Palestine Electric Company

Consolidated Financial Statements

December 31, 2014

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

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

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Independent Auditors' Report to the Shareholders of Palestine Electric Company

We have audited the accompanying consolidated financial statements of Palestine Electric Company (the Company), which comprise the consolidated statement of financial position as at December 31, 2014, and the consolidated statement of income and comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

Board of Directors' Responsibility for the Consolidated Financial Statements

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

Auditors' Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

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

Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of the Company as at December 31, 2014 and its financial performance and cash flows for the year then ended in accordance with International Financial Reporting Standards.

Emphasis of Matters

Without qualifying our opinion, as explained in note (19) to the accompanying consolidated financial statements, the power plant of the Company was hit by an Israeli air strike causing it to stop operating for approximately two months during the year. The Company undertook maintenance and repairs enabling it to resume partial operation during the year. Management expects to be able to complete the maintenance and repairs works to enable it to resume full operating capacity within a year.

In addition, as explained in note (26) to the accompanying consolidated financial statements, the Palestinian National Authority has agreed to exempt the Company's subsidiary and its shareholders (with respect to dividends and earnings from the subsidiaries), for the term of the Agreement of 20 years including any extensions thereof, from all Palestinian taxes. As of the issuance date of these accompanying consolidated financial statements, the Company did not obtain a tax settlement from the taxes authorities for the period from inception in 1999 until 2013.

Further, as explained in note (7) to the accompanying consolidated financial statements and in accordance with the Power Purchase Agreement, the Palestinian Energy and Natural Resources Authority (PENRA) is the sole customer of the Company. To the date of the issuance of this report, PENRA did not provide the Company with the letter of credit as required by the Agreement.

Furthermore, as explained in note (31) to the accompanying consolidated financial statements, the Company's assets which mainly comprise property, plant and equipment are located in Gaza. Recoverability of these assets from the Company's operations depends on the stabilization of the political and economic situation in Gaza.

Ernst & Young – Middle East

Ernst + Young

March 22, 2015
Gaza, Palestine

CONSOLIDATED STATEMENT OF FINANCIAL POSITION
As at December 31, 2014

	Notes	2014 U. S. $	2013 U.S. $
ASSETS			
Non-current assets			
Property, plant and equipment	4	50,969,469	63,146,326
Intangible assets	5	2,080,294	2,301,877
Investment in an associate	6	-	2,074,685
Accounts receivable – non-current	7	15,616,643	23,366,643
Available-for-sale investment	8	500,000	-
Project in progress	9	99,512	-
		69,265,918	90,889,531
Current assets			
Materials and inventories	10	7,684,076	7,338,807
Accounts receivable – current	7	12,441,615	6,000,000
Other current assets	11	3,209,670	4,007,478
Cash and cash equivalents	12	10,931,576	9,771,288
		34,266,937	27,117,573
TOTAL ASSETS		103,532,855	118,007,104
EQUITY AND LIABILITIES			
Equity			
Paid-in share capital	13	60,000,000	60,000,000
Statutory reserve	14	8,377,900	8,189,413
Retained earnings		9,626,320	10,929,934
Total equity		78,004,220	79,119,347
Non-current liabilities			
Long term loans	15	4,011,129	8,591,844
Provision for employees' indemnity	16	2,617,450	2,310,420
		6,628,579	10,902,264
Current liabilities			
Current portion of long term loans	15	647,382	1,952,600
Credit facilities	17	-	4,700,000
Other current liabilities	18	18,252,674	21,332,893
		18,900,056	27,985,493
Total liabilities		25,528,635	38,887,757
TOTAL EQUITY AND LIABILITIES		103,532,855	118,007,104

The attached notes 1 to 31 form part of these consolidated financial statements

CONSOLIDATED STATEMENT OF INCOME AND COMPREHENSIVE INCOME
Year Ended December 31, 2014

	Notes	2014 U.S. $	2013 U.S. $
Revenues			
Capacity charges	19	24,186,578	30,453,120
Discount on capacity charges' invoices	20	(1,750,000)	(3,000,000)
Operating expenses	21	(15,354,321)	(21,915,672)
		7,082,257	5,537,448
Interest on PENRA's receivables	22	-	122,524
Finance costs		(416,400)	(571,380)
Gain from sale of investment in an associate	6	864,744	-
Share of results of an associate	6	(75,816)	(229,039)
Loss from disposal of property, plant and equipment	4	(5,608,066)	-
Other revenues (expenses)		38,154	(297,558)
Profit for the year		1,884,873	4,561,995
Other comprehensive income		-	-
Total comprehensive income for the year		1,884,873	4,561,995
Basic and diluted earnings per share	23	0.03	0.08

