank everyone who gave their support and put their trust in our Company, allowing us to overcome all difficulties we have endured during the past year. Our shareholders have also never ceased to trust our experience, technically and managerially, to keep moving forward despite all hurdles along the way.

# 01

# CHAIRMAN'S LETTER

Samer Khoury

Dear Shareholders

**After I took over** my late father's mission, I was sure that Mr. Said Khoury, may his soul rest in peace, has left behind a huge void that would be very difficult to replace or fill. Nevertheless, I am determined to do the best I can to represent and follow the legacy of my father. We will continue to fulfill all his commitments, ideas and dedication towards the Palestinian people, and towards the Palestinian government, as well as to follow his dream and mission of developing the Palestinian economy and lessening the suffering of the Palestinians.

**During the past year,** I have witnessed immense capabilities involving technical and managerial professionalism and experience from the Company's management. I highly value their determination and thank them for their outstanding performance and looking forward to their continued efforts in ensuring the highest standard for the power plant and the Company. We have established a common understanding with the Palestinian Authority towards the need to develop the power plant to handle the full demand for electricity in Gaza. Through the expansion of the power plant and the use of natural gas as our primary source of fuel, this project becomes a strategic project that serves the national interest.

**I am very hopeful** that we shall succeed in our mission with the help and support of our respectful Board of Directors, and the professional management of the Company, in ensuring the continuous success of this project.

**Our motivation and capabilities** always keep us moving forward and help in accomplishing our difficult mission.

**Samer Khoury**
Chairman

The past year marks the revival of our power plant, thanks to our highly skilled and professional technical and managerial team.  I am proud that our team never ceases to work hard in getting us back on our feet quickly, stronger than we were before, and always more determined to move forward, defying all obstacles and expectations.

# 02
# EXECUTIVE MANAGING DIRECTOR'S LETTER

Walid Salman

Dear Shareholders

**I would like to start by thanking our employees in Gaza.** I am very proud of their performance and capabilities in managing this project from all technical aspects in light of the very difficult and tough situation that this project faces from destruction and bombing.

**With the highly professional and technical capabilities of our team**, we were able to successfully conduct all required repairs.  I thank our team for succeeding in this tough mission because they have revived this project again to continue providing the Palestinian people with the basic electricity needs.

**It is our duty** to work hard and persevere to lessen the suffering of our people in Palestine knowing that the suffering is great and deep.

**Our financial results** for this year are good and we are always striving to insure achieving better results.

**I would also like to salute our Chairman and Board of Directors** for their continued support. Our work is a national service that we perform without awaiting any rewards or appreciation.

**All our efforts** are now directed towards moving the power plant to a new phase by using natural gas as the primary fuel, thus reviving the project's capabilities and ensuring our continuity. By expansion and meeting the market prices, it will lessen the financial stress on the government.

**We are hopeful** that with the combined efforts between all the shareholders, PENRA, and the Palestinian government, will succeed in concluding the required agreements to obtain natural gas and install the required gas pipeline to the power plant.

**Walid Salman**
Vice Chairman & Executive Managing Director

# 03

# EXECUTIVE MANAGEMENT & BOARD OF DIRECTORS

## Executive Management

| | |
|---|---|
| **Walid Salman** | Vice Chairman of the Board of Directors,<br>Executive Managing Director |
| **Rafiq Maliha** | Power Plant General Manager |
| **Mahmoud Nabahin** | Financial & Compliance Manager |

## Board of Directors

| # | Names | Position | Representative | Address |
|---|---|---|---|---|
| 1 | Samer Khoury | Chairman | Palestine Power Private Company L.T.D | Gaza, Al Nusirat, Salah Al Din St., Power Plant, P.O.Box 1336,Tel. 2888600 Ext. No. 331 Fax 2888607 |
| 2 | Walid Salman | Vice Chairman | | |
| 3 | Nabil Sarraf | Member | | |
| 4 | Tarek Aggad | Member | | |
| 5 | Hani Awad | Member | | |
| 6 | Hani Ali | Member | | |
| 7 | Marwan Salloum | Member | | |
| 8 | Sharhabeel Al Zaeem | Member | | |
| 9 | Ahed Bseiso | Member | Palestine Electric Company Holding | Gaza, Al Nusirat, Salah Al Din St., Power Plant, P.O.Box 1336,Tel. 2888600 Ext. No. 331 Fax 2888607 |
| 10 | Azzam Shawwa (*) | Member | | |
| 11 | Samir Shawwa | Member | | |
| 12 | Faisal Shawwa | Member | Morganti Development LLC | Jordan, Amman, P.O Box 830392, tel +9626 4658403, fax +9626 4643071 |
| 13 | Khaled Osaily | Member | | |
| 14 | Majed Halou | Member | Palestinian Pension Agency | Gaza, Al Remal, Thourah St., Tel 2829219, Fax 2822473 |
| 15 | Iyad Basal | Member | Public Shareholder | Gaza, Al Remal, Haifa St., Tel. 2848025, Telefax 2840384 |

(*) The resignation of the Board Member, Mr. Azzam Shawwa, on 20 November 2015 to take over as Governor of the Palestine Monetary Authority.

(**) According to the company's Articles of Association, three seats on the Board of Directors are dedicated to any Public Shareholders owning a quorum of the shares. At the time of this report, only two seats have been occupied. It was agreed with the Companies Controller during the Generally Assembly Meeting held on 25 April 2012 that PEC Holding is to have additional representative in PEC Public to complete the legal requirement of 15 Board Members until a public representative exists.

# Brief Overview of PEC

PEC was established in 1999 in accordance with Palestinian laws with a capital of $60 million, to establish and operate power generating plants in Palestinian territories. We are a public owned Company whereby the public shareholders represent 33% and the private shareholders represent 67%.

Gaza Power Generating Company (GPGC) was established as the power plant's operational arm. Palestine Electric Company owns GPGC, the sole Palestinian supplier of power in Gaza, based on the signed agreements.

The Company ensures that the plant is operated and maintained in an environmentally sensitive manner and in accordance with applicable OPIC requirements, World Bank guidelines and local Palestinian environmental requirements and policies.

## Board of Directors Meetings During 2015

**10 March 2015**

A Board of Directors Meeting was held on 10 March 2015. During this meeting, administrative and financial matters were discussed in addition to the latest developments in the company in relation to the operating and maintenance process.

**19 April 2015**

A Board of Directors Meeting was held on 19 April 2015, preceding the General Assembly Meeting. Based on the recommendation of the BOD's, the General Assembly agreed not to declare nor distribute any dividends against its 2014 financial results. This way due to the poor financial performance that resulted from the Israeli strike on the Power Plant.

**6 October 2015**

A Board of Directors Meeting was held on 6 October 2015. During this meeting, administrative and financial matters were discussed in addition to the latest developments in the company in relation to the operating and maintenance process.

**The General Assembly Meeting for the year 2015 is expected to be held on 20 April 2016**

*Gaza Power Generating Company - Power plant*

# 04

# CORPORATE GOVERNANCE

The Company's Board of Directors protects the rights of the shareholders and adopts their interests to develop the Company and improve its performance, thus, ensuring the growth of their assets. The Board of Directors assures the shareholders that the Company strives to ensure the best possible returns despite all circumstances.

In addition, the Board of Directors advises the executive management on the best course of action to preserve the interests of the Company and its assets, and to utilize its resources efficiently and to ensure they follow the principles of best corporate governance.

Since the Company was listed on the Palestine Exchange (PEX), it has continuously implemented a transparency policy and declares all information as required by PEX and Palestine Capital Market Authority. This implementation emanates from the Company's interest in maintaining the trust of its shareholders and reinforcing the principles of transparency in presenting the information and statements to all stakeholders and investors alike, allowing them to make their decisions carefully regarding their shares and investments.

We have recently established a 'Compliance Department' which ensures that the Company's policies and procedures are always in compliance with the highest standards and best practices in conducting our work.

**External Auditors for 2015:**
Following the voting of the last General Assembly Meeting, Ernst & Young were appointed as the Company's external auditors for the year 2015.

**Company Legal Advisor:**
Al Zaeem & Associates

**Legality:**
PEC does not have any ongoing legal cases

# 05

# COMPANY EMPLOYEES

We are proud of our Palestinian workforce in all the managerial, technical and administrative departments. By the end of 2015, the number of employees is 150, compared to 154 employees at the end of 2014. The majority of the employees consist of engineers, technicians, administrative staff, security and safety employees, all who acquire the appropriate degrees and certifications for their posts.

# 06

# INVESTOR RELATIONS

**The Investor Relations Department - Dividend Distribution**
Since 2005, our Investor Relations Department has been dedicated to ensuring that all our Shareholders' requests are met in a professional and efficient manner.

Our mechanism for dividend distribution is in line with the best practice and latest technology services from banks to ensure a hassle free and timely distribution of dividends across bank branches within Palestine and internationally.

We protect the rights of our shareholders at the Company and any uncollected dividends will be kept in a reserve account to be paid out to shareholders upon their request following set rules and regulations.

**PEC's Role in the Community**
PEC is always on the lookout to support seminars, conferences and summits in Palestine that help to develop vital issues in the country including science, technology, finance and statistics.

**Corporate Social Responsibility**
We continuously strive to play an active and effective role in the social community by providing our support to educational institutions, local organizations, schools, universities, and training institutions. We believe in sharing knowledge and empowering our youth with first hand experience in our field of work and knowledge.

# 07

# INFORMATION TECHNOLOGY

PEC has devoted a considerable amount of its resources in making sure we are always up to par with our IT standards and applications, internally and externally.

