Palestine Electric Company P.L.C

Annual Report 2017

CHALLENGE IS OUR POWER

Palestine Electric Company P.L.C

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

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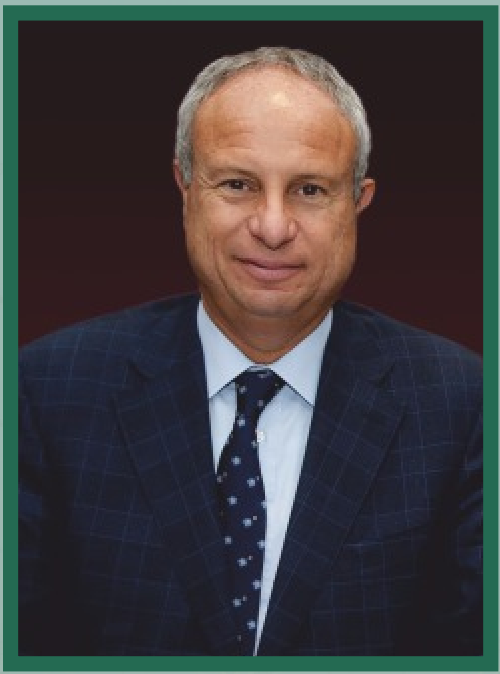


Samer Khoury

Chairman

Dear Valued Shareholders,

On behalf of myself and members of the Board of Directors, we welcome all of our shareholders who have invested in our company. I would like to assure all of you that we carry out this mission with intensive efforts and dedication to maintain the performance and progress of the company.

During 2017, the political situation was full of different challenges that impacted the economic performance of the country. We hope that all efforts will be concentrated in arranging the Palestinian internal house and to achieve a full reconciliation in order to start in the reconstruction of the Gaza Strip and rehabilitation of the destroyed infrastructure. It is important that the intensity of the efforts and endeavors continue towards investing and developing in the national economy in order to build our independent state, with Jerusalem as its capital.

We are working hard to ensure that our company plays a vital role in developing the Palestinian National Economy and its growth. Based on our belief in our national responsibility towards our people in the Gaza Strip, we will spare no effort to provide all our capabilities and experiences in order to reach the appropriate and practical solutions to end the electricity crisis in Gaza in full coordination and cooperation with the Palestinian Government and Palestinian Energy and Natural Resources Authority (PENRA).

We cannot deny that we are facing great challenges, but we work hard to overcome them. Our focus is on maintaining the continuity of the company in performing its mission and providing all possible resources for our team to accomplish their tasks in the best possible manner.

I assure all our shareholders that their interests are at the center of our attention and we continue to achieve good and acceptable results. In order to meet our desired targets, we are in contact with all concerned parties, political and technical, in order to guarantee the rights of our shareholders and to maintain the successful continuity of the company.

Finally, on behalf of myself and my colleagues in the Board of Directors, we extend our appreciation and gratitude to our shareholders for their continued support and confidence in the company. I also extend my thanks and appreciation to the Executive Management and all the staff working in the company for their diligent efforts in the company's success.

Samer Khoury
Chairman of the Board of Directors

2- Executive Managing Director's Message

Walid Salman
Vice Chairman
Executive Managing Director

Dear Shareholders,

We are doing our best efforts to ensure that our duties continue successfully and that we are achieving the desired targets. In 2017, we were able to carry out various actions in which we fulfilled our commitments from contractual, financial and technical aspects.

In cooperation with Ministry of Finance and Palestinian Energy and Natural Resources Authority (PENRA), they managed to comply with the main terms of the settlement agreement signed at the end of 2016 regarding the repayment of the outstanding receivables. They have complied with their commitment of settling all the promissory notes in accordance with the agreement. This enabled the company to fulfill its financial obligations and carry out its duties up to date in terms of the operations and maintenance. This can be considered as a great achievement for the company amidst the prevailing unstable political and financial situation.

We are working with all PNA related parties to confirm their commitment on the remaining terms of the settlement agreement which is to comply with the payment of the monthly invoices on a regular basis.

The company's performance for this year has proven that we are in the right direction. Despite of incurring major maintenance activities, we were able to achieve good results that meet our share-holders expectations and interests.

Our local and qualified team, jointly with the German maintenance contractor, have successfully carried out all maintenance requirements for two gas turbines. This improved the power plant efficiency. While maintenance of the other turbines and equipment will be carried out during the coming period, we assure you that the power plant is capable to work in a proper manner and at full capacity. We will continue doing whatever is needed to maintain the power plant to deliver on its technical targets in order to ensure that our commercial and financial rights are fulfilled.

The current political and economic situations continue to have a significant impact on the com-pany's duties due to the difficulties to obtain the required materials, equipment and spare parts. The limited quantities of fuel supplied by the Palestinian Authorities to operate the power plant places the company in a difficult situation whereby it is limited in the amount of electricity it can generate whereas the power plant is capable to operate at full capacity should the fuel be made available.

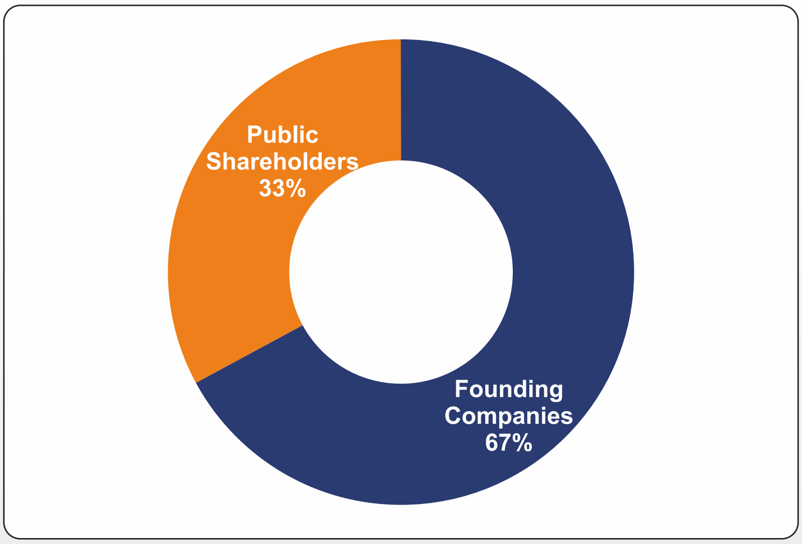
I assure the Board of Directors and our shareholders that we will spare no effort in order to preserve the rights of this company and to achieve the best possible results for our shareholders.

Finally, I would like to thank the Board of Directors for their continuous efforts and support for this company and the management despite all the adversities. We commend the tireless and sincere efforts of all the company's professional staff who work as a family to overcome all obstacles and meet the challenges and create appropriate alternatives so that the company will continue to fulfill its mission and achieve its goals.

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 Shareholding Company with paid-in capital of 60 million US Dollars. PEC shares were listed in the Palestine Exchange in 2004, where 33% of its shares are owned by Public Shareholders and 67% owned by Founding Companies.



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.

The Company established its subsidiary in Gaza under the name of "Gaza Power Generating Company (GPGC)", which has an exclusive right from PNA to generate electricity in the Gaza Strip.

