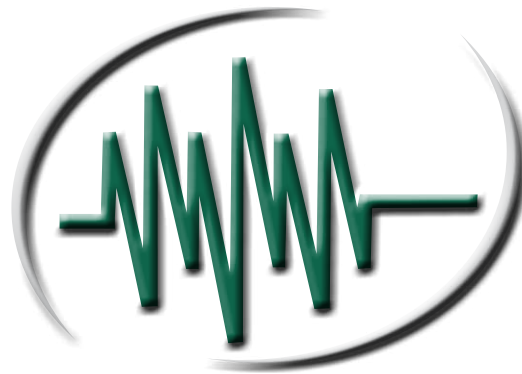


ANNUAL REPORT 2009

(Palestine's first and only **POWER** generating company)



PALESTINE ELECTRIC COMPANY PLC

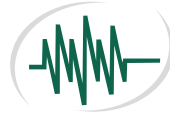
Everyone wants POWER



We have it



Palestine Electric Company, the source of your POWER



الشركة الفلسطينية للكهرباء م.ع.م
PALESTINE ELECTRIC COMPANY P.L.C

1 - Chairman's Note	2
2 - Letter from the Executive Managing Director	4
3 - Our Power - About PEC	6
4 - The Watts in Depth - PEC Technical	10
5 - The Power Line - PEC History	14
6 - The Power of Giving - PEC Community Work	16
7 - Information Technology & Investor Relations	18
8 - PEC Trading	20
9 - EMD Comments on the financial Results	24
Audited Financial Statements 2009	26

CONTENTS



"We have aims set on expansion and growth". Said Khoury



Dear PEC Shareholders

Looking at ourselves today, we see a long trail from the roots of this Company and investments placed, both in our will power and determination, to present a strong and worthy presence of Power Generation in the Region. Every year, we come to you stronger, more prepared, and more determined to push through the barriers and difficulties faced in the Generation of Power; especially under political turmoil that strains various aspects of economical activities and resource allocation.

This is our 7th year, and for seven years we have fulfilled our duties and persevered through our commitment to offering Gaza a Power Generating Company capable of generating the highest in Power output and instilling a sense of self-reliance for Power within Gaza. Every year, we face our share of difficulties and barriers; all of which create a stronger drive to push forward and endure these hardships. In this fight for endurance, we aim to utilize alternate sources to operate our Plant, decreasing the direct reliance on fuel and allowing us to reach our full potential.

In adapting and holding strong to the difficulties of this year, and on behalf of all shareholders and the public, I would like to express sincere merit and recognition to the hard work put forth by the Company's management, employees, and its facilitators. We stand as a strong, well-oiled, and well-adapted profitable Power Generating Company that is rooted here; alongside our community and the city of Gaza.

As we explore further possibilities in enhancing and securing our Plant and its resources, we have our aims set on expansion and growth. From our management team all the way to our people, from the hard working employees of this fine Company to the facilities generating the power, and from our Plant here in Gaza all the way to the West Bank.

Even in the harshest of conditions, the most unlikely of situations, and the least forgiving of environments, you can find a plant fighting to grow and adapt; slowly sharing the fruits of its growth to its surroundings.



Chairman
Mr. Said Khoury

A handwritten signature in blue ink, appearing to read 'S. Khoury', positioned below the printed name.

CHAIRMAN'S NOTE

"I am proud to be part of one of the most important projects in Palestine on an economic, humanitarian and social level". Walid Salman



To our esteemed Shareholders

If I was asked to portray our philosophy in a few words and to transpire what we hold at the heart of this Company, my only response would be...

Persevere; Adapt; Learn; Expand; Strengthen; Triumph; Improve; Network; Evolve.

In all we do, in every lesson we learn to grow from, in every opportunity presented, and in every success achieved by this Company, Palestine is at the heart of our actions. With the use of the latest modern technology, engineering practices, operations & maintenance, we continuously work towards providing Gaza with a state-of-the-art power generating company. To this day, we remain the main generator of power to Gaza and will continue to do so; never hindering our efforts in providing a plant capable of generating its maximum potential of power.

In the wake of recent events it has become a true challenge of endurance to generate the power that we are capable of, using the limited resources available to us. With energy restraints playing a vital role, we are continuously exploring alternate sources of energy to power the plant and help with the lack of fuel resources. Various other difficulties have sufficed as the political situation became increasingly delicate. Along with strains on fuel sources, the instability has limited our ability to bring in contracted service agents. Never-the-less, we have worked through our efforts and ensured our contracted service agent was able to perform the maintenance works required to remain in optimal operation. Likewise, our managing team and employees have sustained our forward momentum in remaining a strong, profitable company. We have integrated the efforts of various employees, managers, and professional consultants in solving these various issues and ensuring the plant adapts to the difficult times it may face. Thus, we stand today confident and always ready to generate power to Gaza at any given time.

We are optimistic about the future, taking steps towards the generation of power in the West Bank. I ensure the quality, adaptability, and perseverance of this company will not be side-tracked and will be replicated in our future expansions. Together, with the strength of our plant's team, the support of our Board of Directors, the guidance of our Chairman, and the faith of our shareholders, we will take this Company into an even brighter future.

As I stated in the previous year: The future of this company is in safe hands. We have, and always will have, the power... The power that is generated for the people of Gaza, and the whole Palestine, God Willing.



Executive Managing
Director
Mr. Walid Salman

A handwritten signature in black ink, appearing to be 'Walid Salman', written in a cursive style.

LETTER FROM THE EXECUTIVE MANAGING DIRECTOR

We are always working, amidst difficult political turnmoils, towards a brighter future for Palestine.



PEC was established in 1999 in accordance with Palestinian laws, to own and operate the first Palestinian power generating company in Palestine.

We are a public owned company whereby the public shareholders represent 33% and the private shareholders represent 67%.



2009 was a difficult year for Gaza and Palestine Electric Company. The closures imposed a lot of strains on our power, non-the-less we remain in power and we never give up.

Our Future

Our target for the future phases is to use gas as fuel for the power plant thus becoming more economical and efficient. We are also planning on expanding to the West Bank.



OUR POWER: PEC Board of Directors

PEC Board of Directors

#	Names	Position	Representative	Address
1	Said Khoury	Chairman	Palestine Power Company	Gaza, Al Nusirat, Salah Al Din St., Power Plant, P.O.Box 1336,Tel. 2888600 Ext. No. 331 Fax 2888607
2	Shukri Bishara	Vice Chairman		
3	Mohamed Mustafa	Member		
4	Tarek Aqqad	Member		
5	Nabil Sarraf	Member		
6	Hani Ali	Member		
7	Marwan Salloum	Member		
8	Sharhabeel Al Zaeem	Member		
9	Walid Salman	Member	Palestine Electric Company Holding	Gaza, Al Nusirat, Salah Al Din St., Power Plant, P.O.Box 1336,Tel. 2888600 Ext. No. 331 Fax 2888607
10	Samir Shawwa	Member		
11	Faisal Shawwa	Member	Morganti Development LLC	
12	Khaled Osaily	Member		
13	Farouq Franji	Member	Insurance & Pension General Corporation	Gaza, Al Remal, Thourah St., Tel 2829219, Fax 2822473
14	Iyad Basal	Member	Public Shareholder	Gaza, Al Remal, Haifa St., Tel. 2848025, Telefax 2840384

*According to the company's Articles of Association, three seats on the Board of Directors are dedicated to any Public Shareholders holding 1% or more of the shares. At the time of this report, only two seats have been occupied and an exemption has been granted due to the lack of any others holding the required amount of shares and willingness to hold a seat on the Board of Directors.

Our Power – About PEC

OUR POWER: PEC Board of Directors

PEC Shareholders

Analysis of registered holdings as at 31 December 2009			
Distribution of shares by type of shareholder	Number of holdings	Shares	Rate
Institutional investors	5	40,200,000	67%
Individuals	12,082	19,800,000	33%
Total	12,087	60,000,000	100%
Range analysis of register	Number of holdings	Shares	Rate
1 - 500	3,334	1,105,010	2 %
501 - 1 000	6,006	4,329,561	7 %
1 001 - 5 000	2,403	4,083,314	7 %
5 001 - 10 000	164	1,158,709	2 %
10 001 - 50 000	144	3,141,993	5 %
50 001 - 100 000	15	1,072,088	2 %
100 001 - 1 000 000	20	6,109,725	10 %
1 000 001 and above	1	38,999,600	65 %
Total	12,087	60,000,000	100 %

* Palestine Private Power Company, which is a consortium of national companies, owns 65% of the company shares and has been involved from the beginning in the establishment and development of Palestine Electric Company.