The Company's IT department tries to apply the latest technologies and applications in all the departments which facilitates the work and makes the reports more accessible at any time. Accordingly, most of the Company's services have been computerized to minimize paperwork, thereby protecting the ecosystem.

The IT department regularly updates and enhances several facilities for GPGC management and staff for better control and monitoring. The department initiates technology enhancement modules among all the Company's departments.


Conference Center
مركز المؤتمرات


*Gaza Power Generating Company - State-of-the-art Training Center for employees and visiting interns.*

# 08

# POWER PLANT TECHNICAL

*Having come out of a tough year due to the unstable political situation and bombings in 2014, the year 2015 presented us with a big challenge.  Our commitment serves as a testament to our team's hard work, determination to succeed, and professional management.*

*The Company could not make use of third party experts because they were unable to visit Gaza due to the war situation. We needed experts in gas turbine generators but when the possibility of having these experts available in Gaza was ruled out, we took it upon ourselves to undergo all required work with what we know and what we have.  I am proud to announce that our engineers have successfully repaired the gas turbine generator that was damaged by the Israeli air strike.*

*Dr. Rafiq Maliha*
*Power Plant General Manager*

***Gaza Power Generating Company - GPGC***

***The main objective behind the establishment of GPGC is to fulfill the electricity needs of the Gaza Strip, bearing in mind the industrial sector needs for electricity and the natural population growth.***

***The power plant has a generation capacity reaching 140MW in a combined cycle system consisting of four gas turbines and two steam turbines consisting of two blocks for electricity generation.***

# 09

# OPERATIONS & MAINTENANCE

Following our experience in this unique project we have learned how to quickly overcome pitfalls and uncontrollable situations that are a direct result of the unstable political and economic situation in the country.

After the war in 2014, all our efforts and focus in 2015 went into repairing the damages that the power plant incurred. The blockades on Gaza presented us with an even more difficult mission in obtaining the required materials and tools. Yet, we managed to perform all urgent maintenance work and surpassed all expectations.

We are always very well prepared and we have plans set to move forward. Our current focus is primarily on repairing all remaining damages to the power plant and ensuring the ability to operate at our full potential when needed. We are also constantly working with PENRA and encouraging them to provide us with sufficient fuel to sustain our generation capacity and to meet a higher percentage of the demand for power in Gaza.

# 010

# PEC SHARES INFORMATION MECHANISM

The Company's information can be obtained from the following websites: Palestine Exchange, Palestine Capital Market Authority, Palestine Electric Company and from the headquarters office of the Company in Gaza. Our annual report is available to all shareholders two weeks prior to the General Assembly Meeting every year. The shareholders can also obtain a copy of the annual report from Gaza-Al Nuseirat, Ramallah and Nablus (following the advertisements we publish in newspapers concerning this). Alternatively, our annual report can be viewed and downloaded from the Company website: **www.pec.ps.**

# 011

# PEC SHAREHOLDERS

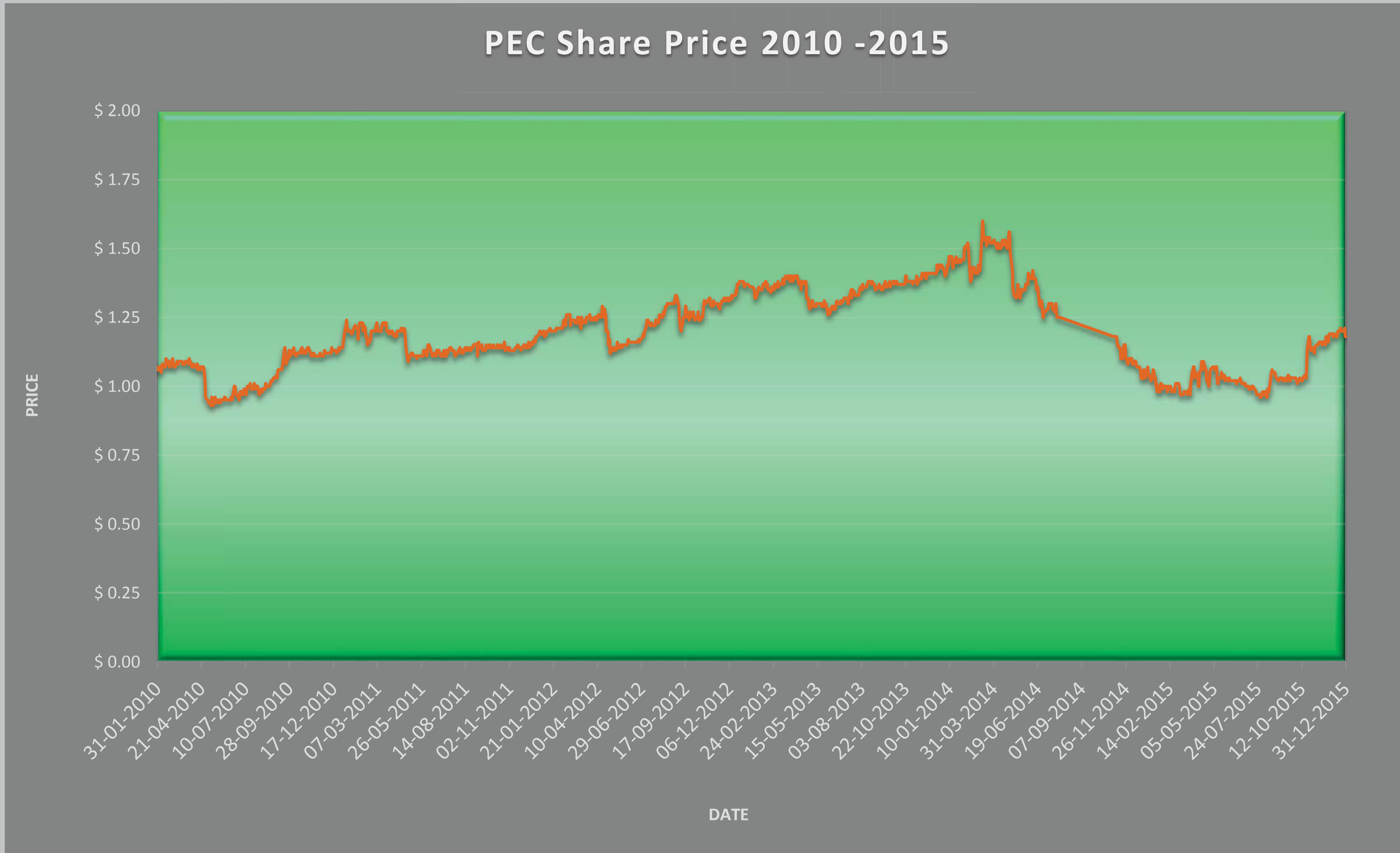
**Shareholders Owning more than 5% of the PEC shares:**

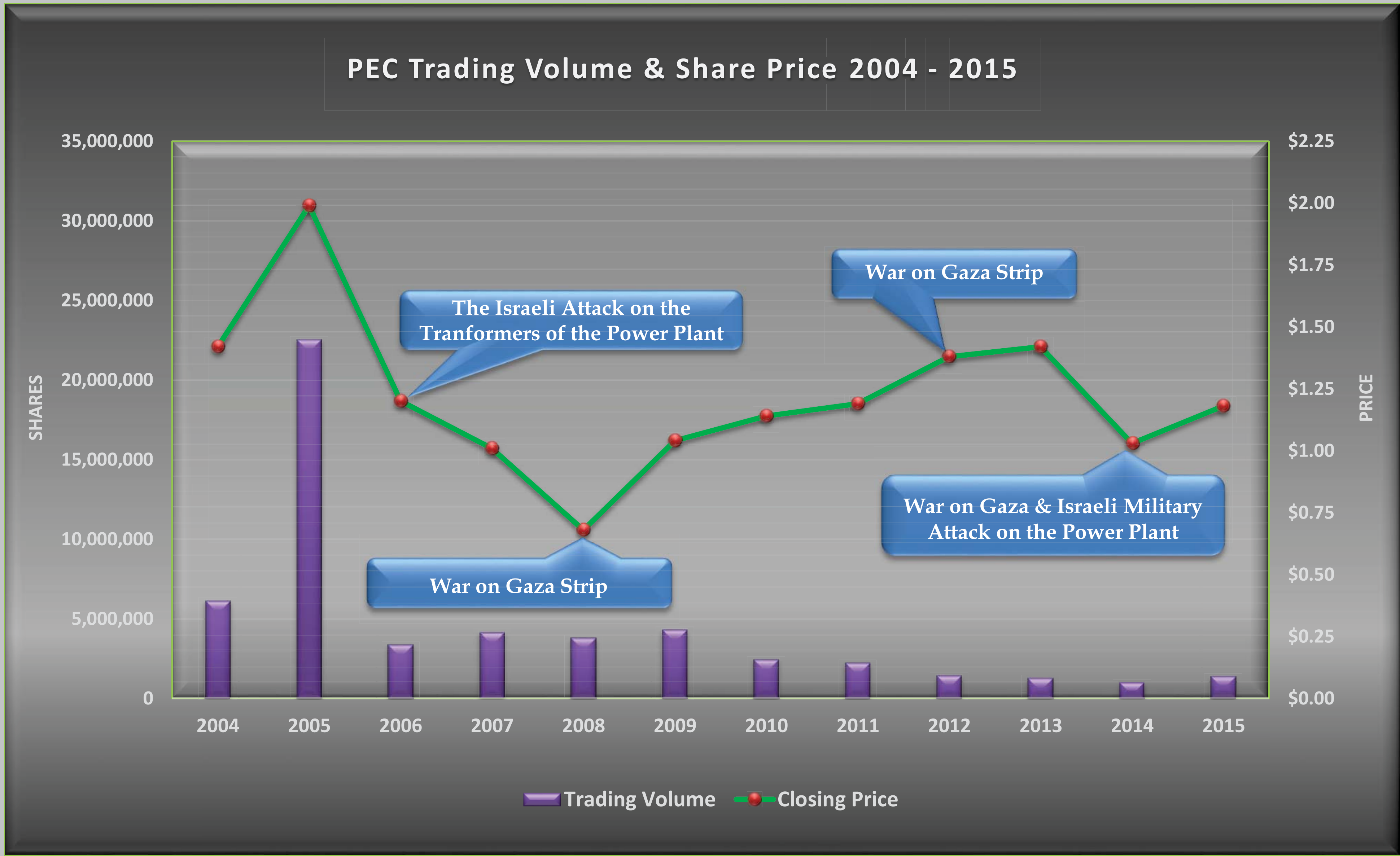
| Name of Company | Number of Shares | Rate |
|---|---|---|
| **Palestine Power Private Company** L.T.D | 38,999,600 | 65 % |

