Palestine Electric Company P.L.C

Continuous Power

Annual Report 2020

Palestine Electric Company

Public Shareholding Company

Gaza, Al Nusirat, Salah Al Din St., Power Plant, P.O.Box: 1336

Tel.: +970 8 2888 600, Ext. No.: 331, Fax: +970 8 2888 607

www.pec.ps info@pec.ps

Contents

Samer Khoury
Chairman of the Board of Directors

1. Chairman's Message

Dear Shareholders,

On behalf of myself and my colleagues in the Board of Directors, we welcome you to the eighteenth ordinary general assembly meeting amidst these unprecedented circumstances that ravaged the world. We hope that this pandemic will end soon allowing us to return back to our normal lives.

Since the beginning of 2020, we have been impacted by the COVID-19 pandemic which had severe repercussions on the national and global level. The Palestinian Government has undertaken stringent measures to prevent the spread of the virus which forced them declaring a state of emergency which led to the closure of all Governorates and the imposing of restrictions on movement. This had a negative impact on the economic and social environments across the country. To combat the hardships of COVID-19 and attend to the wellbeing of our fellow citizens, we intensified our community and social contributions across various segments of the Palestinian society.

Despite these circumstances, the Company was able to manage its financial situation and maintain good operational performance throughout the year which allowed for the continued growth of our shareholders' equity. This would not have been achieved without your trust and confidence.

One of our main concerns is to ensure the sustainability of electricity supplies to the people of Gaza. As such, the Company has been working diligently in full coordination with all relevant parties to overcome all obstacles to execute the necessary plans to expand the power plant and use natural gas as a primary source of fuel. It is important that we acknowledge the efforts and cooperation of the Palestinian Government and the Palestinian Energy and Natural Resources Authority (PENRA) which is highly appreciated. Accomplishing this will contribute to solving the electricity crisis in Gaza and reduce the burden off the Palestinian people.

On behalf of the Board of Directors, we wish to thank and acknowledge the dedication, commitment and hard work of the Executive Management and the entire staff working in the Company which allow us to achieve the Company's goals and fulfill its mission.

In closing, the support that our shareholders have invested in us cannot go unnoticed. We extend our sincerest appreciation and gratitude to all our shareholders for their continued confidence and trust in Palestine Electric Company.

Samer Khoury
Chairman of the Board of Directors

Walid Salman
Vice Chairman & Executive Managing Director

2. Executive Managing Director's Message

Dear Shareholders,

We are pleased to present the most important financial and operational achievements of 2020. This year, due to the COVID-19 pandemic, we all witnessed exceptional economic circumstances and health crisis, which directly affected the lives of our citizens and all business sectors. The challenges that we all experienced have been unprecedented which calls for all of us to keep our faith and strive for perseverance.

The Company continues to face instability in the collections of outstanding receivables from PENRA , we are working closely and in constant contact and continues cooperation with all PNA related authorities to confirm their commitment to settle the accumulated outstanding dues and to transfer the monthly payments on a regular basis.

Despite all the difficult circumstances and challenges, the Company has managed to successfully maintain its financial strength by achieving profits of USD 11,329,690 that contribute to the growth of its assets and shareholders' equity. The Company's trading activities have remained stable and the share price has increased to a price of $ 1.59 at the end of 2020.

With the difficulties and restrictions that the pandemic imposed on movement and travel in Palestine and rest of the world, it became impossible to deliver the spare parts and equipment needed to perform the necessary maintenance work and prevented the staff of the international maintenance Company from being present in Gaza. To mitigate these problems, our professional technical team were able to successfully carry out the major maintenance work needed for two gas turbines locally.

In addition, they were able to carry out the necessary periodic maintenance work needed to ensure the continuity of the power plant's operation and generation capacities.

Despite being one of the most vital sectors related to the livelihood of our citizens, we needed to ensure the safety of our employees while complying with the restrictions of the declared State of Emergency. We adopted stringent emergency operating procedures which entailed rotating the work schedules of all technical and administrative staff. This allowed for safe physical distancing while maintaining continued operations of the power plant in an efficient and effective manner.

Since our priority is to ensure that our citizens receive sustainable access to electricity, the Company has been working intensively with all relevant parties to implement the plans needed to expand the power plant and secure the supply of natural gas as a primary fuel. This will lead to a considerable reduction in the costs incurred by PENRA while allowing the power plant to operate at full capacity.

We highly appreciate the continued support and efforts of the Board of Directors in ensuring that we achieve our mission. We also extend our special acknowledgement and appreciation to all the Company's professional staff for their commitment in facing the challenges to implement their assigned tasks.

We greatly appreciate the continued support and confidence that our shareholders have demonstrated over the years. We pray to God to bless you all with good health and wellness. May God protect our people and all humanity from the dangers of this pandemic.

Walid Salman

Vice Chairman & Executive Managing Director

3. Company Overview

Palestine Electric Company (PEC) was established in Gaza, Palestine in 1999 and is registered in accordance with the Companies' Law as a Public Shareholding Company with paid-in capital of US$ 60 million. PEC shares were listed in the Palestine Exchange in 2004, where 33% of its shares are owned by public shareholders and 67% owned by the founding companies.

The Company established "Gaza Power Generating Company (GPGC)" as its subsidiary in Gaza as the operating arm of PEC, which has the exclusive right from PNA to generate electricity in the Gaza Strip.

PEC's Main Objectives

- Establishing electricity generating plants in the territories of Palestinian National Authority.
- Carry out all operations necessary for the generation of electricity.
- Import all the equipment and machinery needed to develop power plants and generate electrical power.
- Develop, own, manage and operate any power generating plant(s).
- Carry out maintenance activities of power plants and electrical networks.

4. Board of Directors

The Board of Directors consists of thirteen members representing all the shareholders. The Board of Directors main duties are to set the Company's strategies and to follow up on the operational and action plans in accordance with the economic and political circumstances.

No.	Name	Position	Representative	Address
1	Mr. Samer Khoury	Chairman	Palestine Power Company LLC	Gaza, Al Nusirat, Salah Al Din St., Power Plant, Tel. 2888600
2	Mr. Walid Salman	Vice Chairman		
3	Mr. Nabil Sarraf	Member		
4	Mr. Tarek Aggad	Member		
5	Mr. Talal Nasereddin	Member		
6	Mr. Hani Ali	Member		
7	Mr. Marwan Salloum	Member		
8	Mr. Bassim Khoury	Member		
9	Mr. Sharhabeel Al Zaeem	Member		
10	Mr. Faisal Al Shawwa	Member		
11	Mr. Zuhair Osaily	Member		
12	Mr. Majed Al- Helou	Member	Palestinian Pension Agency	Gaza, Al Remal, Thourah St., Tel. 2829219
13	Mr. Iyad Basal	Member	Public Shareholder	Gaza, Al Remal, Haifa St., Tel. 2848025

Board of Directors Meetings:

The Board of Directors hold periodic meetings to monitor and discuss the performance and achievements of the Company, review and approve budgets and policies, and take necessary actions and decisions as needed.

During 2020, the Board of Directors held the following meetings:

Feb 29, 2020

Discussed and reviewed the latest technical, administrative and financial progress, as well as, the operation and maintenance process. The date of the Ordinary General Assembly Meeting for 2019 was set.

Apr 14, 2020

Through the virtual conferencing application (Zoom), the Board discussed the financial statements of 2019 ahead of the 2019 General Assembly meeting. Due to the circumstances surrounding COVID-19, they recommended the declaration and distribution of cash dividends of 15% of the share par value. The attendees of the General Assembly meeting, gave their unanimous consent to the recommendation.

Sep 30, 2020

Through the virtual conferencing application (Zoom), the Board discussed the financial and administrative performance, the operation and maintenance activities, the power production and fuel supply levels under the unprecedented conditions caused by the COVID-19 pandemic.

The suggested date of the up-coming General Assembly meeting is Wednesday 7th April 2021

Board of Directors Remuneration:

The Company does not have a policy to pay allowances for attending Board of Director meetings, however, there is an annual one-time remuneration paid to the members based on the approval of the Board of Directors. In its meeting held on April 14th, 2020, the Board of Directors approved the following remuneration to be paid for the year 2019:

Board Name	Members Number	Amount in USD
Palestine Power Company LLC	11	141,000
Public Shareholder – Palestinian Pension Agency	1	14,100
Public Shareholder – Individual	1	14,100
Total	**13**	**169,200**