4- Board of Directors and Executive Management

Board of Directors:

The Board of Directors consist of thirteen members representing all the shareholders. The Board of Directors main duties are to set the companys' strategies, develop the business plans, follow up on the operational and action plans in accordance with economic and political circumstances, in addition to reviewing and approving budgets, policies and procedures.

#	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	Board Member		
4	Mr. Tarek Aggad	Board Member		
5	Mr. Talal Nasereddin	Board Member		
6	Mr. Hani Ali	Board Member		
7	Mr. Marwan Salloum	Board Member		
8	Mr. Basim Khouri	Board Member		
9	Mr. Sharhabeel Al Zaeem	Board Member		
10	Mr. Faisal Al Shawwa	Board Member		
11	Mr. Khaled Osaily	Board Member		
12	Mr. Majed Al-Helo	Board Member	Palestinian Pension Agency	Gaza, Al Remal, Thourah St., Tel 2829219
13	Mr. Iyad Basal	Board 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 and take necessary actions and decisions as needed.

In 2017, the Board of Directors held the following meetings:

Meeting Date	Meeting Discussions
12 March 2017	Discuss and review technical plans related to operation and maintenance of power plant, in addition to review and approve the annual report.
19 April 2017	Discuss 2016 financial statements before the General Assembly Meeting, recommend the distribution of cash dividends of 10% of share par value.
14 September 2017	Discuss and review the technical, administrative and financial progress based on latest circumstances, in addition to discuss the operation and maintenance plans.

Expected and suggested date of the up coming General Assembly Meeting is Wednesday 28 March, 2018.

Board of Directors Remuneration:

The Board of Directors have agreed, during their meeting on 19 April, 2017 to pay the following remunerations to the board members for the year 2016:

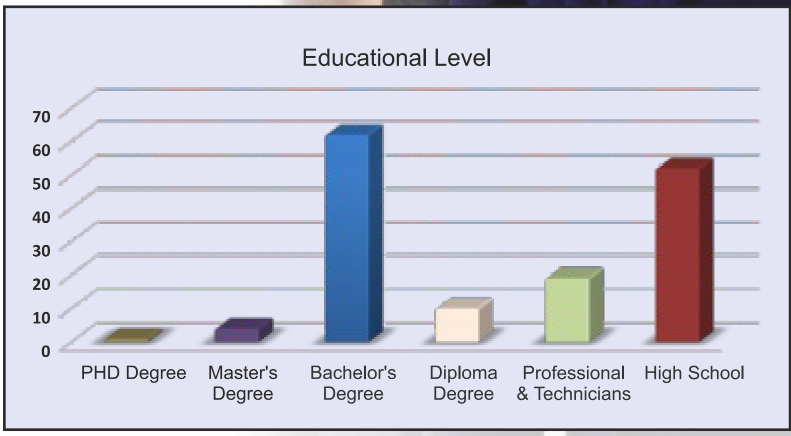
Board Name	Members Number	Amount in USD
Palestine Power Private Company LTD	8	103,400
Palestine Electric Company Holding	3	42,300
Morganti Development	2	28,200
Public Shareholder - Palestinian Pension Agency	1	14,100
Public Shareholder - Individual	1	14,100
Total	**15**	**202,100**

Executive Management:

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

5- Our Employees

Since its inception, the Company has created many job opportunities based on its operational needs. It has hired a team of experienced and qualified personnel to execute its work and strategic plans.



By end of 2017, the Company had 148 employees where the majority are professionals, with advanced qualifications and extensive experience including engineers, technicians, financials and commercials staff. The Company is also keen to provide the exceptional opportunity to integrate many of the new graduates to join its training programs that enable them to gain good experience to enter the job market.

6- Technical Overview

Gaza Power Generating Company (GPGC) was established as the power plant's operating arm to fulfill the electricity needs of Gaza Strip. The power plant operates with a generating capacity of 140MW in a combined cycle system consisting of four gas turbines and two steam turbines configured in two blocks for electricity generation. The Company ensures that the power plant is operated and maintained in an environmentally compliance manner and in accordance with applicable OPIC requirements, World Bank guidelines and local Palestinian environmental requirements and policies.

Our technical team had accomplished significant achievements in 2017, which enhanced the performance and efficiency of the power plant. The Company signed a new maintenance agreement with a German Company (SIPA), which specializes in power plants maintenance. The agreement was signed with flexible terms and at a lower cost than they were under previous arrangements. The achievements of 2017 can be summarized as follows:

- Completion of the scheduled maintenance of two gas turbines and electrical generators according to international standards, thus improving performance and productivity. The maintenance of the other turbines is scheduled during 2018.
- Implementation of intensive programs in the aspects of development, planning, information technology, monitoring, operational processes and technical systems, to maintain the performance enhancement.
- Continuation of the cooperation with local educational institutions to create an effective environment of creativity and innovation, through organizing practical training programs that allow students to acquire knowledge and experience of power plants.

As a result of special circumstances in Gaza including the closure and restrictions on movement, the power plant still faces challenges that have significantly affected the implementation of various operational and maintenance plans. The inability to obtain required spare parts and materials has hindered our ability to repair the remaining damaged facilities as follows:

- Repair Progress: our qualified technical staff have successfully completed the majority of repairs required for damaged equipment after the last war on Gaza in 2014, but we still face some obstacles in the rebuilding of the main fuel tanks.
- Power Output: The power plant has only been able to generate electricity based on the amount of fuel supplied. The plant has the capacity to generate at full load capacity and efficiently if the quantities of fuel supplied was sufficient.
- Fuel Supply: The power plant was forced to shut down several times due to fuel supply shortages. The Company has made extensive contact with the relevant authorities to ensure a steady supply of fuel which will allow us to generate electricity in an uninterrupted mode.

Gaza Power Plant - Aerial Picture

7- Shareholders Structure

By the end of 2017, the shareholders base consisted of 10,915 shareholders, distributed 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 %	
	2017	2016	2017	2016	2017	2016
Founding Companies	5	5	40,200,000	40,200,000	67%	67%
Public Shareholders	10,910	10,964	19,800,000	19,800,000	33%	33%
Total	10,915	10,969	60,000,000	60,000,000	100%	100%

Distribution based on Shareholders Range:

Shareholders Type	Number of Shareholders		Number of Shares		Percentage %	
	2017	2016	2017	2016	2017	2016
1-500	3,289	3,285	1,002,646	1,007,146	1.67%	1.68%
501-1,000	5,092	5,197	3,679,311	3,758,635	6.13%	6.26%
1,001-5,000	2,133	2,121	3,847,417	3,786,320	6.41%	6.31%
5,001-10,000	195	176	1,417,445	1,303,610	2.36%	2.17%
10,001-50,000	163	146	3,517,206	3,317,624	5.86%	5.53%
50,001-100,000	20	20	1,399,017	1,381,101	2.33%	2.30%
100,001-1,000,000	22	23	6,137,358	6,445,964	10.23%	10.74%
1,000,001 and above	1	1	38,999,600	38,999,600	65.00%	65.00%
Total	10,915	10,969	60,000,000	60,000,000	100%	100%

8- Investor Relations

Based on directives by the Board of Directors, the executive management are looking to achieve shareholders satisfaction by allocating resources to manage the relations with its current shareholders and potential investors in line with the investment environment in Palestine.

