Palestine Electric Company
Public Shareholding Company Limited

Consolidated Financial Statements
December 31, 2012

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Independent Auditors' Report to the Shareholders of Palestine Electric Company - Public Shareholding Company Limited

We have audited the accompanying consolidated financial statements of Palestine Electric Company - Public Shareholding Company Limited (the Company), which comprise the consolidated statement of financial position as at December 31, 2012, 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, 2012 and its financial performance and its 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 (8) to the accompanying consolidated financial statements, 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 power purchase agreement.

Furthermore, as explained in note (28) 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 19, 2013
Gaza, Palestine

Palestine Electric Company
Public Shareholding Company Limited

CONSOLIDATED STATEMENT OF FINANCIAL POSITION
As at December 31, 2012

	Notes	2012 U. $. $	2011 U.S. $
ASSETS			
Non-current assets			
Property, plant and equipment	4	69,972,183	76,873,504
Intangible assets	5	2,523,460	1,587,584
Investment in an associate	6	1,033,445	1,008,805
		73,529,088	79,469,893
Current assets			
Materials and inventories	7	7,382,688	6,592,855
Accounts receivable	8	25,690,234	20,053,040
Other current assets	9	748,970	4,671,456
Cash and cash equivalents	10	5,173,160	6,939,668
		38,995,052	38,257,019
TOTAL ASSETS		112,524,140	117,726,912
EQUITY AND LIABILITIES			
Equity			
Paid-in share capital	11	60,000,000	60,000,000
Statutory reserve	12	7,733,213	6,891,759
Retained earnings		12,824,139	11,251,052
Total equity		80,557,352	78,142,811
Non-current liabilities			
Long term loan	13	8,800,000	17,973,393
Provision for employees' indemnity	14	2,089,022	1,920,358
Credit facilities mature after a year	15	-	2,849,000
		10,889,022	22,742,751
Current liabilities			
Current portion of long term loan	13	2,200,000	-
Credit facilities mature within a year	15	-	1,501,000
Other current liabilities	16	18,877,766	15,340,350
		21,077,766	16,841,350
Total liabilities		31,966,788	39,584,101
TOTAL EQUITY AND LIABILITIES		112,524,140	117,726,912

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

CONSOLIDATED STATEMENT OF INCOME AND COMPREHENSIVE INCOME
Year Ended December 31, 2012

	Notes	2012 U.S. $	2011 U.S. $
Revenues			
Capacity charges	17	30,167,928	29,890,896
Operating expenses	18	(15,415,270)	(21,004,038)
		14,752,658	8,886,858
Interest on PENRA's receivables		1,238,075	963,832
Finance costs		(864,909)	(1,220,849)
Impairment of accounts receivable	8	(7,332,731)	-
Share of results of an associate	6	(248,693)	(218,772)
Other revenues (expenses)	19	870,141	(37,035)
Profit for the year		8,414,541	8,374,034
Other comprehensive income		-	-
Total comprehensive income for the year		8,414,541	8,374,034
Basic and diluted earnings per share	20	0.14	0.14

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
Year Ended December 31, 2012

	Paid-in Share Capital	Statutory Reserve	Retained Earnings	Total Equity
	U.S. $	U.S. $	U.S. $	U.S. $
2012				
Balance, beginning of the year	60,000,000	6,891,759	11,251,052	78,142,811
Total comprehensive income for the year	-	-	8,414,541	8,414,541
Transfer to statutory reserve	-	841,454	(841,454)	-
Cash dividends (note 21)	-	-	(6,000,000)	(6,000,000)
Balance, end of year	60,000,000	7,733,213	12,824,139	80,557,352
2011				
Balance, beginning of the year	60,000,000	6,054,356	9,714,421	75,768,777
Total comprehensive income for the year	-	-	8,374,034	8,374,034
Transfer to statutory reserve	-	837,403	(837,403)	-
Cash dividends (note 21)	-	-	(6,000,000)	(6,000,000)
Balance, end of year	60,000,000	6,891,759	11,251,052	78,142,811