5. Executive Management

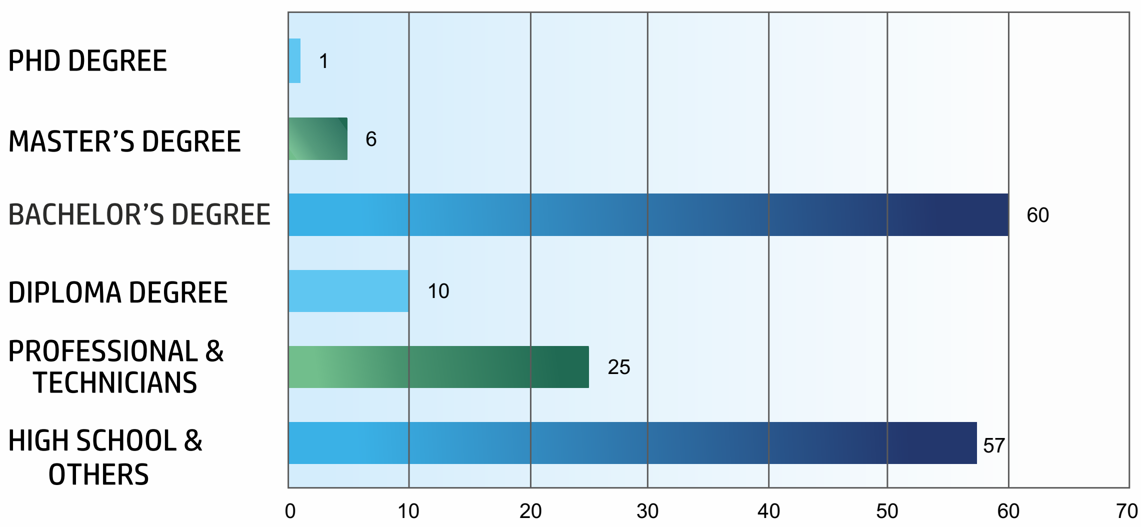
Mr. Walid Salman	Vice Chairman of the Board of Directors Executive Managing Director
Dr. Rafiq Maliha	Power Plant General Manager
Mr. Mahmoud Nabahin	Financial and Compliance Manager

Our Employees:

Since its inception, the Company has created various job opportunities to meet its operational needs. It has hired a team of experienced and qualified personnel to execute its work and strategic plans to the highest standards.

By the end of 2020, the Company had 159 employees. The majority are professionals, with advanced qualifications and extensive experience including engineers, technicians, financial and commercial staff. The Company has employed many new graduates as part of its policy to create job opportunities for our people in the Gaza Strip.

Educational Level



Governance:

Since its inception, the Company has committed to abide to a set of rules and decisions stipulated internally, either in the Memorandum of Association or in the Company's Bylaws, as well as, all related laws and regulations applicable in Palestine.

Since its listing on the Palestine Exchange (PEX) in 2004, the Company has committed to apply the principles of transparency when presenting the required information in accordance with the disclosure requirements of the Palestine Exchange and all related regulations of the Palestine Capital Market Authority. To maintain the confidence of its shareholders, the Company has promoted the principles of transparency when presenting information and data to its shareholders, allowing them to make the proper decisions on their investments.

The Board of Directors has adopted the principles of proper governance, including protecting the rights of shareholders and maintaining their interests, as well as, protecting the rights of other stakeholders such as creditors, suppliers and other related parties. The Executive Management adopts the best standards to maintain and develop the Company's assets and optimize the use of its resources expecting to achieve the best possible returns on investment.

Legal Obligations:

PEC does not have any legal issues raised against third parties or raised by third parties against it.

External Auditors:

Following the voting of the last General Assembly meeting held on April 14th, 2020; Ernst & Young were appointed as the Company's external auditors for the year 2020.

Legal Advisor:

Al Zaeem & Associates – Attorneys at Law & Legal Consultants.

6. Social Responsibility

Based on our belief to participate in the development of our community and according to our understanding of the needs of the Palestinian society, the Company is committed to social and community responsibilities towards various sectors of the society including the marginalized, less fortunate social groups, special needs and the education sector.

The Company actively supports seminars, conferences and forums that highlight important issues for the local community. It further offers various internship and training opportunities for college and university students and graduates allowing them to gain knowledge and skills necessary to enter the job market.

Since 2011, the Company launched social development programs (POSITIVE), where the following social activities and events were conducted to serve the community groups and sectors:

Humanitarian Aid	The Company provided monthly humanitarian assistance to needy families locally and in diaspora, including intensified programs of food baskets and vouchers aid programs in light of the current exceptional circumstances and spread of the Corona virus
Training	Knowledge transfer and training opportunities for university and college students.
Education	Financial aid to university students and sponsoring seminars, conferences, and scientific forums.
Health Care	The Company contributed to treatment programs for people with critical illness, enabling them to integrate in their community.
Sport Sector	The Company invested in the potentials of Palestinian youth by supporting Palestinian clubs and sports activities.

7. Technical Overview

Gaza Power Generating Company (GPGC) was established as the power plant's operating arm to provide the electricity needs in the Gaza Strip. The power plant operates with a generating capacity reaching 140 MW in a combined cycle system consisting of four gas turbines and two steam turbines, which form two generating blocks in accordance with the manufacturer's instructions. GPGC conducts periodic maintenance of the turbines throughout the production life. The Company ensures that the power 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.

Our primary goal is to maintain the generation plant and its equipment allowing it to operate at the highest efficiency and at the lowest cost of production. This is achieved through the Company's local staff, who are specialists in all areas of operation and maintenance of equipment and machinery in accordance with international standards followed in power plants. The Company has successfully accomplished significant achievements in 2020, summarized as follows:

- **Power Output**

  For the second year, the power plant continued to operate with the highest availability and generation outputs. This was due to the stability of fuel supplies and the preparedness of the power plant to generate power at full load capacity.

- **Fuel Supply**

  In contrast to previous years in which the Company suffered from a severe shortage of fuel supplies, the availability of fuel was three times more this year compared to the previous years. This contributed to the continuous operation of three turbines most of the times, with the exception of a few days where the supply of fuel was interrupted due to the closure of border crossings.

- **Fuel Storage**

  Work is ongoing to rebuild the main fuel tank with a capacity of 10 million liters through the cooperation and coordination of all relevant parties through funding from a donor. This vital project is expected to be completed during the first half of 2021, which will end the fuel storage problem that the Company has suffered from for years because of the destruction of the power plant fuel tanks during the Israeli air strikes on the Gaza Strip in 2014.

- **Major Maintenance**

  Our local team have succeeded in carrying out the main maintenance work for two gas turbines with the technical assistance from the international maintenance Company by means of remote communication.

- **Periodic Maintenance**

  Our experienced technical team continued to implement and accomplish all the necessary periodic maintenance requirements for the facilities of the power plant in order to maintain the plant's equipment and its preparedness to generate power at all times.

- **Utilizing New Tools and Methodologies**

  Despite all obstacles, the Company has continued to import the latest diagnostics and measuring devices that have proven to greatly enhance the operations and maintenance and fault detection programs. These tools reduced the time for troubleshooting and allowed for corrective and preventive maintenance to be successfully performed in record time compared to previous years.

Despite the uncertainties and challenges that the Company faces due to restrictions or delays in importing some materials and equipment to Gaza, the Company shall keep exerting as much technical efforts as possible to execute its current and future plans during 2021. Some of these plans are as follows:

- **Major Maintenance Plans**

  Our technical team will carry out the necessary major maintenance for the turbines during 2021, according to the approved plans and programs.

- **Commissioning of the new 10 Million liters Fuel Storage Tank**

  Participate in the supervision of the construction works of the new 10 million litters fuel tank, which is planned to be ready for handover during the first half of 2021. The Company will make its best to integrate it with the existing systems and ensure that testing and commissioning activities will be in accordance with international standards.

- **Conversion of Power Plant to operate with Natural Gas**

  The Company is currently working with the plant manufacturer and other international companies to complete all technical aspects related to the conversion of the power plant to operate with natural gas, once it becomes available.

- **Developing the CMMS**

  The IT Department will implement new features to complete the customization of this system as per the latest international standard in the maintenance field.

The Company aims to maintain the continuity of electricity production with the highest possible efficiencies by developing its facilities, all in accordance with a mechanism that protects its rights and fulfils its obligations.

COVID-19 Challenges:

During the first quarter of 2020, the COVID-19 pandemic caused serious impacts on the global economy, which affected many economic sectors as well as the performance of regional and global financial markets. As is the case in all parts of the world, Palestine witnessed inconvenient economic impacts. Because of the spread of the virus and the declaration of the state of emergency, a set of preventive measures were imposed, such as quarantine, partial and comprehensive closures and restrictions on freedom of movement, which negatively affected various economic activities.

The Company's management prepared an emergency plan and established supporting committees which were mandated in updating health and safety procedures across all departments and divisions to ensure the maximum safety and security of our employees. The Company distributed personal protection equipment (PPEs) such as masks and sterilization supplies to all employees, in addition to carrying out periodic sterilization for all offices and facilities.

Despite the difficult times, our local technical staff were able to carry out the necessary maintenance work of the power plant to ensure continuity of operation while reducing expenses.

In terms of social responsibility, the Company contributed to support the national efforts by distributing thousands of food baskets to support Palestinian families in light of these exceptional circumstances.

8. Shareholders Structure

By the end of 2020, the shareholders base consists of 10,702 shareholders, as follows:

Shareholders Owning more than 5%:

Company Name	Number of Shares	Percentage
Palestine Power Company LLC	38,999,600	65%

Distribution based on Shareholders Type:

Shareholders Type	Number of Shareholders	Number of Shares	Percentage
Founding Companies	5	40,200,000	67%
Public Shareholders	10,697	19,800,000	33%
Total	**10,702**	**60,000,000**	**100%**

Distribution based on Shareholders Range:

Shareholders Type	Number of Shareholders	Number of Shares	Percentage
1 - 500	3,341	991,445	1.65%
501 - 1,000	4,876	3,527,652	5.88%
1,001 - 5,000	2,051	3,752,917	6.25%
5,001 - 10,000	233	1,680,508	2.80%
10,001 - 50,000	153	3,325,726	5.54%
50,001 - 100,000	28	1,915,536	3.19%
100,001 - 1,000,000	19	5,806,616	9.68%
1,000,001 & above	1	38,999,600	65.00%
Total	**10,702**	**60,000,000**	**100%**

9. Investor Relations

Palestine Electric Company is looking to achieve shareholders' satisfaction by allocating all resources to manage the relations with its current shareholders and potential investors, as well as, the investment environment in Palestine.