In compliance with best practices and international standards, the Investor Relations Department is managing the relations with the shareholders, Palestine Exchange (PEX), Palestine Capital Market Authority (CMA) and all other related parties.

Our mechanism for dividends distribution is in line with the best practice and applicable regulations. The executive management are distributing dividends to all shareholders within the announced distribution period across bank branches in Palestine and abroad, while any uncollected dividends will be kept in a reserve account to be paid to shareholders upon their request and in accordance with procedures.

Information Mechanism:

The Company's information can be obtained from the following websites: Palestine Exchange, Palestine Capital Market Authority, Palestine Electric Company and from the Company's headquarter office in Gaza. Our annual report is available for all shareholders two weeks prior to every annual General Assembly Meeting. The shareholders can also get a copy of the annual report from Gaza, Ramallah and Nablus (as per the newspaper announcements).

To download the updated annual report, please visit our website: www.pec.ps

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, Ernst & Young were appointed as the Company's external auditors for the year 2017

Company Legal Advisor:

Al Zaeem & Associates – Attorneys at Law & Legal Consultants

9- Governance

Since its inception, the Company has committed 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.

The Company has committed to apply the principle of transparency in presenting all required information in accordance with the disclosure requirements of the Palestine Exchange and all related instructions by Palestine Capital Market Authority since its listing on the Palestine Exchange in 2004. To ensure the confidence of its shareholders, the Company has promoted the principles of transparency in presenting information and data to all its shareholders in order to assist them to make the proper decisions on their investments.

The Board of Directors and executive management have adopted the principles of 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 follow the best standards to maintain and develop the Company's assets and optimize the use of its resources in order to achieve the best possible return on investment.

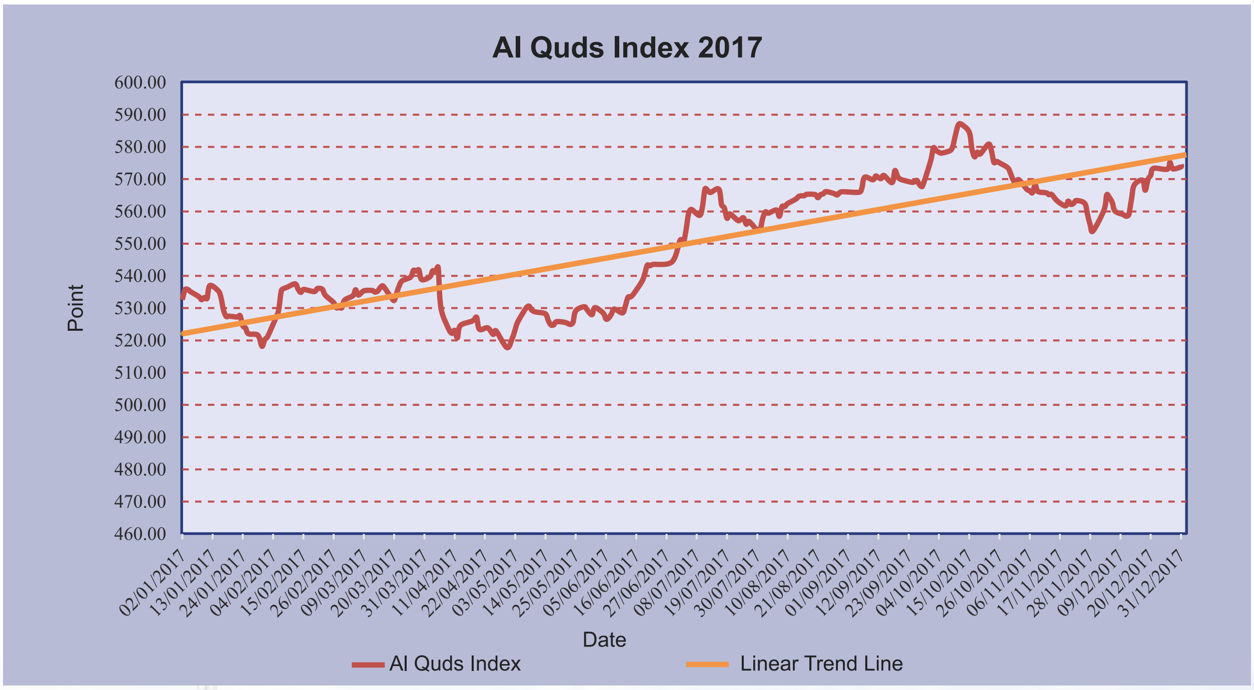
10- Social Responsibility

Based on our belief to participate in the Palestinian economic development and according to our understanding of Palestinian social needs; the Company is committed to social and humanitarian responsibilities towards the main sectors of society such as: education, health and less fortunate social groups. The Company constantly strives to support these sectors. In addition, we contribute to supporting seminars, conferences and meetings that help highlight vital issues, transfer and share knowledge and enable students and new graduates to gain an important experience.

11- Share Performance

In 2017, PEC's share performance was still stable. It closed at $ 1.30 with a slight decrease of 3.7% compared with the closing price per share at the end of 2016. Despite of the political and economic instability; PEC's share was considered as one of the most highly demanded shares because of the high trading volume in Palestine Exchange, this was due to the high confidence of our shareholders.

PEC's share is traded in the first market of Palestine Exchange. The Company's share continues to be part of selected sample group for statistical calculation of Al Quds Index in the Palestine Exchange (PEX).



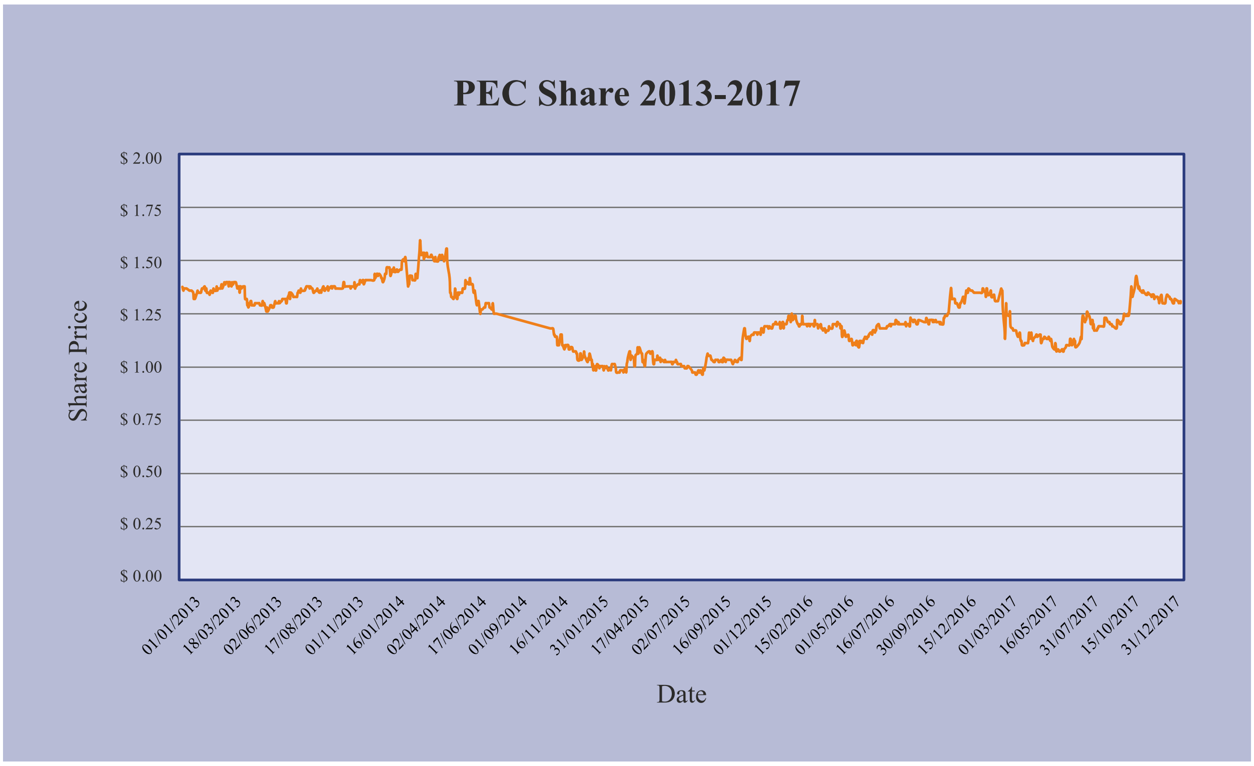
Trading Information:

