Annual Report 2016

PALESTINE ELECTRIC COMPANY

الشركة الفلسطينية للكهرباء م.ع.م

PALESTINE ELECTRIC COMPANY PLC

Generating Electricity since 2004

Contents

1. Chairman's Letter

Samer Khoury
Chairman

Dear Shareholders

Palestine Electricity Company provides a fundamental service to the Palestinian People, and we are continuously cooperating with all related parties to maintain the continuity of this strategic project to the Palestinians and for the economic development in Gaza.

Despite the many financial hurdles we faced with the Palestinian Energy Authority and the National Authority, we succeeded, with our insurmountable efforts and persistent communications, to reach an agreement that will facilitate the resolution of these hurdles.

In light of the difficult financial, political and economic circumstances around us, Palestine Electric Company never ceases to find solutions that will help us continue our work uninterrupted and to work hand in hand with the Energy Authority to meet the electricity needs of the Palestinians in Gaza.

We assure the Palestinian public that we are determined to maintain full cooperation with the Palestinian Energy Authority and to resolve current and future issues along the way to guarantee the success of this strategic project, and to carry out our operations and future plans with the highest standards and professionalism.

Through the joint efforts and continuous cooperation with the National Authority and the Energy Authority, we have high hopes of overcoming all difficulties and we look forward to executing our future plans of expansion and to start using natural gas as the main fuel to meet the electricity demands in the Gaza Strip, and thus serving the national and public interest.

I would like to wish all the success to our outstanding operating team and management and I thank them for their highly competent management and performance and for protecting the interests of our shareholders.

Samer Khoury
Chairman

2. EMD's Letter

Walid Salman
Executive Managing Director

Dear Shareholders

I would like to assure you that we shall continue fulfilling our obligations. Our performance will not be compromised in light of the difficulties we face from closures, unstable political and economic conditions and limited financial resources of the National Authority that directly impact us. This has led us to the only solution of negotiating with the Energy Authority and with the Ministry of Finance in order to settle the accumulated and outstanding receivables from the National Authority.

Supported by our board members and our Chairman, we finally succeeded after numerous meetings and collaborations with the Ministry of Finance and the Energy Authority, to reach an agreement by which we provided special concessions yet allowing us to proceed and continue in our work and our mission.

We have agreed to offer a one-time discount from the accumulated receivables in order to guarantee the payment of the outstanding balance within 15 months in the form of promissory notes to be paid by the Ministry of Finance. We have also granted a monthly discount for an amount of US$ 150,000 as a contribution in supporting the budget of the National Authority while ensuring that we maintain a cash flow that would sustain our operations.

Despite facing false, negative and biased media campaigns that do not reflect the reality of the situation and are aimed at distorting the true nature of our mission, our priority remains to support the Authorities in maintaining the supply of the fuel allowing us to continue generating power. We cooperate with the Energy Authority and all the official parties to ensure this.

In line with our transparency policy, we have openly answered questions and shed light on the reality of the matter clarifying that the company is not the party causing the disruption in electricity generation. On the contrary, we have carried out our mission on the highest standards despite all the difficult circumstances, and this project is now one of the top three national projects that provide a fundamental service to the people of Gaza.

The power plant operates according to the available quantities of fuel together with the requirements of the Energy Authority and the Distribution Company. With the availability of fuel, we are capable of generating power under the most challenging conditions. We have dedicated all our resources to ensure the continuity of our operations and it's important that we work hand in hand with all the official related parties for the service of our people and nation.

Despite of the various allegations raised and negated, this power plant is a distinct national and investment project.

I am very proud of our operational team, management, and technical staff. We are continuously working on enhancing their skills and supporting their development to put them at the forefront of advancements and technological upgrades. We have also signed new agreements with maintenance companies to be able to increase our efficiency and reduce our costs.

I would also like to thank our Board of Directors for their support and communication with related political and economic parties in Palestine. I am optimistic that we will succeed in receiving natural gas as the main fuel for this plant presenting the public with a permanent solution to the electricity sector in Gaza.

Walid Salman
Vice Chairman & Executive Managing Director

3. PEC Brief

PEC was established in 1999 in accordance with Palestinian laws with a capital of $60 million, to establish and operate power generating plants in Palestinian territories. We are a public owned Company whereby the public shareholders represent 33% and the private shareholders represent 67%.

Gaza Power Generating Company (GPGC) was established as the power plant's operational arm. Palestine Electric Company owns GPGC, the sole Palestinian supplier of power in Gaza, based on the signed agreements.

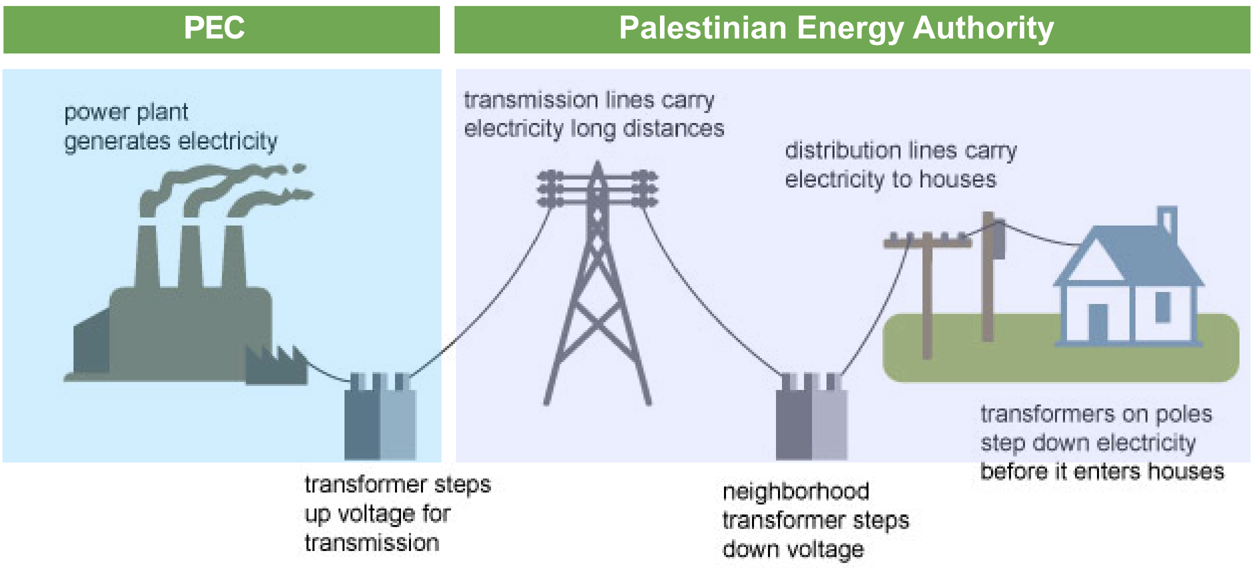
The Company ensures that the plant is operated and maintained in an environmentally sensitive manner and in accordance with applicable OPIC requirements, World Bank guidelines and local Palestinian environmental requirements and policies.