In compliance with best practices and international standards, the Investor Relations department is managing the relations with Company shareholders, Palestine Exchange, Palestine Capital Market Authority and other related parties.

Information Mechanism:

The Company facilitate all efforts to communicate with its shareholders to keep them up to date with its activities and achievements. The Company provides various means of communication including telephone, website, e-mail, annual report, quarterly press releases and other media tools. The shareholders can obtain the information about the Company by visiting the Company's headquarters located in the Power Plant, Al Nusirat - Gaza Strip.

Mechanism of Share Dividends:

Our mechanism for dividends distribution is in line with the best practices and applicable regulations. The Company distribute dividends to all shareholders within the announced distribution periods across bank branches in Palestine and abroad. Any uncollected dividends are kept in a reserve account to be paid to shareholders upon their request and as per procedures.

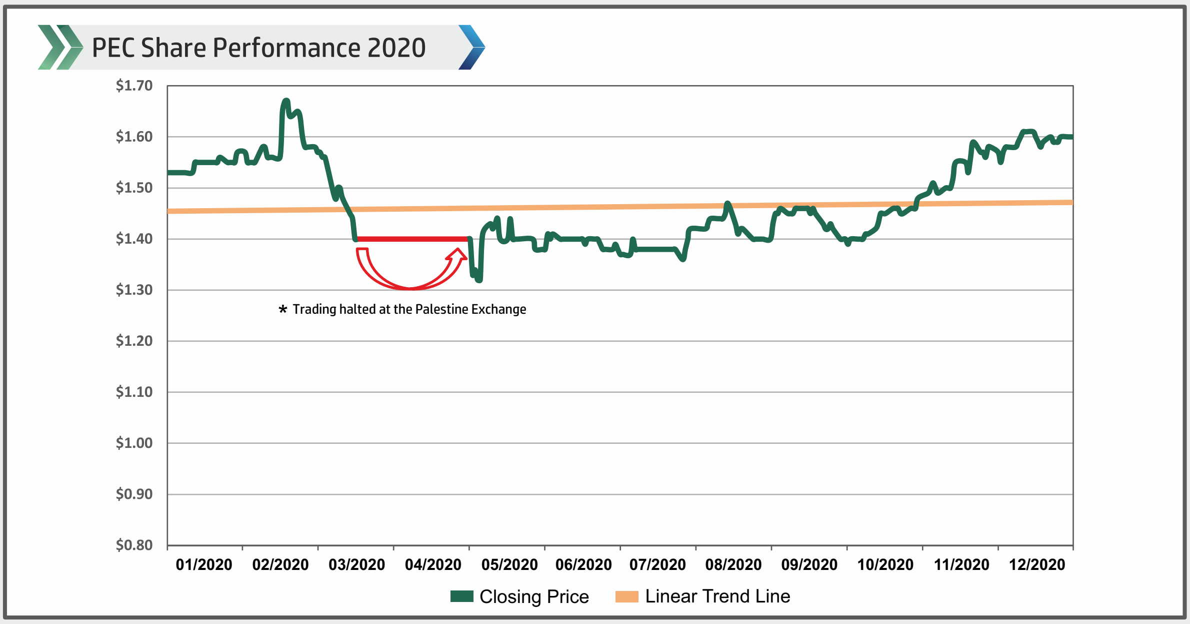
Financial Disclosures:

The Company is committed to disclose its financial statements through the quarterly review reports and its annual financial report distributed during its annual General Assembly meetings. The financial statements are submitted to the Palestine Capital Market Authority and the Palestine Exchange pursuant to the regulations in Palestine. In addition, the annual report is published on the Company's website: WWW.PEC.PS

10. Share Performance

PEC's share was part of the traded shares in the first market of the Palestine Exchange. In accordance with the required conditions and standards, the Company's share was part of a selected sample group for statistical calculation of Al Quds Index in the Palestine Exchange.

PEC's share closed at $ 1.59 in 2020 higher by 3.92% compared to the closing price at end of 2019. Despite the prevailing circumstances, PEC's share maintained its balanced pace under the declaration of the state of emergency, which confirms the Company reliance and the high confidence of its shareholders.



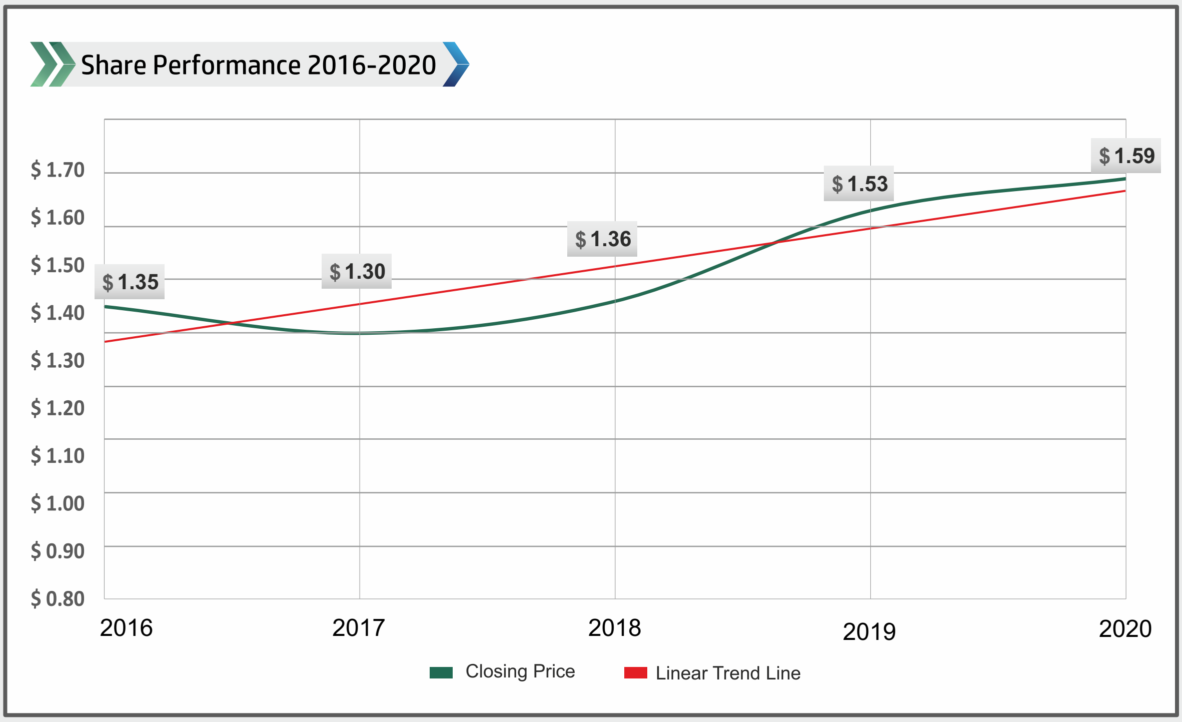
* Based on the decision issued by PCMA pursuant to declaring the state of emergency in Palestine due to Coronavirus spread, trading of shares of all listed companies on Palestine Exchange were halted staring from March 23, 2020 and resumed trading on May 3, 2020.

PEC Share Indicators:

Indicator	2020	2019	2018	2017	2016
Turnover Ratio (%)	3.39	3.63	4.80	9.96	4.09
Earnings Per Share ($)	0.19	0.21	0.15	0.14	(0.01)
Book Value Per Share ($)	1.65	1.61	1.51	1.46	1.42
Market to Book Value ($)	0.96	0.95	0.90	0.89	0.95

PEC Share Price for Five Years:

PEC share was one of the trusted and demanded shares during the last 5 years. The share closed at $ 1.59 at the end of 2020 achieving an increase of around 18% compared to the closing price at the end of 2016.

