Palestine Electric Company

Consolidated Financial Statements

December 31, 2013

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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, 2013, 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 consolidated financial position of the Company as at December 31, 2013 and its consolidated 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 (7) to the accompanying consolidated financial statements and in accordance with the power purchase Agreement (the 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.

In addition, as explained in note (25) 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 2012.

Furthermore, as explained in note (30) 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 18, 2014
Gaza, Palestine

CONSOLIDATED STATEMENT OF FINANCIAL POSITION
As at December 31, 2013

	Notes	2013 U. S. $	2012 U.S. $
ASSETS			
Non-current assets			
Property, plant and equipment	4	63,146,326	69,972,183
Intangible assets	5	2,301,877	2,523,460
Investment in an associate	6	2,074,685	1,033,445
Accounts receivable – non-current	7	23,366,643	-
		90,889,531	73,529,088
Current assets			
Materials and inventories	8	7,338,807	7,382,688
Accounts receivable – current	7	6,000,000	25,690,234
Other current assets	9	4,007,478	748,970
Cash and cash equivalents	10	9,771,288	5,173,160
		27,117,573	38,995,052
TOTAL ASSETS		118,007,104	112,524,140
EQUITY AND LIABILITIES			
Equity			
Paid-in share capital	11	60,000,000	60,000,000
Statutory reserve	12	8,189,413	7,733,213
Retained earnings		10,929,934	12,824,139
Total equity		79,119,347	80,557,352
Non-current liabilities			
Long term loans	13	8,591,844	8,800,000
Provision for employees' indemnity	14	2,310,420	2,089,022
		10,902,264	10,889,022
Current liabilities			
Current portion of long term loans	13	1,952,600	2,200,000
Credit facilities mature within a year	15	4,700,000	-
Other current liabilities	16	21,332,893	18,877,766
		27,985,493	21,077,766
Total liabilities		38,887,757	31,966,788
TOTAL EQUITY AND LIABILITIES		118,007,104	112,524,140

The attached notes 1 to 30 form part of these consolidated financial statements

CONSOLIDATED STATEMENT OF INCOME AND COMPREHENSIVE INCOME
Year Ended December 31, 2013

	Notes	2013 U.S. $	2012 U.S. $
Revenues			
Capacity charges	17	30,453,120	30,167,928
Discount on capacity charges' invoices	18	(3,000,000)	-
Operating expenses	19	(21,915,672)	(15,571,453)
		5,537,448	14,596,475
Interest on PENRA's receivables	20	122,524	1,238,075
Finance costs		(571,380)	(864,909)
Impairment of accounts receivable	7	-	(7,332,731)
Share of results of an associate	6	(229,039)	(248,693)
Other (expenses) revenues	21	(297,558)	1,026,324
Profit for the year		4,561,995	8,414,541
Other comprehensive income		-	-
Total comprehensive income for the year		4,561,995	8,414,541
Basic and diluted earnings per share	22	0.08	0.14

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
Year Ended December 31, 2013

	Paid-in Share Capital	Statutory Reserve	Retained Earnings	Total Equity
	U.S. $	U.S. $	U.S. $	U.S. $
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 23)	-	-	(6,000,000)	(6,000,000)
Balance, end of year	60,000,000	8,189,413	10,929,934	79,119,347
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
Transferred to statutory reserve	-	841,454	(841,454)	-
Cash dividends (note 23)	-	-	(6,000,000)	(6,000,000)
Balance, end of year	60,000,000	7,733,213	12,824,139	80,557,352

CONSOLIDATED STATEMENT OF CASH FLOWS
Year Ended December 31, 2013

	Note	2013 U.S. $	2012 U.S. $
Operating activities			
Profit for the year		4,561,995	8,414,541
Adjustments:			
Provision for employees' indemnity		235,304	250,099
Depreciation of property, plant and equipment		6,915,884	6,931,951
Amortization		221,583	167,927
Finance costs		571,380	864,909
Impairment of accounts receivable		-	7,332,731
Provision no longer required		-	(969,811)
Share of results of an associate		229,039	248,693
		12,735,185	23,241,040
Working capital adjustments:			
Accounts receivable		(3,676,409)	(12,969,925)
Other current assets		(3,258,508)	2,515,161
Materials and inventories		43,881	(789,833)
Other current liabilities		(610,923)	310,713
Employees' indemnity paid		(13,906)	(81,435)
Net cash flows from operating activities		5,219,320	12,225,721
Investing activities			
Purchase of property, plant and equipment		(90,027)	(30,630)
Investment in an associate		(1,270,279)	-
Net cash flows used in investing activities		(1,360,306)	(30,630)
Financing activities			
Long term loan		5,300,000	-
Loan repayment		(5,755,556)	(6,973,393)
Credit facilities		4,700,000	(4,350,000)
Finance costs paid		(550,327)	(864,909)
Dividends paid		(2,955,003)	(1,773,297)
Net cash flows from (used in) financing activities		739,114	(13,961,599)
Increase (decrease) in cash and cash equivalents		4,598,128	(1,766,508)
Cash and cash equivalents, beginning of the year		5,173,160	6,939,668
Cash and cash equivalents, end of year	10	9,771,288	5,173,160