Gaza Power Generating Company - GPGC
The power plant has a generation capacity reaching 140MW in a combined cycle system consisting of four gas turbines and two steam turbines arranged in two blocks.

Board of Directors Meetings During 2016

2 March 2016	A Board of Directors Meeting was held on 2 March 2016. During this meeting, administrative and financial matters were discussed in addition to the latest developments in the company in relation to the operating and maintenance process.
20 April 2016	A Board of Directors Meeting was held on 20 April 2016, preceding the General Assembly Meeting. The Board of Directors agreed to recommend to the General Assembly a dividend declaration for the year 2015 as follows: Declaration and payout of 10% of the company's original capital to the shareholders owning shares up to the day of the General Assembly Meeting. This was approved by the General Assebly.
3 December 2016	A Board of Directors Meeting was held on 3 December 2016. During this meeting, administrative and financial matters were discussed in addition to the latest developments in the company in relation to the financial, operation and maintenance process.

The General Assembly Meeting for the year 2016 is expected to be held on 19 April 2017



4. Executive Management & Board of Directors

Executive Management

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

Board of Directors

#	Names	Position	Representative	Address
1	Samer Khoury	Chairman	Palestine Power Private Company L.T.D	Gaza, Al Nusirat, Salah Al Din St., Power Plant, P.O.Box 1336,Tel. 2888600 Ext. No. 331 Fax 2888607
2	Walid Salman	Vice Chairman		
3	Nabil Sarraf	Member		
4	Tarek Aggad	Member		
5	Hani Awad	Member		
6	Hani Ali	Member		
7	Marwan Salloum	Member		
8	Sharhabeel Al Zaeem	Member		
9	Ahed Bseiso	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	Talal Naserddin (*)	Member		
11	Samir Shawwa	Member		
12	Faisal Shawwa	Member	Morganti Development LLC	Jordan, Amman, P.O Box 830392, tel +9626 4658403, fax +9626 4643071
13	Khaled Osaily	Member		
14	Majed Halou	Member	Palestinian Pension Agency	Gaza, Al Remal, Thourah St., Tel 2829219, Fax 2822473
15	Iyad Basal	Member	Public Shareholder	Gaza, Al Remal, Haifa St., Tel. 2848025, Telefax 2840384

(*) Newly Appointed as of 20th April 2016

(**) According to the company's Articles of Association, three seats on the Board of Directors are reserved to any Public Shareholders owning a certain numbers of the shares. At the time of this report, only two seats have been occupied. It was agreed with the Companies Controller during the Generally Assembly Meeting held on 25 April 2012 that PEC Holding is to have additional representative in PEC Public to complete the legal requirement of 15 Board Members until a public representative exists.

5. Corporate Governance

The Company's Board of Directors protects the rights of the shareholders and adopts their interests to develop the Company and improve its performance, thus, ensuring the growth of their equity value. The Board of Directors assures the shareholders that the Company strives to ensure the best possible returns despite all circumstances.

In addition, the Board of Directors advises the executive management on the best course of action to preserve the interests of the Company and its assets, and to utilize its resources efficiently and to ensure they follow the principles of best corporate governance.

Since the Company was listed on the Palestine Exchange (PEX), it has continuously implemented a transparency policy and declares all information as required by PEX and Palestine Capital Market Authority. This implementation emanates from the Company's interest in maintaining the trust of its shareholders and reinforcing the principles of transparency in presenting the information and statements to all stakeholders and investors alike, allowing them to make their decisions wisely regarding their shares and investments.

We have recently established a 'Compliance Department' which ensures that the Company's policies and procedures are always in compliance with the highest standards and best practices in conducting our work.

External Auditors for 2016:

Following the voting of the last General Assembly Meeting, Ernst & Young were appointed as the Company's external auditors for the year 2016.

Company Legal Advisor:

Al Zaeem & Associates

Legality:

PEC does not have any ongoing legal cases

6. Company Employees

We are proud of our Palestinian workforce in all the managerial, technical and administrative departments. By the end of 2016, the number of employees is 148, compared to 150 employees at the end of 2015. The majority of the employees consist of engineers, technicians, administrative staff, security and safety employees, all who acquire the appropriate degrees and certifications for their posts.

7. Investor Relations

The Investor Relations Department - Dividend Distribution
Since 2005, our Investor Relations Department has been dedicated to ensuring that all our Shareholders' requests are met in a professional and efficient manner.

Our mechanism for dividend distribution is in line with the best practice and latest technology services from banks to ensure a hassle free and timely distribution of dividends across bank branches within Palestine and internationally.

We protect the rights of our shareholders at the Company and any uncollected dividends will be kept in a reserve account to be paid out to shareholders upon their request following set rules and regulations.