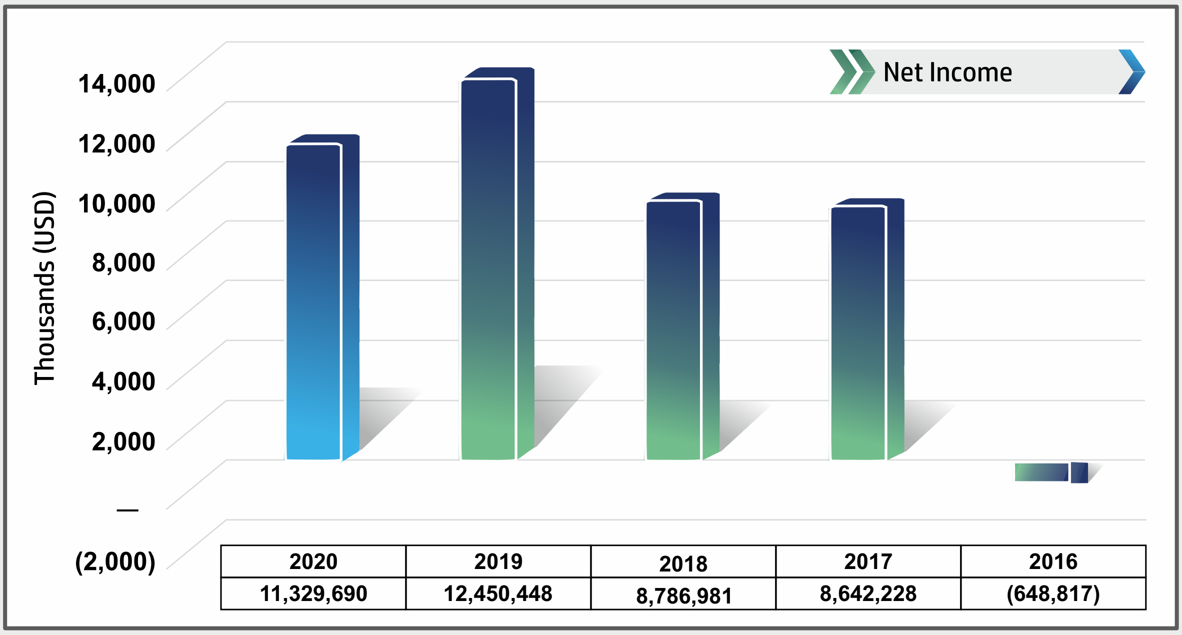


PEC Trading Information:

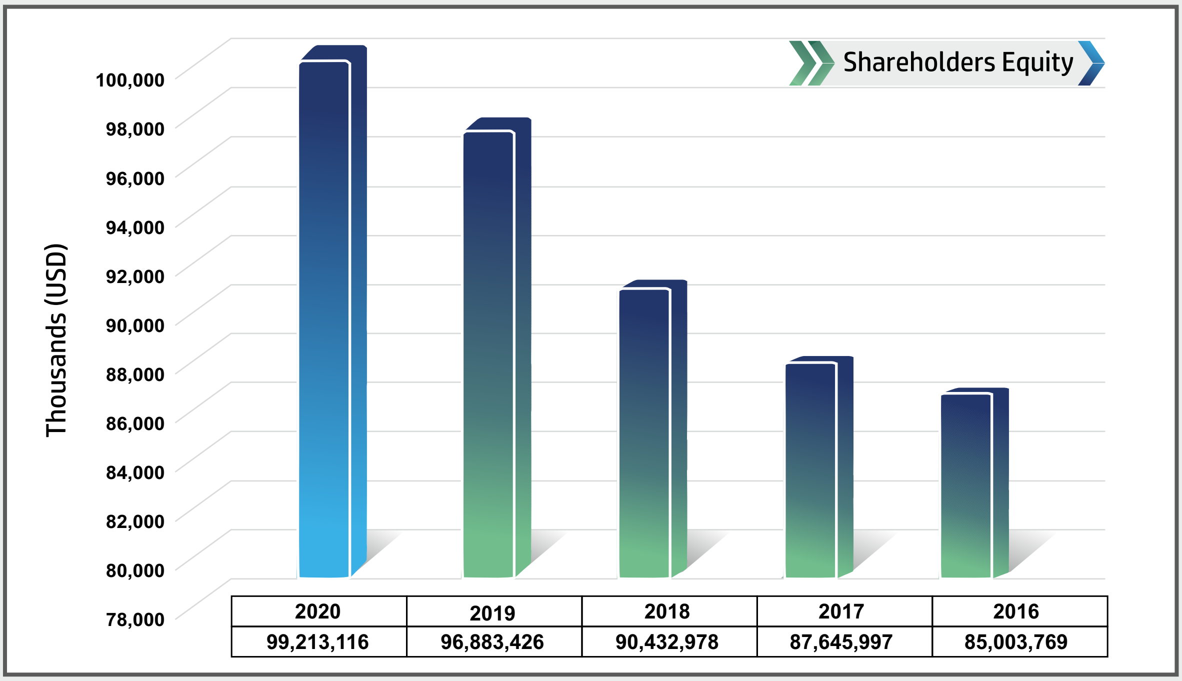
Details	2020	2019	2018	2017	2016
Trading Volume (Shares)	2,031,271	2,176,330	2,878,884	5,978,428	2,451,536
Trading Value ($)	3,041,053	3,083,419	3,804,831	7,330,833	2,982,011
Number of Deals	1,254	1,649	2,038	2,750	1,786
Total Shares	60,000,000	60,000,000	60,000,000	60,000,000	60,000,000
Closing Price ($)	1.59	1.53	1.36	1.30	1.35
High Price ($)	1.68	1.56	1.42	1.44	1.39
Low Price ($)	1.27	1.28	1.16	1.05	1.09

11. Financial Performance

The Company has achieved net profits of US$ 11,329,690 in 2020 compared to US$12,450,448 in 2019.



As a result of 2020 performance, total shareholders' equity has increased by 2.40% to reach USD 99,213,116.



Financial Indicators:

Details	(Amounts in USD)				
	2020	2019	2018	2017	2016
Net Income (Loss)	11,329,690	12,450,448	8,786,981	8,642,228	(648,817)
Shareholders' Equity	99,213,116	96,883,426	90,432,978	87,645,997	85,003,769
Closing Price per Share	1.59	1.53	1.36	1.30	1.35
Paid - In Capital	60,000,000	60,000,000	60,000,000	60,000,000	60,000,000
Market Value	95,400,000	91,800,000	81,600,000	78,000,000	81,000,000

Cash Dividends:

In order to maintain shareholders' expectations, loyalty and confidence, the Board of Directors will recommend the declaration and distribution of cash dividends based on its financial performance.

Based on the ordinary General Assembly meeting held on April 14th 2020, through the virtual conferencing application, Zoom, the General Assembly approved the Board of Directors' recommendation to declare and distribute cash dividends of 15% of the par value of the share for the year 2019.

Dividends	2020	2019	2018	2017	2016
Paid Dividends in USD	*	9,000,000	6,000,000	6,000,000	6,000,000
Percentage of Par Value	*	15%	10%	10%	10%

*** To be decided by the General Assembly at the date of the meeting.**

Differences between Preliminary and Audited Financial Statements:

The difference between the preliminary financial statements and the audited financial statements represents expenditures amounted to USD 1,950,000 which is not disbursed to the financial statements date due to Coronavirus (COVID 19) crisis. This amount recorded as due from a related party until it 's disbursed in its allocated aspects.

12. Audited Financial Statements

Palestine Electric Company, Public Shareholding Company

Consolidated Financial Statements

December 31, 2020

Ernst & Young
P.O. Box 1373
7th Floor,
PADICO House Bldg.
Al-Masyoun
Ramallah-Palestine

Tel: +972 22421011
Fax: +972 22422324
www.ey.com

Building a better working world

INDEPENDENT AUDITOR'S REPORT

To the Shareholders of Palestine Electric Company, Public Shareholding Company

Opinion

We have audited the consolidated financial statements of Palestine Electric Company, Public Shareholding Company and its subsidiary (the Company), which comprise the consolidated statement of financial position as at December 31, 2020, 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 notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Company as at December 31, 2019, and its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards (IFRSs).

Basis for Opinion

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

Emphasis of Matter – Credit risk

We draw attention to note (9) to the accompanying consolidated financial statements, according to the power purchases agreement, the Company's subsidiary: Gaza Power Generating Company (GPGC) is currently exposed to credit risk as all of its revenues from the use of the power plant to generate electric capacity is generated from one customer, Palestinian Energy and Natural Resources Authority (PENRA). To the date of issuing these consolidated financial statements, PENRA has not provided GPGC with the letter of credit of U.S. $ 20 million as required by the Power Purchase Agreement. Our opinion is not modified in respect of this matter.

Emphasis of Matter - Taxes

We draw attention to note (23) to the accompanying consolidated financial statements, according to the power purchases agreement between the Company's subsidiary: GPGC and Palestinian National Authority (PNA), PNA has agreed to exempt GPGC and its shareholders with respect to dividends and earnings from the subsidiaries, for the term of the agreement for 20 years including any extensions thereof, from all Palestinian taxes. As of the date of issuing these consolidated financial statements, neither the Company nor its subsidiary obtained a tax settlement from the tax authorities for the period from inception in 1999. Our opinion is not modified in respect of this matter.

Emphasis of Matter – Concentration of geographic risk

We draw attention to note (29) to the accompanying consolidated financial statements, non-current assets of the Company's subsidiary mainly comprise property, plant and equipment that are located in Gaza. Recoverability of these assets depends on political and economic stability in Gaza. Our opinion is not modified in respect of this matter.

Key Audit Matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the consolidated financial statements as at December 31, 2020. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters. For each matter below, our description of how our audit addressed the matter is provided in that context.