**Analysis of registered shareholdings for 2014-2015**

| Distribution of shares by type of shareholder | Number of holdings | | Shares | | Rate | |
|---|---|---|---|---|---|---|
| Category | 2014 | 2015 | 2014 | 2015 | 2014 | 2015 |
| Institutional investors | 5 | 5 | 40,200,000 | 40,200,000 | 67 % | 67 % |
| Individuals | 11,208 | 11,061 | 19,800,000 | 19,800,000 | 33 % | 33 % |
| Total | 11,213 | 11,066 | 60,000,000 | 60,000,000 | 100 % | 100 % |

| Range analysis of register | Number of holdings | | Shares | | Rate | |
|---|---|---|---|---|---|---|
| Category | 2014 | 2015 | 2014 | 2015 | 2014 | 2015 |
| 1 – 500 | 3,323 | 3,307 | 1,037,369 | 1,021,596 | 1.73 % | 1.70 % |
| 501 – 1,000 | 5,408 | 5,297 | 3,911,571 | 3,832,788 | 6.52 % | 6.39 % |
| 1,001 – 5,000 | 2,134 | 2,095 | 3,723,826 | 3,699,128 | 6.21 % | 6.17 % |
| 5,001 – 10,000 | 175 | 185 | 1,270,245 | 1,345,222 | 2.12 % | 2.24 % |
| 10,001 – 50,000 | 134 | 141 | 3,026,176 | 3,066,215 | 5.04 % | 5.11 % |
| 50,001 – 100,000 | 15 | 18 | 1,065,052 | 1,292,621 | 1.78 % | 2.15 % |
| 100,001 – 1,000,000 | 23 | 22 | 6,966,161 | 6,742,830 | 11.61 % | 11.24 % |
| 1,000,001 and above | 1 | 1 | 38,999,600 | 38,999,600 | 65.00 % | 65.00 % |
| Total | 11,213 | 11,066 | 60,000,000 | 60,000,000 | 100 % | 100 % |


PEC Share Price 2010 -2015
PRICE
$ 2.00
$ 1.75
$ 1.50
$ 1.25
$ 1.00
$ 0.75
$ 0.50
$ 0.25
$ 0.00
31-01-2010
21-04-2010
10-07-2010
28-09-2010
17-12-2010
07-03-2011
26-05-2011
14-08-2011
02-11-2011
21-01-2012
10-04-2012
29-06-2012
17-09-2012
06-12-2012
24-02-2013
15-05-2013
03-08-2013
22-10-2013
10-01-2014
31-03-2014
19-06-2014
07-09-2014
26-11-2014
14-02-2015
05-05-2015
24-07-2015
12-10-2015
31-12-2015
DATE


PEC Trading Volume & Share Price 2004 - 2015
SHARES
35,000,000
30,000,000
25,000,000
20,000,000
15,000,000
10,000,000
5,000,000
0
PRICE
$2.25
$2.00
$1.75
$1.50
$1.25
$1.00
$0.75
$0.50
$0.25
$0.00
2004
2005
2006
2007
2008
2009
2010
2011
2012
2013
2014
2015
The Israeli Attack on the Tranformers of the Power Plant
War on Gaza Strip
War on Gaza Strip
War on Gaza & Israeli Military Attack on the Power Plant
Trading Volume
Closing Price

| | |
|---|---|
| US$ 2.45 | PEC Share all time high (2005) |
| US$ 1.21 | PEC Share 2015 High: |
| US$ 1.18 | PEC Share Closing Price 2015: |
| + 14.56% | Change Ratio on PEC Share Price in the end of 2015 |

| Year | Opening Price | Closing Price | High | Low | Trading Value | Shares Traded | Number of Deals |
|---|---|---|---|---|---|---|---|
| 2015 | $1.04 | $1.18 | $1.21 | $0.93 | $1,459,165 | 1,375,518 Shares | 1,154 Deals |
| 2014 | $1.42 | $1.03 | $1.63 | $1.03 | $1,410,910 | 1,003,779 Shares | 977 Deals |

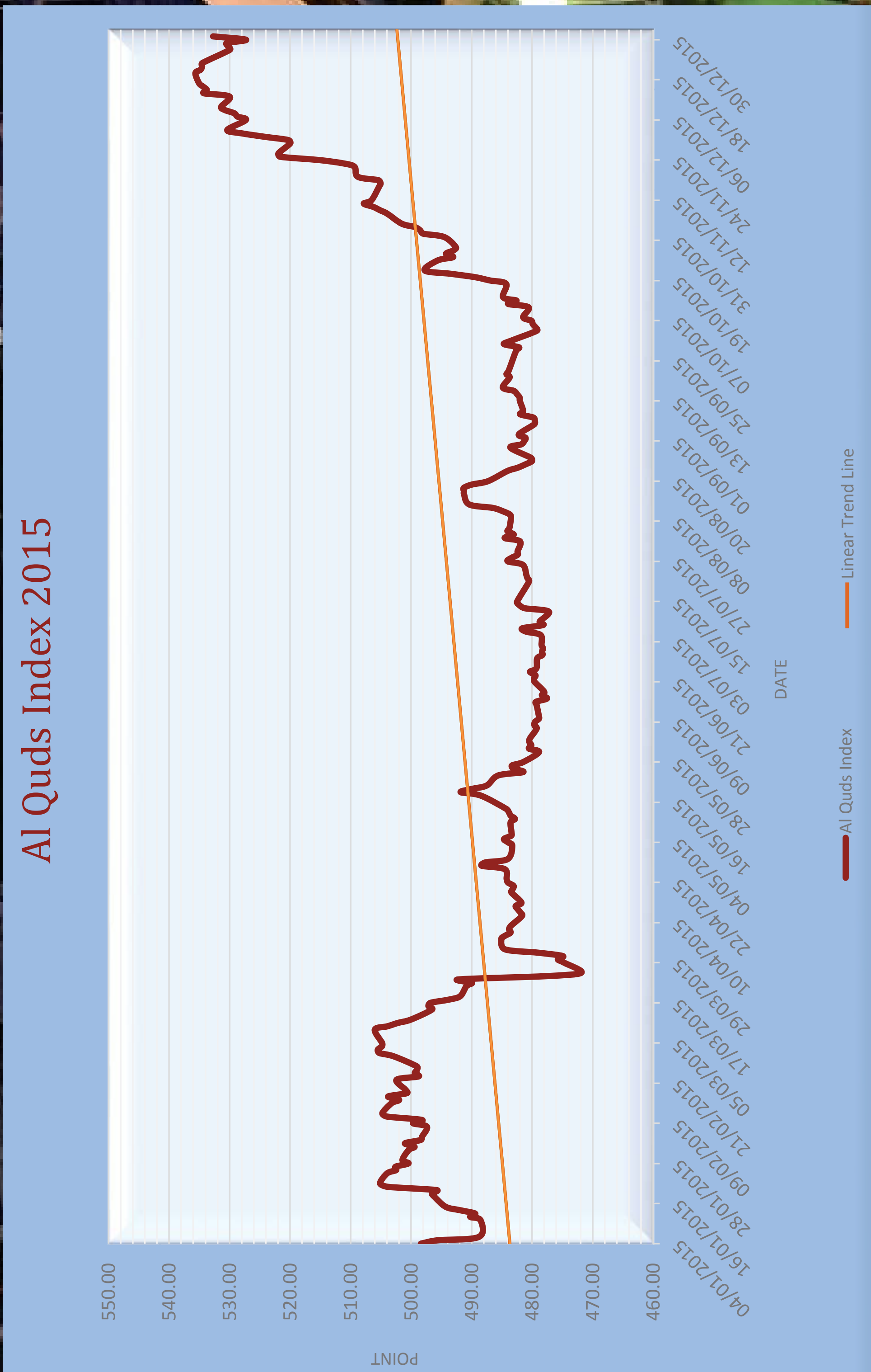
012

# PEC SHARE PERFORMANCE

As a result of high trading volume during 2015 together with our compliance on the conditions of trading on the First market, Palestine Security Exchange PEX upgraded PEC's shares from the Second to the First trading market as of 2016.

The 2015 closing price of PEC shares was $1.18 compared to $1.03 at the end of 2014, thus, reflecting a 14.56% increase.

Despite the volatile political situation in the country, PEC shares remain stable, coming out stronger than it did in previous years after an attack or major political incident. The bars remain high and PEC shares are anticipated to remain stable. The level of confidence amongst our shareholders is high for PEC shares and we remain a strong player in the Palestine Securities Exchange with a trading profile which is in line with Al Quds index.