Corporate Social Responsibility
PEC is always on the lookout to support seminars, conferences and summits in Palestine that help to develop vital issues in the country including science, technology, finance and statistics.

We continuously strive to play an active and effective role in the social community by providing our support to educational institutions, local organizations, schools, universities, and training institutions. We believe in sharing knowledge and empowering our youth with first hand experience in our field of work and knowledge.

8. Information Technology

PEC has devoted a considerable amount of its resources in making sure we are always up to par with our IT standards and applications, internally and externally.

The Company's IT department tries to apply the latest technologies and applications in all the departments which facilitates the work and makes the reports more accessible at any time. Accordingly, most of the Company's services have been computerized to minimize paperwork, thereby protecting the ecosystem.

The IT department regularly updates and enhances several facilities for GPGC management and staff for better control and monitoring. The department initiates technology enhancement modules among all the Company's departments.

Brief of the open meeting with the Executive Managing Director - in Gaza (March 2017)

Palestine Electric Company was invited to participate in an open meeting held in Gaza by the Palestinian Institute of Communication and Development, titled ***" The facts behind the electricity crisis in Gaza strip"*** on 8 March 2017, which brought together all parties interested in inquiring about any aspect related to the power plant's technical performance, government agreements, signed contracts, company vision and goals and financial matters.

The purpose of this important meeting was to clarify any matter that has been mishandled by the local media in recent affairs amidst many unjustified claims. Palestinian press and media were invited to record and take notes of the happenings.

PEC's Executive Managing Director was happy to answer all questions along with the power plant's managers of the different departments. Palestine Electric Company has always advocated full transparency in all its affairs from inception to date.

The following are the main points that were highlighted and discussed:

- The company's role in finding practical solutions to solve the electricity problem in Gaza.

- The discount granted by GPGC to PENRA/MOF in the amount of $30 million as a sign of goodwill and contribution to supporting the Palestinian Authority during these hard times

- The clarification that the power plant is capable of generating the full capacity of 140MW if fuel is available.

- The cooperation required to solve the electricity crisis, and the required provision of the necessary quantity of fuel, in addition to supplying the power plant with Gas in the near future.

- The duration of the contract made between the company and the Ministry of Energy is 20 years, and the company is entitled to extend the contract for 5 years initially followed by another 5 years if the two parties agree upon reasonable conditions.

- The company is very vigilant in carrying out the necessary maintenance work on a regular basis to ensure the continuity and peak performance of the power plant at all times.

- Supplying the power plant with gas instead of fuel will increase the power plant efficiency and reduce cost for the Ministry of Energy and the general public.

- Avoiding political disputes and differences will help in lessening the suffering of the people due to the continuous disconnection and interruption of electricity .

- 'Be Positive' is an initiative by Palestine Electric Company dedicated to contributing to the community by providing humanitarian aid and support, training students in all specializations, and providing a helping hand to urgent needs such as rebuilding homes and providing urgent medical care.

The Executive Managing Director highlighted the importance of Palestine Electric Company for the country and the Palestinian economy. He attributed this importance to the patriotic nature of this project which is driven by the determination and support of the Chairman, the company's Board of Directors and management in resolving all issues by working with the stakeholders regardless of any conflicts, to lessen the suffering of the people.

9. Power Plant Technical

During the year 2016, due to the political situation in the country, we faced several challenges related to fuel supply and availability of materials and spare parts. Year after year, we have become acquainted to such challenges that, in light of their apparent downfall, they have helped us to gain a hands on experience in many cases of unavoidable hurdles that come with unstable political and economic environment.

Our Company continues to defy all obstacles and maintain its top standard of operations, development, maintenance and progress.

In 2016 we updated our maintenance management systems and we are continuously investing in developing our staff's expertise and existing infrastructure. We always have the best interest of our employees, community, and investors in mind and we are always optimistic about the future.

With the support, leadership and commitment of our team, management, EMD and Board of Directors, we look forward to the year 2017.

Dr. Rafiq Maliha
Power Plant General Manager

10. Operations & Maintenance

Following our experience in this unique project we have learned how to quickly overcome pitfalls and uncontrollable situations that are a direct result of the unstable political and economic situation in the country.

During 2016 we carried out further repairs, renovations and maintenance work. The blockades on Gaza constantly present us with a difficult mission in obtaining the required materials and tools. Yet, we managed to perform all necessary maintenance work. We have also established a technical office responsible for planning future projects related to gas conversion and commissioning, plant expansion and necessary training programs.

We are always very well prepared and we have plans set to move forward. Our current focus is primarily on repairing all remaining damages to the power plant and maintaining our ability to operate at full capacity. We are also constantly working with PENRA and encouraging them to provide us with sufficient fuel to sustain our generation capacity and to meet a higher percentage of the demand for power in Gaza.

11. PEC Shares Information Mechanism

The Company's information can be obtained from the following websites: Palestine Exchange, Palestine Capital Market Authority, Palestine Electric Company and from the headquarters office of the Company in Gaza. Our annual report is available to all shareholders two weeks prior to the General Assembly Meeting every year. The shareholders can also obtain a copy of the annual report from Gaza-Al Nuseirat, Ramallah and Nablus (following the advertisements we publish in newspapers concerning this). Alternatively, our annual report can be viewed and downloaded from the Company website: **www.pec.ps.**