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

Key audit matter	How our audit addressed the key audit matter
PENRA's Account Receivable As explain in note (9) to the accompanying consolidated financial statements, PENRA's account receivable as at December 31, 2020 and 2019 amounted to U.S. $ 49,466,367 and U.S. $ 28,437,915 before Expected Credit Loss (ECL) of U.S. $ 4,566,367 and U.S. $ 2,983,962, respectively. Because PENRA is the only customer of electricity generated from the power plant and due to the noncomplex nature of related receivables, GPGC has applied the simplified approach for receivables under IFRS (9) as such receivables do not contain a significant financing component. The ECL model involves judgement and assumptions to reflect information about past events such as the age of the balance, history of disputes, historical payment patterns as well as current and expected future conditions, in addition to the amended power purchase agreement, for the purpose of estimating amounts and timing of future cash inflows discounted to their present values. Management assessed collectability of the balance based on the ECL model. The assessment resulted in recording U.S. $ 1,582,405 as expected credit loss for the year 2020 in the consolidated statement of income and comprehensive income adding up the total ECL to U.S. $ 4,566,367 as at December 31, 2020.	Our audit procedures included the following: - Inquired management to understand sources of inputs and key assumptions used in ECL computation. - Assessed integrity and consistency of various inputs and assumptions used by GPGC to compute ECL. - Performed procedures to assess the accuracy of the ECL calculation. - Obtained confirmation from PENRA supporting the existence and completeness of account receivable from PENRA. - Ensured the accuracy of disclosed facts in note (9) to the consolidated financial statements.

Other Information Included in the Company's 2020 Annual Report

Other information consists of the information included in the annual report for the year 2020, other than the consolidated financial statements and our auditor's report thereon. Management is responsible for the other information.

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

In connection with our audit of the consolidated financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If, based on the work we have performed, we conclude that there is a material misstatement of this other information; we are required to report that fact. We have nothing to report in this regard.

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

Management is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with IFRSs, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

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

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

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

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISA will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

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

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

Building a better
working world

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Company to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Company to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

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

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

From the matters communicated with the Board of Directors, we determine those matters that were of most significance in the audit of the consolidated financial statements as at December 31, 2020 and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

Ernst & Young – Middle East
License # 206/2012

Sa'ed Abdallah

Ernst + Young

Sa'ed Abdallah
License # 105/2003

April 1, 2021
Gaza – Palestine

CONSOLIDATED STATEMENT OF FINANCIAL POSITION
As at December 31, 2020

	Notes	2020 U.S. $	2019 U.S. $
ASSETS			
Non-current assets			
Property, plant and equipment	4	13,732,288	19,636,476
Intangible assets	5	750,796	972,379
Right-of-use assets	6	489,563	611,953
Financial assets at fair value through other comprehensive income	7	1,037,500	1,000,000
Long-term deposits at banks	11	15,000,000	10,000,000
		31,010,147	32,220,808
Current assets			
Materials and inventories	8	8,462,293	9,254,674
PENRA's account receivable	9	44,900,000	25,453,953
Other current assets	10	6,281,059	3,386,384
Cash and bank balances	11	21,908,081	39,462,079
		81,551,433	77,557,090
TOTAL ASSETS		112,561,580	109,777,898
EQUITY AND LIABILITIES			
Equity			
Paid-in share capital	12	60,000,000	60,000,000
Statutory reserve	13	13,863,672	12,730,703
Retained earnings		25,349,444	24,152,723
Total equity		99,213,116	96,883,426
Non-current liabilities			
Long-term lease liability	6	662,257	627,732
Provision for employees' indemnity	14	4,709,277	4,453,520
		5,371,534	5,081,252
Current liabilities			
Other current liabilities	15	7,976,930	7,813,220
		7,976,930	7,813,220
Total liabilities		13,348,464	12,894,472
TOTAL EQUITY AND LIABILITIES		112,561,580	109,777,898

The attached notes 1 to 29 form part of these consolidated financial statements

CONSOLIDATED STATEMENT OF INCOME AND COMPREHENSIVE INCOME
For the Year Ended December 31, 2020

	Notes	2020 U.S. $	2019 U.S. $
Revenues			
Capacity charges	16	32,703,240	32,351,952
Discounts on capacity charges' invoices	9	(1,800,000)	(1,800,000)
Operating expenses	17	(18,421,101)	(16,993,677)
		12,482,139	13,558,275
Expected credit losses	9 & 11	(1,836,716)	(621,266)
Finance costs	18	(465,775)	(1,475,611)
Interest revenues on banks deposits		1,279,285	1,031,346
Other expenses, net	19	(129,243)	(42,296)
Profit for the year		11,329,690	12,450,448
Other comprehensive income		-	-
Total comprehensive income for the year		11,329,690	12,450,448
Basic and diluted earnings per share	20	0,19	0.21

The attached notes 1 to 29 form part of these consolidated financial statements

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
For the Year Ended December 31, 2020

	Paid-in Share Capital	Statutory Reserve	Retained Earnings	Total Equity
	U.S. $	U.S. $	U.S. $	U.S. $
2020				
Balance, beginning of the year	60,000,000	12,730,703	24,152,723	96,883,426
Total comprehensive income for the year	-	-	11,329,969	11,329,969
Transferred to statutory reserve	-	1,132,969	(1,132,969)	-
Distributed cash dividends (note 21)	-	-	(9,000,000)	(9,000,000)
Balance, end of year	60,000,000	13,863,672	25,349,444	99,213,116
2019				
Balance, beginning of the year	60,000,000	11,485,658	18,947,320	90,432,978
Total comprehensive income for the year	-	-	12,450,448	12,450,448
Transferred to statutory reserve	-	1,245,045	(1,245,045)	-
Distributed cash dividends (note 21)	-	-	(6,000,000)	(6,000,000)
Balance, end of year	60,000,000	12,730,703	24,152,723	96,883,426

CONSOLIDATED STATEMENT OF CASH FLOWS
For the Year Ended December 31, 2020

	Note	2020 U.S. $	2019 U.S. $
Operating activities			
Profit for the year		11,329,690	12,450,448
Adjustments:			
Provision for employees' indemnity		301,233	426,839
Depreciation of property, plant and equipment and right-of-use assets		6,488,388	6,402,064
Amortization		221,583	221,583
Expected credit losses		1,836,716	621,266
Losses of unrecoverable of assets		27,958	58,198
Interest revenues		(1,279,285)	(1,031,346)
Finance costs		465,775	1,475,611
losses of inventories lost on transit		178,256	-
Other revenues		(73,014)	-
		19,497,300	20,624,663
Working capital adjustments:			
PENRA's account receivable		(21,028,452)	6,168,472
Other current assets		(2,716,948)	14,871,365
Materials and inventories		614,125	(1,278,466)
Other current liabilities		(654,882)	211,131
Employees' indemnity paid		(45,476)	(80,000)
Net cash flows (used in) from operating activities		(4,334,333)	40,517,165
Investing activities			
Purchase of property, plant and equipment		(96,741)	(6,027)
Long-term deposits at banks		(5,000,000)	(10,000,000)
Interest revenues received		1,073,600	868,510
Financial assets at fair value through other comprehensive income		(37,500)	-
Net cash flows used in investing activities		(4,060,641)	(9,137,517)
Financing activities			
Finance costs paid		(431,250)	(1,435,222)
Dividends paid		(8,473,463)	(6,339,848)
Net cash flows used in financing activities		(8,904,713)	(7,775,070)
(Decrease) increase in cash and cash equivalents		(17,299,687)	23,604,578
Cash and cash equivalents, beginning of the year		39,462,079	15,857,501
Cash and cash equivalents, end of year	11	22,162,392	39,462,079

1. General

Palestine Electric Company (the Company), located in Gaza, was established 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 (GPGC / subsidiary), 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 consolidated financial statements of Palestine Power Company.

The consolidated financial statements were authorized for issuance by the Company's Board of Directors on April 1, 2021.

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, 2020. GPGC was established in Gaza in the year 1999 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 except for financial assets at fair value through other comprehensive income that have been measured at fair value at the date of the consolidated financial statements.

3.2 Basis of consolidation

The consolidated financial statements comprise the financial statements of the Company and its subsidiary as at December 31, 2020. 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 consolidated 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.

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

3.3 Changes in accounting policies

The accounting policies used in the preparation of the consolidated financial statements are consistent with those used in the preparation of the annual consolidated financial statements for the year ended December 31, 2019 except for the Company's adoption of the following standards, amendments, and interpretations effective starting from January 1, 2020 shown below:

Amendments to IFRS (3): Definition of a Business

The amendment to IFRS 3 Business Combinations clarifies that to be considered a business, an integrated set of activities and assets must include, at a minimum, an input and a substantive process that, together, significantly contribute to the ability to create output. Furthermore, it clarifies that a business can exist without including all of the inputs and processes needed to create outputs.

The adoption of these amendments did not have an impact on the Company’s consolidated financial statements.

Amendments to IAS (1) and IAS (8): Definition of “Material”

The IASB issued amendments to IAS (1) Presentation of Financial Statements and IAS (8) Accounting Policies, Changes in Accounting Estimates and Errors to align the definition of ‘material’ across the standards and to clarify certain aspects of the definition. The new definition states that, ’Information is material if omitting, misstating or obscuring it could reasonably be expected to influence decisions that the primary users of general-purpose financial statements make on the basis of those financial statements, which provide financial information about a specific reporting entity.

The adoption of these amendments did not have an impact on the Company’s consolidated financial statements.