The attached notes 1 to 31 form part of these consolidated financial statements

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
Year Ended December 31, 2014

	Paid-in Share Capital	Statutory Reserve	Retained Earnings	Total Equity
	U.S. $	U.S. $	U.S. $	U.S. $
2014				
Balance, beginning of the year	60,000,000	8,189,413	10,929,934	79,119,347
Total comprehensive income for the year	-	-	1,884,873	1,884,873
Transferred to statutory reserve	-	188,487	(188,487)	-
Cash dividends (note 24)	-	-	(3,000,000)	(3,000,000)
Balance, end of year	60,000,000	8,377,900	9,626,320	78,004,220
2013				
Balance, beginning of the year	60,000,000	7,733,213	12,824,139	80,557,352
Total comprehensive income for the year	-	-	4,561,995	4,561,995
Transferred to statutory reserve	-	456,200	(456,200)	-
Cash dividends (note 24)	-	-	(6,000,000)	(6,000,000)
Balance, end of year	60,000,000	8,189,413	10,929,934	79,119,347

CONSOLIDATED STATEMENT OF CASH FLOWS
Year Ended December 31, 2014

	Note	2014 U.S. $	2013 U.S. $
Operating activities			
Profit for the year		1,884,873	4,561,995
Adjustments:			
Provision for employees' indemnity		413,254	235,304
Depreciation of property, plant and equipment		6,649,706	6,915,884
Amortization		221,583	221,583
Finance costs		416,400	571,380
Loss from disposal of property, plant and equipment		5,608,066	-
Gain from sale of investment in an associate		(864,744)	-
Share of results of an associate		75,816	229,039
		14,404,954	12,735,185
Working capital adjustments:			
Accounts receivable		1,308,385	(3,676,409)
Other current assets		797,808	(3,258,508)
Materials and inventories		(345,269)	43,881
Other current liabilities		(1,067,501)	(610,923)
Employees' indemnity paid		(106,224)	(13,906)
Net cash flows from operating activities		14,992,153	5,219,320
Investing activities			
Purchase of property, plant and equipment		(80,915)	(90,027)
Project in progress		(99,512)	-
Investment in an associate		2,363,613	(1,270,279)
Net cash flows from (used in) investing activities		2,183,186	(1,360,306)
Financing activities			
Long term loan		-	5,300,000
Loan repayment		(5,885,933)	(5,755,556)
Credit facilities		(4,700,000)	4,700,000
Finance costs paid		(395,049)	(550,327)
Dividends paid		(5,034,069)	(2,955,003)
Net cash flows (used in) from financing activities		(16,015,051)	739,114
Increase in cash and cash equivalents		1,160,288	4,598,128
Cash and cash equivalents, beginning of the year		9,771,288	5,173,160
Cash and cash equivalents, end of year	12	10,931,576	9,771,288

The attached notes 1 to 31 form part of these consolidated financial statements

1. General

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

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

Gaza Power Generating Company (GPGC/the 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 with which started on March 15, 2004 with an opportunity to extend period of the agreement for up to two additional consecutive five-year periods.

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

The consolidated financial statements were authorized for issuance by the Company's Board of Directors on March 22, 2015.

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, 2014. GPGC was established in Gaza with an authorized share capital of 6,000,000 shares of U.S. $ 10 par value each.

3. Accounting Policies

3.1 Basis of preparation

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

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

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

3.2 Basis of consolidation

The consolidated financial statements comprise the financial statements of the Company and its subsidiary as at December 2014. 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 statement of comprehensive income from the date the Company gains control until the date the Company ceases to control the subsidiary.

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

3.3 Changes in accounting policies

The accounting policies adopted are consistent with those of the previous financial year except that the Company has adopted the following amended IFRSs as of January 1, 2014. The adoption of these standards will not have an effect on the financial position or performance of the Company.