CONSOLIDATED STATEMENT OF CASH FLOWS
Year Ended December 31, 2012

	Note	2012 U.S. $	2011 U.S. $
Operating activities			
Profit for the year		8,414,541	8,374,034
Adjustments:			
Provision for employees' indemnity		250,099	246,222
Depreciation of property, plant and equipment		6,931,951	6,943,628
Amortization		167,927	271,263
Finance costs		864,909	1,220,849
Impairment of accounts receivable		7,332,731	-
Provision no longer required		(969,811)	-
Share of results of an associate		248,693	218,772
		23,241,040	17,274,768
Working capital adjustments:			
Accounts receivable		(12,969,925)	2,585,152
Other current assets		2,515,161	(852,393)
Materials and inventories		(789,833)	(326,307)
Other current liabilities		310,713	4,260,336
Employees' indemnity paid		(81,435)	(121,050)
Net cash flows from operating activities		12,225,721	22,820,506
Investing activities			
Purchase of property, plant and equipment		(30,630)	(20,572)
Investment in an associate		-	(1,115,000)
Net cash flows used in investing activities		(30,630)	(1,135,572)
Financing activities			
Long term loan		-	11,000,000
Loan repayment		(6,973,393)	(33,571,607)
Credit facilities		(4,350,000)	4,350,000
Finance costs paid		(864,909)	(862,386)
Dividends paid		(1,773,297)	(1,555,168)
Net cash flows used in financing activities		(13,961,599)	(20,639,161)
(Decrease) increase in cash and cash equivalents		(1,766,508)	1,045,773
Cash and cash equivalents, beginning of the year		6,939,668	5,893,895
Cash and cash equivalents, end of year	10	5,173,160	6,939,668

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
December 31, 2012

1. General

Palestine Electric Company - Public Shareholding Company Limited (the Company) located in Gaza – Palestine was established and registered in Gaza on December 14, 1999, under registration number (563200971) in accordance with the Companies' Law of 1929.

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 Private Limited 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 the opportunity to continue for up to two additional consecutive five-year periods. Commercial operation started on March 15, 2004.

The Company is considered a subsidiary of Palestine Power Private Limited Company (PPP). PPP owns 64.99 % of the Company's share capital. The financial statements of the Company are consolidated with the financial statements of PPP.

The consolidated financial statements were authorized for issuance by the Company's Board of Directors on March 19, 2013.

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, 2012. GPGC was established in Gaza as a private shareholding limited company, with an authorized share capital of 6,000,000 shares of U.S. $ 10 par value each.

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 under the historical cost convention.

3.2 Basis of consolidation

A subsidiary is a company over which the Company exercises control over the financial and operational policies.

The financial statements of the Company and its subsidiary are prepared for the same reporting year as the Company, using consistent accounting policies.

A subsidiary is fully consolidated from the date of acquisition, being the date on which the Company obtains control, and continues to be consolidated until the date that such control ceases.

All intra-company balances, transactions, income and expenses and profits and losses resulting from intra-company transactions that are recognized in assets, 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 new and amended IFRS. Adoption of the standard did not have any effect on the financial performance or position of the Company.

<u>IFRS 7 - Financial Instruments: Disclosures — Enhanced Derecognition Disclosure Requirements</u>

The amendment requires additional disclosure about financial assets that have been transferred but not derecognised to enable the user of the Company's financial statements to understand the relationship with those assets that have not been derecognised and their associated liabilities. In addition, the amendment requires disclosures about the entity's continuing involvement in derecognised assets to enable the users to evaluate the nature of, and risks associated with, such involvement. The amendment is effective for annual periods beginning on or after 1 July 2011. The Company does not have any assets with these characteristics so there has been no effect on the presentation of its financial statements.

The following standards have been issued but are not yet mandatory, and have not been adopted by the Company. These standards are those that the Company reasonably expects to have an impact on disclosures, financial position or performance when applied at a future date. The Company intends to adopt these standards when they become effective.

<u>IAS 1 Presentation of Items of Other Comprehensive Income (Amended)</u>

The amendments to IAS 1 change the grouping of items presented in other comprehensive income. Items that could be reclassified (or 'recycled') to income statement at a future date would be presented separately from items that will never be reclassified. The amendment affects presentation only and has no impact on the Company's financial position or performance. This amendment will be effective for annual periods beginning on or after 1 July 2012

IAS 27 Separate Financial Statements (Revised)

As a consequence of the new IFRS 10 and IFRS 12, what remains in IAS 27 was renamed and became limited to accounting for subsidiaries, jointly controlled entities and associates in separate financial statements. The Company does not present separate financial statements. The revised standard becomes effective for annual periods beginning on or after 1 January 2013.