US$ 2.45	PEC Share all time high (2005)
US$ 1.44	PEC Share 2017 High
US$ 1.30	PEC Share Closing Price 2017
-3.70 %	Change Ratio on PEC Share Price in the end of 2017

Year	Opening Price	Closing Price	High	Low	Trading Value	Shares Traded	Number of Deals
2017	$1.35	$1.30	$1.44	$1.05	$7,330,833	5,978,428 Shares	2,750 Deals
2016	$1.21	$1.35	$1.39	$1.09	$2,982,011	2,451,536 Shares	1,786 Deals

Share Indicators	2017	2016
Share Turnover	9.96%	4.09%
Equity to Total Assets Ratio	87.71%	85.08%
Earnings per Share	$0.14	($0.01)
Book Value per share	$1.461	$1.417
Market Value to Book Value	0.89	0.95

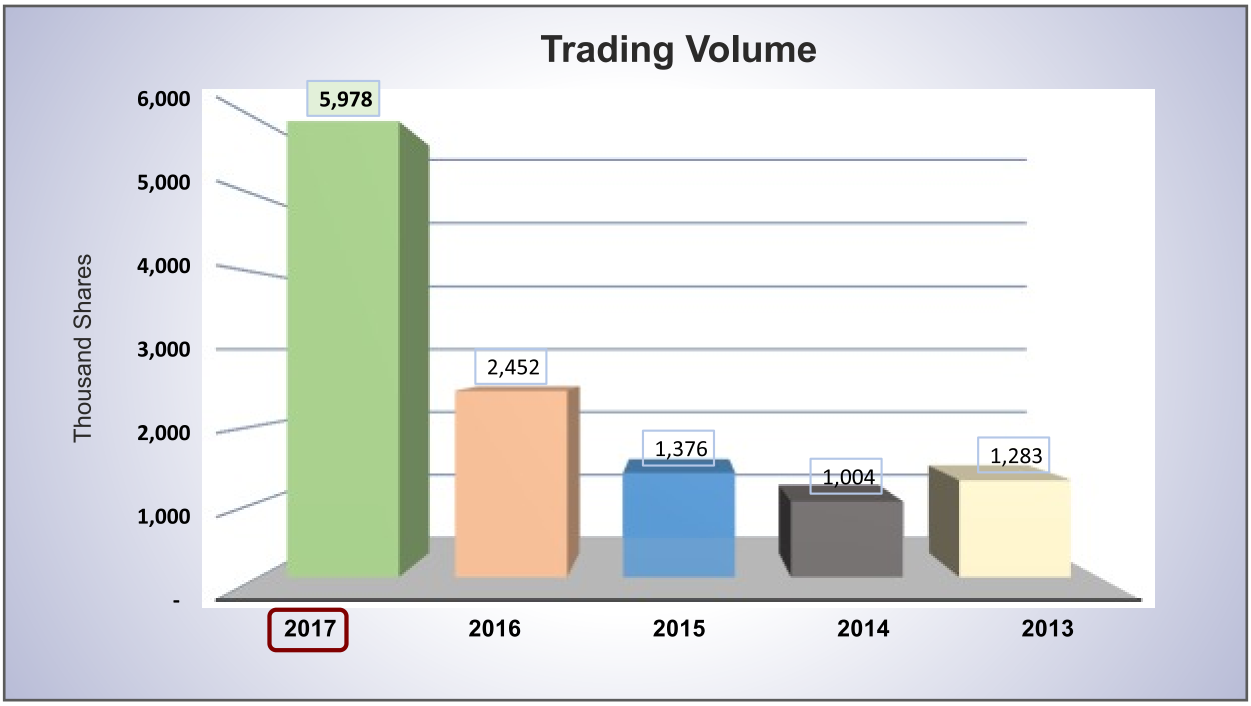
PEC Share Price For Five Years:



Share Price	2017	2016	2015	2014	2013
Opening Price ($)	1.35	1.21	1.04	1.42	1.36
Closing Price ($)	1.30	1.35	1.18	1.03	1.42
High Price ($)	1.44	1.39	1.21	1.63	1.44
Low Price ($)	1.05	1.09	0.93	1.03	1.26

Trading Volume:

During 2017, the number of trading shares has increased significantly; 5,978,428 trading volume to achieve a growth of 144% compared to the total number of shares traded during 2016.

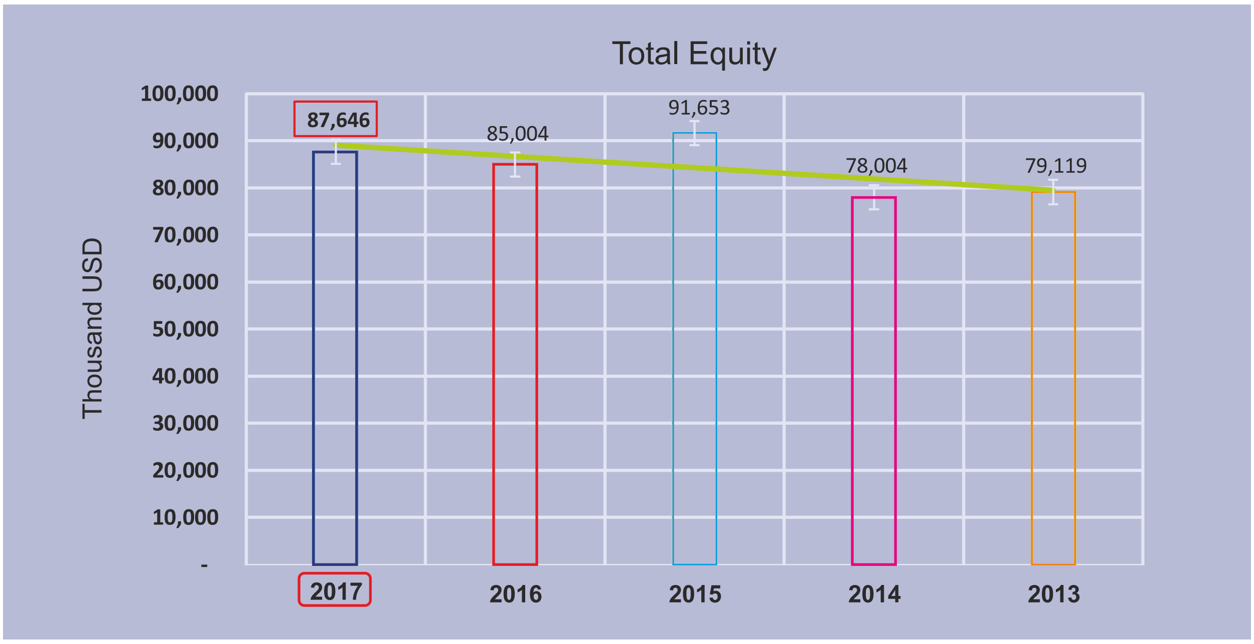


12- Financial Performance

The Company has earned a net profit of USD 8,642,228 in 2017 compared to a loss of USD (648,817) at the end of 2016.