Amendments to IFRS (7), IFRS (9) and IAS (39) Interest Rate Benchmark Reform

Interest Rate Benchmark Reform Amendments to IFRS (9) and IFRS (7) includes a number of reliefs, which apply to all hedging relationships that are directly affected by interest rate benchmark reform. A hedging relationship is affected if the reform gives rise to uncertainties about the timing and or amount of benchmark-based cash flows of the hedged item or the hedging instrument.

The adoption of these amendments did not have an impact on the Company’s consolidated financial statements.

Amendments to IFRS (16) Covid-19 Related Rent Concessions

On 28 May 2020, the IASB issued Covid-19-Related Rent Concessions - amendment to IFRS 16 Leases. The amendments provide relief to lessees from applying IFRS (16) guidance on lease modification accounting for rent concessions arising as a direct consequence of the Covid-19 pandemic. This relates to any reduction in lease payments which are originally due on or before 30 June 2021. As a practical expedient, a lessee may elect not to assess whether a Covid-19 related rent concession from a lessor is a lease modification.

The adoption of these amendments did not have an impact on the Company's consolidated financial statements.

Standards issued but not effective

The International Accounting Standards Board (IASB) issued certain standards and amendments that are not yet effective and have not yet been adopted by the Company. The Company intends to adopt these standards and amendments, if applicable, when they become effective.

Amendments to IAS (1): Classification of Liabilities as Current or Non-current

In January 2020, the IASB issued amendments to paragraphs 69 to 76 of IAS (1) to specify the requirements for classifying liabilities as current or non-current. The amendments clarify:

- what is meant by a right to defer settlement,
- the right to defer must exist at the end of the reporting period,
- that classification is unaffected by the likelihood,
- that an entity will exercise its deferral right,
- and that only if an embedded derivative in a convertible liability is itself an equity instrument would the terms of a liability not impact its classification.

The amendments are effective for annual reporting periods beginning on or after 1 January 2023 and must be applied retrospectively.

Reference to the Conceptual Framework – Amendments to IFRS (3)

In May 2020, the IASB issued Amendments to IFRS (3) Business Combinations - Reference to the Conceptual Framework. The amendments are intended to replace a reference to the Framework for the Preparation and Presentation of Financial Statements, issued in 1989, with a reference to the Conceptual Framework for Financial Reporting issued in March 2018 without significantly changing its requirements.

The Board also added an exception to the recognition principle of IFRS (3) to avoid the issue of potential 'day 2' gains or losses arising for liabilities and contingent liabilities that would be within the scope of IAS (37) or IFRIC (21) Levies, if incurred separately.

At the same time, the Board decided to clarify existing guidance in IFRS (3) for contingent assets that would not be affected by replacing the reference to the Framework for the Preparation and Presentation of Financial Statements.

The amendments are effective for annual reporting periods beginning on or after January 1, 2022 and apply prospectively.

The amendments are not expected to have a material impact on the Company.

Property, Plant and Equipment: Proceeds before Intended Use – Amendments to IAS (16)

In May 2020, the IASB issued Property, Plant and Equipment – Proceeds before Intended Use, which prohibits entities from deducting from the cost of an item of property, plant and equipment, any proceeds from selling items produced while bringing that asset to the location and condition necessary for it to be capable of operating in the manner intended by management. Instead, an entity recognises the proceeds from selling such items, and the costs of producing those items, in profit or loss.

The amendment is effective for annual reporting periods beginning on or after January 1, 2022 and must be applied retrospectively to items of property, plant and equipment made available for use on or after the beginning of the earliest period presented when the entity first applies the amendment.

The amendments are not expected to have a material impact on the Company.

Onerous Contracts – Costs of Fulfilling a Contract – Amendments to IAS (37)

In May 2020, the IASB issued amendments to IAS (37) to specify which costs an entity needs to include when assessing whether a contract is onerous or loss-making.

The amendments apply a "directly related cost approach". The costs that relate directly to a contract to provide goods or services include both incremental costs and an allocation of costs directly related to contract activities.

General and administrative costs do not relate directly to a contract and are excluded unless they are explicitly chargeable to the counterparty under the contract.

The amendments are effective for annual reporting periods beginning on or after January 1, 2022. The Group will apply these amendments to contracts for which it has not yet fulfilled all its obligations at the beginning of the annual reporting period in which it first applies the amendments.

The amendments are not expected to have a material impact on the Company.

IFRS (9) Financial Instruments – Fees in the '10 per cent' test for derecognition of financial liabilities

As part of its 2018-2020 annual improvements to IFRS standards process the IASB issued amendment to IFRS (9). The amendment clarifies the fees that an entity includes when assessing whether the terms of a new or modified financial liability are substantially different from the terms of the original financial liability. These fees include only those paid or received by the borrower and the lender, including fees paid or received by either the borrower or lender on the other's behalf. An entity applies the amendment to financial liabilities that are modified or exchanged on or after the beginning of the annual reporting period in which the entity first applies the amendment.

The amendment is effective for annual reporting periods beginning on or after 1 January 2022 with earlier adoption permitted. The Company will apply the amendments to financial liabilities that are modified or exchanged on or after the beginning of the annual reporting period in which the entity first applies the amendment.

The amendments are not expected to have a material impact on the Company.

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.

Following are the significant estimates made by management:

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 non-financial assets

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

Impairment of financial assets (Expected Credit Loss "ECL")

In determining impairment of financial assets, the Company uses judgement to estimate the amount and timing of future cash flows as well as an assessment of whether the credit risk on the financial asset has increased significantly since initial recognition and incorporation of forward-looking information in the measurement of expected credit losses.

Fair value of financial instruments

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

Determining the lease term of contracts with renewal and termination options

The Company determines the lease term as the non-cancellable term of the lease, together with any periods covered by an option to extend the lease if it is reasonably certain to be exercised, or any periods covered by an option to terminate the lease, if it is reasonably certain not to be exercised.

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 IFRS 16 "Leases". As the power purchase agreement conveys the right to control the use of the power plant for a period of time in exchange for consideration.

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 IFRS 16 as capacity payments being made for the right to use the power plant. Hence, such arrangement is accounted for in accordance with IFRS 16 as a 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 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.

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 live 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 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 be sold or consumed in normal operating cycle
- Held primarily for the purpose of trading
- Expected to be realized within twelve months after the reporting period

- Cash or cash equivalents 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.

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

Accounts receivable

Accounts receivable are stated at original invoice amount less an allowance for expected credit loss for any impaired amounts. When determining the impairment on financial assets. The Company's management use specific estimates to determine the amounts and timing of future cash flows and also assesses whether there is a significant increase in credit risk of the financial asset since initial recognition and includes the use of future information in the measurement of expected credit losses.

Investment in financial assets

Financial assets investments are initially recognized at fair value plus cost of acquisition if they are not classified at fair value through profit or loss (FVTPL). Subsequent to initial recognition, all financial assets are stated at fair value or amortized cost as follows:

Financial assets at fair value through other comprehensive income (FVOCI)

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

Equity instruments at FVOCI are initially measured at fair value plus transaction costs. Subsequently, they are measured at fair value with gains and losses arising from changes in fair value recognized in other comprehensive income and accumulated in the fair value reserve. Where the asset is disposed of, the cumulative gain or loss previously accumulated in the fair value reserve is not reclassified to the consolidated income statement, but is reclassified to retained earnings. In limited circumstances, cost may be an appropriate estimate of fair value.

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

Financial assets at amortized cost

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

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

Debt instruments meeting these criteria are measured initially at fair value plus transaction costs (except if they are designated as at financial assets at fair value through profit or loss (FVTPL). They are subsequently measured at amortized cost using the effective interest method less any impairment, with interest revenue recognized on an effective yield basis.

Effective interest rate is the interest rate used to discount the future cash flows over the debt instrument life (or a shorter period in certain cases), in order to match its carrying value at the date of initial recognition.

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

Derecognition of financial assets

A financial asset is primarily derecognized when the rights to receive cash flows from the asset have expired or the Company has transferred substantially all the risks and rewards of the asset to third party. When it has neither transferred nor retained substantially all of the risks and rewards of the asset, nor transferred control of the asset, the Company continues to record its remaining interest in the asset and records the liability in the amount expected to be paid. If the Company retains substantially all the risks and rewards of ownership of the transferred financial assets, the Company continues to record them and also records the debt security of the amounts received.

Impairment of financial assets

Expected credit losses (ECL) are recognized for financial instruments that are not measured through the consolidated statement of income and comprehensive income. No impairment loss is recognized on equity investments.

An ECL provision is made at an amount equal to the lifetime ECL for the debt investment.

Financial assets are written off after all restructuring and collection activities have taken place and there is no realistic prospect of recovery. Subsequent recoveries are included in other income.

Financial assets that are measured at amortized cost are tested as to whether they are credit-impaired. Objective evidence that a financial asset is credit-impaired may include a breach of contract, such as default or delinquency in interest or principal payments, the granting of a concession that, for economic or legal reasons relating to the borrower's financial difficulties.

The Company has applied the simplified approach and has calculated ECL based on lifetime expected credit losses on accounts receivable. To evaluation of expected credit loss, account receivable classified based on the characteristics of the credit risk and the maturity date.

An impairment allowances for expected credit losses (ECL) are recognized in the consolidated statement of income and comprehensive income and are reflected in an allowance account against accounts receivables.

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.