IAS 28 Investments in Associates and Joint Ventures (Revised)

As a consequence of the new IFRS 11 Joint Arrangements, and IFRS 12 Disclosure of Interests in Other Entities, IAS 28 Investments in Associates, has been renamed to IAS 28 Investments in Associates and Joint Ventures, and describes the application of the equity method to investments in joint ventures in addition to associates. The revised standard becomes effective for annual periods beginning on or after 1 January 2013.

IFRS 7 Disclosures — Offsetting Financial Assets and Financial Liabilities — Amendments to IFRS 7

These amendments require an entity to disclose information about rights to set-off and related arrangements (e.g., collateral agreements). The disclosures would provide users with information that is useful in evaluating the effect of netting arrangements on an entity's financial position. The new disclosures are required for all recognised financial instruments that are set off in accordance with IAS 32 Financial Instruments: Presentation. The disclosures also apply to recognised financial instruments that are subject to an enforceable master netting arrangement or similar agreement, irrespective of whether they are set off in accordance with IAS 32. These amendments will not impact the Company's financial position or performance and become effective for annual periods beginning on or after 1 January 2013.

IFRS 9 - Financial Instruments: Classification and Measurement

IFRS 9 as issued reflects the first phase of the IASBs work on the replacement of IAS 39 and applies to classification and measurement of financial assets and financial liabilities as defined in IAS 39. The adoption of the first phase of IFRS 9 will have an effect on the classification and measurement of the Company's financial assets, but will potentially have no impact on classification and measurements of financial liabilities. The Company will quantify the effect in conjunction with the other phases, when issued, to present a comprehensive picture. This standard becomes effective for annual periods beginning on or after 1 January 2015.

IFRS 10 Consolidated Financial Statements

IFRS 10 establishes a single control model that applies to all entities including special purpose entities. The changes will require management to exercise significant judgment to determine which entities are controlled, and therefore, are required to be consolidated by a parent, compared with the requirements that were in IAS 27. This standard will be effective for annual periods beginning on or after January 1, 2013.

IFRS 11 Joint Arrangements

IFRS 11 replaces IAS 31 Interests in Joint Ventures and SIC-13 Jointly-controlled Entities — Non-monetary Contributions by Ventures. IFRS 11 removes the option to account for jointly controlled using proportionate consolidation. Instead, Jointly-controlled Entities that meet the definition of a joint venture must be accounted for using the equity method. The standard becomes effective for annual periods beginning on or after 1 January 2013.

IFRS 12 Disclosure of Interests in Other Entities

IFRS 12 includes all of the disclosures that were previously in IAS 27 related to consolidated financial statements, as well as all of the disclosures that were previously included in IAS 28 and IAS 31. These disclosures relate to an entity's interests in subsidiaries, joint arrangements, associates and structured entities. A number of new disclosures are also required, but has no impact on the Company's financial position or performance. This standard becomes effective for annual periods beginning on or after 1 January 2013.

IFRS 13 Fair Value Measurement

IFRS 13 provides guidance on how to measure fair value under IFRS when fair value is required or permitted. The Company is currently assessing the impact that this standard will have on the financial position and performance. This standard will be effective for financial year beginning on January 1, 2013.

3.4 Estimates and assumptions

The preparation of the 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 are recognized as an expense when incurred. Finance costs consists of interest using the effective interest method and other costs incurred in connection with 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.

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.

Fair values

For investments traded in an active market, fair value is determined by reference to quoted market bid prices at the close of business on the financial statements date.

The fair value of interest-bearing items is estimated based on discounted cash flows using interest rates for items with similar terms and risk characteristics.

For unquoted equity investments, fair value is determined by reference to the market value of a similar investment or is based on the expected discounted cash flows.

Impairment of financial assets

An assessment is made at each financial statements 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.