12. PEC Shareholders

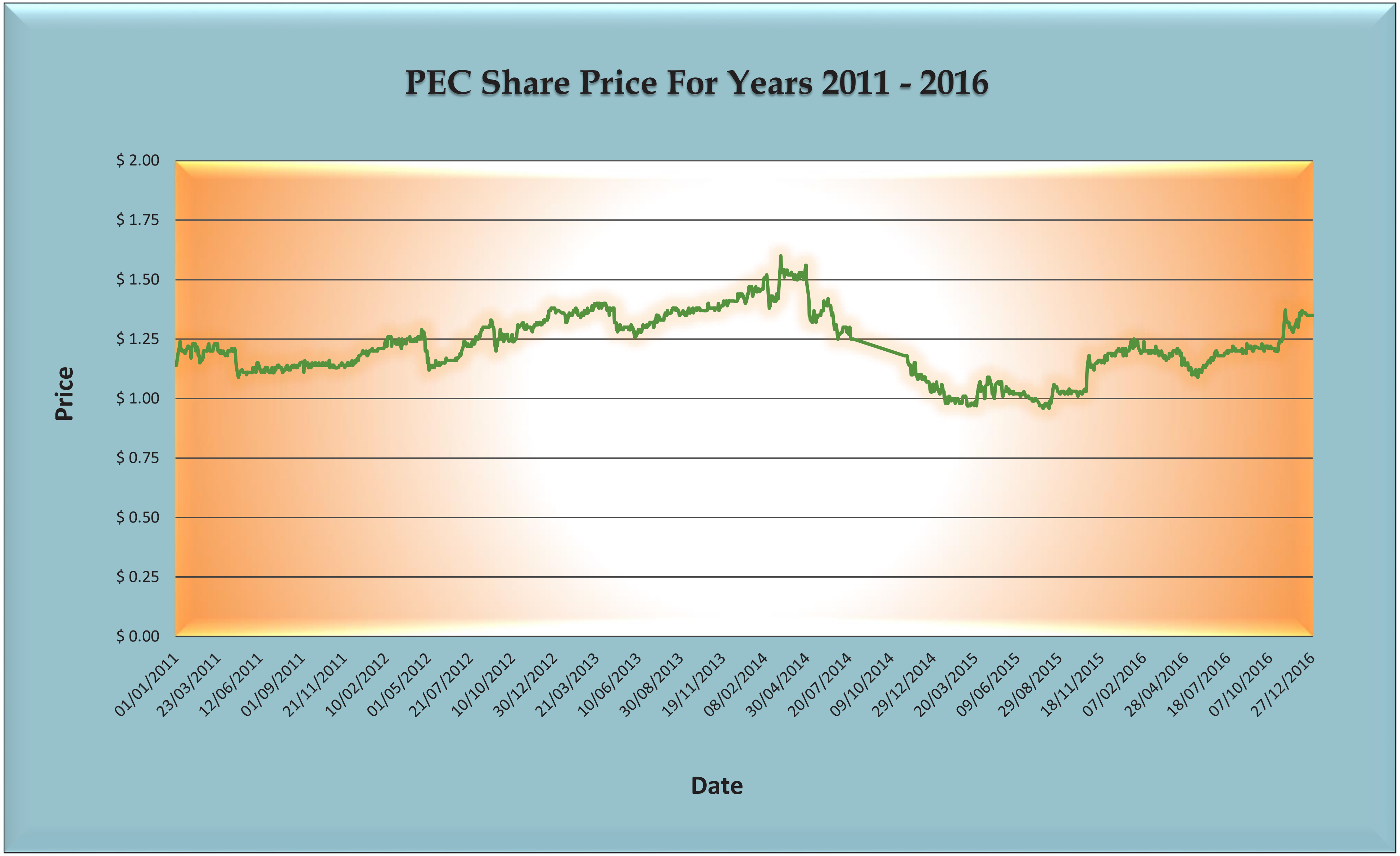
Shareholders Owning more than 5% of the PEC shares:

Name of Company	Number of Shares	Rate
Palestine Power Private Company L.T.D	38,999,600	65 %

Analysis of registered shareholdings for 2015-2016

Distribution of shares by type of shareholder	Number of holdings		Shares		Rate	
Category	2015	2016	2015	2016	2015	2016
Institutional investors	5	5	40,200,000	40,200,000	67 %	67 %
Individuals	11,061	10,964	19,800,000	19,800,000	33 %	33 %
Total	**11,066**	**10,969**	**60,000,000**	**60,000,000**	**100 %**	**100 %**

Range analysis of register	Number of holdings		Shares		Rate	
Category	2015	2016	2015	2016	2015	2016
1 – 500	3,307	3,285	1,021,596	1,007,146	1.70 %	1.68 %
501 – 1,000	5,297	5,197	3,832,788	3,758,635	6.39 %	6.26 %
1,001 – 5,000	2,095	2,121	3,699,128	3,786,320	6.17 %	6.31 %
5,001 – 10,000	185	176	1,345,222	1,303,610	2.24 %	2.17 %
10,001 – 50,000	141	146	3,066,215	3,317,624	5.11 %	5.53 %
50,001 – 100,000	18	20	1,292,621	1,381,101	2.15 %	2.30 %
100,001 – 1,000,000	22	23	6,742,830	6,445,964	11.24 %	10.74 %
1,000,001 and above	1	1	38,999,600	38,999,600	65.00 %	65.00 %
Total	**11,066**	**10,969**	**60,000,000**	**60,000,000**	**100 %**	**100 %**