Recoverable Amount Disclosures for Non-Financial Assets – Amendments to IAS 36

These amendments remove the unintended consequences of IFRS 13 fair value measurement on the disclosures required under IAS 36-Impairment of Assets. In addition, these amendments require disclosure of the recoverable amounts for the assets or cash–generating units (CGUs) for which impairment loss has been recognized or reversed during the period.

IFRIC Interpretation 21 Levies (IFRIC 21)

IFRIC 21 clarifies that an entity recognizes a liability for a levy when the activity that triggers payment, as identified by the relevant legislation, occurs. For a levy that is triggered upon reaching a minimum threshold, the interpretation clarifies that no liability should be anticipated before the specified minimum threshold is reached.

Standards issued but not yet effective

The International Accounting Standards Board (IASB) issued some standards and amendments but are not yet effective, and have not been adopted by Company. These amendments will not have an impact on disclosures, financial position or performance when applied at a future date. The Company intends to adopt these amendments when they become effective.

IFRS 9 Financial Instruments

In July 2014, the IASB issued the final version of IFRS 9 Financial Instruments which reflects all phases of the financial instruments project and replaces IAS 39 Financial Instruments: Recognition and Measurement and all previous versions of IFRS 9. The standard introduces new requirements for classification, measurement and impairment of the financial instruments, and hedge accounting. IFRS 9 is effective for annual periods beginning on or after 1 January 2018.

IFRS 15 Revenue from Contracts with Customers

IFRS 15 establishes a new five-step model that will apply to revenue arising from contracts with customers. Under IFRS 15 revenue is recognized at an amount that reflects the consideration to which an entity expects to be entitled in exchange for transferring goods or services to a customer. The principles in IFRS 15 provide a more structured approach to measuring and recognizing revenue. The new revenue standard is applicable to all entities and will supersede all current revenue recognition requirements under IFRS. Either a full or modified retrospective application is required for annual periods beginning on or after 1 January 2017 with early adoption permitted. The Company is currently assessing the impact of IFRS 15 and plans to adopt the new standard on the required effective date.

3.4 Estimates and assumptions

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

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

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

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

3.5 Summary of significant accounting policies

Revenue recognition

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

Capacity charges
Capacity charge revenues from the use of the power plant are recognized during the period in which electricity is available according to the power purchase

agreement signed with PENRA. This results in revenue recognition approximating the straight-line requirements of IAS (17) on leases.

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 are 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 income statement 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 income statement when the asset is derecognized.

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

Project in progress

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

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

Intangible assets

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

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

Current versus non-current classification

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

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

All other assets are classified as non-current.

A liability is current when:

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

The Company classifies all other liabilities as non-current.

Materials and inventories

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

Accounts receivable

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

Investment in an associate

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

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

The Company's share in associate's results is recorded in the consolidated income statement. Unrealized gains and losses resulting from transactions between the

Company and its associate are eliminated to the extent of its interest in the associate.

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

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

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

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 income statement.

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 income statement. 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 income statement;
- 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 income statement 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 income statement.

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 income statement.

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

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

2013	Power plant	Buildings	Motor vehicles	Computers and printers	Office equipment	Furniture and fixture	Total
	U.S. $	U.S. $	U.S. $	U.S. $	U.S. $	U.S. $	U.S. $
Cost:							
Balance, beginning of the year	135,440,605	1,464,904	440,392	322,476	138,197	211,013	138,017,587
Additions	-	-	64,800	22,237	367	2,623	90,027
Balance, end of year	135,440,605	1,464,904	505,192	344,713	138,564	213,636	138,107,614
Accumulated depreciation:							
Balance, beginning of the year	66,480,099	557,898	395,609	282,118	136,511	193,169	68,045,404
Depreciation charges for the year	6,772,026	73,248	45,798	18,326	1,662	4,824	6,915,884
Balance, end of year	73,252,125	631,146	441,407	300,444	138,173	197,993	74,961,288
Net carrying amount:							
At December 31, 2013	62,188,480	833,758	63,785	44,269	391	15,643	63,146,326

Property, plant and equipment include U.S. $ 1,053,997 and U.S. $ 882,248 of fully depreciated assets as at December 31, 2014 and 2013, respectively, which are still used in the Company's operations.