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

The Company's investment in its associate is accounted for using the equity method. An associate is an entity in which the Company has significant influence.

Under the equity method, the investment in the associate is carried in the consolidated statement of financial position at cost plus post acquisition changes in the Company's share of net assets of the associates.

The consolidated income statement reflects the share of the results of operations of the associate. Unrealized gains and losses resulting from transactions between the Company and the associate are eliminated to the extent of the interest in the associate.

The financial statements of the associate are prepared for the same reporting period as the Company. Where necessary, adjustments are made to bring the accounting policies in line with those of the Company.

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 deposits.

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.

4. Property, Plant and Equipment

2012	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:							
At the beginning of the year	135,440,605	1,464,904	440,392	305,699	138,197	197,160	137,986,957
Additions	-	-	-	16,777	-	13,853	30,630
At the end of the year	135,440,605	1,464,904	440,392	322,476	138,197	211,013	138,017,587
Accumulated depreciation:							
At the beginning of the year	59,708,067	484,650	330,401	268,487	133,019	188,829	61,113,453
Depreciation charges for the year	6,772,032	73,248	65,208	13,631	3,492	4,340	6,931,951
At the end of the year	66,480,099	557,898	395,609	282,118	136,511	193,169	68,045,404
Net carrying amount:							
At December 31, 2012	68,960,506	907,006	44,783	40,358	1,686	17,844	69,972,183

2011	Power plant	Building	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:							
At the beginning of the year	135,440,605	1,464,904	440,392	287,117	138,197	195,170	137,966,385
Additions	-	-	-	18,582	-	1,990	20,572
At the end of the year	135,440,605	1,464,904	440,392	305,699	138,197	197,160	137,986,957
Accumulated depreciation:							
At the beginning of the year	52,936,035	411,402	257,273	252,467	127,775	184,873	54,169,825
Depreciation charges for the year	6,772,032	73,248	73,128	16,020	5,244	3,956	6,943,628
At the end of the year	59,708,067	484,650	330,401	268,487	133,019	188,829	61,113,453
Net carrying amount:							
At December 31, 2011	75,732,538	980,254	109,991	37,212	5,178	8,331	76,873,504

Property, plant and equipment include U.S. $ 798,943 and U.S. $ 617,717 of fully depreciated assets as at December 31, 2012 and 2011, respectively, which are still used in the Company's operations.

5. Intangible Assets

	2012	2011
	U.S. $	U.S. $
Balance, beginning of the year	1,587,584	1,717,184
Addition	1,103,803	-
Amortization	(167,927)	(129,600)
Balance, end of year	2,523,460	1,587,584

Intangible asset represents the Company's 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. Four step-up transformers were installed on in 2006 at a value of U.S. $ 2,267,984. The remaining two step-up transformers were installed during the year at a value of U.S. $ 1,103,803.

6. Investment in an Associate

		Ownership %		2012	2011
Company name	Country of Incorporation	2012	2011	U.S.$	U.S.$
Palestine Power Generating Co.	Palestine	45	41	1,033,445	1,008,805

The Company worked with other investors on establishing Palestine Power Generating Company, public shareholding company (the associate) in the West Bank with an initial share capital of U.S. $ 2,000,000 at a par value equal U.S. $ 1 for each share with an intention to increase the capital to U.S. $ 120,000,000 during the development of the power plant project which the associate intends to develop. The general assembly of the shareholders of the associate decided in an extraordinary meeting held on July 17, 2011 to increase the share capital from 2 million shares to 10 million shares which were fully subscribed to the shareholders.

Company's share of the associate's assets and liabilities is as follows:

	2012	2011
	U.S. $	U.S. $
Non-current assets	1,179,371	635,744
Current assets	828,950	891,638
Non-current liabilities	12,529	8,870
Current liabilities	97,654	85,917

Company's share of the associate's results of operations for the year is as follows:

	2012	2011
	U.S. $	U.S. $
Revenue	-	-
Results of operations	(248,693)	(218,772)

7. Materials and Inventories

	2012	2011
	U.S. $	U.S. $
Spare parts	6,427,729	5,545,964
Consumables	318,137	255,944
Goods in transit	544,831	771,092
Others	91,991	19,855
	7,382,688	6,592,855

8. Accounts Receivable

	2012	2011
	U.S. $	U.S. $
Accounts receivable from capacity charges	39,779,097	26,809,172
Impairment of accounts receivable	(14,088,863)	(6,756,132)
	25,690,234	20,053,040

Impaired account receivable amounted to U.S $ 26,619,574 as of December 31, 2012 and U.S $ 16,814,387 as of December 31, 2011.