PEC Share Price For Years 2011 - 2016
Price
$ 2.00
$ 1.75
$ 1.50
$ 1.25
$ 1.00
$ 0.75
$ 0.50
$ 0.25
$ 0.00
01/01/2011
23/03/2011
12/06/2011
01/09/2011
21/11/2011
10/02/2012
01/05/2012
21/07/2012
10/10/2012
30/12/2012
21/03/2013
10/06/2013
30/08/2013
19/11/2013
08/02/2014
30/04/2014
20/07/2014
09/10/2014
29/12/2014
20/03/2015
09/06/2015
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18/11/2015
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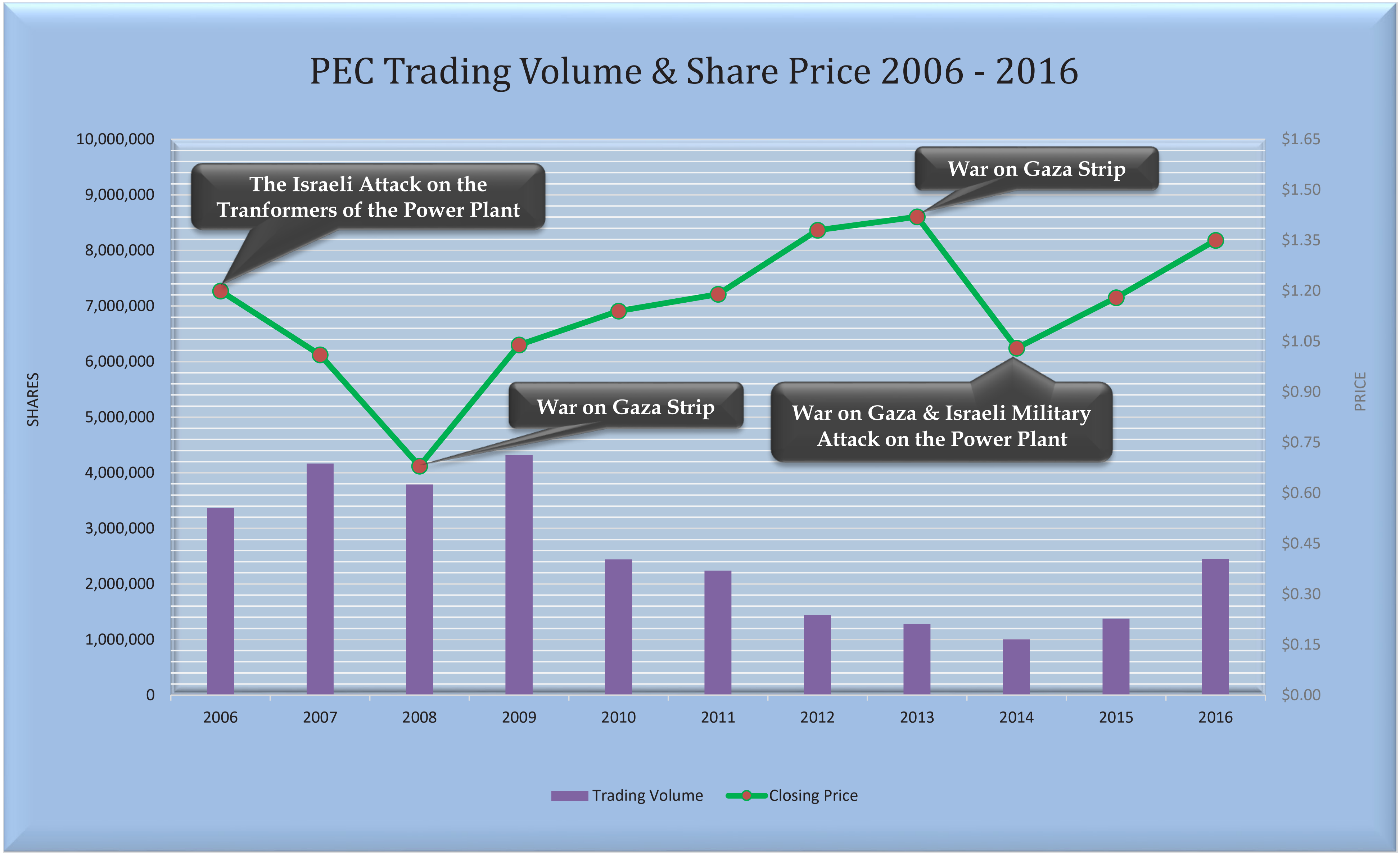
18/07/2016
07/10/2016
27/12/2016
Date