Based on the amendment to the Power Purchasing Agreement signed on November 7th 2016 with the Ministry of Finance and PENRA; the Company was able to collect on all promissory notes according to the agreed schedule. This permitted the company in paying off some of the major liabilities such as: settling the loan balance of around USD 3 million to the National Bank and payment of the maintenance commitments; in addition to the declared and distributed dividends of USD 6 million for 2016.

Financial Indicators	(Amounts in USD)				
	2017	2016	2015	2014	2013
Net Income	8,642,228	(648,817)	13,648,366	1,884,873	4,561,995
Total Equity	87,645,997	85,003,769	91,652,586	78,004,220	79,119,347
Closing Price per Share	1.30	1.35	1.18	1.03	1.42
Paid - In Capital	60,000,000	60,000,000	60,000,000	60,000,000	60,000,000
Market Value	78,000,000	81,000,000	70,800,000	61,800,000	85,200,000



Differences between Preliminary and Audited Financial Statements:

There are no material differences between the preliminary financial statements and the audited financial statements for 2017.

Cash Dividends:

In order to meet shareholders expectations, loyalty and confidence; the Board of Directors recommends to distribute cash dividends based on annual financial performance. At the end of 2017, the Company's financial performance has improved.

On 19 April 2017; the General Assembly had approved the recommendation of the Board of Directors to declare and distribute cash dividends for the year 2016 at a rate of 10% of original equity to all shareholders who hold shares at the date of the meeting.

Dividends	2017	2016	2015	2014	2013
Paid Dividends in USD	*	6,000,000	6,000,000	0	3,000,000
Rate of Dividends Declaration	*	10%	10%	0%	5%

*As decided by the General Assembly at the date of the meeting.

13- Audited Financial Statements (as of Dec 31, 2017)

Palestine Electric Company, Public Shareholding Company

Consolidated Financial Statements

December 31, 2017

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Building a better
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90 Years in MENA

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, 2017, 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, 2017, 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 Ethics Standards Board for Accountants' Code of Ethics for Professional Accountants (IESBA Code), and we have fulfilled our other ethical responsibilities in accordance with the IESBA Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Emphasis of Matter – Credit risk

We draw attention to note (9) to the accompanying consolidated financial statements, the revenues of Gaza Power Generating Company (GPGC) 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 the financial statements, PENRA has not provided GPGC with the letter of credit of U.S. $ 20,000,000 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 (24) to the accompanying consolidated financial statements, the Palestinian National Authority 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 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 until 2016. 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, the Company's non-current assets which mainly comprise property, plant and equipment are located in Gaza. Recoverability of these assets from the Company's operations depends on the stabilization of the political and economic situation in Gaza. 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, 2017. 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 matters below, provide the basis for our audit opinion on the accompanying consolidated financial statements.

Key Audit Matter - PENRA's account receivable:

According to the power purchase agreement amendment signed on November 7, 2016 with the Palestinian Energy and Natural Resources Authority (PENRA) and the Palestinian Ministry of Finance and Planning and PENRA, part of the PENRA's accounts receivable balance in the amount of U.S. $ 21,856,302 was due and unpaid at December 31, 2017. Management assessed collectability of the balance based on historical trends according to amended power purchase agreement and estimated the amounts and timing of future cash flows to settle the balance. Expected future cash flows were discounted to their present value resulting in fair value adjustment in the amount U.S. $ 782,188 recorded in the consolidated statement of income and comprehensive income.

There are significant judgement and assumptions involved in determining expected amounts and timing of future cash inflow to settle the balance and in discounting cash flows to their present value.

We reviewed data used and assumptions made in estimating amounts and timing of future cash flows considering cash collection history according to the amended power purchase agreement and recomputed discounting cash flows to present value. In addition, we independently received account receivable confirmation from PENRA and assessed the disclosure presented in note (9) and (19).

Other Information Included in the Company's 2017 Annual Report

Other information consists of the information included in the annual report, 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 ISAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

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

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

From the matters communicated with the Board of Directors, we determine those matters that were of most significance in the audit of the consolidated financial statements as at December 31, 2017 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 and Young - Middle East
License # 206/2012

Ernst + Young

February 26, 2018
Gaza - Palestine

CONSOLIDATED STATEMENT OF FINANCIAL POSITION
As at December 31, 2017

	Notes	2017 U. $. $	2016 U.S. $
ASSETS			
Non-current assets			
Property, plant and equipment	4	32,171,690	38,453,366
Intangible assets	5	1,415,545	1,637,128
Available-for-sale investment	6	1,000,000	750,000
PENRA's account receivable -long term	9	4,112,634	7,499,510
Project in progress	7	249,372	249,372
		38,949,241	48,589,376
Current assets			
Materials and inventories	8	7,655,823	8,475,642
PENRA's account receivable – short term	9	24,460,984	22,205,446
Other current assets	10	3,230,903	3,298,950
Cash and cash equivalents	11	25,627,320	17,335,472
		60,975,030	51,315,510
TOTAL ASSETS		99,924,271	99,904,886
EQUITY AND LIABILITIES			
Equity			
Paid-in share capital	12	60,000,000	60,000,000
Statutory reserve	13	10,606,960	9,742,737
Retained earnings		17,039,037	15,261,032
Total equity		87,645,997	85,003,769
Non-current liabilities			
Long term loan	14	-	2,698,467
Provision for employees' indemnity	15	3,617,975	3,234,844
		3,617,975	5,933,311
Current liabilities			
Current portion of long term loan	14	-	659,332
Other current liabilities	16	8,660,299	8,308,474
		8,660,299	8,967,806
Total liabilities		12,278,274	14,901,117
TOTAL EQUITY AND LIABILITIES		99,924,271	99,904,886

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

CONSOLIDATED STATEMENT OF INCOME AND COMPREHENSIVE INCOME
Year Ended December 31, 2017

	Notes	2017 U.S. $	2016 U.S. $
<u>**Revenues**</u>			
Capacity charges	17	31,681,200	31,360,512
Discounts on capacity charges' invoices	9	(1,800,000)	(150,000)
Operating expenses	18	(19,951,128)	(15,538,434)
		9,930,072	15,672,078
PENRA's accounts receivable written off	9	-	(15,911,137)
Fair value adjustment of PENRA's receivable	19	(782,188)	-
Finance costs		(721,920)	(413,569)
Other revenues, net	20	216,264	3,811
Profit (loss) for the year		8,642,228	(648,817)
Other comprehensive income		-	-
Total comprehensive income for the year		8,642,228	(648,817)
Basic and diluted earnings (losses) per share	21	0.14	(0.01)