Movement on the impairment of accounts receivable as of December 31, 2012 and 2011 was as follows:

	2012	2011
	U.S. $	U.S. $
Balance, beginning of the year	6,756,132	6,756,132
Additions during the year	7,332,731	-
Balance, end of year	14,088,863	6,756,132

The aging analysis of the unimpaired accounts receivable as at December 31, 2012 and 2011 is as follows:

			Past due but not impaired		
	Total	Neither past due nor impaired	Less than 30 days	30-60 days	61-120 days
	U.S.$	U.S.$	U.S.$	U.S.$	U.S.$
2012	13,159,523	2,640,414	2,631,033	2,634,731	5,253,345
2011	9,994,785	2,576,383	2,029,281	2,557,685	2,831,436

Unimpaired receivables are expected, on the basis of past experience, 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.

9. Other Current Assets

	2012	2011
	U.S. $	U.S. $
Due from PENRA *	-	1,133,992
Value Added Tax receivable	108,547	134,841
Due from shareholders	37,116	1,176,511
Due from an associate	-	273,333
Prepaid insurance	412,256	414,480
Advances to suppliers	181,306	1,517,188
Others	9,745	21,111
	748,970	4,671,456

* The 2011 amount represents the fair value of the two remaining transformers that PENRA committed to supply and install in accordance with the agreement signed between GPGC and PENRA on September 2, 2006. PENRA supplied and installed the two transformers during the current year (note 5).

10. Cash and Cash Equivalents

	2012	2011
	U.S. $	U.S. $
Cash on hand	6,680	6,836
Current accounts at banks in U.S. $	5,166,480	6,932,832
	5,173,160	6,939,668

11. Paid-in Share Capital

	2012	2011
	U.S. $	U.S. $
Authorized share capital	60,000,000	60,000,000
Subscribed share capital	60,000,000	60,000,000
Paid-in share capital	60,000,000	60,000,000

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

12. 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.

13. Long Term Loan

On June 26, 2000, GPGC signed an agreement with Arab Bank P.L.C. for a long term loan of U.S. $ 90,000,000. On November 16, 2003, GPGC signed a restatement and amendment agreement of the long term loan with the Arab Bank. According to the agreement, the long term loan will be repayable over 19 semi-annual installments the first of which started on December 31, 2004 and the last installment becomes due on December 31, 2013. These installments were based on predetermined percentage of the loan amount. It has also been agreed that interest rate on the long term loan is six month LIBOR plus 2.25%. Interest rate was further reduced to six month LIBOR plus 2% effective December 31, 2007. During 2011, GPGC and Arab Bank agreed to use an amount of U.S. $ 30 million that was transferred to the Company from Palestinian Authority for the settlement of PENRA's accounts receivable to Arab Bank to settle the loan's passed due installments, accrued interests, and commissions and prepay outstanding loan installments in advance. Further, the parties agreed to reschedule the loan's outstanding balance of U.S.$ 6,973,393 over two installments, the first of which amounting to U.S.$ 2,257,000 plus related interest will be payable on June 30, 2013 and the second installment amounting to U.S.$ 4,716,393 plus related interest will be payable on December 31, 2013.

GPGC made early repayment of the entire outstanding loan balance amounted to U.S $ 6,973,393. After repaying the entire loan amount, Arab Bank agreed on October 14, 2012 to release all collaterals and security pledge of the loan which consisted of all GPGC's assets and all of GPGC's shares owned by the Company.

After obtaining Arab Bank's consent 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 will be due on April 1, 2013 and last installment will be 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%. The Company agreed to share all collaterals made available to the Arab Bank against the Arab Bank loan, referred to above, with the local bank.