The attached notes 1 to 30 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 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 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 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 18, 2014.

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, 2013. GPGC was established in Gaza 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

The consolidated financial statements comprise the financial statements of the Company and its subsidiaries as at 31 December 2013. Control is achieved when the Company is exposed, or has rights, to variable returns from its involvement with the investees and has the ability to affect those returns through its power over the investees.

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. A change in the ownership interest of a subsidiary, without a loss of control, is accounted for as an equity transaction.

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

3.3 Changes in accounting policies

The accounting policies adopted are consistent with those used in the previous year except that the Company has adopted the following amended standards during the year:

IAS 1 Presentation of Items of Other Comprehensive Income (Amended)

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.

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.

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.

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 31 and IAS 28. These disclosures relate to an entity's interests in subsidiaries, joint arrangements, and associates. A number of new disclosures are also required, but has no impact on the Company's financial position or performance.

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 has no impact on the Company's financial position or performance.

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:

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 January 1, 2017.

Investment Entities (Amendments to IFRS 10, IFRS 12 and IAS 27)

These amendments are effective for annual periods beginning on or after January 1, 2014.

Offsetting Financial Assets and Financial Liabilities - Amendments to IAS 32

These amendments are effective for annual periods beginning on or after January 1, 2014.

IFRIC Interpretation 21 Levies (IFRIC 21)

These amendments are effective for annual periods beginning on or after January 1, 2014.

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 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 value measurement

The Company measures most of its financial instruments, and some non-financial assets, at fair value at each financial statements date. 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.

The fair value of an asset or a liability is measured using the assumptions that market participants would use when pricing the asset or liability, assuming that market participants act in their economic best interest.

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 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 assets and liabilities that are recognized in the financial statements on a recurring basis, the Company determines whether transfers have occurred between Levels in the hierarchy by re-assessing categorization (based on the lowest level input that is significant to the fair value measurement as a whole) at the end of each reporting period.

External appraisers, who are appointed by the Company, always participate in evaluating the Company's financial assets. According to the discussion with them, the Company would choose the methods and inputs that would be used for evaluation at each case.

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 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

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.

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.

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

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:							
At the 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
At the end of year	135,440,605	1,464,904	505,192	344,713	138,564	213,636	138,107,614
Accumulated depreciation:							
At the 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
At the 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

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 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 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

Property, plant and equipment include U.S. $ 882,248 and U.S. $ 798,943 of fully depreciated assets as at December 31, 2013 and 2012, respectively, which are still used in the Company's operations.

5. Intangible Assets

	2013	2012
	U.S. $	U.S. $
Balance, beginning of the year	2,523,460	1,587,584
Addition	-	1,103,803
Amortization	(221,583)	(167,927)
Balance, end of year	2,301,877	2,523,460

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. Four step-up transformers were installed in 2006 at a value of U.S. $ 2,267,984. The remaining two step-up transformers were installed during the year 2012 at a value of U.S. $ 1,103,803. 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 %		2013	2012
Company name	Country of Incorporation	2013	2012	U.S.$	U.S.$
Palestine Power Generating Co.	Palestine	45	41	2,074,685	1,033,445

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. 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.