Cash and cash equivalents

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

Cash dividends paid

The Company recognizes a liability to make cash dividends to equity holders when the distribution is authorized by general assembly. A corresponding amount is recognized directly in equity.

Leases

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

A leased asset is depreciated over the useful life of the asset. However, if there is no reasonable certainty that the Group will obtain ownership by the end of the lease term, the asset is depreciated over the shorter of the estimated useful life of the asset and the lease term.

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

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.

Income tax

The Company provides for income tax in accordance with the Palestinian Income Tax Law and IAS (12), which requires recognizing the temporary differences, at the financial statements date as deferred taxes.

Income tax expense represents the tax payable, which is calculated based on the taxable profit. Taxable profit may vary from the accounting profit shown in the financial statements due to the inclusion of revenues that are not subject to income tax or expenses that cannot be deducted from income tax. Such revenues or expenses may be taxable or deductible in subsequent years.

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 less treasury shares.

4. Property, Plant and Equipment

2020	Power plant U.S. $	Buildings U.S. $	Motor vehicles U.S. $	Computers and printers U.S. $	Office equipment U.S. $	Furniture and fixture U.S. $	Total U.S. $
Cost:							
Balance, beginning of the year	123,579,669	1,464,904	451,192	438,825	192,804	246,575	126,373,969
Additions	365,069	-	40,222	2,090	54,429	-	461,810
Balance, end of year	123,944,738	1,464,904	491,414	440,915	247,233	246,575	126,835,779
Accumulated depreciation:							
Balance, beginning of the year	104,381,000	1,070,631	451,192	406,082	188,257	240,331	106,737,493
Depreciation charges for the year	6,254,490	73,248	7,682	14,919	10,835	4,824	6,365,998
Balance, end of year	110,635,490	1,143,879	458,874	421,001	199,092	245,155	113,103,491
Net carrying amount:							
At December 31, 2020	13,309,248	321,025	32,540	19,914	48,141	1,420	13,732,288

2019	Power plant U.S. $	Buildings U.S. $	Motor vehicles U.S. $	Computers and printers U.S. $	Office equipment U.S. $	Furniture and fixture U.S. $	Total U.S. $
Cost:							
Balance, beginning of the year	123,579,669	1,464,904	451,192	433,948	192,804	245,425	126,367,942
Additions	-	-	-	4,877	-	1,150	6,027
Balance, end of year	123,579,669	1,464,904	451,192	438,825	192,804	246,575	126,373,969
Accumulated depreciation:							
Balance, beginning of the year	98,199,524	997,383	451,192	390,926	185,580	233,214	100,457,819
Depreciation charges for the year	6,181,476	73,248	-	15,156	2,677	7,117	6,279,674
Balance, end of year	104,381,000	1,070,631	451,192	406,082	188,257	240,331	106,737,493
Net carrying amount:							
At December 31, 2019	19,198,669	394,273	-	32,743	4,547	6,244	19,636,476

During the year 2019, Qatari Government through Gaza Re-Construction Committee directly supervised and financed the process of reconstruction and reinstallation of two fuel tanks with a capacity of one million liters per tank in the amount of U.S. $ 365,069 instead of those destroyed as a result of the Israeli air strike during 2014. The Company's management expects that the ownership of these tanks will transfer to the Company during the year. Accordingly, these tanks will be recognized as assets and will be depreciated over the remaining productive life of the power plant.

In addition, the Norwegian Government finance the reconstruction and reinstallation of the main fuel tank with a capacity of ten million liters. As of the date of the consolidated financial statements, the reconstruction and reinstallation works are not completed. The Company's management expects that the reconstruction and reinstallation of the main fuel tank will be completed before the end of 2021.

5. Intangible Assets

	2020	2019
	U.S. $	U.S. $
Balance, beginning of the year	972,379	1,193,962
Amortization	(221,583)	(221,583)
Balance, end of year	750,796	972,379

Intangible assets represent the right to use six step-up transformers installed by PENRA for the use of GPGC (a subsidiary) 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 the 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. Right-of-use assets and lease liabilities

The Company's right-of-use assets and lease liabilities and lease liabilities represents the right-of-use assets and lease liabilities of land lease agreement on which the power plant is constructed. The following table shows the carrying amounts of the Company's right-of-use assets and lease liabilities and the movements for the year ended December 31, 2020 and 2019:

	Assets	Liabilities
	Right-of-use assets (Land)	Lease liabilities
2020	U.S. $	U.S. $
Balance, beginning of the year	611,953	774,732
Depreciation	(122,390)	
Finance costs	-	34,525
	489,563	809,257
Current portion of lease liabilities (included in other current liabilities – note 15)	-	(147,000)
	489,563	662,257

	Assets	Liabilities
	Right-of-use assets (Land)	Lease liabilities
2019	U.S. $	U.S. $
Balance, beginning of the year	734,343	734,343
Depreciation	(122,390)	
Finance costs	-	40,389
	611,953	774,732
Current portion of lease liabilities (included in other current liabilities – note 15)	-	(147,000)
	611,953	627,732

7. Financial Assets at Fair Value Through Other Comprehensive Income

Financial assets at fair value through other comprehensive income represents the Company's investment in the shares capital of Palestine Power Generating Company (PPGC) in the amount of U.S. $ 1,037,500 and U.S. $ 1,000,000 as at December 31, 2020 and 2019, respectively. The increase during the year represents the Company's share in the increase of PPGC's capital.

8. Materials and Inventories

	2020	2019
	U.S. $	U.S. $
Spare parts	7,927,663	8,458,916
Consumables	233,669	269,865
Goods in transit	274,100	511,377
Others	26,861	14,516
	8,462,293	9,254,674

9. PENRA's Account Receivable

	2020	2019
	U.S. $	U.S. $
Receivable from capacity charges	49,466,367	28,437,915
Allowance for expected credit losses	(4,566,367)	(2,983,962)
	44,900,000	25,453,953

Movement on allowance for expected credit losses was as follows:

	2020	2019
	U.S. $	U.S. $
Balance, beginning of the year	2,983,962	2,362,696
Addition during the year	1,582,405	621,266
Balance, end of year	4,566,367	2,983,962

On November 7, 2016, GPGC, together with PENRA and the Palestinian Ministry of Finance and Planning signed an amendment to the power purchase agreement. The amendment included commitment from PENRA to make monthly payments toward settling account receivable balance, in addition GPGC granted PENRA a monthly discount of U.S. $ 150,000 from the monthly capacity charge invoice starting from December 1, 2016 and presented as deductions from the monthly capacity charge invoices.

All GPGC's 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 million 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.

10. Other Current Assets

	2020	2019
	U.S. $	U.S. $
Due from shareholders	1,679,108	1,325,655
Accounts receivable - Consolidated Contractors Company	1,950,000	-
Prepaid insurance	683,061	794,059
Advances to suppliers	942,507	648,248
Value Added Tax receivable	164,838	81,209
Unreceived accrued interest revenue	395,918	190,233
Others	465,627	346,980
	6,281,059	3,386,384

11. Cash and Cash Equivalents

	2020	2019
	U.S. $	U.S. $
Cash on hand	7,289	5,759
Current accounts at banks	5,155,103	6,456,320
Deposits at banks	32,000,000	43,000,000
	37,162,392	49,462,079
Expected credit losses	(254,311)	-
	36,908,081	49,462,079
Long-term deposits	(15,000,000)	(10,000,000)
Cash and bank balances	21,908,081	39,462,079

Deposits at banks represents the following:

- Short-term deposits amounted to U.S. $ 17,000,000 and U.S. $ 33,000,000 with local banks with an original maturity of one to three months from the date of the consolidated financial statements as at December 31, 2020 and 2019, respectively. The average interest rate on these deposits was 3,75% and 4% for the years ended December 31, 2020 and 2019, respectively.
- Long-term deposits amounted to U.S. $ 15,000,000 and U.S. $ 10,000,000 with local banks with an original maturity of more than three months to two years from the date of the consolidated financial statements as at December 31, 2020 and 2019, respectively. The average interest rate on these deposits was 3.75% and4.25% for the year ended December 31, 2020 and 2019, respectively.

  In addition, long-term deposits include a deposit of U. S. $ 5,000,000 with a local bank that was used as collateral for a loan granted to Consolidated Contractors Company.

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

	2020	2019
	U.S. $	U.S. $
Cash on hand and bank balances	37,162,392	49,462,079
Long-term deposits	(15,000,000)	(10,000,000)
	22,162,392	39,462,079

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. Provision for Employees' Indemnity

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

	2020	2019
	U.S. $	U.S. $
Balance, beginning of the year	4,453,520	4,106,681
Additions during the year	301,233	426,839
Payments during the year	(80,000)	(80,000)
Balance, end of year	4,709,277	4,453,520

15. Other Current Liabilities

	2020	2019
	U.S. $	U.S. $
Dividends payable	2,810,372	2,283,835
Maintenance payable and provisions	2,389,870	3,371,730
Due to Consolidated Contractors Company	921,711	881,757
Accrued expenses	317,307	193,348
Provision for employees' vacations	371,611	343,136
Accrued payroll income tax	459,200	333,763
Current portion of lease liabilities (Note 6)	147,000	147,000
Accrued Board of Directors remuneration	14,100	-
Others	545,759	258,651
	7,976,930	7,813,220

16. 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 IFRS (16) as further explained in accounting policies note (3.5) after deducting a monthly amount of U.S. $ 150,000 starting from December 1, 2016 (note 9).