Conference Center


*Gaza Power Generating Company - Fully equipped conference center.*

# 013

# ANALYSIS OF FINANCIAL RESULTS FOR 2015

Towards the end of 2014, the Israeli Armed forces bombed the Gaza power plant, causing damage to the fuel system, main generator and destroying the fuel tanks. As a result of this strike the power plant was forced to stop operations.

The accomplished internal maintenance work and repairs for the year 2014 enabled the power plant to operate partially. Further repair work continued in to early 2015, enabling us to achieve full production capacity in April 2015.

We have surpassed all expectations by succeeding in performing all the required repair work internally with our local technical expertise and without the involvement of third party experts. This proud endeavor has saved us from incurring high repair costs. In addition, due to the restrictions on entering Gaza, the Company was unable to perform its major maintenance inspections, thus, resulting in high profits amounting to US$ 13.6 million at the end of 2015.

**PEC IN NUMBERS**

| Details | 2011 | 2012 | 2013 | 2014 | 2015 |
|---|---|---|---|---|---|
| Net Profit | $ 8,374,034 | $ 8,414,541 | $ 4,561,995 | $ 1,884,873 | $ 13,648,366 |
| Total Equity | $ 78,142,811 | $ 80,557,352 | $ 79,119,347 | $ 78,004,220 | $ 91,652,586 |
| PEC Share Price | $ 1.19 | $ 1.38 | $ 1.42 | $ 1.03 | $ 1.18 |
| Dividends Distributions | $ 6,000,000 | $ 6,000,000 | $ 3,000,000 | - | * |
| Rate of Dividends Distributions | 10% | 10% | 5% | - | * |

* To be announced during the General Assembly Meeting.

**Difference between Preliminary Financial Results and Audited Financial Results for 2015**
There are no differences between the preliminary financial results and the audited financial results.

# 014

# CASH DIVIDENDS

At Palestine Electric Company we are always on a mission to fulfill our commitment to our shareholders and declare and payout dividends in accordance with our performance.

The Company's financial performance for 2015 is very good and stable. However, this year's profitability has been impacted by the lack of major maintenance inspections which was caused by the political situation in Gaza. We continuously strive to increase the shareholders' profits by developing our abilities to achieve a balanced position during unstable political and economic situations.

# 015

# BOARD OF DIRECTORS REMUNERATION

The Board of Directors have agreed, during their meeting on 19 April 2015, to pay the following remunerations to merits of the Board members for the year 2014.

| # | BOD | Members Number | Value $ |
|---|---|---|---|
| 1 | Palestine Power Private Company L.T.D | 8 | $75,200 |
| 2 | Palestine Electric Company Holding | 2 | $35,250 |
| 3 | Morganti Development LLC | 2 | $28,200 |
| 4 | Public Shareholder - Palestinian Pension Agency | 1 | $14,100 |
| 5 | Public Shareholder - Individual | 1 | $14,100 |
| | **Total** | **14** | **$ 166,850** |

# 016

# FINANCIAL RATIOS

**Ratios of Financial Analysis of 2014 - 2015**

| Financial Ratios | 2014 | 2015 |
|---|---|---|
| **Turnover Share** | 1.70 % | 2.29 % |
| **Earnings per Share** | $0.0314 | $0.2275 |
| **Book Value per Share** | $1.300 | $1.528 |
| **Market Value to Book Value (One Time)** | 79.23 % | 77.23 % |
| **Equity to Total Assets Ratio** | 75.34 % | 85.75 % |
| **Return on Equity** | 2.42 % | 14.89 % |

# 017

# AUDITED FINANCIAL STATEMENTS 2015

Palestine Electric Company

Consolidated Financial Statements

December 31, 2015

Ernst & Young
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Ramallah-Palestine

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Building a better working world

90 Years in MENA

## Independent Auditors' Report to the Shareholders of Palestine Electric Company

We have audited the accompanying consolidated financial statements of Palestine Electric Company (the Company), which comprise the consolidated statement of financial position as at December 31, 2015, and the consolidated statement of income and comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

### Board of Directors' Responsibility for the Consolidated Financial Statements

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

### Auditors' Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.
An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

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

### Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of the Company as at December 31, 2015 and its financial performance and cash flows for the year then ended in accordance with International Financial Reporting Standards.

Building a better working world

**Emphasis of Matters**

Without qualifying our opinion, as explained in note (23) to the accompanying consolidated financial statements, the Palestinian National Authority has agreed to exempt the Company's subsidiary and its shareholders (with respect to dividends and earnings from the subsidiaries), for the term of the Agreement of 20 years including any extensions thereof, from all Palestinian taxes. As of the issuance date of these accompanying consolidated financial statements, the Company did not obtain a tax settlement from the taxes authorities for the period from inception in 1999 until 2014.

Further, as explained in note (26) to the accompanying consolidated financial statements and in accordance with the Power Purchase Agreement, the Palestinian Energy and Natural Resources Authority (PENRA) is the sole customer of the Company. To the date of the issuance of this report, PENRA did not provide the Company with the letter of credit as required by the Agreement.

Furthermore, as explained in note (28) to the accompanying consolidated financial statements, the Company's non-current assets which mainly comprise property, plant and equipment are located in Gaza. Recoverability of these assets from the Company's operations depends on the stabilization of the political and economic situation in Gaza.

**Ernst & Young – Middle East**
License # 206/2012

Saed Abdallah

Ernst + Young

**Sa'ed Abdallah**
**License # 105/2003**

March 19, 2016
Gaza, Palestine

## CONSOLIDATED STATEMENT OF FINANCIAL POSITION
As at December 31, 2015

| | Notes | 2015<br>U. $. $ | 2014<br>U.S. $ |
|---|---|---|---|
| **ASSETS** | | | |
| **Non-current assets** | | | |
| Property, plant and equipment | 4 | 44,727,750 | 50,969,469 |
| Intangible assets | 5 | 1,858,711 | 2,080,294 |
| Accounts receivable – non-current | 6 | - | 15,616,643 |
| Available-for-sale investment | 7 | 500,000 | 500,000 |
| Project in progress | 8 | 249,372 | 99,512 |
| | | 47,335,833 | 69,265,918 |
| **Current assets** | | | |
| Materials and inventories | 9 | 8,231,093 | 7,684,076 |
| Accounts receivable | 6 | 35,635,052 | 12,441,615 |
| Other current assets | 10 | 1,024,240 | 3,209,670 |
| Cash and cash equivalents | 11 | 14,661,078 | 10,931,576 |
| | | 59,551,463 | 34,266,937 |
| **TOTAL ASSETS** | | 106,887,296 | 103,532,855 |
| **EQUITY AND LIABILITIES** | | | |
| **Equity** | | | |
| Paid-in share capital | 12 | 60,000,000 | 60,000,000 |
| Statutory reserve | 13 | 9,742,737 | 8,377,900 |
| Retained earnings | | 21,909,849 | 9,626,320 |
| **Total equity** | | 91,652,586 | 78,004,220 |
| **Non-current liabilities** | | | |
| Long term loans | 14 | 3,357,799 | 4,011,129 |
| Provision for employees' indemnity | 15 | 2,786,183 | 2,617,450 |
| | | 6,143,982 | 6,628,579 |
| **Current liabilities** | | | |
| Current portion of long term loans | 14 | 653,330 | 647,382 |
| Other current liabilities | 16 | 8,437,398 | 18,252,674 |
| | | 9,090,728 | 18,900,056 |
| **Total liabilities** | | 15,234,710 | 25,528,635 |
| **TOTAL EQUITY AND LIABILITIES** | | 106,887,296 | 103,532,855 |

The attached notes 1 to 28 form part of these consolidated financial statements

**CONSOLIDATED STATEMENT OF INCOME AND COMPREHENSIVE INCOME**
Year Ended December 31, 2015

| | Notes | 2015<br>U.S. $ | 2014<br>U.S. $ |
|---|---|---|---|
| **Revenues** | | | |
| Capacity charges | 17 | 28,080,126 | 24,186,578 |
| Discounts on capacity charges' invoices | 18 | - | (1,750,000) |
| Operating expenses | 19 | (13,927,234) | (15,354,321) |
| | | 14,152,892 | 7,082,257 |
| Finance costs | | (259,610) | (416,400) |
| Gain from sale of investment in an associate | 7 | - | 864,744 |
| Share of results of an associate | 7 | - | (75,816) |
| Loss from disposal of property, plant and equipment | 4 | - | (5,608,066) |
| Other (expenses) revenues | | (244,916) | 38,154 |
| **Profit for the year** | | 13,648,366 | 1,884,873 |
| Other comprehensive income | | - | - |
| **Total comprehensive income for the year** | | 13,648,366 | 1,884,873 |
| Basic and diluted earnings per share | 20 | 0.23 | 0.03 |

The attached notes 1 to 28 form part of these consolidated financial statements

## CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
Year Ended December 31, 2015

| | Paid-in Share Capital | Statutory Reserve | Retained Earnings | Total Equity |
|---|---|---|---|---|
| | U.S. $ | U.S. $ | U.S. $ | U.S. $ |
| **2015** | | | | |
| Balance, beginning of the year | 60,000,000 | 8,377,900 | 9,626,320 | 78,004,220 |
| Total comprehensive income for the year | - | - | 13,648,366 | 13,648,366 |
| Transferred to statutory reserve | - | 1,364,837 | (1,364,837) | - |
| **Balance, end of year** | 60,000,000 | 9,742,737 | 21,909,849 | 91,652,586 |
| **2014** | | | | |
| Balance, beginning of the year | 60,000,000 | 8,189,413 | 10,929,934 | 79,119,347 |
| Total comprehensive income for the year | - | - | 1,884,873 | 1,884,873 |
| Transferred to statutory reserve | - | 188,487 | (188,487) | - |
| Cash dividends (note 21) | - | - | (3,000,000) | (3,000,000) |
| **Balance, end of year** | 60,000,000 | 8,377,900 | 9,626,320 | 78,004,220 |