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
Year Ended December 31, 2017

	Paid-in Share Capital	Statutory Reserve	Retained Earnings	Total Equity
	U.S. $	U.S. $	U.S. $	U.S. $
2017				
Balance, beginning of the year	60,000,000	9,742,737	15,261,032	85,003,769
Total comprehensive income for the year	-	-	8,642,228	8,642,228
Transferred to statutory reserve	-	864,223	(864,223)	-
Dividends (note 22)	-	-	(6,000,000)	(6,000,000)
Balance, end of year	60,000,000	10,606,960	17,039,037	87,645,997
2016				
Balance, beginning of the year	60,000,000	9,742,737	21,909,849	91,652,586
Total comprehensive income for the year	-	-	(648,817)	(648,817)
Dividends (note 22)	-	-	(6,000,000)	(6,000,000)
Balance, end of year	60,000,000	9,742,737	15,261,032	85,003,769

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

CONSOLIDATED STATEMENT OF CASH FLOWS
Year Ended December 31, 2017

	Note	2017 U.S. $	2016 U.S. $
Operating activities			
Profit (loss) for the year		8,642,228	(648,817)
Adjustments:			
Provision for employees' indemnity		413,657	631,472
Depreciation of property, plant and equipment		6,305,893	6,303,966
Amortization		221,583	221,583
Fair value adjustment of PENTRA's receivable		782,188	-
Finance costs		721,920	413,569
Gain from disposal of property, plant and equipment		-	(5,000)
PENRA's receivable written off		-	15,911,137
		17,087,469	22,827,910
Working capital adjustments:			
PENRA's account receivable		349,150	(9,981,041)
Other current assets		68,047	(2,274,710)
Materials and inventories		819,819	(244,549)
Other current liabilities		(42,113)	(597,264)
Employees' indemnity paid		(30,526)	(182,811)
Net cash flows from operating activities		18,251,846	9,547,535
Investing activities			
Purchase of property, plant and equipment		(24,217)	(29,582)
Proceeds from sale of property, plant and equipment		-	5,000
Available-for-sale investment		(250,000)	(250,000)
Net cash flows used in investing activities		(274,217)	(274,582)
Financing activities			
Loan repayments		(3,357,799)	(653,330)
Finance costs paid		(721,920)	(397,666)
Dividends paid		(5,606,062)	(5,547,563)
Net cash flows used in financing activities		(9,685,781)	(6,598,559)
Increase in cash and cash equivalents		8,291,848	2,674,394
Cash and cash equivalents, beginning of the year		17,335,472	14,661,078
Cash and cash equivalents, end of year	11	25,627,320	17,335,472

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
December 31, 2017

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

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

The consolidated financial statements were authorized for issuance by the Company's Board of Directors on February 15, 2018.

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, 2017. 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.

3.2 Basis of consolidation

The consolidated financial statements comprise the financial statements of the Company and its subsidiary as at December 2017. Control is achieved when the Company is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee. Specifically, the Company controls an investee if, and only if, the Company has:

- Power over the investee (i.e. existing rights that give it the current ability to direct the relevant activities of the investee)

- Exposure, or rights, to variable returns from its involvement with the investee
- The ability to use its power over the investee to affect its returns.

The Company re-assesses whether or not it controls investees if facts and circumstances indicate that there are changes to one or more of the three elements of control. Consolidation of a subsidiary begins when the Company obtains control over the subsidiary and ceases when the Company loses control of the subsidiary. Assets, liabilities, income and expenses of a subsidiary acquired or disposed of during the year are included in the 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.

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, 2016. Except that the Company applied certain amendments to the standards, which are effective for annual periods beginning on or after January 1, 2017.

The application of these amendments has no effect on the Company's financial position and performance, or the disclosures of the consolidated financial statements of the Company.

Amendments to IAS 7 Statement of Cash Flows: Disclosure Initiative

The amendments require entities to provide disclosure of changes in their liabilities arising from financing activities, including both changes arising from cash flows and non-cash changes (such as foreign exchange gains or losses).

Standards issued but not effective

The IASB issued standards and interpretations that are not yet effective, and have not been adopted by the Company. These standards are those that the Company reasonably expects to have an impact on the financial position, performance or disclosures of the consolidated financial statements of the Company, when applied. The Company intends to adopt these standards when they become effective.

IFRS 9 Financial Instruments

In July 2014, the IASB issued the final version of IFRS 9 Financial Instruments that replaces IAS 39 Financial Instruments: Recognition and Measurement and all previous versions of IFRS 9. IFRS 9 brings together all three aspects of the accounting for financial instruments project: classification and measurement, impairment and hedge accounting. IFRS 9 is effective for annual periods beginning on or after January 1, 2018, with early application permitted. Except for hedge accounting, retrospective application is required; however, the entities are exempted from restating their comparative information.

The Company plans to adopt the new standard on the required effective date and will not restate comparative information. IFRS 9 will affect the measurement and recording of credit losses.

Below is a summary of IFRS 9 impact on the financial position, performance or disclosures of the consolidated financial statements of the Company, when applied:

(a) Classification and measurement

The Company does not expect a significant impact on its financial position or equity on applying the classification and measurement requirements of IFRS 9.

Loans as well as trade receivables are held to collect contractual cash flows and are expected to give rise to cash flows representing solely payments of principal and interest. The Company has analyzed the contractual cash flow characteristics of those instruments and concluded that they meet the criteria for amortized cost measurement under IFRS 9. Therefore, reclassification for these instruments is not required

(b) Impairment

IFRS 9 introduces an updated model for credit loss measurement (the expected credit losses) on all of its financial assets including loans granted, debt securities at amortized cost or at fair value through other comprehensive income. The expected credit loss (ECL) model will replace the current "Incurred Losses" model as per IAS 39.

IFRS 9 requires the Company to record expected credit losses on all of its debt securities and trade receivables, either on a 12-month or lifetime basis. The Company will apply the simplified approach and record lifetime expected losses on all trade receivables. The Company has estimated that the additional provision to be recorded resulting from the expected credit loss from its trade receivables will not be significant compared to the current requirements.

This assessment is based on currently available information and may be subject to changes arising from further reasonable and supporting information being made available to the Company in 2018 when it adopts IFRS 9.

(c) Hedge accounting

Hedge accounting under IFRS 9 will have no effect on the Company's financial position and performance, as the Company does not currently hold financial instruments for hedging purposes.

IFRS 7 Financial Instruments – Amendments on Disclosure

IFRS 7 was amended to include more qualitative and quantitative discolsures to accomedate IFRS 9 requirements such as classifications, impairment and hedge accounting.

IFRS 16 Leases

During January 2016, the IASB issued IFRS 16 "Leases" which sets out the principles for the recognition, measurement, presentation and disclosure of leases.