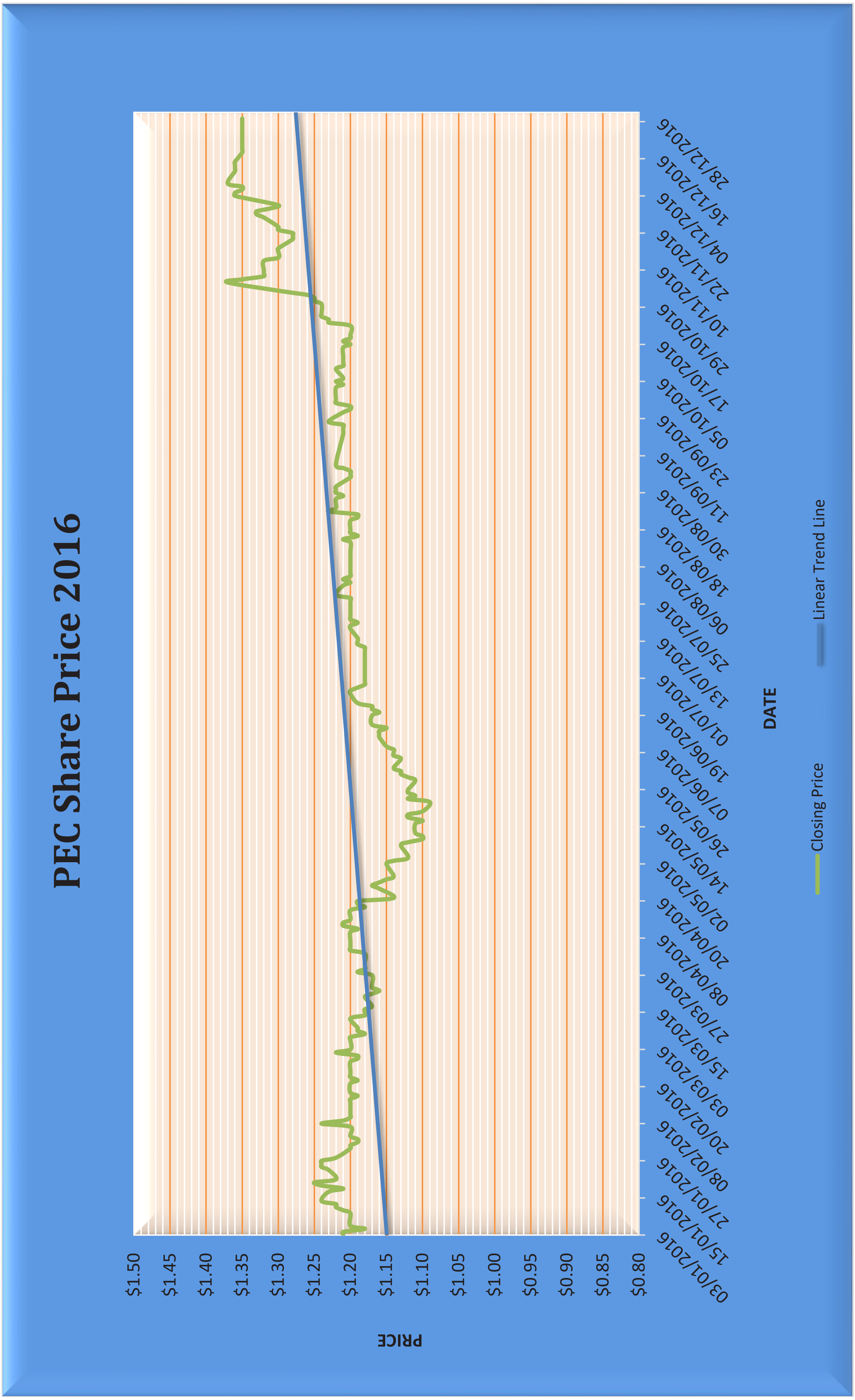

PEC Trading Volume & Share Price 2006 - 2016
SHARES
10,000,000
9,000,000
8,000,000
7,000,000
6,000,000
5,000,000
4,000,000
3,000,000
2,000,000
1,000,000
0
PRICE
$1.65
$1.50
$1.35
$1.20
$1.05
$0.90
$0.75
$0.60
$0.45
$0.30
$0.15
$0.00
2006
2007
2008
2009
2010
2011
2012
2013
2014
2015
2016
The Israeli Attack on the Tranformers of the Power Plant
War on Gaza Strip
War on Gaza Strip
War on Gaza & Israeli Military Attack on the Power Plant
Trading Volume
Closing Price

PEC SHARE STATISTICS

US$ 2.45	PEC Share all time high (2005)
US$ 1.39	PEC Share 2016 High
US$ 1.35	PEC Share Closing Price 2016
+ 14.41%	Change Ratio on PEC Share Price in the end of 2016

Year	Opening Price	Closing Price	High	Low	Trading Value	Shares Traded	Number of Deals
2016	$1.21	$1.35	$1.39	$1.09	$2,982,011	2,451,536 Shares	1,786 Deals
2015	$1.04	$1.18	$1.21	$0.93	$1,459,165	1,375,518 Shares	1,154 Deals