The attached notes 1 to 28 form part of these consolidated financial statements

## CONSOLIDATED STATEMENT OF CASH FLOWS
Year Ended December 31, 2015

| | Note | 2015 U.S. $ | 2014 U.S. $ |
|---|---|---|---|
| **Operating activities** | | | |
| Profit for the year | | 13,648,366 | 1,884,873 |
| **Adjustments:** | | | |
| Provision for employees' indemnity | | 416,433 | 413,254 |
| Depreciation of property, plant and equipment | | 6,307,001 | 6,649,706 |
| Amortization | | 221,583 | 221,583 |
| Finance costs | | 259,610 | 416,400 |
| Loss from disposal of property, plant and equipment | | - | 5,608,066 |
| Gain from sale of investment in an associate | | - | (864,744) |
| Share of results of an associate | | - | 75,816 |
| | | 20,852,993 | 14,404,954 |
| **Working capital adjustments:** | | | |
| Accounts receivable | | (7,576,794) | 1,308,385 |
| Other current assets | | 2,185,430 | 797,808 |
| Materials and inventories | | (547,017) | (345,269) |
| Other current liabilities | | (239,398) | (1,067,501) |
| Employees' indemnity paid | | (247,700) | (106,224) |
| **Net cash flows from operating activities** | | 14,427,514 | 14,992,153 |
| **Investing activities** | | | |
| Purchase of property, plant and equipment | | (65,282) | (80,915) |
| Project in progress | | (149,860) | (99,512) |
| Investment in an associate | | - | 2,363,613 |
| **Net cash flows (used in) from investing activities** | | (215,142) | 2,183,186 |
| **Financing activities** | | | |
| Loan repayment | | (647,382) | (5,885,933) |
| Credit facilities | | - | (4,700,000) |
| Finance costs paid | | (240,613) | (395,049) |
| Dividends paid | | (9,594,875) | (5,034,069) |
| **Net cash flows used in financing activities** | | (10,482,870) | (16,015,051) |
| **Increase in cash and cash equivalents** | | 3,729,502 | 1,160,288 |
| Cash and cash equivalents, beginning of the year | | 10,931,576 | 9,771,288 |
| **Cash and cash equivalents, end of year** | 11 | 14,661,078 | 10,931,576 |

The attached notes 1 to 28 form part of these consolidated financial statements

## 1. General

Palestine Electric Company (the Company) located in Gaza – Palestine was established in Gaza on December 14, 1999, and is registered in accordance with the Companies' Law under a registration number (563200971) as Public Shareholding Company.

The main objectives of the Company are to establish electricity generating plants in the territories of the Palestinian National Authority (PNA) and to carry out all the operations necessary for the production and generation of electricity.

Gaza Power Generating Company (being the Company's subsidiary) has an exclusive right from PNA to provide capacity and generate electricity in Gaza for the benefit of entities owned or controlled by the PNA for 20 years following commercial operation of its power plant which started on March 15, 2004 with an opportunity to extend the period of the agreement for up to two additional consecutive five-year periods.

The Company is considered a subsidiary of Palestine Power Company which owns 65 % of the Company's share capital. The financial statements of the Company are consolidated with the financial statements of Palestine Power Company.

The consolidated financial statements were authorized for issuance by the Company's Board of Directors on March 19, 2016.

## 2. Consolidated Financial Statements

The consolidated financial statements comprise the financial statements of the Company and its wholly owned subsidiary, GPGC, as at December 31, 2015. GPGC was established in Gaza with an authorized share capital of 6,000,000 shares of U.S. $ 10 par value each.

## 3. Accounting Policies

### 3.1 Basis of preparation

The consolidated financial statements of the Company and its subsidiary have been prepared in accordance with International Financial Reporting Standards as issued by International Accounting Standard Board (IASB).

The consolidated financial statements have been presented in U.S. Dollar, which is the functional currency of the Company.

The consolidated financial statements have been prepared on a historical cost basis.

### 3.2 Basis of consolidation

The consolidated financial statements comprise the financial statements of the Company and its subsidiary as at December 2015. Control is achieved when the Company is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee. Specifically, the Company controls an investee if, and only if, the Company 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.

The Company re-assesses whether or not it controls investees 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 the Company obtains control over the subsidiary and ceases when the Company loses control of the subsidiary. Assets, liabilities, income and expenses of a subsidiary acquired or disposed of during the year are included in the financial statements from the date the Company gains control until the date the Company ceases to control the subsidiary.

All intra-company balances, transactions, unrealized gains and losses resulting from intra-company transactions and dividends are eliminated in full.

### 3.3 Changes in accounting policies

The accounting policies adopted are consistent with those of the previous financial year except that the Company has adopted amended IFRS which they became effective. The adoption of these amendments did not have an impact on the financial position or performance of the Company.

The International Accounting Standards Board (IASB) issued some standards and amendments but are not yet effective, and have not been adopted by Company. These amendments and interpretations are those which the Company expects to have an impact on disclosures, financial position or performance when applied at a future date. The Company intends to adopt these amendments 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 in July 2014 will be implemented at the mandatory date on January 1, 2018, which will have an impact on the recognition and measurement of financial assets.

*IAS 1 Disclosure Initiative - Amendment*

The amendments to IAS 1 Presentation of Financial Statements clarify, rather than significantly change, existing IAS 1 requirements. The amendments clarify:

- The materiality requirements in IAS 1
- That specific line items in the statement(s) of profit or loss 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

The amendments are effective for annual periods beginning on or after January 1, 2016, with early adoption permitted.

*IAS 16 and IAS 38: Clarification of Acceptable Methods of Depreciation and Amortization - Amendment*

The amendments clarify the principle in IAS 16 and IAS 38 that revenue reflects a pattern of economic benefits that are generated from operating a business (of which the asset is 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. The amendments are effective prospectively for annual periods beginning on or after January 1, 2016, with early adoption permitted.

*IFRS 16 Leases*
During January 2016, the IASB issued IFRS 16 "Leases" which sets out the principles for the recognition, measurement, presentation and disclosure of leases.
IFRS 16 substantially carries forward the lessor accounting requirements in IAS 17. Accordingly, a lessor continues to classify its leases as operating leases or finance leases, and to account for those two types of leases differently.
IFRS 16 introduced a single lessee accounting model and requires a lessee to recognize assets and liabilities for all leases with a term of more than 12 months, unless the underlying asset is of low value. A lessee is required to recognize a right-of-use asset representing its right to use the underlying leased asset and a lease liability representing its obligation to make lease payments.
The new standard will be effective for annual periods beginning on or after January 1, 2019 with early application is permitted.

## 3.4 Estimates and assumptions

The preparation of the consolidated financial statements in conformity with IFRS requires the use of accounting estimates and assumptions. It also requires management to exercise its judgment in the process of applying the Company's accounting policies. The Company's management continually evaluates its estimates, assumptions and judgments based on available information and experience. As the use of estimates is inherent in financial reporting, actual results could differ from these estimates.

Useful lives of tangible and intangible assets
The Company's management reassesses the useful lives of tangible and intangible assets, and makes adjustments if applicable, at each financial year end.

Impairment of accounts receivable
When the Company has objective evidence that it will not be able to collect certain debts, estimates are used in determining the level of debts that the Company believes will not be collected.

The Company's management believes that the estimates and assumptions used are reasonable.

## 3.5 Summary of significant accounting policies

### Revenue recognition

Revenue is recognized to the extent that it is probable that the economic benefits will flow to the Company and the revenue can be reliably measured. The following specific recognition criteria must also be met before revenue is recognized:

*Capacity charges*
Capacity charge revenues from the use of the power plant are recognized during the period in which electricity is available according to the power purchase agreement signed with PENRA. This results in revenue recognition approximating the straight-line requirements of IAS (17) on leases, as, the Company applies IFRIC (4) which relates to arrangements that do not take the legal form of a lease but convey the right to use an asset in return for a payment or a series of payments. An arrangement conveys the right to use the asset if the arrangement conveys to the purchaser (lessee) the right to control the use of the underlying asset. The right to control the use of the underlying asset is conveyed if any one of the following conditions is met:

- The purchaser has the ability or right to operate the asset or direct others to operate the asset in a manner it determines while obtaining or controlling more than an insignificant amount of the output or other utility of the asset.

- The purchaser has the ability or right to control physical access to the underlying asset while obtaining or controlling more than an insignificant amount of the output or other utility of the asset.
- Facts and circumstances indicate that it is remote that one or more parties other than the purchaser will take more than an insignificant amount of the output or other utility that will be produced or generated by the asset during the term of the arrangement, and the price that the purchaser will pay for the output is neither contractually fixed per unit of output nor equal to the current market price per unit of output as of the time of delivery of the output.

As the Palestinian Energy and Natural Resources Authority (PENRA) is the sole purchaser of the electricity generated from power plant at a price other than at market price and the price varies other than in response to market price changes, this variability is regarded by IFRIC (4) as capacity payments being made for the right to use the power plant. Hence, such arrangement is accounted for in accordance with IAS (17) on leases. The power purchase agreement does not transfer substantially all the risks and rewards incidental to the Company's ownership of the power plant to PENRA. Therefore, the Company considered the arrangement of the power plant agreement as an operating lease and electrical capacity charges from the use of power plant to generate electricity as rental payment.