IFRS 16 substantially carries forward the lessor accounting requirements in IAS 17. Accordingly, a lessor continues to classify its leases as operating leases or finance leases, and to account for those two types of leases differently. IFRS 16 introduced a single lessee accounting model and requires a lessee to recognize assets and liabilities for all leases with a term of more than 12 months, unless the underlying asset is of low value. A lessee is required to recognize a right-of-use asset representing its right to use the underlying leased asset and a lease liability representing its obligation to make lease payments.

The new standard will be effective for annual periods beginning on or after January 1, 2019. Early application is permitted.

3.4 Estimates and assumptions

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

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

Fair value adjustment of account receivable
Management uses certain estimates and assumptions to determine and discount the expected future cash flows to settle accounts receivable.

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

3.5 Summary of significant accounting policies

Revenue recognition

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

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

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

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

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

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

Expense recognition

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

Finance costs

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

Property, plant and equipment

Property, plant and equipment are stated at cost, net of accumulated depreciation and/or accumulated impairment losses, if any. Such cost includes the cost of replacing part of the property, plant and equipment and borrowing costs for long-term construction projects if the recognition criteria are met. All other repair and maintenance costs are recognized in the consolidated statement of income and comprehensive income as incurred. Depreciation is calculated on a straight line basis over the estimated useful lives of the assets as follows:

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

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

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

Project in progress

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

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

Intangible assets

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

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

Right to use PENRA's transformers

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

Current versus non-current classification

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

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

Accounts receivable

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

Long-term accounts receivable

Accounts receivable are recorded at fair value using the effective interest method. Gains or losses are recognized in the consolidated income statement when discounted or impaired.

Available-for-sale investments

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

Fair value measurement

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

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

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

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

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

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

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

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

Impairment of financial assets

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

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

Cash and cash equivalents

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

Loans

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

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

Accounts payable and accruals

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

Provisions

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

Foreign currency

Transactions in foreign currencies are recorded at the rate ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are translated at the rate of exchange ruling at the consolidated financial statements date. All differences are recognized to the consolidated statement of income and comprehensive income.

Earnings per share

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

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

4. Property, Plant and Equipment

2017	Power plant	Buildings	Motor vehicles	Computers and printers	Office equipment	Furniture and fixture	Total
	U.S. $	U.S. $	U.S. $	U.S. $	U.S. $	U.S. $	U.S. $
Cost:							
Balance, beginning of the year	123,579,669	1,464,904	451,192	388,490	186,148	238,754	126,309,157
Additions	-	-	-	18,335	-	5,882	24,217
Balance, end of year	123,579,669	1,464,904	451,192	406,825	186,148	244,636	126,333,374
Accumulated depreciation:							
Balance, beginning of the year	85,836,530	850,887	438,780	358,658	155,619	215,317	87,855,791
Depreciation charges for the year	6,181,497	73,248	12,412	15,753	14,172	8,811	6,305,893
Balance, end of year	92,018,027	924,135	451,192	374,411	169,791	224,128	94,161,684
Net carrying amount:							
At December 31, 2017	31,561,642	540,769	-	32,414	16,357	20,508	32,171,690

2016	Power plant	Buildings	Motor vehicles	Computers and printers	Office equipment	Furniture and fixture	Total
	U.S. $	U.S. $	U.S. $	U.S. $	U.S. $	U.S. $	U.S. $
Cost:							
Balance, beginning of the year	123,579,669	1,464,904	505,192	380,352	192,552	220,206	126,342,875
Additions	-	-	-	8,138	2,896	18,548	29,582
Disposals	-	-	(54,000)	-	(9,300)	-	(63,300)
Balance, end of year	123,579,669	1,464,904	451,192	388,490	186,148	238,754	126,309,157
Accumulated depreciation:							
Balance, beginning of the year	79,655,033	777,639	479,820	342,977	150,985	208,671	81,615,125
Depreciation charges for the year	6,181,497	73,248	12,960	15,681	13,934	6,646	6,303,966
Disposals	-	-	(54,000)	-	(9,300)	-	(63,300)
Balance, end of year	85,836,530	850,887	438,780	358,658	155,619	215,317	87,855,791
Net carrying amount:							
At December 31, 2016	37,743,139	614,017	12,412	29,832	30,529	23,437	38,453,366

Property, plant and equipment include U.S. $ 1,145,811 and U.S. $ 1,096,570 of fully depreciated assets as at December 31, 2017 and 2016, respectively, which are still used in the Company's operations.

5. Intangible Assets

	2017	2016
	U.S. $	U.S. $
Balance, beginning of the year	1,637,128	1,858,711
Amortization	(221,583)	(221,583)
Balance, end of year	1,415,545	1,637,128

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

Available-for-sale investment represents the Company's investment in the shares capital of Palestine Power Generating Company (PPGC) in the amount of U.S. $ 1,000,000 (2016: U.S. $ 750,000). Available-for-sale investments are stated at cost when their fair value cannot be reliably determined due to the unpredictable nature of future cash flows. The Company's management believes that the fair value of such investment is not materially different from its carrying amount.

7. Project in Progress

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

8. Materials and Inventories

	2017	2016
	U.S. $	U.S. $
Spare parts	6,713,705	7,150,796
Consumables	280,043	243,667
Goods in transit	553,894	1,008,289
Others	108,181	72,890
	7,655,823	8,475,642

9. PENRA's Account Receivable

	2017	2016
	U.S. $	U.S. $
Receivable from capacity charges	28,573,618	59,704,956
Receivable written off	-	(30,000,000)
	28,573,618	29,704,956
Current portion	(24,460,984)	(22,205,446)
Noncurrent portion	4,112,634	7,499,510

Movement on the impairment provision was as follows:

	2017	2016
	U.S. $	U.S. $
Balance, beginning of the year	-	14,088,863
Accounts receivable written off	-	(14,088,863)
Balance, end of year	-	-

On November 7, 2016, GPGC, together with PENRA and the Palestinian Ministry of Finance and Planning signed an amendment to the power purchase agreement according to which, the parties agreed to settle only U.S. $ 34,729,958 of the entire accounts receivable at October 31, 2016 which amounted to U.S. $ 64,729,958 and agreed to settle the balance over 5 instalments during a period of 15 months according to agreed upon payments schedule. As a result, GPGC wrote off U.S. $ 30 million of accounts receivable and allocated part of it against previously provided impairment provision of U. S. $ 14,088,863 and the remaining amount of U.S. $ 15,911,137 was recorded as a loss in 2016 consolidated statement of income and comprehensive income.

In addition, the amendment agreement included a commitment from PENRA to make monthly payment of U.S. $ 2,100,000 against capacity charge monthly invoices. In addition, GPGC agreed to grant PENRA a monthly discount of U.S. $ 150,000 applied to the monthly capacity charges invoices starting from December 1, 2016, which was presented as discount from capacity charges revenues.

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. $ 20,000,000 from a qualified bank as defined in the agreement. To the date of these consolidated financial statements, PENRA did not provide GPGC with the letter of credit; therefore, accounts receivable are unsecured.

10. Other Current Assets

	2017	2016
	U.S. $	U.S. $
Value Added Tax receivable	276,312	126,960
Due from shareholders	1,494,146	2,006,783
Prepaid insurance	743,431	741,467
Advances to suppliers	631,850	400,178
Others	85,164	23,562
	3,230,903	3,298,950

11. Cash and Cash Equivalents

	2017	2016
	U.S. $	U.S. $
Cash on hand	5,355	8,290
Current accounts at banks	5,621,965	17,327,182
Short-term deposit	20,000,000	-
	25,627,320	17,335,472

Short-term deposit represents U.S. Dollar deposit held with a local bank and due within 1 month after the consolidated financial statements date. The average interest rates for deposit was 4.15%.