OUR POWER: PEC Team

Our Team

- Dedicated team of employees who are of Palestinian origin
- Number of employees are now 165 consisting of administration and management staff, engineers, technicians and security personnel. The number of employees remains the same since 2009.
- Highly competent and qualified staff with more than 85% of our team having university degrees and diplomas.



External Auditors for 2009

Following the voting at the last General Assembly Meeting, Ernst & Young have been appointed as the company external auditors for the year 2009.

Company legal Advisor

Sharhabeel Al Zaem and Partners

Gaza Power Generating Company is managed by a team of professional technical experts namely :



Dr. Rafiq Maliha

Project Manager - Contracts

He is responsible for the management of the company contracts with PENRA, Siemens and other related companies. He is also responsible for the Procurement Department and the Information Technology Department.



Mr. Mohamed El Shareif

Plant Manager

He is responsible for the management of the majority of company departments including Operations and Maintenance, Safety and Security, General Services and Warehousing.



Dr. Derar Abu Sisi

Operations Manager & DPM

He is responsible for the management of the Operations Department. His tasks encompass organizing operations on shift basis to ensure the continuous smooth operation of the Power Plant around the clock.



Mr. Abdelhalim Al Otol

Maintenance Manager

He is responsible for the management of the Maintenance Department which consists of three sub departments namely; Electrical, Mechanical and Control. These sub departments are coordinated by him to maintain the Plant and its equipment, and proactively avoiding any technical errors or faults through following structured programs and systematic protocol.



The power plant is a 140MW combined cycle power plant based on four Gas Turbines and two Steam Turbines in a configuration of two blocks. The Turbines are designed to allow for dual fuel system and could burn both natural gas and fossil fuel.



The fuel used by the power plant is stored in two big storage tanks with a capacity of 20 million litres, and the average daily consumption of fuel by the power plant is approximately 700,000 litres at full load operation of 140 MW.

The Watts in Depth – PEC Technical



“ We always remain optimistic and motivated. Overcoming difficulties is our Power and we are up to the challenge. We have the Power, to succeed, to excel, and to defy all expectations. Our Power lies within our core of a strong and professional working team, solid and highly respected Board of Directors, and our shareholders who’s trust in us gives us more motivation and Power”.

Walid Salman - Executive Managing Director.

On 28 June 2006, the Israeli Air forces attacked Gaza Power Plant with 8 missiles. The attack was precise and completely destroyed the 6 transformer (all transformers in Switch gear). As a result of this attack, the power plant stopped operations for four months, and about 800,000 people in Gaza Strip had no electricity. In light of the closures imposed on Gaza, we were able to accomplish limited maintenance work thus allowing us to be back in power and generating 80MW even though the Power Plant was designed to generate 140MW.

In October 2007, Israel imposed limitations on the amount of fuel supplied to the Power Plant thus leading to a decline in the amount of fuel to 2.2 million litres per week, resulting in a further decrease in the power generated.

In January 2010, there were further restrictions in the allowed amount of fuel to the Power Plant and our supply went down to 1.2 million litres per week, leading to a reduction in the Power generated.

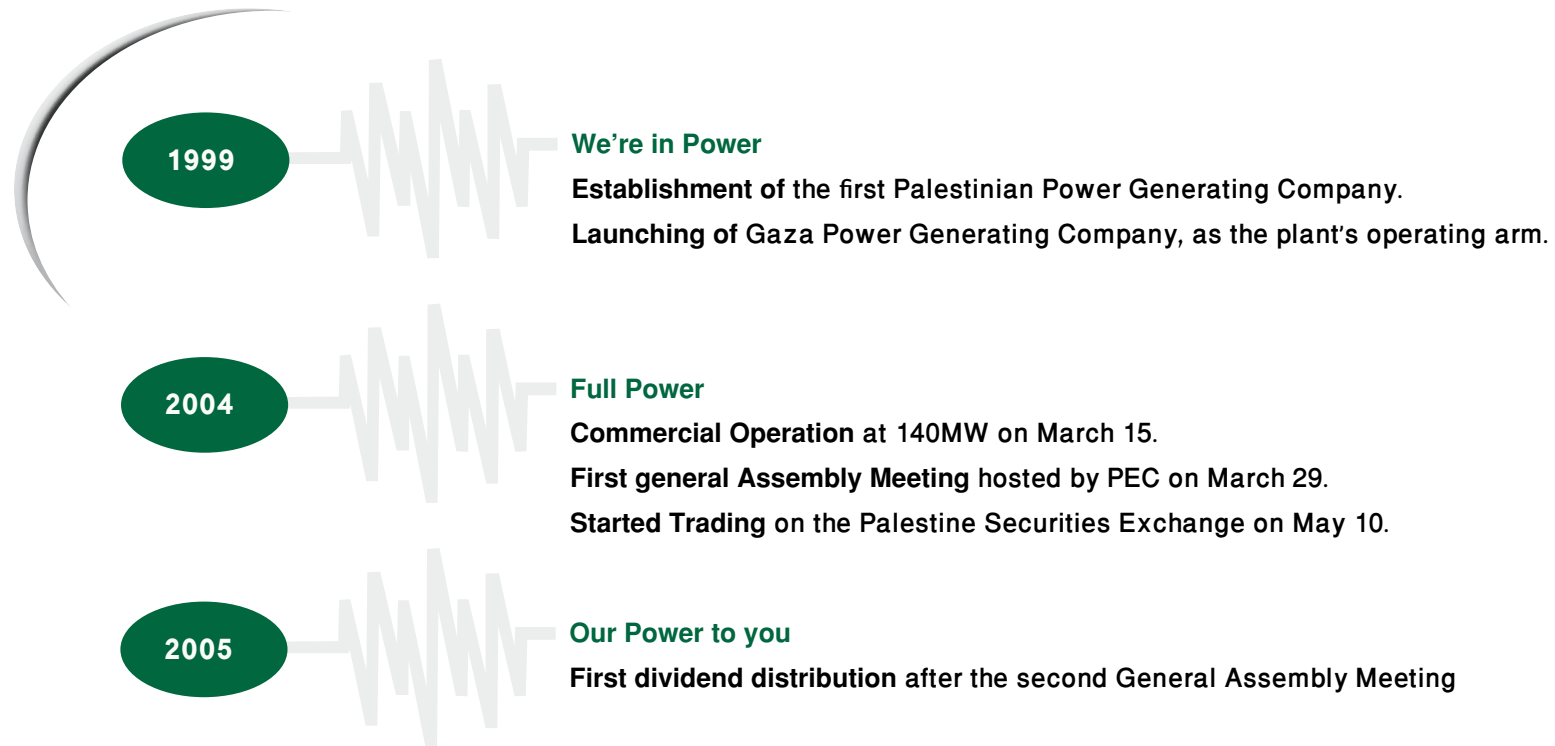
Constraints on the Operations and Maintenance due to the lack of spare parts and consumables because of the closures imposed on Gaza. Gaza Power Generating Company spent large amounts of money on spare parts and consumables available at the ports, still awaiting the security clearance from Israel to enter Gaza.