*Interest revenues*
Interest revenue is recognized as interest accrues using the effective interest method using the rate that exactly discounts estimated future cash receipts through the expected life of the financial instrument to the net carrying amount of the financial asset.

**Expense recognition**

Expenses are recognized when incurred in accordance with the accrual basis of accounting.

**Finance costs**

Finance costs directly attributable to the acquisition, construction or production of an asset that necessarily takes a substantial period of time to get ready for its intended use are capitalized as part of the cost of the asset. All other finance costs are expensed in the period in which they occur. Finance costs consist of interest and other costs that an entity incurs in connection with the borrowing of funds.

**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 recognized in the consolidated statement of income and comprehensive income as incurred. Depreciation is calculated on a straight line basis over the estimated useful lives of the assets as follows:

| | **Useful lives (Years)** |
|---|---|
| Power plant | 20 |
| Buildings | 20 |
| Motor vehicles | 5 |
| Computers and printers | 4 |
| Office equipment | 4 |
| Furniture and fixture | 5 |

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

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

**Project in progress**

Project in progress comprises costs incurred on an incomplete project, which include development and design costs, construction costs, direct wages, borrowing costs and a portion of the indirect costs. After completion, project in progress is transferred to property, plant and equipment.

The carrying value of the project in progress 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, the project is written down to its recoverable amount.

**Intangible assets**

Intangible assets acquired through government grant and assistance are initially measured at fair value. Following initial recognition, intangible assets are carried net of any accumulated amortization and any accumulated impairment losses.

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 is 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 treated as changes in accounting estimates. The amortization expense on intangible assets with finite lives is recognized in the consolidated statement of income and comprehensive income in the expense category consistent with the function of the intangible asset.

*Right to use PENRA's transformers*

Right to use PENRA's transformers is amortized using the straight-line method over a period that equals the remaining useful life of the Power Plant at the time of acquiring the right. Amortization expense is recognized in the consolidated statement of income and comprehensive income.

**Current versus non-current classification**

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

- Expected to be realized or intended to 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 or 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.

The Company classifies all other liabilities as non-current.

**Materials and inventories**

Materials and inventories are stated at the lower of cost using the weighted average method or net realizable value. Costs are those amounts incurred in bringing each item of materials and inventories to its present location and condition.

**Accounts receivable**

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

**Investment in an associate**

Investment in an associate is accounted for using the equity method. An associate is an entity over which the Company has significant influence. Significant influence is the power to participate in the financial and operating policy decisions of the investee, but is not control or joint control over those policies.

Under the equity method, investment in an associate is carried in the consolidated statement of financial position at cost plus post acquisition changes in Company's share of net assets of the associate. Goodwill relating to the associate is included in the carrying amount of the investment and is neither amortized nor individually tested for impairment.

The Company's share in associate's results is recorded in the consolidated statement of income and comprehensive income. Unrealized gains and losses resulting from transactions between the Company and its associate are eliminated to the extent of its interest in the associate.

The reporting dates of the associate and the Company are identical and the associate's accounting policies conform to those used by the Company for like transactions and events in similar circumstances.

After application of the equity method, the Company determines whether it is necessary to recognize an impairment loss on its investment in its associate. At each reporting date, the Company determines whether there is objective evidence that the investment in the associate is impaired. If there is such evidence, the Company calculates the amount of impairment as the difference between the recoverable amount of the associate or joint venture and its carrying value, then recognizes the loss in the consolidated statement of income and comprehensive income.

Upon loss of significant influence over the associate, the Company measures and recognizes any retained investment at its fair value. Any difference between the carrying amount of the associate upon loss of significant influence and the fair value of the retained investment and proceeds from disposal is recognized in the consolidated statement of income and comprehensive income.

**Available-for-sale investments**

Equity instruments designated as available-for-sale are those instruments that are not classified for trading. After initial measurement, available-for-sale financial assets are measured at fair value with unrealized gains or losses being recognized directly in equity until the investment is derecognized or determined to be impaired at which time the cumulative gain or loss previously recorded in equity is recognized in the consolidated statement of income and comprehensive income.

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

**Fair value measurement**

Fair value is the price that would be received to sell an asset or paid to transfer a liability 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 the Company.

A fair value measurement of a non-financial asset takes into account a market participant's ability to generate economic benefits by using the asset in its highest and best use or by selling it to another market participant that would use the asset in its highest and best use.

The Company 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 consolidated financial statements are categorized within the fair value hierarchy, described as follows:

Level 1 — Quoted (unadjusted) 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

For the purpose of fair value disclosures, the Company 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.

**Impairment of financial assets**

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

- For assets carried at fair value, impairment is the difference between cost and fair value, less any impairment loss previously recognized in the consolidated statement of income and comprehensive income;
- For assets carried at cost, impairment is the difference between carrying value and the present value of future cash flows discounted at the current market rate of return for a similar financial asset;
- For assets carried at amortized cost, impairment is the difference between carrying amount and the present value of future cash flows discounted at the original effective interest rate.

### Cash and cash equivalents

For the purpose of the 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 balances.

### Loans

After initial recognition, interest bearing loans are subsequently measured at amortized cost using the effective interest rate method. Gains and losses are recognized in the consolidated statement of income and comprehensive income when the liabilities are derecognized as well as through the effective interest rate method (EIR) amortization process.

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

### Accounts payable and accruals

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

### Provisions

Provisions are recognized when the Company has a present obligation (legal or constructive) as a result of a past event, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation, and a reliable estimate can be made of the amount of the obligation.

### Foreign currency

Transactions in foreign currencies are recorded at the rate ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are translated at the rate of exchange ruling at the consolidated financial statements date. All differences are recognized to the consolidated statement of income and 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 (after adjusting for interest on the convertible preference shares) by the weighted average number of ordinary shares outstanding during the year plus the weighted average number of ordinary shares that would be issued on the conversion of all the dilutive potential ordinary shares into ordinary shares.

## 4. Property, Plant and Equipment

| 2015 | Power plant | Buildings | Motor vehicles | Computers and printers | Office equipment | Furniture and fixture | Total |
|---|---|---|---|---|---|---|---|
| | U.S. $ | U.S. $ | U.S. $ | U.S. $ | U.S. $ | U.S. $ | U.S. $ |
| **Cost:** | | | | | | | |
| Balance, beginning of the year | 123,579,669 | 1,464,904 | 505,192 | 368,825 | 139,338 | 219,665 | 126,277,593 |
| Additions | - | - | - | 11,527 | 53,214 | 541 | 65,282 |
| Balance, end of year | 123,579,669 | 1,464,904 | 505,192 | 380,352 | 192,552 | 220,206 | 126,342,875 |
| **Accumulated depreciation:** | | | | | | | |
| Balance, beginning of the year | 73,473,553 | 704,394 | 466,860 | 321,226 | 138,329 | 203,762 | 75,308,124 |
| Depreciation charges for the year | 6,181,480 | 73,245 | 12,960 | 21,751 | 12,656 | 4,909 | 6,307,001 |
| Balance, end of year | 79,655,033 | 777,639 | 479,820 | 342,977 | 150,985 | 208,671 | 81,615,125 |
| **Net carrying amount:** | | | | | | | |
| At December 31, 2015 | 43,924,636 | 687,265 | 25,372 | 37,375 | 41,567 | 11,535 | 44,727,750 |

| 2014 | Power plant | Buildings | Motor vehicles | Computers and printers | Office equipment | Furniture and fixture | Total |
|---|---|---|---|---|---|---|---|
| | U.S. $ | U.S. $ | U.S. $ | U.S. $ | U.S. $ | U.S. $ | U.S. $ |
| **Cost:** | | | | | | | |
| Balance, beginning of the year | 135,440,605 | 1,464,904 | 505,192 | 344,713 | 138,564 | 213,636 | 138,107,614 |
| Additions | 50,000 | - | - | 24,112 | 774 | 6,029 | 80,915 |
| Disposal * | (11,910,936) | - | - | - | - | - | (11,910,936) |
| Balance, end of year | 123,579,669 | 1,464,904 | 505,192 | 368,825 | 139,338 | 219,665 | 126,277,593 |
| **Accumulated depreciation:** | | | | | | | |
| Balance, beginning of the year | 73,252,125 | 631,146 | 441,407 | 300,444 | 138,173 | 197,993 | 74,961,288 |
| Depreciation charges for the year | 6,524,298 | 73,248 | 25,453 | 20,782 | 156 | 5,769 | 6,649,706 |
| Disposal * | (6,302,870) | - | - | - | - | - | (6,302,870) |
| Balance, end of year | 73,473,553 | 704,394 | 466,860 | 321,226 | 138,329 | 203,762 | 75,308,124 |
| **Net carrying amount:** | | | | | | | |
| At December 31, 2014 | 50,106,116 | 760,510 | 38,332 | 47,599 | 1,009 | 15,903 | 50,969,469 |

Property, plant and equipment include U.S. $ 1,094,987 and U.S. $ 1,053,997 of fully depreciated assets as at December 31, 2015 and 2014, respectively, which are still used in the Company's operations.

* Disposal for the year 2014 represents cost of items of assets destroyed as a result of the Israeli air strike during July 2014 amounting to U.S. $ 11,910,936 and related accumulated depreciation of U.S. $ 6,302,870 (net book value: U.S $. 5,608,066, which represents the losses recognized in the consolidated statement of income and comprehensive income).