12. Paid-in Share Capital

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

13. Statutory Reserve

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

14. Long Term Loan

During the year, GPGC made an early settlement of the entire loan balance amounted to U.S $ 3,357,799 which was obtained on November 7, 2013 from a local bank in the amount of U.S. $ 5,300,000 and was repayable over 16 semi-annual installments up to December 5, 2021. The loan was subject to an annual interest rate of six-month LIBOR plus 3% with minimum rate of %5.5 and maximum of 7% and an annual commission at a rate of 1%.

15. Provision for Employees' Indemnity

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

	2017	2016
	U.S. $	U.S. $
Balance, beginning of the year	3,234,844	2,786,183
Additions	413,657	631,472
Payments	(30,526)	(182,811)
Balance, end of year	3,617,975	3,234,844

Provision for employees' indemnity is calculated in accordance with the labor law prevailing in Palestine, and the Company internal policies. The Palestinian Social Security Law is expected to be implemented during 2018, which obligates the employer to settle the end of service benefits for the periods preceding the application of the provisions of this law.

16. Other Current Liabilities

	2017	2016
	U.S. $	U.S. $
Dividends payable	2,954,210	2,560,272
Maintenance payable and provisions	3,433,902	3,871,773
Due to Consolidated Contractors Company	375,152	62,370
Accrued expenses	273,765	308,086
Land's lease	882,000	735,000
Provision for employees' vacations	294,924	270,747
Accrued loan expenses	-	15,903
Payroll tax	71,938	-
Others	374,408	484,323
	8,660,299	8,308,474

17. Capacity Charges

The amount represents revenues from capacity charges invoices issued by GPGC for the use of power plant to generate electric capacity for the benefit of PENRA according to the power purchase agreement, which is considered an operating lease under IFRIC (4) as further explained in accounting policies note (3.5) after deducting U.S. $ 150,000, monthly starting from December 1, 2016 (note 9).

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

18. Operating Expenses

	2017	2016
	U.S. $	U.S. $
Salaries and wages	5,093,549	4,912,119
Provision for employees' indemnity	413,657	631,472
Board of Directors expenses	202,100	202,100
Employees' insurance	110,792	106,091
Development and technical advisory services	-	24,000
Travel and transportation	410,291	341,656
Power plant insurance	1,096,682	817,381
Power plant operation and maintenance	5,010,081	1,082,208
Depreciation of property, plant and equipment	6,305,893	6,303,966
Amortization of intangible assets	221,583	221,583
Land lease	147,000	147,000
Professional and consultancy fees	153,520	196,070
Telephone and fax	74,639	156,741
Palestine Securities Exchange listing fees	26,469	26,566
Office supplies	60,892	51,487
Advertisements	24,061	18,360
Security service costs	65,040	48,040
Miscellaneous	534,879	251,594
	19,951,128	15,538,434

19. Fair Value Adjustment of PENRA's Receivable

Receivable due from PENRA was initially recognized at fair value and was discounted using 5% discount rate, which resulted in a fair value adjustment amounted to U.S. $ 782,188.

20. Other Revenues, Net

	2017	2016
	U.S. $	U.S. $
Bank interest	216,027	-
Gain from disposal of property, plant and equipment	-	5,000
Currency differences	10,395	(1,189)
Others	(10,158)	-
	216,264	3,811

21. Basic and Diluted Earnings (Losses) Per Share

	2017	2016
	U.S. $	U.S. $
Profit (loss) for the year	8,642,229	(648,817)
	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 (losses) per share	0.14	(0.01)

22. Dividends

The Company's General Assembly approved in its meeting held on April 19, 2017, the proposed dividends distribution by the Company's Board of Directors of U.S. $ 6,000,000 for the year 2016, the equivalent of 10% of paid-in share capital.

The Company's General Assembly approved in its meeting held on April 20, 2016, the proposed dividends distribution by the Company's Board of Directors of U.S. $ 6,000,000 for the year 2015, the equivalent of 10% of paid-in share capital.

23. Related Party Transactions

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

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

		2017	2016
	Nature of relation	U.S. $	U.S. $
Cash at Arab Bank	Major shareholder	3,092,030	2,698,291
Due from shareholders	Major shareholders	1,494,146	2,006,783
Due to Consolidated Contractors Company	Major shareholder	375,152	62,370

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

	Nature of relation	2017 U.S. $	2016 U.S. $
Expenses allocated by Consolidated Contractors Company	Major shareholder	1,172,633	891,772
Salaries and wages	Key management	471,471	468,040
Employees' end of service indemnity	Key management	41,092	33,613
Board of Directors expenses	Board of Directors	202,100	202,100

24. 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 these consolidated financial statements, the Company did not obtain a tax settlement from the taxes authorities for the period from inception in 1999 until 2016.

25. 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. The contractual commitments of GPGC as at the consolidated financial statements date:

	2017 U.S. $	2016 U.S. $
Land lease agreement	1,764,000	1,911,000
Maintenance service agreement	75,761	-
	1,839,761	1,911,000

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. $ 215,395,168 and U.S. $ 247,076,368 as of December 31, 2017 and 2016, respectively.

26. Fair Values of Financial Instruments

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

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

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

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

27. 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

The following table demonstrates the sensitivity of the consolidated statement of income and comprehensive income to reasonably possible changes in interest rates as of December 31, 2017, with all other variables held constant.

The sensitivity of the consolidated statement of income and comprehensive income is the effect of the assumed changes in interest rates on the Company's profit for one year, based on the floating rate of financial assets and financial liabilities at December 31, 2017 and 2016. There is no direct impact on the Company's equity. The effect of decreases in interest rate is expected to be equal and opposite to the effect of increases shown below:

	Increase in interest rate	Effect on profit for the year
	Basis points	U.S. $
2017		
U.S. Dollar	10	(28,574)
2016		
U.S. Dollar	10	(3,358)

Credit risk

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

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

Liquidity risk

The Company and its subsidiary limit their liquidity risk by 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, 2017 and 2016 based on contractual undiscounted payments.

	Less than 3 Months	3 to 12 months	More than 1 year up to 5 years	Total
	U.S. $	U.S. $	U.S. $	U.S. $
December 31, 2017				
Other current liabilities	324,263	7,083,112	-	7,407,375
	324,263	7,083,112	-	7,407,375
December 31, 2016				
Long term loan	-	688,605	2,754,420	3,443,025
Other current liabilities	451,441	6,774,286	-	7,225,727
	451,441	7,462,891	2,754,420	10,668,752

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. $
2017						
U.S. Dollar	10	(46,366)	10	(5,941)	10	208,572
2016						
U.S. Dollar	10	(17,676)	10	(10,167)	10	157,079

28. 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, 2017 and 2016. Capital comprises paid-in share capital, statutory reserve and retained earnings, and is measured at U.S. $ 87,645,997 and U.S. $ 85,003,769 as at December 31, 2017 and 2016, respectively.

29. Concentration of Risk in Geographic Area

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