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

5. Intangible Assets

	2014	2013
	U.S. $	U.S. $
Balance, beginning of the year	2,301,877	2,523,460
Amortization	(221,583)	(221,583)
Balance, end of year	2,080,294	2,301,877

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

6. Investment in an Associate

		Ownership			
	Country of	2014	2013	2014	2013
Company name	Incorporation	%	%	U.S.$	U.S.$
Palestine Power Generating Co.	Palestine	-	45	-	2,074,685

During the year, the Company sold 4,016,665 shares of its subscribed shares in Palestine Power Generating Company reducing its investment from 45% to 5% and causing the Company to lose its significant influence thereon. As a result, the Company reclassified the remaining part of the investment from investment in an associate to available-for-sale investment initially at fair value of U.S. $ 500,000 at the date of sale. The sale resulted in a gain in the amount of U.S. $ 864,744 recorded in the consolidated income statement. Further, the Company's share of results of the associate for the period from January 1, 2014 until the date of losing the significant influence at the end of April 2014 was U.S. $ 75,816. (The Company's share in results of the associate for the year ended December 31, 2013 was U.S. $ 229,039).

7. Accounts Receivable

	2014	2013
	U.S. $	U.S. $
Accounts receivable from capacity charges	42,147,121	43,455,506
Impairment of accounts receivable	(14,088,863)	(14,088,863)
	28,058,258	29,366,643
Current portion of accounts receivable	(12,441,615)	(6,000,000)
Non-current portion of accounts receivable	15,616,643	23,366,643

Unimpaired receivables are expected, to be fully recoverable. All GPGC capacity charges revenue from the use of power plant is generated from one customer, PENRA. According to the power purchase agreement, PENRA is required to provide GPGC with a letter of credit of U.S. $ 20,000,000 from a qualified bank as defined in the agreement. To the date of these consolidated financial statements, PENRA did not provide GPGC with the letter of credit; therefore, accounts receivable are unsecured.

8. Available-for-sale Investment

Available-for-sale investment represents the remaining part of the Company's investment in Palestine Power Generating Company shares amounting to U.S. $ 500,000 (Note 6).

The investment is presented at cost as its fair value cannot be reliably measured 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.

9. Project in Progress

This item represents the cost of construction, repairing, maintenance, and installation works of destroyed parts of the power plant which was destroyed during the Israeli air strike in July 2014.

10. Materials and Inventories

	2014	2013
	U.S. $	U.S. $
Spare parts	7,020,547	6,603,030
Consumables	263,566	286,838
Goods in transit	277,858	230,496
Others	122,105	218,443
	7,684,076	7,338,807

11. Other Current Assets

	2014	2013
	U.S. $	U.S. $
Value Added Tax receivable	24,077	1,140,850
Due from shareholders	2,559,886	1,998,043
Prepaid insurance	25,400	688,302
Advances to suppliers	591,091	171,823
Others	9,216	8,460
	3,209,670	4,007,478

12. Cash and Cash Equivalents

	2014	2013
	U.S. $	U.S. $
Cash on hand	6,427	2,989
Current accounts at banks	10,925,149	9,768,299
	10,931,576	9,771,288

13. Paid-in Share Capital

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

14. 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.

15. Long Term Loans

On September 28, 2011, GPGC signed an agreement with a local bank to obtain a long-term loan in the amount of U.S. $ 11,000,000. The loan is repayable over 10 equal semi-annual installments the first which was due on April 1, 2013 and the last installment will become due on October 1, 2017. The loan is subject to an annual interest rate of six-month LIBOR plus 2% with minimum rate of %5 and maximum of 7% and an annual commission at a rate of 0.5%.

During 2013, GPGC paid the first installment amounted to U.S. $ 1,100,000, and signed a rescheduling agreement according to which GPGC made early repayment of U.S $ 4,000,000 and rescheduled the remaining outstanding loan balance amounted to U.S. $ 5,900,000. The long-term loan is repayable over 9 semi-annual equal installments of U.S. $ 655,556, the first of which was due on October 1, 2013 and was paid during 2013.

During the year, GPGC made an early settlement of the entire loan balance which amounted to U.S $ 5,244,444.