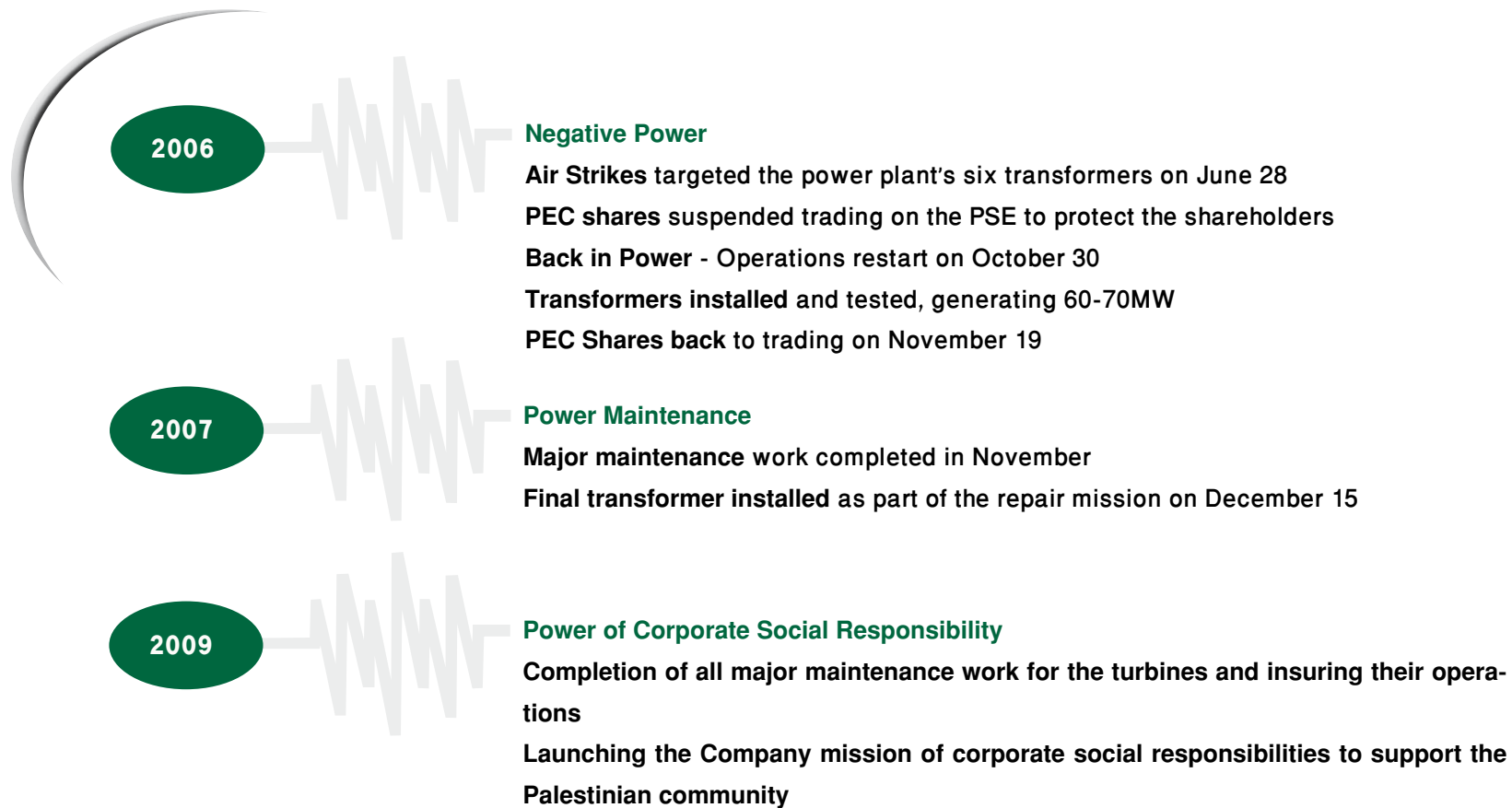


In light of the current economic and financial difficulties, and political instability in Gaza and the West bank, Gaza Power Generating Company has been able to safeguard itself and remain in Power thus acting as a sustainable factor in reducing the suffering of the people and the tragic situation in Gaza. The management of the Company and its staff never gave up and kept the Company going forward. We succeeded in accomplishing full maintenance work for the gas turbines during 2009 with the help of the turbines manufacturers; Siemens, thus allowing for the proper operation of all the gas turbines.

We can say, with all confidence, that we are prepared to operate the Power Plant at its full capacity if we can obtain the required spare parts and if the Power Plant can be supplies with the required amount of fuel.

Nonetheless, there are current plans in the negotiation phase, for supplying the Power Plant with natural gas, which will, as an end result, lead to adequate amounts of fuel and less cost for each kilo watt, thus making the power generated from the Power Plant more economical.





The Power Line - PEC History

Palestine Electric Company cares about the community



Humanitarian Aids

In our continuous efforts to support our local Palestinian community, the company has kept a keen eye on the necessities of the people and any opportunities in providing aid and relief. In the past year, and more recently for example, we enjoyed being able to supply needing families and the poor with meal baskets throughout the holy month of Ramadan.

Corporate Social Responsibility

In alignment to our mission, we aim to aid and benefit our community through various outlets. Working alongside educational facilities, Palestinian establishments, schools, universities, and training programs is one of those outlets. By introducing students, specialists, and our local youth to our Plant, we are sharing knowledge with our community and allowing for a mutual sense of responsibility in sustaining a state-of-the-art Palestinian operated Power Plant. Engineers & Students alike will be able to gain visual experience of the systems that go into operating a plant.



ACWA

Palestine Electric Company acquired and operated ACWA in June 2008. All required maintenance work for the equipment and modifications were successfully done after moving the equipment to the Power Plant premises. ACWA, a water desalination plant utilizing the latest technology, supplies drinking water primarily to schools, hospitals, and charity institutions at very low prices following our Company's vision to operated ACWA as part of our community work, and social responsibility to our community and to the Palestinian people.

Enduring the War on Gaza

In the beginning of the year 2009, Gaza faced tremendous political and military aggression. The attacks led to the loss of several lives and the destruction of the very infrastructures that provide the conditions for living to the people of Gaza; from plantations to power lines, all were affected. Through this hard time, we found it in our strength and unity to overcome and to continue operating the power plant. We took on critical protocols within our unified teams to continue our operations around the clock and ensure the survival of the plant in order to continue the generation of power and aid the people of Gaza.

Our Community

Sponsorship of the 3rd Anniversary of the Palestinian Security Exchange (PSE)

On November 2, 2009, we participated in the 3rd anniversary of PSE by sponsoring the event at the Bethlehem Convention Palace. The event revolved around and discussed the emerging Palestinian markets post-crisis. Various businessmen and economic specialists from all around the world, primarily Palestine, attended this venue

Transparency & Commitment to our Declarations

Since the listing of PEC in the Palestinian Security Exchange (PSE), we have implemented a continuously transparent policy in declaring all requested information in parallel to the local regulations of the PSE. It is essential for us to maintain a close relationship with our shareholders and to benefit our proximate community. By adopting this transparency, we guarantee our shareholders, investors, and general public all the information necessary to make sound and studied decisions on their investments and share purchasing.

The Power of Giving – PEC Community Work

Visit our website at www.pec.ps



Information Technology division ITD

The Information Technology division ITD was created in 2005 to improve the organization of Information Technology throughout the company, to leverage emerging technologies, to reduce cost and improve services to employees, and to provide the most innovative and cost effective technology services to the company.



The Investor Relations Department deals specifically with all shareholders concerns and issues. The department can also be contacted for queries and updates related to Palestine Electric Company.

Contact:

Tel: +9708 2888 600 ext 331

E-mail: info@pec.ps

The Investor Relations Department - Dividend Distribution

The company ensures that the rights of its shareholders are protected and any uncollected dividends remain within the company reserves for payment to the shareholders upon presenting their proper claims.

Shareholders Information Mechanism

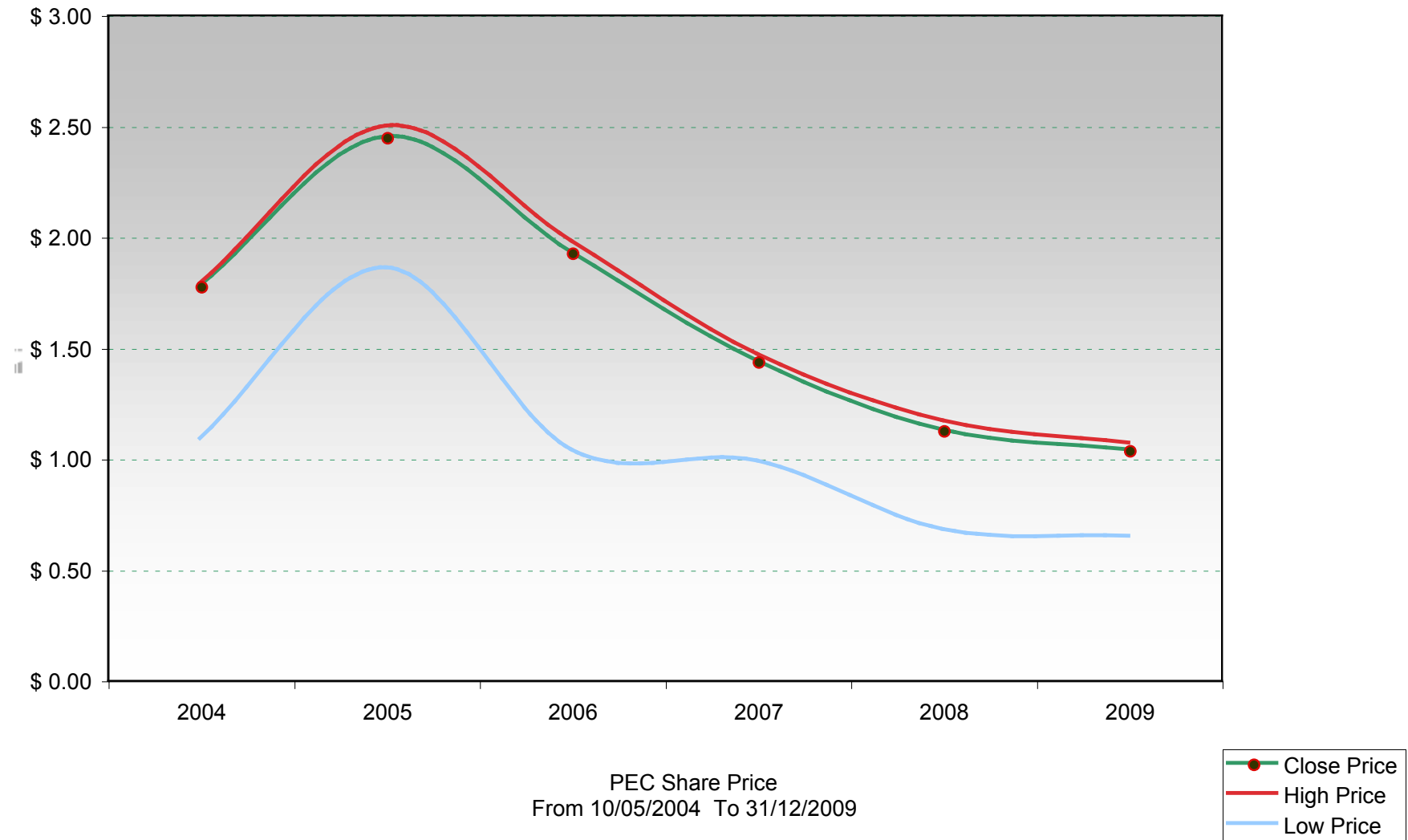
Shareholders receive our information via the Palestine Securities Exchange and the Capital Market Authority in addition to our website. Our Annual Report is always available to shareholders two weeks prior to the annual meeting date, and can be obtained from Gaza, Ramallah, and Nablus (we place newspaper advertisements with details of the locations).