## 5. Intangible Assets

| | 2015 | 2014 |
|---|---|---|
| | U.S. $ | U.S. $ |
| Balance, beginning of the year | 2,080,294 | 2,301,877 |
| Amortization | (221,583) | (221,583) |
| Balance, end of year | 1,858,711 | 2,080,294 |

Intangible assets represent the right to use six step-up transformers installed by PENRA for the use of GPGC as part of the agreement signed on September 2, 2006 between GPGC and PENRA. According to the agreement, PENRA agreed to rectify all damages within the power plant resulted from the Israeli air strike during June 2006 to restore the power supply from the power plant. These transformers will be owned by PENRA; and GPGC will have the right to use such transformers and will be responsible for their operation and maintenance. The right to use the transformers was initially recognized at the fair value of transformers when installed. The right to use the transformers is amortized over the remaining useful life of the power plant starting from the date of obtaining such right.

## 6. Accounts Receivable

| | 2015 | 2014 |
|---|---|---|
| | U.S. $ | U.S. $ |
| Accounts receivable from capacity charges | 49,723,915 | 42,147,121 |
| Impairment of accounts receivable | (14,088,863) | (14,088,863) |
| | 35,635,052 | 28,058,258 |
| Non-current portion of accounts receivable | - | (15,616,643) |
| Current portion of accounts receivable | 35,635,052 | 12,441,615 |

All GPGC capacity charges revenue from the use of power plant is generated from one customer, PENRA. According to the power purchase agreement, PENRA is required to provide GPGC with a letter of credit of U.S. $ 20,000,000 from a qualified bank as defined in the agreement. To the date of these consolidated financial statements, PENRA did not provide GPGC with the letter of credit; therefore, accounts receivable are unsecured. The Company's management expects to settle unimpaired accounts receivable in full during 2016. Accordingly, accounts receivable as of December 31, 2015 are classified as short term.

## 7. Available-for-sale Investment

Available-for-sale investment represents the remaining part of the Company's investment in the shares capital of Palestine Power Generating Company (PPGC) after selling 4,016,665 of PPGC's shares which resulted in the reduction of the Company's share of PPGC's capital from 45% to 5% represented in 500,000 shares and causing the Company to lose its significant influence thereon. As a result, the Company reclassified the remaining part of the investment from investment in an associate to available-for-sale investment and measured the investment initially at fair value of U.S. $ 500,000 at the date of sale. The sale resulted in a gain in the amount of U.S. $ 864,744 which was recorded in the consolidated statement of income and comprehensive income in the year 2014. Further, the Company's share of results of the associate for the period from January 1, 2014 until the date of losing the significant influence at the end of April 2014 was U.S. $ 75,816.

The Company's management believes that the fair value of such investment is not materially different from its carrying amount.

## 8. Project in Progress

This item represents the cost of construction, repairing, maintenance, and installation works of fuel tank and other assets of the power plant which were destroyed during the Israeli air strike in July 2014.

## 9. Materials and Inventories

| | 2015 | 2014 |
|---|---|---|
| | U.S. $ | U.S. $ |
| Spare parts | 7,552,471 | 7,020,547 |
| Consumables | 319,566 | 263,566 |
| Goods in transit | 285,095 | 277,858 |
| Others | 73,961 | 122,105 |
| | 8,231,093 | 7,684,076 |

## 10. Other Current Assets

| | 2015 | 2014 |
|---|---|---|
| | U.S. $ | U.S. $ |
| Value Added Tax receivable | 33,152 | 24,077 |
| Due from shareholders | 596,258 | 2,559,886 |
| Prepaid insurance | 25,228 | 25,400 |
| Advances to suppliers | 297,490 | 591,091 |
| Others | 72,112 | 9,216 |
| | 1,024,240 | 3,209,670 |

## 11. Cash and Cash Equivalents

| | 2015 | 2014 |
|---|---|---|
| | U.S. $ | U.S. $ |
| Cash on hand | 6,636 | 6,427 |
| Current accounts at banks | 14,654,442 | 10,925,149 |
| | 14,661,078 | 10,931,576 |

## 12. Paid-in Share Capital

The share capital of the Company comprises 60,000,000 ordinary shares at par value of U.S. $ 1 for each share.

## 13. Statutory Reserve

The amount represents cumulative transfers of 10% of profits to statutory reserve in accordance with the Companies' Law. The reserve shall not be distributed to shareholders.

## 14. Long Term Loans and Credit Facilities

Long Term Loans

On November 7, 2013, GPGC signed an agreement with a local bank to obtain a long-term loan in the amount of U.S. $ 5,300,000. The loan is repayable over 16 semi-annual installments the first of which was due on April 5, 2014 and the last installment will be due on December 5, 2021. The loan is subject to an annual interest rate of six-month LIBOR plus 3% with minimum rate of %5.5 and maximum of 7% and an annual commission at a rate of 1%. As a collateral for the loan, GPGC committed to transfer accounts receivable collections to this bank and endorse the bank as a partial beneficiary to GPGC under the insurance policy of GPGC's assets and equipment in addition to the guarantee of the Company.

Payment schedule of the loans is as follows:

| | U.S. $ |
|---|---|
| 2016 | 653,330 |
| 2017 | 659,332 |
| 2018 | 665,390 |
| 2019 | 671,504 |
| 2020 | 677,673 |
| After 2020 | 683,900 |
| | 4,011,129 |

During the year 2014, GPGC made an early settlement of the entire balance of loan granted from a local bank on September 28, 2011 which amounted to U.S $ 5,244,444.

Credit Facilities
During the year 2014, the Company repaid the entire balance of the overdraft facilities of U.S. $ 4,700,000 that was granted on November 7, 2013.

## 15. Provision for Employees' Indemnity

Movement on the provision for employees' end of service indemnity during the year was as follows:

| | 2015 | 2014 |
|---|---|---|
| | U.S. $ | U.S. $ |
| Balance, beginning of the year | 2,617,450 | 2,310,420 |
| Additions | 416,433 | 413,254 |
| Payments | (247,700) | (106,224) |
| Balance, end of year | 2,786,183 | 2,617,450 |

## 16. Other Current Liabilities

| | 2015 | 2014 |
|---|---|---|
| | U.S. $ | U.S. $ |
| Dividends payable | 2,107,835 | 11,702,710 |
| Maintenance payable and provisions | 3,871,773 | 3,903,632 |
| Due to Consolidated Contractors Company | 515,586 | 888,783 |
| Accrued Board of Directors expenses | 314,900 | 300,800 |
| Accrued expenses | 445,740 | 427,764 |
| Land's lease | 588,000 | 441,000 |
| Provision for employees' vacations | 235,652 | 258,417 |
| Accrued loan expenses | 18,997 | 21,351 |
| Others | 338,915 | 308,217 |
| | 8,437,398 | 18,252,674 |

## 17. Capacity Charges

The amount represents revenues from capacity charges invoices issued by GPGC for the use of power plant to generate electric capacity for the benefit of PENRA according to the power purchase agreement, which is considered an operating lease under IFRIC (4) as further explained in accounting policies note (3.5).

Capacity charges are materially straight-line over the life of the plant which results in revenue recognition approximating the straight-line requirements of IAS (17) on leases. According to the agreement, PENRA shall pay for all the electric capacity available from the use of GPGC's power plant, regardless of the extent to which PENRA can absorb that capacity, for a predetermined price set out in the power purchase agreement for each operating year. In addition, PENRA shall, at all times, supply and deliver all the fuel required to generate the power needed.

The power plant was hit by an Israeli air strike causing it to stop operating for approximately two months. As a result and in a letter dated July 31, 2014, GPGC declared a force majeure in accordance to the power purchase agreement. GPGC did not bill PENRA for capacity charges during the period of operation stoppage.

GPGC undertook maintenance and repairs which enabled it to have available capacity of 92.4 MW during September 2014 and therefore issued its capacity charges invoices at 92.4 MW instead of full capacity.

In a letter sent to PENRA on December 2, 2014, GPGC requested PENRA to cover the costs of repair required to bring the power plant back to its status before the Israeli strike. According to latest estimate, management expects repair costs to reach U.S. $ 13 million.

During April 2015, GPGC undertook maintenance and repairs which enabled it to resume its ability of full capacity and therefore issued full capacity charges invoices.

## 18. Discounts on Capacity Charges Invoices

This item represents discounts on the capacity charges invoices during the year 2014 based on GPGC's Board of Directors decision made during their meeting dated December 15, 2012 granting PENRA a monthly discount in the amount of U.S. $ 250,000 starting from the capacity charges invoice of January 2013 until further notice. During August 2014, the Board of Directors of the Company decide to stop discounts previously granted effective September 2014.