The following schedule summarizes the financial information of the associate:

	2013	2012
Financial position of the associate	U.S. $	U.S. $
Non-current assets	4,973,310	2,620,825
Current assets	860,613	1,842,110
Non-current liabilities	(46,983)	(27,843)
Current liabilities	(371,285)	(217,009)
Equity	5,415,655	4,218,083
Unpaid capital of the associate	2,738,524	4,443,189
	8,154,179	8,661,272
Book value before adjustments	3,727,740	3,956,779
Company's shares of unpaid capital of the associate	(1,653,055)	(2,923,334)
Book value of investment in the associate	2,074,685	1,033,445

Result of operation of the associate	2013 U.S. $	2012 U.S. $
Revenue	-	-
General and administrative expenses	(446,068)	(483,259)
Depreciation	(63,442)	(61,761)
Others	2,417	(3,577)
Net loss for the year	(507,093)	(548,597)
The Company's share of net loss	(229,039)	(248,693)

7. Accounts Receivable

	2013 U.S. $	2012 U.S. $
Accounts receivable from capacity charges	43,455,506	39,779,097
Impairment of accounts receivable	(14,088,863)	(14,088,863)
	29,366,643	25,690,234
Current portion of accounts receivable from capacity charges	(6,000,000)	(25,690,234)
Non-current portion of accounts receivable from capacity charges	23,366,643	-

Movement on the impairment of accounts receivable as of December 31, 2013 and 2012 was as follows:

	2013 U.S. $	2012 U.S. $
Balance, beginning of the year	14,088,863	6,756,132
Additions during the year	-	7,332,731
Balance, end of year	14,088,863	14,088,863

The aging analysis of the unimpaired accounts receivable as at December 31, 2013 and 2012 is as follows:

			Past due but not impaired		
	Total	Neither past due nor impaired	Less than 30 days	30-60 days	Above 61 days
	U.S. $	U.S. $	U.S. $	U.S. $	U.S. $
2013	12,718,720	2,543,744	2,543,744	912,512	6,718,720
2012	13,159,523	2,640,414	2,631,033	2,634,731	5,253,345

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. Materials and Inventories

	2013	2012
	U.S. $	U.S. $
Spare parts	6,603,030	6,427,729
Consumables	286,838	318,137
Goods in transit	230,496	544,830
Others	218,443	91,992
	7,338,807	7,382,688

9. Other Current Assets

	2013	2012
	U.S. $	U.S. $
Value Added Tax receivable	1,140,850	108,547
Due from shareholders	1,998,043	37,116
Prepaid insurance	688,302	412,256
Advances to suppliers	171,823	181,306
Others	8,460	9,745
	4,007,478	748,970

10. Cash and Cash Equivalents

	2013	2012
	U.S. $	U.S. $
Cash on hand	2,989	6,680
Current accounts at banks	9,768,299	5,166,480
	9,771,288	5,173,160

11. Paid-in Share Capital

	2013	2012
	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 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 the year, 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 the entire outstanding loan balance amounted to U.S $ 4,000,000 and rescheduling the remaining outstanding loan balance amounted to U.S. $ 5,900,000. The long term loan is repayable over 9 semi-annual installments the first of which started on October 1, 2013 which was paid during the year.

Subsequent to the financial statements date, GPGC made early repayment of all outstanding loan balance 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 will be 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 collection accounts 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:

	2013
	U.S. $
2014	1,952,600
2015	1,958,494
2016	1,964,442
2017	1,970,441
2018	665,390
After 2018	2,033,077
	10,544,444

14. Provision for Employees' Indemnity

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

	2013	2012
	U.S. $	U.S. $
Balance, beginning of the year	2,089,022	1,920,358
Additions	235,304	250,099
Payments	(13,906)	(81,435)
Balance, end of year	2,310,420	2,089,022

15. 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 collection accounts 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.

16. Other Current Liabilities

	2013	2012
	U.S. $	U.S. $
Dividends payable	13,736,779	10,691,782
Maintenance payable and provisions	4,820,429	5,104,793
Due to Consolidated Contractors Company	792,214	1,475,380
Board of directors remuneration	329,000	329,000
Accrued expenses and other provision	570,750	315,672
Payroll taxes*	478,778	483,665
Land's rent expense	294,000	147,000
Provision for employees' vacations	235,943	213,498
Due to consultants	75,000	75,000
Due to shareholders	-	41,976
	21,332,893	18,877,766

* 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. Discount on the Capacity Charges Invoices

This item represents total discount on the capacity charges invoices during the year based on Board of Director decision made during its 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.

19. Operating Expenses

	2013	2012
	U.S. $	U.S. $
Depreciation of property, plant and equipment	6,915,884	6,931,951
Power plant operation and maintenance	6,835,759	2,404,621
Salaries and wages	4,304,747	3,196,919
Power plant insurance	868,223	734,864
Security service costs	640,289	395,126
Development and technical advisory services	400,000	250,000
Travel and transportation	388,498	457,188
Professional and consultancy fees	263,358	75,442
Provision for employees' indemnity	231,127	250,099
Amortization of intangible asset	221,583	167,927
Board of Directors remuneration	164,500	164,500
Land lease	147,000	147,000
Employees' insurance	116,411	124,649
Office supplies	75,665	51,531
Telephone and fax	66,653	69,681
Legal fees	50,534	20,534
Palestine Exchange Listing fees	23,638	24,080
Advertisements	18,629	6,957
Miscellaneous	183,174	98,384
	21,915,672	15,571,453

20. Interests

During the year, 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.