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

Payment schedule of the loans is as follows:

	U.S. $
2015	647,382
2016	653,330
2017	659,332
2018	665,390
After 2018	2,033,077
	4,658,511

16. Provision for Employees' Indemnity

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

	2014	2013
	U.S. $	U.S. $
Balance, beginning of the year	2,310,420	2,089,022
Additions	413,254	235,304
Payments	(106,224)	(13,906)
Balance, end of year	2,617,450	2,310,420

17. Credit Facilities

On November 7, 2013, GPGC signed an agreement with a local bank to obtain credit facilities in the form of overdraft with a ceiling of U.S. $ 4,700,000 subject to annual interest rate of 5% and annual commission of rate 1%. The utilized balance of the overdraft was scheduled to be settled after one year from the agreement date or any date the parties subsequently agree thereon. As a collateral for the loan, GPGC committed to transfer accounts receivable collections to the bank and endorse the bank as a beneficiary under the insurance policy of GPGC's in addition to the guarantee of the Company. The utilized balance of the credit facilities is U.S. $ 4,700,000 as at December 31, 2013.

During the year, the Company repaid the entire balance of the overdraft which amounted to U.S. $ 4,700,000.

18. Other Current Liabilities

	2014	2013
	U.S. $	U.S. $
Maintenance payable and provisions	3,903,632	4,820,429
Accrued loan expenses	21,351	21,053
Dividends payable	11,702,710	13,736,779
Due to Consolidated Contractors Company	888,783	792,214
Accrued Board of Directors expenses	300,800	329,000
Payroll taxes*	-	478,778
Accrued expenses	427,764	117,016
Land's rent	441,000	294,000
Due to consultants	-	75,000
Provision for employees' vacations	258,417	235,943
Others	308,217	432,681
	18,252,674	21,332,893

* The Company did not withhold income tax on employees' salaries based on the Presidential Decree issued in June 2007 exempting all tax payers of southern governorates (Gaza Strip) from taxes. During the year, the Company paid previously withheld payroll taxes to their respective employees.

19. Capacity Charges

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

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

The power plant was hit by an Israeli air strike causing it to stop operating for approximately two months (Note 4). As a result and in a letter dated July 31, 2014, GPGC declared a force majeure in accordance to the power purchase agreement. GPGC did not bill PENRA for capacity charges during the period of operation stoppage. GPGC undertook maintenance and repairs which enabled it to have available capacity of 92.4 MW during September 2014 and therefore issued its capacity charges invoices at 92.4 MW instead of full capacity. Management expects to be able to complete the maintenance and repairs works to enable it to resume full operating capacity within a year.

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

20. Discount on the Capacity Charges Invoices

This item represents total discount on the capacity charges invoices during the year based on Board of Directors decision made during their meeting dated December 15, 2012 granting PENRA a monthly discount in the amount of U.S. $ 250,000 starting from the capacity chargers invoice of January 2013 until further notice.

During August 2014, the Board of Directors of the Company decide to stop discount previously granted effective September 2014.

21. Operating Expenses

	2014	2013
	U.S. $	U.S. $
Salaries and wages	5,005,336	4,304,747
Provision for employees' indemnity	413,254	231,127
Board of Directors expenses	173,900	164,500
Employees' insurance	150,102	116,411
Development and technical advisory services	171,067	400,000
Travel and transportation	512,686	388,498
Power plant insurance	722,582	868,223
Power plant operation and maintenance	649,472	6,835,759
Depreciation of property, plant and equipment	6,649,706	6,915,884
Amortization of intangible assets	221,583	221,583
Land lease	147,000	147,000
Professional and consultancy fees	40,033	263,358
Telephone and fax	179,915	66,653
Legal fees	20,584	50,534
Palestine Securities Exchange listing fees	26,817	23,638
Office supplies	40,462	75,665
Advertisements	34,198	18,629
Security service costs	7,106	640,289
Miscellaneous	188,518	183,174
	15,354,321	21,915,672

22. Interests on PENRA's Receivables

During 2013, the Board of Directors decided to stop charging interest on accounts receivable due from PENRA starting from the capacity chargers invoice of February 2013 until further notice.

23. Basic and Diluted Earnings Per Share

	2014	2013
	U.S. $	U.S. $
Profit for the year	1,884,873	4,561,995
	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	0.03	0.08

24. Dividends

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

The Company's general assembly approved in its meeting held on April 23, 2013, the proposed dividends distribution by the Company's board of directors of U.S. $ 6,000,000 for the year 2012, the equivalent of 10% of paid-in share capital.