## 19. Operating Expenses

| | 2015 | 2014 |
|---|---|---|
| | U.S. $ | U.S. $ |
| Salaries and wages | 4,480,243 | 5,005,336 |
| Provision for employees' indemnity | 416,433 | 413,254 |
| Board of Directors expenses | 166,850 | 173,900 |
| Employees' insurance | 130,694 | 150,102 |
| Development and technical advisory services | 100,000 | 171,067 |
| Travel and transportation | 391,357 | 512,686 |
| Power plant insurance | 174,822 | 722,582 |
| Power plant operation and maintenance | 857,485 | 649,472 |
| Depreciation of property, plant and equipment | 6,307,001 | 6,649,706 |
| Amortization of intangible assets | 221,583 | 221,583 |
| Land lease | 147,000 | 147,000 |
| Professional and consultancy fees | 142,003 | 60,617 |
| Telephone and fax | 104,625 | 179,915 |
| Palestine Securities Exchange listing fees | 17,357 | 26,817 |
| Office supplies | 62,404 | 40,462 |
| Advertisements | 15,437 | 34,198 |
| Security service costs | 14,148 | 7,106 |
| Miscellaneous | 177,792 | 188,518 |
| | 13,927,234 | 15,354,321 |

## 20. Basic and Diluted Earnings Per Share

| | 2015 | 2014 |
|---|---|---|
| | U.S. $ | U.S. $ |
| Profit for the year | 13,648,366 | 1,884,873 |
| | Shares | Shares |
| Weighted average of subscribed share capital during the year | 60,000,000 | 60,000,000 |
| | U.S. $ | U.S. $ |
| Basic and diluted earnings per share | 0.23 | 0.03 |

## 21. Dividends

The Company's General Assembly approved in its meeting held on April 28, 2014, the proposed dividends distribution by the Company's Board of Directors of U.S. $ 3,000,000 for the year 2013, the equivalent of 5% of paid-in share capital.

## 22. Related Party Transactions

Related parties represent associates, major shareholders, directors and key management personnel of the Company and GPGC, and companies of which they are principal owners. Pricing policies and terms of these transactions are approved by the Board of Directors.

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

| | | 2015 | 2014 |
|---|---|---|---|
| | Nature of relation | U.S. $ | U.S. $ |
| Cash at Arab Bank | Major shareholder | 2,248,429 | 2,774,685 |
| Due from shareholders | Major shareholders | 596,258 | 2,559,886 |
| Due to Consolidated Contractors Company | Major shareholder | 515,586 | 888,783 |
| Dividends payable | Major shareholders | - | 9,070,000 |
| Accrued Board of Directors expenses | Board of Directors | 314,900 | 300,800 |

The consolidated statement of income and comprehensive income includes the following transactions with related parties:

| | | 2015 | 2014 |
|---|---|---|---|
| | Nature of relation | U.S. $ | U.S. $ |
| Development and technical advisory services fee charged by United Engineering Services S,A | Sister company | 100,000 | 100,000 |
| Consulting and services fee charged by Consolidated Contractors Company | Major shareholder | 14,148 | 5,926 |
| Salaries and wages | Key management | 453,244 | 427,942 |
| Employees' end of service indemnity | Key management | 31,071 | 25,306 |
| Board of Directors expenses | Board of Directors | 166,850 | 173,900 |

## 23. Income Tax

The Palestinian National Authority has agreed to exempt GPGC (subsidiary) and its shareholders (with respect to dividends and earnings from GPGC), for the term of the agreement of 20 years including any extensions thereof, from all Palestinian taxes.

As of the date of these consolidated financial statements, the Company did not obtain a tax settlement from the taxes authorities for the period from inception in 1999 until 2014.

## 24. Commitments and Contingencies

Commitment related to the contract of the leased land on which the power plant is built (became effective as of the date of commercial operation on March 15, 2004 and for 30 years) amounted to U.S. $ 2,058,000 and U.S. $ 2,205,000 as of December 31, 2015 and 2014, respectively.

Future capacity charges invoices from the use of the power plant according to the power purchase agreement (will be effective until the year 2024) amounted to U.S. $ 278,436,880 and U.S. $ 306,517,006 as of December 31, 2015 and 2014, respectively.

GPGC agreed with the long-term maintenance service provider, as a result of the expiration of the period of the long-term service agreement on April 15, 2014, to keep open negotiations until August 20, 2014 in order to amend and extend the agreement. The long term maintenance service provider agreed during such a period to provide maintenance support service and spare parts in accordance with the expired agreement. To the date of the consolidated financial statements, no agreement was reached to amend or extend the agreement.

## 25. Fair Values of Financial Instruments

The table below summarizes the comparison between book value and fair value for financial instruments according to its classification in the consolidated financial statements:

| | Carrying value | | Fair value | |
|---|---|---|---|---|
| | 2015 | 2014 | 2015 | 2014 |
| | U.S. $ | U.S. $ | U.S. $ | U.S. $ |
| **Financial Assets** | | | | |
| Accounts receivables | 35,635,052 | 28,058,258 | 35,635,052 | 28,058,258 |
| Other financial assets | 701,522 | 2,593,179 | 701,522 | 2,593,179 |
| Cash and cash equivalents | 14,654,442 | 10,925,149 | 14,654,442 | 10,925,149 |
| Available-for-sale investment | 500,000 | 500,000 | 500,000 | 500,000 |
| | 51,491,016 | 42,076,586 | 51,491,016 | 42,076,586 |
| **Financial Liabilities** | | | | |
| Long term loans | 4,011,129 | 4,658,511 | 4,011,129 | 4,658,511 |
| Other financial liabilities | 7,536,746 | 15,241,018 | 7,536,746 | 15,241,018 |
| | 11,547,875 | 19,899,529 | 11,547,875 | 19,899,529 |

The fair value of financial instruments, are not materially different from their carrying values. The fair values for financial assets and financial liabilities are determined at amounts at which the instrument could be exchanged between willing parties other than forced or liquidation sale.

The fair value of the accounts receivables, other financial assets, and other financial liabilities are not materially different from their carrying values because these instruments have short repayment and collection periods.

Fair values of interest bearing loans were assessed by discounting expected cash flows using interest rates for items with similar terms and risk characteristics.

The fair value of the available-for-sale investment is not materially different from its carrying amount.

## 26. Risk Management

The Company's principal financial liabilities comprise long term loans and some other financial liabilities. The main purpose of these financial liabilities is to raise finance for the Company's operations. The Company has various financial assets such as accounts receivable, some other financial assets and cash and cash equivalents which arise directly from the Company's operations.

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

### Interest rate risk

The following table demonstrates the sensitivity of the consolidated statement of income and comprehensive income to reasonably possible changes in interest rates as of December 31, 2015, with all other variables held constant.

The sensitivity of the consolidated statement of income and comprehensive income is the effect of the assumed changes in interest rates on the Company's profit for one year, based on the floating rate of financial assets and financial liabilities at December 31, 2015 and 2014. There is no direct impact on the Company's equity. The effect of decreases in interest rate is expected to be equal and opposite to the effect of increases shown below:

| | Increase in interest rate | Effect on profit for the year |
|---|---|---|
| | Basis points | U.S. $ |
| **2015** | | |
| U.S. Dollar | 10 | (4,011) |
| **2014** | | |
| U.S. Dollar | 10 | (4,659) |

### Credit risk

The Company is currently exposed to credit risk as all the revenues of its subsidiary from the use of the power plant to generate electric capacity is generated from one customer, PENRA. PENRA has not provided the Company's subsidiary with required letter of credit of U.S. $ 20,000,000 as required by the power purchase agreement.

With respect to credit risk arising from the other financial assets, the Company's exposure to credit risk arises from the possibility of default of the counterparty, which equal the carrying values for these financial assets.

### Liquidity risk

The Company and its subsidiary limit their liquidity risk by ensuring bank facilities are available and by maintaining adequate cash balances to meet their current obligations and to finance its operating activities and by following up on the collection of accounts receivable from PENRA.

The table below summarizes the maturity profile of the Company's financial liabilities at December 31, 2015 and 2014 based on contractual undiscounted payments.

| | Less than 3 Months | 3 to 12 months | More than 1 year up to 5 years | Total |
|---|---|---|---|---|
| | U.S. $ | U.S. $ | U.S. $ | U.S. $ |
| **December 31, 2015** | | | | |
| Long term loans | - | 688,605 | 3,443,025 | 4,131,630 |
| Other current liabilities | 402,091 | 7,134,655 | - | 7,536,746 |
| | 402,091 | 7,823,260 | 3,443,025 | 11,668,376 |
| **December 31, 2014** | | | | |
| Long term loans | - | 688,605 | 4,131,630 | 4,820,235 |
| Other current liabilities | 384,790 | 14,856,228 | - | 15,241,018 |
| | 384,790 | 15,544,833 | 4,131,630 | 20,061,253 |

### Foreign currency risk

The table below indicates the Company's foreign currency exposure, as a result of its monetary assets and liabilities. The analysis calculates the effect of a reasonably possible movement of the U.S. $ currency rate against foreign currencies, with all other variables held constant, on the consolidated statement of income and comprehensive income. The effect of decreases in foreign currency exchange rate is expected to be equal and opposite to the effect of increases shown below:

| | Increase in EURO rate to U.S. $ | Effect on profit for the year | Increase in ILS rate to U.S. $ | Effect on profit for the year | Increase in SEK rate to U.S. $ | Effect on profit for the year |
|---|---|---|---|---|---|---|
| | % | U.S. $ | % | U.S. $ | % | U.S. $ |
| **2015** | | | | | | |
| U.S. Dollar | 10 | (8,488) | 10 | (20,961) | 10 | 157,113 |
| **2014** | | | | | | |
| U.S. Dollar | 10 | (23,967) | 10 | (14,108) | 10 | 153,283 |

## 27. Capital Management

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

The Company 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 years ended December 31, 2015 and 2014. Capital comprises paid-in share capital, statutory reserve and retained earnings, and is measured at U.S. $ 91,652,586 and U.S. $ 78,004,220 as at December 31, 2015 and 2014, respectively.

## 28. Concentration of Risk in Geographic Area

The Company and its subsidiary are carrying out all of their activities in Gaza. The Company's non-current assets, which mainly comprise property, plant and equipment, are located in Gaza. The political and economic situation in Gaza increases the risk of carrying out business and could adversely affect their performance and impacts the recoverability of their assets from operation.