21. Other (Expenses) Revenues

The details of this item as follows:

	2013	2012
	U.S. $	U.S. $
Provision no longer required	-	969,811
Currency exchange differences	(139,850)	(109,142)
Others	(157,708)	165,655
	(297,558)	1,026,324

22. Basic and Diluted Earnings Per Share

	2013	2012
	U.S. $	U.S. $
Profit for the year	4,561,995	8,414,541
	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	0.08	0.14

23. Dividends

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.

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.

24. 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	2013	2012
		U.S. $	U.S. $
Cash at Arab Bank	Major shareholder	2,823,016	2,798,798
Due from shareholders	Major shareholders	1,998,043	37,116
Due to Consolidated Contractors Company	Major shareholder	792,214	1,475,380
Due to shareholders	Major shareholders	-	41,976
Dividends payable	Major shareholders	13,736,779	10,691,782
Accrued Board of Directors remuneration	Board of directors	329,000	329,000

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

	Nature of relation	2013	2012
		U.S. $	U.S. $
Arab Bank finance cost	Major shareholder	-	298,764
Development and technical advisory services fee charged by United Engineering Services S,A	Sister company	200,000	100,000
Consulting and services fee charged by Consolidated Contractors Company	Major shareholder	305,000	47,000

Compensation of key management personnel:

	2013	2012
Salaries and wages	354,187	304,543
Employees' end of service benefits	24,034	20,725
Board of directors remuneration	164,500	164,500

25. 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 financial statements, the Company did not obtain a tax settlement from the taxes authorities for the period from inception in 1999 until 2012.

26. Commitments and Contingencies

Commitments and contingencies represent the following:

	2013	2012
	U.S. $	U.S. $
Maintenance services, development and consultancy agreements	16,473,122	17,452,723
Land lease agreement	2,352,000	2,499,000
Unpaid share of investment in an associate	1,653,055	2,923,334
	20,478,177	22,875,057

Furthermore, the Company's share of the associate's commitments amounted to U.S. $ 271,329 and U.S. $ 593,122 as at December 31, 2013 and 2012, respectively.

Future total capacity charge invoices under the power purchase agreement for the use of power plant in effect as of December 31, 2013 and 2012 were as follows:

	2013	2012
	U.S. $	U.S. $
Within one year	30,746,472	30,453,120
After one year and up to five years	126,102,600	124,837,392
More than five years	173,854,512	205,866,192
	330,703,584	361,156,704

27. 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	
	2013	2012	2013	2012
	U.S. $	U.S. $	U.S. $	U.S. $
Financial Assets				
Accounts receivables	29,366,643	25,690,234	29,366,643	25,690,234
Other financial assets	3,147,353	155,408	3,147,353	155,408
Cash and cash equivalents	9,768,299	5,166,480	9,768,299	5,166,480
	42,282,295	31,012,122	42,282,295	31,012,122
Financial Liabilities				
Long term loans	10,544,444	11,000,000	10,544,444	11,000,000
Credit facilities	4,700,000	-	4,700,000	-
Other financial liabilities	17,911,451	15,219,915	17,911,451	15,219,915
	33,155,895	26,219,915	33,155,895	26,219,915

The fair value of financial instruments, are not materially different from their carrying values, the values of fair values for financial assets and financial liabilities determined according to the values that can be done by the exchanges between related parties, with the exception of operations 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.

28. Risk Management

The Company's principal financial liabilities comprise long term loans, credit facilities 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, cash and cash equivalents, and 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, 2013, 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, 2013 and 2012. 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. $
2013		
U.S. Dollar	+10	(10,544)
2012		
U.S. Dollar	+10	(11,000)

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, 2013 and 2012 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, 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

	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 loans	-	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

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. $
2013						
U.S. $	+10	1,068	+10	(9,179)	+10	244,963
2012						
U.S. $	+10	(2,544)	+10	(7,001)	+10	237,092

29. 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, 2013 and 2012, Capital comprises paid-in share capital, statutory reserve and retained earnings, and is measured at U.S. $ 79,119,347 and U.S. $ 80,557,352 as at December 31, 2013 and 2012, respectively.

30. 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.