General Assembly Meeting Date

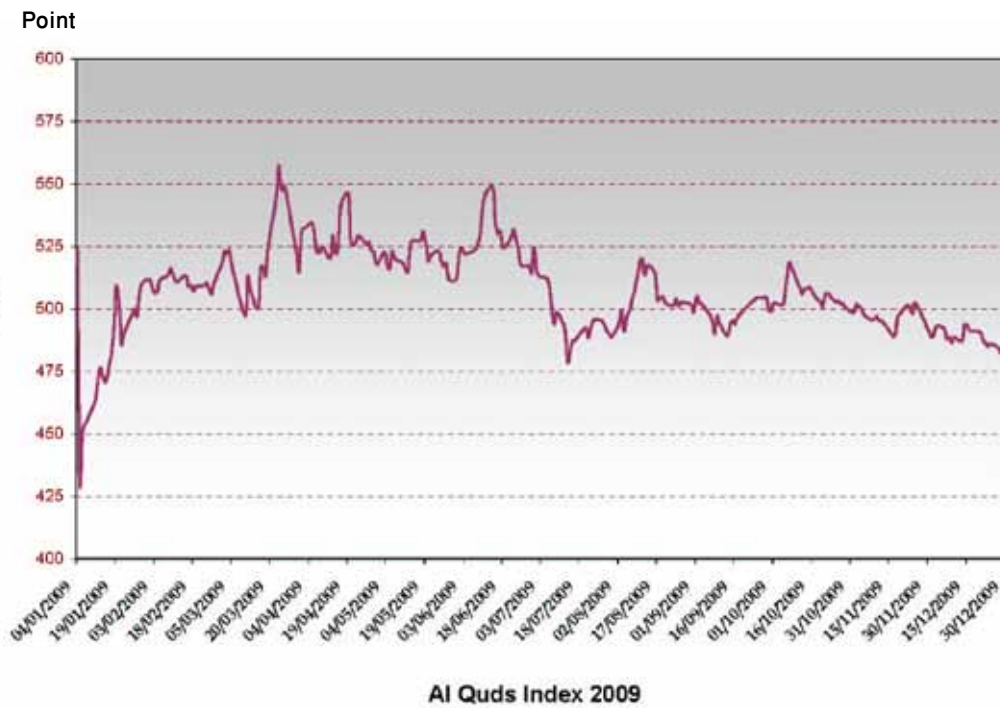
We will hold our General Assembly Meeting for 2009 during the last quarter of April 2010.

Information Technology & Investor Relations

A quick look at PEC share since it started trading in the Palestinian Securities Exchange

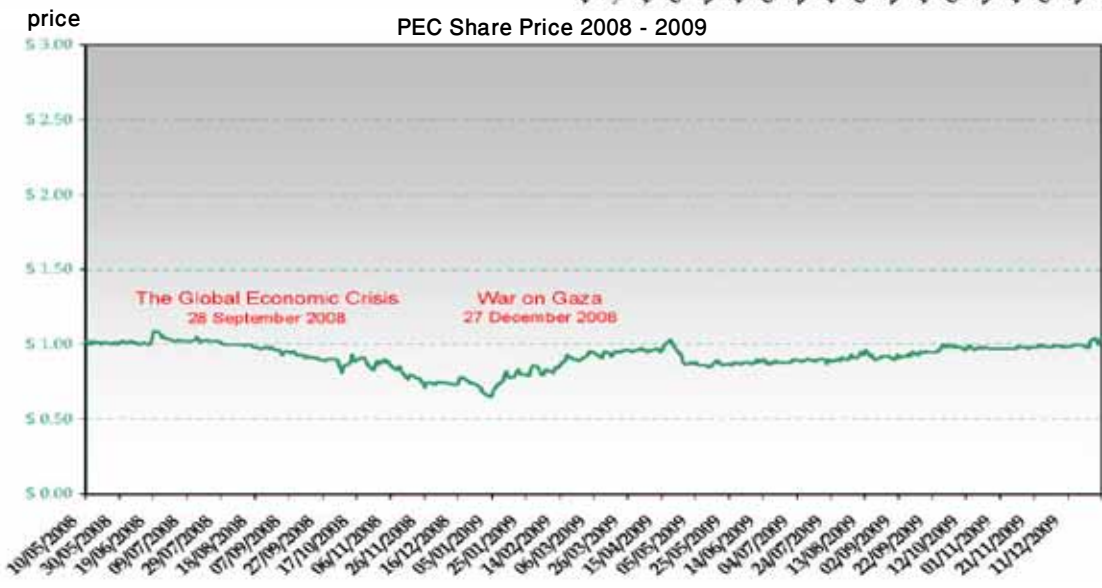
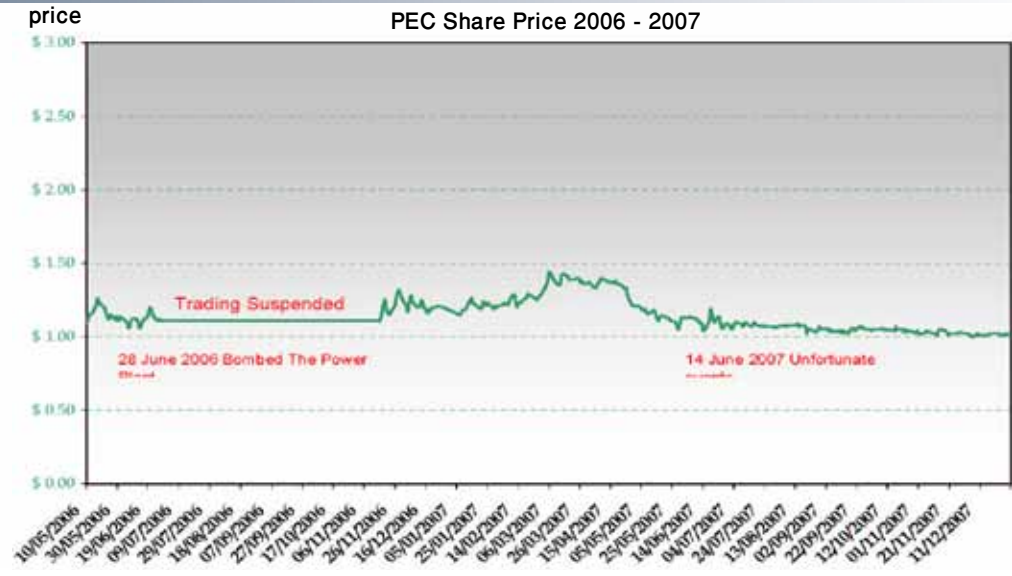


PEC Shares relative to AI Quds Index



PEC Trading

PEC Shares detailed graphs of closing price (2004 - 2009)



PEC Share all time high:	\$2.45 (2005)
PEC Share all time low:	\$0.65 (2009)
PEC Share 2009 High:	\$1.04

PEC Share Statistics 2009

Opening Price	Closing Price	High	Low	Trading Volume	Shares Traded	Number of Deals
\$0.65	\$1.04	\$1.07	\$0.65	\$3,937,654	4,317,382 shares	3,230 deals

PEC Shares are in line with the Al Quds index and other major shares being traded on the Palestine Securities Exchange thus indicating a stable and steady share that is trustworthy and strong.