Payment schedule of the loans is as follows:

	Payment schedule of the loans as at December 31	
	2012	2011
	U.S. $	U.S. $
2013	2,200,000	9,173,393
2014	2,200,000	2,200,000
2015	2,200,000	2,200,000
2016	2,200,000	2,200,000
2017	2,200,000	2,200,000
	11,000,000	17,973,393

14. Provision for Employees' Indemnity

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

	2012	2011
	U.S. $	U.S. $
Balance, beginning of the year	1,920,358	1,795,186
Additions	250,099	246,222
Payments	(81,435)	(121,050)
Balance, end of year	2,089,022	1,920,358

15. Credit Facilities

On January 24, 2011, GPGC signed an agreement with Arab Bank to obtain credit facilities in the form of overdraft with a ceiling of U.S. $ 3,000,000 subject to annual interest rate of LIBOR for one month plus 2.75% and annual commission of rate 0.5%. The utilized balance of the overdraft was originally scheduled to be settled after one year from the agreement date or any date the parties subsequently agree thereon. The parties further agreed during 2011 to increase the ceiling of the credit facilities by U.S. $ 2,000,000 subject to interest rate of LIBOR for one month plus 2.75% and commission rate of 3.5% and agreed to settle the additional granted credit facilities no later than July 31, 2011. In addition, the Arab Bank agreed to extend the repayment date of the credit facilities balance of U.S. $ 2,849,000 at December 31, 2011 to become due on January 31, 2013 and further agreed to extend the due date of the utilized balance of the additional credit facilities amounting to U.S. $ 1,501,000 at December 31, 2011 to a date no later than August 1, 2012.

During the year, GPGC made early repayment of the entire credit facilities balance of U.S. $ 4,350,000.

16. Other Current Liabilities

	2012	2011
	U.S. $	U.S. $
Dividends payable	10,691,782	6,465,079
Maintenance payable and provision	5,104,793	4,772,021
Due to Consolidated Contractors Company	1,475,380	236,337
Accrued payroll taxes *	483,665	494,942
Provision for employees' vacations	213,498	212,488
Accrued finance costs	-	193,551
Due to shareholders	41,976	-
Accrued board of directors remuneration	329,000	164,500
Accrued expenses	132,299	1,601,826
Accrued land's rent expense	147,000	-
Due to consultants	75,000	-
Other provisions	183,373	1,199,606
	18,877,766	15,340,350

* 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.

17. Capacity Charges

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

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

18. Operating Expenses

	2012	2011
	U.S. $	U.S. $
Depreciation of property, plant and equipment	6,931,951	6,943,628
Salaries and wages	3,196,919	4,364,483
Power plant operation and maintenance	2,282,471	5,543,102
Power plant insurance	615,470	796,756
Security service costs	395,126	577,169
Travel and transportation	457,188	492,324
Development and technical advisory services	250,000	820,000
Provision for employees' indemnity	250,099	246,222
Board of directors remuneration	164,500	164,500
Employees' insurance	124,649	127,268
Amortization of intangible asset	167,927	129,600
Land lease	147,000	141,663
Professional and consultancy fees	75,442	286,156
Telephone and fax	69,681	96,274
Legal fees	20,534	20,534
Palestine Exchange fees	24,080	24,224
Office supplies	51,531	53,536
Advertisements	6,957	13,602
Miscellaneous	183,745	162,997
	15,415,270	21,004,038

19. Other Revenues (Expenses)

	2012	2011
	U.S. $	U.S. $
Provision no longer required	969,811	-
Currency exchange differences	(109,142)	(38,551)
Others	9,472	1,516
	870,141	(37,035)

20. Basic and Diluted Earnings Per Share

	2012	2011
	U.S. $	U.S. $
Profit for the year	8,414,541	8,374,034
	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	0.14	0.14

21. Dividends

The Company's general assembly approved in its meeting held on April 25, 2012, the proposed dividends distribution by the Company's board of directors of U.S. $ 6,000,000 for the year 2011, the equivalent of 10% of paid-in share capital.

The Company's general assembly approved in its meeting held on April 27, 2011, the proposed dividends distribution by the Company's board of directors of U.S. $ 6,000,000 for the year 2010, the equivalent of 10% of paid-in share capital.