Capacity charges invoices are materially straight-line over the life of the plant which results in revenue recognition approximating the straight-line requirements of IFRS (16) 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.

17. Operating Expenses

	2020	2019
	U.S. $	U.S. $
Salaries and wages	5,914,076	5,449,855
Provision for employees' indemnity	301,233	426,839
Board of Directors expenses	169,200	169,200
Employees' insurance	128,876	131,075
Travel and transportation	255,755	222,726
Power plant insurance	1,011,634	981,592
Power plant operation and maintenance	2,831,743	886,919
Depreciation of property, plant and equipment and right-of-use assets	6,488,388	6,402,064
Amortization of intangible assets	221,583	221,583
Professional and consultancy fees	387,504	206,490
Telephone and fax	41,059	41,422
Palestine Securities Exchange listing fees	26,112	26,270
Office supplies	56,943	60,266
Advertisements	16,794	17,533
Security service costs	96,080	72,060
Donations	258,504	1,417,757
Miscellaneous	215,716	260,026
	18,421,101	16,993,677

18. Finance cost

	2020	2019
	U.S. $	U.S. $
Finance cost *	431,250	1,435,222
Finance cost related to long-term lease liabilities (Note 3)	34,525	40,389
	465,775	1,475,611

* This item represents the commission for discounting governmental bonds obtained from PENRA during the year against PENRA's account receivable.

19. Other Expenses, Net

	2020	2019
	U.S. $	U.S. $
Losses of inventories lost on transit	(178,256)	-
Currency differences	71,388	93,172
Bank commissions	(69,706)	(77,270)
Losses of unrecoverable of assets	(27,958)	(58,198)
Other revenues	75,289	-
	(129,243)	(42,296)

20. Basic and Diluted Earnings Per Share

	2020	2019
	U.S. $	U.S. $
Profit for the year	11,329,690	12,450,448
	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	0.19	0.21

21. Distributed Cash Dividends

The Company's General Assembly approved in its meeting held on April 14, 2020, the proposed dividends distribution by the Company's Board of Directors of U.S. $ 9,000,000 for the year 2019, the equivalent of 15% of paid-in share capital.

The Company's General Assembly approved in its meeting held on April 9, 2019, the proposed dividends distribution by the Company's Board of Directors of U.S. $ 6,000,000 for the year 2018, the equivalent of 10% of paid-in share capital.

22. Related Party Balances and Transactions

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

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

		2020	2019
	Nature of relation	U.S. $	U.S. $
Cash at Arab Bank	Major shareholder	2,963,802	2,416,089
Due from shareholders	Major shareholders	1,679,108	1,325,655
Accounts receivable - Consolidated Contractors Company	Major shareholder	1,950,000	-
Due to Consolidated Contractors Company	Major shareholder	921,711	881,757

In addition, long-term deposits include a deposit of U. S. $ 5,000,000 with a local bank that was used as collateral for a loan granted to Consolidated Contractors Company.

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

	Nature of relation	2020 U.S. $	2019 U.S. $
Expenses allocated by Consolidated Contractors Company	Major shareholder	834,672	969,041
Expenses paid through Consolidated Contractors Company	Major shareholder	51,500	1,290,000
Professional, consultancy, and legal fees	Board of Directors	125,905	71,500
Salaries and wages	Key management	415,440	480,442
Employees' end of service indemnity	Key management	28,893	40,226
Board of Directors expenses	Board of Directors	184,200	169,200

23. Income Tax

The Palestinian National Authority has agreed to exempt GPGC (the 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 issuing these consolidated financial statements, the Company and its subsidiary did not obtain a tax settlement from the tax authority for the period from inception in 1999.

24. Commitments and Contingencies

Contractual commitments represent the difference between the contract gross amount and the executed portion of the contract at the consolidated financial statements date and they are as follows:

	2020 U.S. $	2019 U.S. $
Unpaid part of financial assets at fair value through other comprehensive income	62,500	-
Maintenance service agreement	-	30,186
	62,500	30,186

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. $ 118,328,296 and U.S. $ 151,031,536 as of December 31, 2020 and 2019, respectively.

25. Fair Values of Financial Instruments

Fair value measurement

The Company uses the following hierarchy for determining and disclosing the fair value of its financial instruments:

- Level 1: Quoted (unadjusted) prices in active markets for identical assets or liabilities.
- Level 2: Other techniques for which all inputs, which have a significant effect on the recorded fair value, are observable, either directly or indirectly.
- Level 3: Techniques which use inputs, which have a significant effect on the recorded fair value, that are not based on observable market data.

The Company has not made any transfer between the levels mentioned above during the period.

The following table provides the fair value measurement hierarchy of the Company's financial assets at fair value as of December 31, 2020:

	Quoted prices in active markets (Level 1)	Significant observable input (Level 2)	Significant non-observable inputs (Level 3)
	U.S.$	U.S.$	U.S.$
Financial assets at fair value			
Financial assets at fair value through other comprehensive income	-	-	1,037,500

The following table provides the fair value measurement hierarchy of the Company's financial assets at fair value as of December 31, 2019:

	Quoted prices in active markets (Level 1)	Significant observable input (Level 2)	Significant non-observable inputs (Level 3)
	U.S.$	U.S.$	U.S.$
Financial assets at fair value			
Financial assets at fair value through other comprehensive income	-	-	1,000,000

Fair Values of Financial Instruments

The table below summarizes the Company's financial instruments as of December 31, 2020 and 2019:

	Carrying value		Fair value	
	2020	2019	2020	2019
	U.S. $	U.S. $	U.S. $	U.S. $
Financial Assets				
Financial assets at fair value through other comprehensive income	1,037,500	1,000,000	1,037,500	1,000,000
Long-term deposits at banks	15,000,000	10,000,000	15,000,000	10,000,000
PENRA's account receivable	44,900,000	25,453,953	44,900,000	25,453,953
Other financial assets	2,705,491	1,944,077	2,705,491	1,944,077
Cash and bank balances	21,908,081	39,462,079	21,908,081	39,462,079
	85,551,072	77,860,109	85,551,072	77,860,109
Financial Liabilities				
Long-term lease liability	662,257	627,732	662,257	627,732
Other financial liabilities	5,271,901	5,565,139	5,271,901	5,565,139
	5,934,158	6,192,871	5,934,158	6,192,871

The fair value of financial instruments is 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 PENRA's account receivable, other financial assets, long-term lease liability, long-term lease liability, and other financial liabilities are not materially different from their carrying values because these instruments have short repayment and collection periods.

The fair value of the financial assets at fair value through other comprehensive income were determined using appropriate valuation techniques.

26. Risk Management

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

Interest rate risk arising from the changes in interest rates on the Company's financial instrument which subject to floating interest rate.

The assets and liabilities of the Company as at December 31, 2020 and 2019 are not subject to floating interest rate, therefore, the Company is not exposed to interest rate risk.

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 million as required by the power purchase agreement.

With respect to credit risk arising from the other financial assets, the Company and its subsidiary'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 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, 2020 and 2019 based on contractual undiscounted payments.

	Less than 3 Months	3 to 12 months	More than 1 year up to 5 years	More than 5 years	Total
	U.S. $	U.S. $	U.S. $	U.S. $	U.S. $
December 31, 2020					
Long-term lease liability	-	150,730	731,270	-	882,000
Other current liabilities	43,165	5,228,736	-	-	5,271,901
	43,165	5,379,466	731,270	-	6,153,901
December 31, 2019					
Long-term lease liability	-	162,779	589,167	130,054	882,000
Other current liabilities	129,060	3,067,763	-	-	3,196,823
	129,060	2,230,542	589,167	130,054	4,078,823

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. $
2020						
U.S. Dollar	10	(38,552)	10	(35,021)	10	98,456
2019						
U.S. Dollar	10	(44,531)	10	(89,320)	10	291,997

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, 2020 and 2019. Capital comprises paid-in share capital, statutory reserve and retained earnings, and is measured at U.S. $ 99,213,116 and U.S. $ 96,883,426 as at December 31, 2020 and 2019, respectively.

28. Coronavirus impact

As a result of the continued impact of the Coronavirus (COVID 19) on the global economy and various business sectors and the accompanying restrictions and measures imposed by the Palestinian National Authority and neighboring countries and the rest of the world, it is possible that the Company's operational activities are affected by global developments that currently affect commodity markets of all kinds and supply chain for different materials and goods.

The Company’s management expected that the Company’s capacity charges revenues are not expected to be affected by the effects of the Coronavirus (COVID 19), but future cash flows are expected to be affected by future events resulting from the Coronavirus (COVID 19). Future cash flows depend on the ability of the Palestinian National Authority to meet future payments in accordance with amendment to the power purchase agreement signed on November 7, 2016 between the subsidiary, PENRA, and the Palestinian Ministry of Finance and Planning.

The extent and duration of such impacts remain uncertain and dependent on future developments that cannot be accurately predicted at this time.

29. Concentration of Risk in Geographic Area

The Company and its subsidiary are carrying out all of their operations 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 impact the recoverability of their assets from operation.