We have worked hard to reach where we are today and if it was not for the unfortunate political situation in Palestine the scenario would have been very different. None-the-less our power and strength withstood all difficulties and force majeure situations and our share remains strong.

Corporate Governance

The Company Board of Directors maintain the security of the shareholders rights by continuously enhancing the company policies and procedures and its performance in addition to safeguarding the Company assets. The Board of Directors also direct the executive management of the Company to take the necessary steps in enhancing the shareholders value. In addition to the above, the Board ensures the implementation of policies and procedures that allows for the enforceability of a Corporate Governance in line with International and best practices standards.

PEC Trading (Continued)

Our Financial Results Summary

US \$ ('000)		
	2008	2009
NET (LOSS) / PROFIT	6,278	6,983
DIVIDENDS PAYOUT (ON ACCOUNT OF PREVIOUS YEARS)	3,600	6,000
NET SHAREHOLDERS EQUITY	74,002	74,986
EARNINGS PER SHARE (\$ / SHARE)	0.105	0.116

Differences between the preliminary Financial Statements and the Audited Financial Statements for 2009

General Ledger Account	Audited Financial Statements	Preliminary Financial Statements	Difference	Reason
Current Assets	\$ 40,652,500	\$ 40,621,568	\$ 30,932	Reclassification of accounts
Current Liabilities	\$ 23,073,743	\$ 23,042,826	\$ 30,917	Reclassification of accounts

Financial Results for 2009

Gaza Power Generating Company (GPGC) has performed relatively well compared to the previous years, despite of all the difficulties the company is facing year after year due to the unstable political and economical conditions in Palestine.

During 2009 and due to the ongoing political and security situation in Gaza, PENRA supported GPGC in compensation of Force Majeure costs. The 2009 financial results show an improvement in our performance reflecting a strong company with a professional working team and leading management.

Legal Status of PEC

There are no legal cases for or against Palestine Electric Company.

Receivables

During the past year, Palestine has witnessed unstable economic and political conditions; however in light of these circumstances, the PENRA have been honouring their commitment in paying their monthly invoices as well as the outstanding capacity payments due to GPGC in line with the Collection Agreements.

Board of Directors Remuneration

The Company Board of Directors remuneration was \$169,500 for the previous year.

Budget for 2010

GPGC's budget focus for 2010 is mainly targeted towards the training and professional development of our internal staff in addition to our West Bank expansion project. GPGC's strategy for 2010 is in line with last year's strategy of allocating a portion of the company budget towards carrying out key functions to support the strategic development of the company.

Distribution of Cash Dividends

Our goal over the years has been to ensure the interest of our shareholders amidst unstable and difficult political happenings. For the past five years the company has succeeded in declaring and paying out dividends to its shareholders.

Our financial position for 2009 has improved and is promising for the future of this company. It is our goal to stand by our vision of maximising our shareholders value by continuously striving to develop and expand our capabilities while balancing out the uncertainties of the political and economical environment.

EMD Comments on the Financial Results

Audited Financial Statements – 2009

Palestine Electric Company
Public Shareholding Company Limited

Consolidated Financial Statements
December 31, 2009

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, 2009 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 notes.

Board of Directors' Responsibility for the Financial Statements

The Board of Directors is responsible for the preparation and fair presentation of these financial statements in accordance with International Financial Reporting Standards. This responsibility includes: designing, implementing and maintaining internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

Auditors' Responsibility

Our responsibility is to express an opinion on these 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 whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the 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 financial statements in order to design audit procedures that are appropriate for 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 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 give a true and fair view of the financial position of Palestine Electric Company - Public Shareholding Company Limited as at December 31, 2009, 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. In addition, as explained in note (9) to the accompanying consolidated financial statements, to the date of issuance of this report, the two remaining step-up transformers PENRA is committed to supply and install have not been supplied nor installed. PENRA did however make a commitment to supply and install these two transformers as soon as the situation in Gaza permits.

Furthermore, as explained in note (27) 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 operation depends on the stabilization of the political and economic situation in Gaza.

A handwritten signature in blue ink that reads 'Ernst + Young'.

March 24, 2010
Gaza, Palestine

Palestine Electric Company
Public Shareholding Company Limited

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at December 31, 2009

	Notes	2009 U. \$. \$	2008 U.S. \$
ASSETS			
Non-current assets			
Property, plant and equipment	4	90,732,759	97,529,517
Intangible asset	5	1,846,784	1,976,384
Prepayments	6	778,066	1,249,557
		<u>93,357,609</u>	<u>100,755,458</u>
Current assets			
Materials and inventories	7	5,269,389	4,069,047
Accounts receivable	8	9,642,336	17,403,021
Other current assets	9	6,729,608	3,480,601
Cash and bank accounts	10	19,011,167	11,726,616
		<u>40,652,500</u>	<u>36,679,285</u>
TOTAL ASSETS		<u>134,010,109</u>	<u>137,434,743</u>
EQUITY AND LIABILITIES			
Equity			
Paid-in share capital	11	60,000,000	60,000,000
Statutory reserve	12	5,376,118	4,677,775
Retained earnings		9,610,276	9,325,194
Total equity		<u>74,986,394</u>	<u>74,002,969</u>
Non-current liabilities			
Long term loan	13	34,542,000	46,548,000
Provision for employees' indemnity	14	1,407,972	1,238,820
		<u>35,949,972</u>	<u>47,786,820</u>
Current liabilities			
Current portion of long term loan	13	12,006,000	11,592,000
Other current liabilities	15	11,067,743	4,052,954
		<u>23,073,743</u>	<u>15,644,954</u>
Total liabilities		<u>59,023,715</u>	<u>63,431,774</u>
TOTAL EQUITY AND LIABILITIES		<u>134,010,109</u>	<u>137,434,743</u>

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

Palestine Electric Company
Public Shareholding Company Limited

CONSOLIDATED STATEMENT OF INCOME AND COMPREHENSIVE INCOME
Year Ended December 31, 2009

	Notes	<u>2009</u> U.S. \$	<u>2008</u> U.S. \$
<u>Revenues</u>			
Capacity charges	16	29,361,312	29,108,352
Interest on PENRA receivables		449,641	762,973
		<u>29,810,953</u>	<u>29,871,325</u>
Operating expenses	17	<u>(27,154,577)</u>	<u>(22,541,921)</u>
		2,656,376	7,329,404
Force majeure government assistance	18	6,760,332	2,698,946
Finance costs		(2,360,574)	(4,399,583)
Loss from damaged materials		(209,833)	-
Other income	19	<u>137,124</u>	<u>649,371</u>
Profit for the year		6,983,425	6,278,138
Other comprehensive income		-	-
Total comprehensive income for the year		<u><u>6,983,425</u></u>	<u><u>6,278,138</u></u>
Basic and diluted earnings per share	20	<u><u>0.12</u></u>	<u><u>0.10</u></u>

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

Palestine Electric Company
Public Shareholding Company Limited

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
Year Ended December 31, 2009

	Paid-in Share Capital <u>U.S. \$</u>	Statutory Reserve <u>U.S. \$</u>	Retained Earnings <u>U.S. \$</u>	Total Equity <u>U.S. \$</u>
2009				
Balance at January 1, 2009	60,000,000	4,677,775	9,325,194	74,002,969
Total comprehensive income for the year	-	-	6,983,425	6,983,425
Transfer to statutory reserve	-	698,343	(698,343)	-
Dividends (note 21)	-	-	(6,000,000)	(6,000,000)
Balance at December 31, 2009	<u>60,000,000</u>	<u>5,376,118</u>	<u>9,610,276</u>	<u>74,986,394</u>
2008				
Balance at January 1, 2008	60,000,000	4,049,961	7,274,870	71,324,831
Total comprehensive income for the year	-	-	6,278,138	6,278,138
Transfer to statutory reserve	-	627,814	(627,814)	-
Dividends (note 21)	-	-	(3,600,000)	(3,600,000)
Balance at December 31, 2008	<u>60,000,000</u>	<u>4,677,775</u>	<u>9,325,194</u>	<u>74,002,969</u>