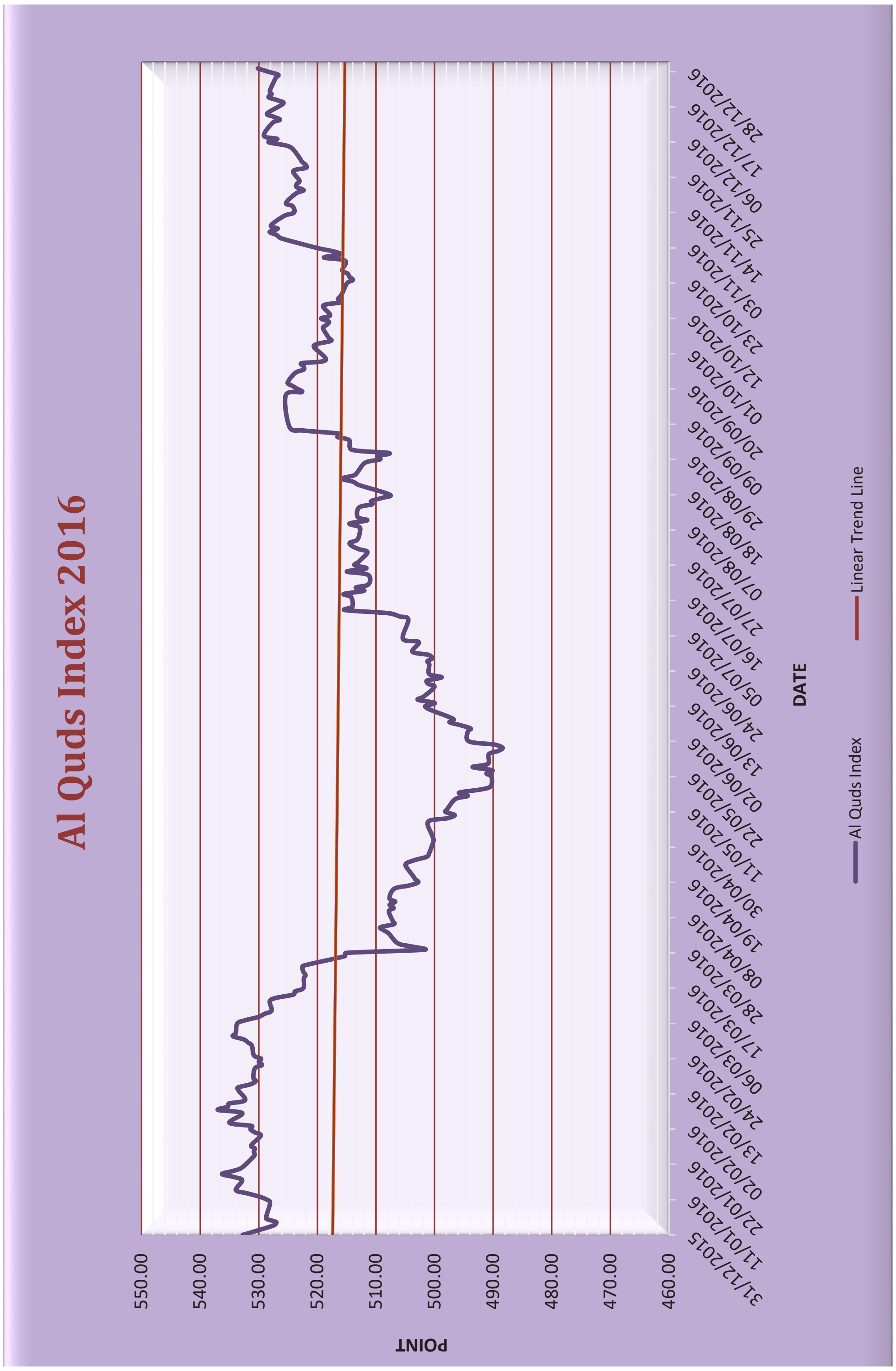
13. PEC Share Performance



The 2016 closing price of PEC shares was $1.35 compared to $1.18 at the end of 2015, thus, reflecting a 14.41% increase.

Despite the volatile political situation in the country, PEC shares remain stable, coming out stronger than it did in previous years after an attack or major political incident. The bars remain high and PEC shares are anticipated to remain stable. The level of confidence amongst our shareholders is high for PEC shares and we remain a strong player in the Palestine Securities Exchange with a trading profile which is in line with Al Quds index.

As a result of PEC's good trading performance during 2016, and its compliance with the required standards and conditions, PEC shares continue to be listed in the first trading platform in the Palestinian Stock Exchange. PEC shares are also amongst the Al Quds Index selected sample of stocks.



14. Analysis of Financial Results for 2016

During April 2015, the company completed the repair and refurbishment work needed to bring the plant back to its full operating capacity compared to the capacity of 92.4 MW following the Israeli attack in July 2014 allowing us to invoice PENRA for the full capacity as per our agreements.

The Company's financial performance for 2016 has been affected considerably when compared to the previous years. PEC has incurred a loss of US$ 648,817 in its 2016 financials which has been directly caused by the write-off of the discount granted to PENRA/MOF as part of the settlement agreement.

Due to the accumulation of very large amounts of outstanding receivables due from PENRA, on 7 November 2016, GPGC was able to safeguard the interest of the company by negotiating a settlement agreement with PENRA/MOF in regards to collecting on the outstanding amounts of US$ 64,729,958 as of 31 October 2016.

As part of the agreement, GPGC granted PENRA/MOF a discount of $30 million as a sign of goodwill and contribution to supporting the Palestinian Authority during these hard times. This amount was treated as a write-off in accordance with the International Accounting Standards. It was agreed that the balance of US$ 34,729,958 would be settled by MOF /PENRA through five promissory note payments over a period of 15 months in accordance with a schedule agreed upon by the parties.

Difference between Preliminary Financial Results and Audited Financial Results for 2016
There are no differences between the preliminary financial results and the audited financial results.

PEC in Numbers

Details	2012	2013	2014	2015	2016
Net Profit	$ 8,414,541	$ 4,561,995	$ 1,884,873	$ 13,648,366	($ 648,817)
Total Equity	$ 80,557,352	$ 79,119,347	$ 78,004,220	$ 91,652,586	$ 85,003,769
PEC Share Price (End of the Year)	$ 1.38	$ 1.42	$ 1.03	$ 1.18	$ 1.35
Dividends Declaration & Distribution	$ 6,000,000	$ 3,000,000	-	$ 6,000,000	*
Rate of Dividends Declaration	10%	5%	-	10%	*

* To be announced during the General Assembly Meeting.

15. Cash Dividends

At Palestine Electric Company we are always on a mission to fulfill our commitment to our shareholders by declaring and paying out dividends in accordance with our performance.

The Company's financial performance for 2016 has been affected considerably due to the discount granted to PENRA/MOF as part of the settlement agreement and has therefore, incurred a loss of US$ 648,817 in its 2016 financial results.

Putting aside the impact of the write-off, PEC's financials remain stable and it is expected to return back to its normal levels in 2017 onwards.

16. Board of Directors Remuneration

The Board of Directors have agreed, during their meeting on 20 April 2016, to pay the following remunerations to merits of the Board members for the year 2015.

Board of Directors Remuneration

#	BOD	Members Number	Value $
1	Palestine Power Private Company L.T.D	8	$103,400
2	Palestine Electric Company Holding	3	$42,300
3	Morganti Development LLC	2	$28,200
4	Public Shareholder - Palestinian Pension Agency	1	$14,100
5	Public Shareholder - Individual	1	$14,100
	Total	**15**	**$ 202,100**

17. Financial Ratios

Ratios of Financial Analysis of 2015 - 2016		
Financial Ratios	**2015**	**2016**
Turnover Share	2.29 %	4.09 %
Earnings per Share	$0.2275	($0.0108)
Book Value per Share	$1.528	$1.417
Market Value to Book Value (One Time)	77.23 %	95.29 %
Equity to Total Assets Ratio	85.75 %	85.08 %
Return on Equity	14.89 %	(0.76 %)

18. Audited Financial Statements 2016

Palestine Electric Company

Consolidated Financial Statements

December 31, 2016

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

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Fax: +972 22422324
www.ey.com

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INDEPENDENT AUDITOR'S REPORT
To the Shareholders of Palestine Electric Company, Public Shareholding Company

Opinion

We have audited the consolidated financial statements of Palestine Electric Company, Public Shareholding Company and its subsidiary (the Company), which comprise the consolidated statement of financial position as at December 31, 2016, and the consolidated statement of income and comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Company as at December 31, 2016, and its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards (IFRSs).