25. 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:

	Nature of relation	2014	2013
		U.S. $	U.S. $
Cash at Arab Bank	Major shareholder	2,774,685	2,823,016
Due from shareholders	Major shareholders	2,559,886	1,998,043
Due to Consolidated Contractors Company	Major shareholder	888,783	792,214
Dividends payable	Major shareholders	11,702,710	13,736,779
Accrued Board of Directors expenses	Board of Directors	300,800	329,000

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

	Nature of relation	2014	2013
		U.S. $	U.S. $
Development and technical advisory services fee charged by United Engineering Services S,A	Sister company	100,000	200,000
Consulting and services fee charged by Consolidated Contractors Company	Major shareholder	5,926	305,000
Salaries and wages	Key management	427,942	354,187
Employees' end of service benefits	Key management	25,306	24,034
Board of Directors expenses	Board of Directors	173,900	164,500

26. Income Tax

The Palestinian National Authority has agreed to exempt GPGC 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 2013.

27. Commitments and Contingencies

Commitment related to the contract of the leased land on which the power plant is built (became effective as of the date of commercial operation on March 15, 2004 and for 30 years) amounted to U.S. $ 2,205,000 and U.S. $ 2,325,000 as of December 31, 2014 and 2013, respectively.

Future capacity charges invoices from the use of the power plant according to the power purchase agreement (will be effective until the year 2024) amounted to U.S. $ 306,517,006 and U.S. $ 330,703,584 as of December 31, 2014 and 2013, respectively.

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

28. Fair Values of Financial Instruments

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

	Carrying value		Fair value	
	2014	2013	2014	2013
	U.S. $	U.S. $	U.S. $	U.S. $
Financial Assets				
Accounts receivables	28,058,258	29,366,643	28,058,258	29,366,643
Other financial assets	2,593,179	3,147,353	2,593,179	3,147,353
Cash and cash equivalents	10,925,149	9,768,299	10,925,149	9,768,299
Available-for-sale investment	500,000	-	500,000	-
	42,076,586	42,282,295	42,076,586	42,282,295
Financial Liabilities				
Long term loans	4,658,511	10,544,444	4,658,511	10,544,444
Credit facilities	-	4,700,000	-	4,700,000
Other financial liabilities	15,241,018	17,911,451	15,241,018	17,911,451
	19,899,529	33,155,895	19,899,529	33,155,895

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 current portion of accounts receivables, other financial assets, credit facilities and other financial liabilities are not materially different from their carrying values, because of these instruments been with repayment periods or short-term collection.

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

29. Risk Management

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

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

Interest rate risk

The following table demonstrates the sensitivity of the consolidated income statement to reasonably possible changes in interest rates as of December 31, 2014, with all other variables held constant.

The sensitivity of the consolidated income statement 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, 2014 and 2013. There is no direct impact on the Company's equity. The effect of decrease 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. $
2014		
U.S. Dollar	+10	(4,659)
2013		
U.S. Dollar	+10	(10,544)

Credit risk

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

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

Liquidity risk

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

The table below summarizes the maturity profile of the Company's financial liabilities at December 31, 2014 and 2013 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, 2014				
Long term loans	-	688,605	4,131,630	4,820,235
Other current liabilities	384,790	14,856,228	-	15,241,018
	384,790	15,544,833	4,131,630	20,061,253
December 31, 2013				
Long term loans	5,250,271	688,605	4,820,235	10,759,111
Credit facilities	-	4,935,000	-	4,935,000
Other current liabilities	2,370,845	15,540,606	-	17,911,451
	7,621,116	21,164,211	4,820,235	33,605,562

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 income statement. The effect of decrease 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. $
2014						
U.S. Dollar	+10	(23,967)	+10	(14,108)	+10	153,283
2013						
U.S. Dollar	+10	(1,068)	+10	(9,179)	+10	244,963

30. 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, 2014 and 2013. Capital comprises paid-in share capital, statutory reserve and retained earnings, and is measured at U.S. $ 78,004,220 and U.S. $ 79,119,347 as at December 31, 2014 and 2013, respectively.

31. Concentration of Risk in Geographic Area

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