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

Palestine Electric Company
Public Shareholding Company Limited

CONSOLIDATED STATEMENT OF CASH FLOWS
Year Ended December 31, 2009

	<u>2009</u>	<u>2008</u>
	<u>U.S. \$</u>	<u>U.S. \$</u>
<u>Operating activities</u>		
Profit for the year	6,983,425	6,278,138
Adjustments:		
Provision for employees' indemnity	328,705	257,512
Depreciation	6,965,241	6,961,023
Amortization	271,267	271,267
Finance costs	2,360,574	4,399,583
Loss from damaged materials	209,833	-
	<u>17,119,045</u>	<u>18,167,523</u>
Working capital adjustments:		
Accounts receivable	5,587,500	8,372,559
Other current assets	(3,249,007)	118,387
Materials and inventories	(1,410,175)	552,974
Other current liabilities	6,862,019	(2,382,191)
Employees' indemnity paid	(159,553)	(4,953)
Net cash flows from operating activities	<u>24,749,829</u>	<u>24,824,299</u>
<u>Investing activities</u>		
Force majeure payments received from PENRA	2,173,185	3,000,000
Purchase of property, plant and equipment	(168,483)	(102,587)
Net cash flows from investing activities	<u>2,004,702</u>	<u>2,897,413</u>
<u>Financing activities</u>		
Loan repayment	(11,592,000)	(10,008,000)
Finance cost payments	(2,030,750)	(4,069,759)
Dividends paid	(5,847,230)	(7,480,083)
Net cash flows used in financing activities	<u>(19,469,980)</u>	<u>(21,557,842)</u>
Net increase in cash and cash equivalents	7,284,551	6,163,870
Cash and cash equivalents at January 1	<u>11,726,616</u>	<u>5,562,746</u>
Cash and cash equivalents at December 31	<u><u>19,011,167</u></u>	<u><u>11,726,616</u></u>

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2009

1. General

Palestine Electric Company - Public Shareholding Company Limited (PEC/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 PEC 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 consolidated financial statements were authorized for issuance by the Company's board of directors on March 24, 2010.

2. Consolidated Financial Statements

The consolidated financial statements comprise the financial statements of the Company and its subsidiary, GPGC, as at December 31, 2009. The Company owns 99.99% of the share capital of GPGC. GPGC was established in Gaza as a private shareholding limited liability company, with an authorized share capital of 6,000,000 shares with U.S. \$ 10 par value each, of which 5,999,800 shares are owned by PEC.

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

3.1 Basis of Preparation

The consolidated financial statements of the Company and its subsidiary have been prepared in accordance with International Financial Reporting Standards.

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 financial statements of the subsidiary, GPGC, 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 and IFRIC Interpretations during the year. Adoption of these revised standards and interpretations did not have any effect on the financial performance or position of the Company.

IAS 1 - Presentation of Financial Statements (Revised)

The revised standard was issued in September 2007 and becomes effective for financial years beginning on or after 1 January 2009. The standard separates owner and non-owner changes in equity and introduces the statement of the comprehensive income: it presents all items of recognized income and expense, either in one single statement, or in two linked statements. The Company elected to present a single statement.

IAS 23 - Borrowing Costs (Revised)

IAS 27 - Consolidated and Separate Financial Statements: Cost of an Investment in a Subsidiary, Jointly Controlled Entity or Associate (Amendments)

IAS 32 - Financial Instruments: Presentation (Revised)

The following IFRS and IFRIC interpretations have been issued but are not yet mandatory, and have not been adopted by the Company:

IFRS 2 - Share-based Payments: Cash-settled share-based payments arrangements (Revised)

IFRS 3 - Business Combinations (Revised)

IFRS 9 - Financial Instruments

IAS 24 - Related Party Disclosures (Revised)

IAS 27 - Consolidated and Separate Financial Statements (Amendment)

IAS 32 - Classification of Rights Issues (Amendment)

IAS 39 - Financial Instruments: Recognition and Measurement

IFRIC 14 - Prepayments of a Minimum Funding Requirement (Amendment)

IFRIC 17 - Distributions on Non-cash Assets to Owners

IFRIC 19 - Extinguishing Financial Liabilities with Equity Instruments

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.

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

Government grants and assistance

Government grants and assistance are recognized where there is a reasonable assurance that the grant will be received and all attaching conditions will be complied with. When the grant relates to an expense item, it is recognized as income over the period necessary to match the grant on a systematic basis to the costs that it is intended to compensate.

A government's grant and assistance that becomes receivable as compensation for expenses or losses incurred for the purpose of giving immediate financial support to the entity with no future related costs shall be recognized as income for the period in which it becomes receivable.

A government's grant and assistance in the form of a transfer of a non-monetary asset, which is intended for use of the entity, is recognized at fair value of that asset. Fair value is the amount for which an asset could be exchanged between a knowledgeable willing buyer and a knowledgeable willing seller in an arm's length transactions.

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 less accumulated depreciation and any impairment in value.

Depreciation is calculated on a straight line basis over the estimated useful lives of the assets as follows:

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

The carrying values of property, plant and equipment are reviewed for impairment when events or changes in circumstances indicate the carrying value may not be recoverable. If any indication exists and where the carrying values exceed the estimated recoverable amount, the assets are written down to their recoverable amount, being the higher of their fair value less costs to sell and their value in use.

Expenditure incurred to replace a component of an item of property, plant and equipment that is accounted for separately is capitalized and the carrying amount of the component that is replaced is written off. Other subsequent expenditures are capitalized only when they increase future economic benefits of the related items of property, plant and equipment. All other expenditures are recognized in the consolidated income statement as the expense is incurred.

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 to use these transformers being 17.5 years. 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 statement of financial position 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 and uncollectibility of financial assets

An assessment is made at each statement of financial position 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 uncollectible amounts. An estimate for doubtful debts is made when collection of the full amount is no longer probable. Bad debts are written off when there is no possibility of recovery.

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 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.

Provision for employees' indemnity

Provision for employees' indemnity is calculated in accordance with the labor law prevailing in Palestine, and the Company's internal policies, based on one-month salary for each year of employment.

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 statement of financial position date. All differences are taken to the consolidated income statement.

4. Property, Plant and Equipment

	Power plant	Building	Motor vehicles	Computers and printers	Office equipment	Furniture and fixture	Total
2009	U.S. \$	U.S. \$	U.S. \$	U.S. \$	U.S. \$	U.S. \$	U.S. \$
Cost							
At January 1, 2009	135,440,605	1,464,904	290,392	265,097	126,087	188,194	137,775,279
Additions	-	-	150,000	6,373	12,110	-	168,483
At December 31, 2009	<u>135,440,605</u>	<u>1,464,904</u>	<u>440,392</u>	<u>271,470</u>	<u>138,197</u>	<u>188,194</u>	<u>137,943,762</u>
Accumulated Depreciation							
At January 1, 2009	39,392,000	265,001	123,498	190,181	118,972	156,110	40,245,762
Depreciation charges for the year	<u>6,772,020</u>	<u>73,153</u>	<u>60,622</u>	<u>38,663</u>	<u>3,567</u>	<u>17,216</u>	<u>6,965,241</u>
At December 31, 2009	<u>46,164,020</u>	<u>338,154</u>	<u>184,120</u>	<u>228,844</u>	<u>122,539</u>	<u>173,326</u>	<u>47,211,003</u>
Net carrying amount							
At December 31, 2009	<u>89,276,585</u>	<u>1,126,750</u>	<u>256,272</u>	<u>42,626</u>	<u>15,658</u>	<u>14,868</u>	<u>90,732,759</u>
2008	U.S. \$	U.S. \$	U.S. \$	U.S. \$	U.S. \$	U.S. \$	U.S. \$
Cost							
At January 1, 2008	135,440,605	1,464,904	219,569	242,195	117,225	188,194	137,672,692
Additions	-	-	70,823	22,902	8,862	-	102,587
At December 31, 2008	<u>135,440,605</u>	<u>1,464,904</u>	<u>290,392</u>	<u>265,097</u>	<u>126,087</u>	<u>188,194</u>	<u>137,775,279</u>
Accumulated Depreciation							
At January 1, 2008	32,619,969	191,753	76,523	142,921	115,591	137,982	33,284,739
Depreciation charges for the year	<u>6,772,031</u>	<u>73,248</u>	<u>46,975</u>	<u>47,260</u>	<u>3,381</u>	<u>18,128</u>	<u>6,961,023</u>
At December 31, 2008	<u>39,392,000</u>	<u>265,001</u>	<u>123,498</u>	<u>190,181</u>	<u>118,972</u>	<u>156,110</u>	<u>40,245,762</u>
Net carrying amount							
At December 31, 2008	<u>96,048,605</u>	<u>1,199,903</u>	<u>166,894</u>	<u>74,916</u>	<u>7,115</u>	<u>32,084</u>	<u>97,529,517</u>

Property, plant and equipment include U.S. \$ 392,708 and U.S. \$ 378,801 of fully depreciated assets as at December 31, 2009 and 2008, respectively, which are still used in the Company's operations.