22. Related Party Transactions

Related parties represent associated companies, 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 Company's board of directors. Balances with related parties included in the consolidated statement of financial position are as follows:

	Nature of relation	2012	2011
		U.S. $	U.S. $
Cash at Arab Bank	Major shareholder	2,798,798	2,609,512
Due from shareholders	Major shareholders	37,116	1,176,511
Due from an associate	Associate	-	273,333
Arab Bank long term loan	Major shareholder	-	6,973,393
Arab Bank credit facilities	Major shareholder	-	4,350,000
Arab Bank accrued interest	Major shareholder	-	193,551
Due to Consolidated Contractors Company	Major shareholder	1,475,380	236,337
Due to shareholders	Major shareholders	41,976	-
Accrued Board of Directors remuneration	Board of directors	329,000	164,500

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

	Nature of relation	2012	2011
		U.S. $	U.S. $
Arab Bank finance cost	Major shareholder	298,764	574,660
Development and technical advisory services charged by United Engineering Services S.A	Sister company	100,000	-
Consulting and service fee charged by Consolidated Contractors Company	Major shareholder	47,000	299,000

Compensation of key management personnel:

	2012	2011
Salaries and wages	304,543	497,348
Employees' end of service benefits	20,725	31,506
Board of directors remuneration	164,500	164,500

23. Income Tax

The PNA 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 financial statements, the Company did not obtain a tax settlement from the taxes authorities for the period from inception until 2011.

24. Commitments and Contingencies

Commitments and contingencies represent the following:

	2012	2011
	U.S. $	U.S. $
Maintenance services, development and consultancy agreements	12,858,922	13,397,613
Land lease agreement	2,499,000	2,646,000
Unpaid share of investment in an associate	2,923,334	2,923,334
	18,281,256	18,966,947

Furthermore, the Company's share of the associate's commitments amounted to U.S. $ 593,122 and U.S. $ 718,354 as at December 31, 2012 and 2011, respectively.

Future minimum capacity charge invoices under the power purchase agreement for the use of power plant in effect as of December 31, 2012 and 2011 were as follows:

	2012	2011
	U.S. $	U.S. $
Within one year	30,453,120	30,167,928
After one year and up to five years	124,837,392	123,609,312
More than five years	205,866,192	237,547,392
	361,156,704	391,324,632

25. Fair Values of Financial Instruments

Financial instruments comprise of financial assets and financial liabilities. Financial assets consist of cash and cash equivalents, accounts receivable and some other current assets. Financial liabilities consist of long term loan and some other current liabilities.

The fair value of financial instruments, are not materially different from their carrying values.

26. Risk Management

The Company's principal financial liabilities comprise long term loan, credit facilities and some other current 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, cash and bank accounts, and some other current assets 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, 2012, 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, 2012 and 2011. 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. $
2012		
U.S. Dollar	+10	(11,000)
2011		
U.S. Dollar	+10	(22,323)

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, with a maximum exposure equal to the carrying amount of these other 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, 2012 and 2011 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, 2012				
Long term loan	-	2,711,031	9,706,396	12,417,427
Other current liabilities	3,111,943	12,107,972	-	15,219,915
	3,111,943	14,819,003	9,706,396	27,637,342

	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, 2011				
Long term loans	-	-	20,358,547	20,358,547
Credit facilities	-	1,673,512	2,863,376	4,536,888
Other current liabilities	711,740	6,553,319	-	7,265,059
	711,740	8,226,831	23,221,923	32,160,494

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.$
2012						
U.S.$	+10	(2,544)	+10	(7,001)	+10	237,092
2011						
U.S.$	+10	(24,860)	+10	(14,073)	+10	29,257

27. Capital Management

The primary objective of the Company's capital management is to ensure that it maintains healthy capital ratios in order to support its business and maximize shareholder 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, 2012 and 2011. Capital comprises paid-in share capital, statutory reserve and retained earnings, and is measured at U.S. $ 80,557,352 and U.S. $ 78,142,811 as at December 31, 2012 and 2011, respectively.

28. Concentration of Risk in Geographic Area

The Company and its subsidiary are carrying out all of their activities in Gaza. The Company's assets, which mainly comprise property, plant and equipment, are located in Gaza. The political and economical 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.