5. Intangible Asset

	<u>2009</u>	<u>2008</u>
	U.S. \$	U.S. \$
Balance, beginning of the year	1,976,384	2,105,984
Amortization	<u>(129,600)</u>	<u>(129,600)</u>
Balance, end of year	<u>1,846,784</u>	<u>1,976,384</u>

Intangible asset represents the Company's right to use PENRA's four step-up transformers installed on October 1, 2006 for use by GPGC as part of the agreement made on September 2, 2006 between GPGC and PENRA. According to the agreement, PENRA would 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 by agreeing to purchase and install six step-up transformers to replace GPGC's destroyed transformers. These transformers will be owned by PENRA; and GPGC will have the right to use such transformers and will be responsible for their operation and maintenance. The right to use the transformers was initially recognized at the fair value of the four step-up transformers already installed, amounted to U.S. \$ 2,267,984.

6. Prepayments

	<u>2009</u>	<u>2008</u>
	U.S. \$	U.S. \$
Land lease *	283,330	424,997
Legal fees **	494,736	824,560
	<u>778,066</u>	<u>1,249,557</u>

* The amount represents prepaid lease of the land on which the power plant is constructed. The land lease agreement was signed on November 25, 1999. The duration of the agreement is 30 years and may be further extended for an additional 10 years period. GPGC paid U.S. \$ 1,700,000 for the first 12 years of the lease period after which the lease payments are fixed at U.S. \$ 147,000 annually for the remaining 18 years. Movement on prepaid land lease is as follows:

	<u>2009</u>	<u>2008</u>
	U.S. \$	U.S. \$
Balance, beginning of the year	424,997	566,664
Amortization of land lease for the year	<u>(141,667)</u>	<u>(141,667)</u>
Balance, end of year	<u>283,330</u>	<u>424,997</u>

** This item represents the legal fees paid in relation with the long term loan. The fees are amortized over the loan original term of 11 years starting July 1, 2000. Amortization of legal fee is accounted for as finance costs. Movement during the year was as follows:

	<u>2009</u>	<u>2008</u>
	U.S. \$	U.S. \$
Balance, beginning of the year	824,560	1,154,384
Amortization for the year	<u>(329,824)</u>	<u>(329,824)</u>
Balance, end of year	<u>494,736</u>	<u>824,560</u>

7. Materials and Inventories

	<u>2009</u>	<u>2008</u>
	U.S. \$	U.S. \$
Spare parts	4,808,423	3,777,500
Consumables	136,530	242,291
Goods in transit	313,082	6,731
Others	11,354	42,525
	<u>5,269,389</u>	<u>4,069,047</u>

8. Accounts Receivable

	<u>2009</u>	<u>2008</u>
	U.S. \$	U.S. \$
Accounts receivable from capacity charges *	5,964,857	15,229,836
Force majeure government assistance receivable (note 18)	3,677,479	-
Receivables from force majeure claims **	-	2,173,185
	<u>9,642,336</u>	<u>17,403,021</u>

* As at December 31, 2009 and 2008, the aging analysis of the unimpaired accounts receivable from capacity charges to PENRA is as follows:

	Total	Neither past due nor impaired	Past due but not impaired			
			Less than 30 days	30-60 days	60-120 days	More than 120 days
			U.S.\$	U.S.\$	U.S.\$	U.S.\$
2009	<u>5,964,857</u>	<u>2,465,211</u>	-	-	-	<u>3,499,646</u>
2008	<u>15,229,836</u>	<u>2,477,642</u>	-	-	-	<u>12,752,194</u>

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 financial statements, PENRA has not provided GPGC with the letter of credit, therefore, accounts receivable are unsecured.

** The item represents the remaining balance of force majeure claims made by the power plant construction contractor as a result of the political situation in Palestine which PENRA in a letter issued on July 18, 2003 committed itself to compensate GPGC with such amounts of force majeure claims. PENRA settled the amount of force majeure claims by making monthly payment of U.S. \$ 250,000 to GPGC. The amounts of force majeure claims were settled in full during the year 2009.

9. Other Current Assets

	<u>2009</u>	<u>2008</u>
	<u>U.S. \$</u>	<u>U.S. \$</u>
Due from PENRA *	1,133,992	1,133,992
Value added tax receivables	6,169	4,525
Due from shareholders	4,385,411	189,942
Payment on account of establishing an associate (note 24)	70,000	-
Prepaid insurance premium	420,669	150,796
Advances to suppliers	680,248	1,966,537
Others	33,119	34,809
	<u>6,729,608</u>	<u>3,480,601</u>

* The amount represents the fair value of the two remaining transformers that PENRA is committed to supply and install in accordance with the agreement signed between GPGC and PENRA on September 2, 2006 (note 5). PENRA has made a commitment to supply and install the two transformers as soon as the situation in Gaza permits.

10. Cash and Bank Accounts

	<u>2009</u>	<u>2008</u>
	<u>U.S. \$</u>	<u>U.S. \$</u>
Cash on hand	19,365	92,910
Current accounts at banks in U.S. \$	18,991,802	11,633,706
	<u>19,011,167</u>	<u>11,726,616</u>

During the year, interest rates on current bank accounts were reduced to zero % effective March 1, 2009. During the year ended December 31, 2008, current bank accounts earned interest at an average annual interest rate of % 1.39.

11. Paid-in Share Capital

	<u>2009</u>	<u>2008</u>
	<u>U.S. \$</u>	<u>U.S. \$</u>
Authorized share capital	<u>60,000,000</u>	<u>60,000,000</u>
Subscribed share capital	<u>60,000,000</u>	<u>60,000,000</u>
Paid-in share capital	<u>60,000,000</u>	<u>60,000,000</u>

The share capital of the Company comprises 60,000,000 shares at par value equal 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.

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 with the Arab Bank relating to the long term loan and to obtain a working capital facility of U.S. \$ 3,000,000. According to this agreement, Arab Bank and GPGC agreed that the long term loan will be repaid over 19 semi-annual installments the first of which started on December 31, 2004 and the last installment due on December 31, 2013. These installments are based on predetermined percentage of the loan amount. Further, the interest rate on the long term loan was reduced to six month LIBOR plus 2.25%.

Interest rate was further reduced during 2008 to six month LIBOR plus 2% effective from December 31, 2007.

Payment schedule of the loan is as follows:

Payable in:	U.S. \$
2010	12,006,000
2011	12,600,000
2012	12,510,000
2013	9,432,000
	<u>46,548,000</u>

As a collateral for the loan, Arab Bank has a security pledge over all GPGC assets and all of GPGC shares owned by PEC. PEC's shares traded on the Palestinian Securities Exchange are not part of this security pledge.

The main financial covenants of the loan agreement include keeping certain financial ratios before any distribution of dividends is approved, maintaining current corporate existence of the Company, investing only in assets allowed by the loan agreement and not incurring indebtedness unless previously approved by Arab Bank.

14. Provision for Employees' Indemnity

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

	2009	2008
	U.S. \$	U.S. \$
Balance, beginning of the year	1,238,820	986,261
Additions	328,705	257,512
Payments	(159,553)	(4,953)
Balance, end of year	<u>1,407,972</u>	<u>1,238,820</u>

15. Other Current Liabilities

	<u>2009</u>	<u>2008</u>
	<u>U.S. \$</u>	<u>U.S. \$</u>
Due to maintenance contractor	4,277,144	-
Provision for maintenance	2,735,487	-
Dividends payable	1,836,281	1,683,511
Due to Consolidated Contractors Company	34,023	371,108
Due to United Engineering Services S.A.	160,000	-
Payroll income tax *	503,225	503,225
Accrued expenses	143,036	135,761
Provision for employees' vacations	186,985	166,417
Other provisions	1,191,562	1,192,932
	<u>11,067,743</u>	<u>4,052,954</u>

* The Company did not withhold income tax on employees' salaries based on the presidential decree issued on June 26, 2007 exempting all tax payers of southern governorates (Gaza Strip) from taxes.

16. Capacity Charges

The amount represents revenues from capacity charges invoices issued by GPGC for the use of power plant to generate electric capacity for the benefit of PENRA according to the power purchase agreement, which is considered an operating lease under 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.

17. Operating Expenses

	<u>2009</u>	<u>2008</u>
	U.S. \$	U.S. \$
Salaries and wages	3,852,740	3,862,954
Employees' indemnity	328,705	257,512
Board of directors remuneration	169,500	140,000
Employees' insurance	108,315	117,365
Development and technical advisory services	2,553,000	2,112,155
Travel and transportation	526,267	534,126
Power plant insurance	798,622	730,008
Power plant operation and maintenance	9,034,821	5,965,108
Depreciation	6,965,241	6,961,023
Amortization of intangible asset	129,600	129,600
Amortization of land lease	141,667	141,667
Professional and consultancy expenses	395,233	391,988
Telephone and fax	118,872	130,660
Legal fees	21,142	20,000
Registration fees	25,222	25,748
Rent	7,734	15,949
Office supplies	87,068	72,015
Advertisements	26,834	14,653
Security service costs	1,586,344	769,407
Miscellaneous	277,650	149,983
	<u>27,154,577</u>	<u>22,541,921</u>

18. Force Majeure Government Assistance

The item represents financial assistance provided from PENRA to GPGC to cover force majeure events causing GPGC to incur additional maintenance costs as results of the political and security situation in Gaza. GPGC received U.S. \$ 3,082,853 during the year and an amount of U.S. \$ 3,677,479 is receivable as of December 31, 2009 (note 8).

19. Other Income

	<u>2009</u>	<u>2008</u>
	U.S. \$	U.S. \$
Interest income	4,586	102,083
Foreign currency exchange differences	130,129	332,154
Others	2,409	215,134
	<u>137,124</u>	<u>649,371</u>

20. Basic and Diluted Earnings Per Share

	<u>2009</u>	<u>2008</u>
	<u>U.S. \$</u>	<u>U.S. \$</u>
Profit for the year	<u>6,983,425</u>	<u>6,278,138</u>
	<u>Shares</u>	<u>Shares</u>
Weighted average of subscribed share capital during the year	<u>60,000,000</u>	<u>60,000,000</u>
	<u>U.S. \$</u>	<u>U.S. \$</u>
Basic and diluted earnings per share	<u>0.12</u>	<u>0.10</u>

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

Diluted earnings per share amounts are calculated by dividing the profit attributable to ordinary equity holders of the Company (after adjusted for income or expenses associated with the dilutive potential 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

21. Dividends

PEC's general assembly in its meeting held on April 25, 2009, approved the proposed dividends distribution by the Company's board of directors of U.S. \$ 6,000,000 for the year 2008, the equivalent of 10% of paid in capital.

PEC's general assembly in its meeting held on April 21, 2008, approved the proposed dividends distribution by the Company's board of directors of U.S. \$ 3,600,000 for the year 2007, the equivalent of 6% of paid in capital.

22. Related Party Transactions

Related parties represent associated companies, major shareholders, directors and key management personnel 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:

	<u>Nature of relation</u>	<u>2009</u>	<u>2008</u>
		<u>U.S. \$</u>	<u>U.S. \$</u>
Cash at Arab Bank	Major shareholder	<u>18,991,802</u>	<u>11,633,706</u>
Receivable from shareholders	Major shareholder	<u>4,385,411</u>	<u>189,942</u>
Payment on account of establishing an associate	Associate	<u>70,000</u>	<u>-</u>
Arab Bank long term loan	Major shareholder	<u>46,548,000</u>	<u>58,140,000</u>
Payable to Consolidated Contractors Company	Major shareholder	<u>34,023</u>	<u>371,108</u>
Payable to United Engineering Services	Sister company	<u>160,000</u>	<u>-</u>

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

	<u>Nature of relation</u>	<u>2009</u>	<u>2008</u>
		<u>U.S. \$</u>	<u>U.S. \$</u>
Arab Bank finance cost	Major shareholder	<u>2,030,750</u>	<u>4,069,759</u>
Development and technical advisory services charged by United Engineering Services	Sister company	<u>2,553,000</u>	<u>2,112,155</u>
Consulting and service fee charged by Consolidated Contractors Company	Major shareholder	<u>564,000</u>	<u>564,000</u>
Compensation of key management personnel:			
Salaries and wages		<u>602,075</u>	<u>591,611</u>
Employees' end of service benefits		<u>39,318</u>	<u>34,048</u>
Board of directors remuneration		<u>169,500</u>	<u>140,000</u>

23. Income Tax

The PNA has agreed to exempt GPGC and its shareholders (with respect to dividends and earnings receivable from GPGC), for the term of the agreement of 20 years including any extensions thereof, from all Palestinian taxes.

24. Commitments and Contingencies

Commitment represents the difference between the contract gross amount and the executed portion of the contract at the financial statements date. The following are the Company's commitments as of the date of the financial statements:

- The Company has a commitment resulted from the long term service agreement related to maintenance which represents the difference between the contract gross amount of Swedish Krona (SEK) 179,000,000 (equivalent to U.S. \$ 23,688,999) and the executed portion of the contract at the financial statements date. Commitment amounted to U.S. \$ 11,848,417 and U.S. \$ 15,929,329 as of December 31, 2009 and 2008, respectively. Further, the Company signed on November 11, 2009 a memorandum of understanding with the maintenance contractor to replace the exiting long term service agreement with a new long term maintenance program to suitably fit the current and future conditions and requirements of the Company. The agreement of new long term maintenance program must be signed by December 31, 2010 for it to be effective and the old long term service agreement to be cancelled.
- The Company has commitment on the lease of the land on which the power plant is constructed amounting to U.S. \$ 2,646,000 for a period of 18 years starting from 2012 (note 6).

The Company together with other investors are working 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 with an intention to increase the capital to U.S. \$ 120,000,000 during the development of the power plant project intended to establish. The Company's board of directors agreed to invest in 41% of the share capital of the associate. As of the date of the financial statements, the establishment of the associate has not completed yet and no share capital contribution has been requested. The Company paid U.S. \$ 70,000 on account of establishing the associate.

Future minimum capacity charge expected to be receivable under the power purchase agreement for the use of power plant in effect as of December 31, 2009 were as follows:

	2009	2008
	U.S. \$	U.S. \$
Within one year	29,622,024	29,361,312
After one year but less than five years	152,307,624	120,133,968
More than five years	260,428,848	330,703,584
	<u>442,358,496</u>	<u>480,198,864</u>

25. Fair Values of Financial Instruments

Financial instruments comprise of financial assets and financial liabilities. Financial assets consist of cash and cash equivalent, 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 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 cash equivalents, 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, 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, 2009. There is no direct impact on the Company's equity.

	<u>Increase/ decrease</u> Basis points	<u>Effect on profit for the year</u> U.S. \$
2009		
U.S. Dollar	+10	(46,548)
U.S. Dollar	- 10	46,548
2008		
U.S. Dollar	+10	(46,606)
U.S. Dollar	- 10	46,606

Credit risk

The Company is currently exposed to credit risk as all GPGS's revenue from the use of the power plant to generate electric capacity is generated from one customer, PENRA. PENRA has not provided GPGC 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

PEC and GPGC 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, 2009 & 2008 based on contractual undiscounted payments.

	<u>Less than 3 months</u> U.S.\$	<u>3 to 12 months</u> U.S.\$	<u>More than 1 year up to 5 years</u> U.S.\$	<u>More than 5 years</u> U.S.\$	<u>Total</u> U.S.\$
December 31, 2009					
Long term loan	-	13,353,764	36,314,831	-	49,668,595
Other current liabilities	<u>6,616,617</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>6,616,617</u>
	<u>6,616,617</u>	<u>13,353,764</u>	<u>36,314,831</u>	<u>-</u>	<u>56,285,212</u>
	<u>Less than 3 months</u> U.S.\$	<u>3 to 12 months</u> U.S.\$	<u>More than 1 year up to 5 years</u> U.S.\$	<u>More than 5 years</u> U.S.\$	<u>Total</u> U.S.\$
December 31, 2008					
Long term loan	-	14,427,986	51,724,206	-	66,152,192
Other current liabilities	<u>2,383,312</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>2,383,312</u>
	<u>2,383,312</u>	<u>14,427,986</u>	<u>51,724,206</u>	<u>-</u>	<u>68,535,504</u>

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.

	Increase / decrease in EURO rate to U.S.\$ <u> %</u>	Effect on Profit for the year <u> U.S.\$</u>	Increase / decrease in ILS rate to U.S.\$ <u> %</u>	Effect on profit for the year <u> U.S.\$</u>	Increase / decrease in SEK rate to U.S.\$ <u> %</u>	Effect on profit for the year <u> U.S.\$</u>
2009						
U.S.\$	+10	(29,862)	+10	(29,361)	+10	413,528
U.S.\$	-10	29,682	-10	29,361	-10	(413,528)
2008						
U.S.\$	+10	(51,962)	+10	(12,738)	+10	(121,429)
U.S.\$	-10	51,962	-10	12,738	-10	121,429

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, 2009 and 2008. Capital comprises paid-in share capital, statutory reserve and retained earnings, and is measured at U.S. \$ 74,986,394 and U.S. \$ 74,002,969 as at December 31, 2009 and 2008, respectively.

27. Concentration of Risk in Geographic Area

PEC and GPGC are carrying out all of their activities in Gaza. Assets, which mainly comprise property, plant and equipment, are located in Gaza. The political and economical situation in the area increases the risk of carrying out business and could adversely affect PEC and GPGC performance and impacts the recoverability of their assets from operation.

28. Comparative Amounts

The corresponding figures for 2008 have been reclassified in order to conform with the presentation of the current year. Such reclassifications do not affect previously reported results and equity. There is no material effect on the opening balances in 2008; therefore, no opening statement of financial position has been presented.