Basis for Opinion

We conducted our audit in accordance with International Standards on Auditing (ISAs). Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Consolidated Financial Statements section of our report. We are independent of the Company in accordance with the International Ethics Standards Board for Accountants' Code of Ethics for Professional Accountants (IESBA Code), and we have fulfilled our other ethical responsibilities in accordance with the IESBA Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Emphasis of Matter – Credit risk

We draw attention to note (9) to the accompanying consolidated financial statements, Gaza Power Generating Company (GPGC) is currently exposed to credit risk as all of its revenues from the use of the power plant to generate electric capacity is generated from one customer, Palestinian Energy and Natural Resources Authority (PENRA). To the date of the financial statements, PENRA has not provided GPGC with the letter of credit of U.S. $ 20,000,000 as required by the Power Purchase Agreement. Our opinion is not modified in respect of this matter.

Emphasis of Matter - Taxes

We draw attention to note (22) to the accompanying consolidated financial statements. According to the power purchases agreement between the Company's subsidiary being Gaza Power Generating Company (GPGC) and Palestinian National Authority (PNA), PNA has agreed to exempt GPGC and its shareholders (with respect to dividends and earnings from the subsidiaries), for the term of the agreement for 20 years including any extensions thereof, from all Palestinian taxes.
As of the date of these consolidated financial statements, neither the Company nor its subsidiary obtained a tax settlement from the tax authorities for the period from inception in 1999 until 2015. Our opinion is not modified in respect of this matter.

Emphasis of Matter – Concentration of geographic risk

We draw attention to note (27) to the accompanying consolidated financial statements, the Company's non-current assets which mainly comprise property, plant and equipment are located in Gaza. Recoverability of these assets from the Company's operations depends on the stabilization of the political and economic situation in Gaza. Our opinion is not modified in respect of this matter.

Key Audit Matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the consolidated financial statements as at December 31, 2016. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters. For each matter below, our description of how our audit addressed the matter is provided in that context.

We have fulfilled the responsibilities described in the Auditor's responsibilities for the Audit of the Financial Statements section of our report, including in relation to these matters. Accordingly, our audit included the performance of procedures designed to respond to our assessment of the risks of material misstatement of the consolidated financial statements. The results of our audit procedures, including the procedures performed to address the matters below, provide the basis for our audit opinion on the accompanying financial statements.

Accounts receivables settlement - power purchase agreement amendment

GPGC reached an agreement to settle accounts receivable due from PENRA, which resulted in writing-off accounts receivable in the amount of U.S. $ 30 million allocated partially against previously provided impairment provision of U. S. $ 14,088,863 and the remaining amount of U.S. $ 15,911,137 was recorded as a loss in 2016 consolidated income statement. Net accounts receivable as at December 31, 2016 and 2015 amounted to U.S. $ 29,704,956 and US $ 35,635,052, respectively. Management assessed that no provision is required as at December 31, 2016 as PENRA showed commitment to settle its capacity charge receivables according to the payment schedule.

We focused on the transaction of amending the power purchase agreement because it is a significant large and non-routine transaction that significantly had an impact on the results of operation of the Company. In addition, assessing account receivable recoverability requires considerable amount of judgment for determining impairment loss, if any.

We inspected the amendment agreement to ensure proper accounting treatment in addition to the payment schedule included therein and ensured that collections made subsequent to signing the agreement are at least as scheduled. Further, we tested accounts receivable aging schedule at December 31, 2016 and assessed management assumptions thereon. In addition, we received accounts receivable confirmation from PENRA and assessed the disclosure regarding accounts receivable as presented in note (9).

Other information included in the Company's 2016 Annual Report

Other information consists of the information included in the Company's 2016 Annual Report other than the consolidated financial statements and our auditor's report thereon. Management is responsible for the other information. The Company's 2016 Annual Report is expected to be made available to us after the date of this auditor's report.

Our opinion on the consolidated financial statements does not cover the other information and we will not express any form of assurance conclusion thereon.

In connection with our audit of the consolidated financial statements, our responsibility is to read the other information identified above when it becomes available and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated

Responsibilities of Management and the Board of Directors for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with IFRSs, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error. In preparing the consolidated financial statements, management is responsible for assessing the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Company or to cease operations, or has no realistic alternative but to do so.

The Board of Directors is responsible for overseeing the Company's financial reporting process.

Auditor's Responsibilities for the Audit of the Consolidated Financial Statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

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

– Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

– Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control.

– Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.

– Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Company to cease to continue as a going concern.

- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Company to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

We communicate with the Board of Directors regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide the Board of Directors with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with the Board of Directors, we determine those matters that were of most significance in the audit of the consolidated financial statements as at December 31, 2016 and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

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Gaza - Palestine
March 28, 2017

CONSOLIDATED STATEMENT OF FINANCIAL POSITION
As at December 31, 2016

	Notes	2016 U. $. $	2015 U.S. $
ASSETS			
Non-current assets			
Property, plant and equipment	4	38,453,366	44,727,750
Intangible assets	5	1,637,128	1,858,711
Available-for-sale investment	6	750,000	500,000
Accounts receivable – noncurrent	9	7,499,510	-
Project in progress	7	249,372	249,372
		48,589,376	47,335,833
Current assets			
Materials and inventories	8	8,475,642	8,231,093
Accounts receivable - current	9	22,205,446	35,635,052
Other current assets	10	3,298,950	1,024,240
Cash and cash equivalents	11	17,335,472	14,661,078
		51,315,510	59,551,463
TOTAL ASSETS		99,904,886	106,887,296
EQUITY AND LIABILITIES			
Equity			
Paid-in share capital	12	60,000,000	60,000,000
Statutory reserve	13	9,742,737	9,742,737
Retained earnings		15,261,032	21,909,849
Total equity		85,003,769	91,652,586
Non-current liabilities			
Long term loans	14	2,698,467	3,357,799
Provision for employees' indemnity	15	3,234,844	2,786,183
		5,933,311	6,143,982
Current liabilities			
Current portion of long term loans	14	659,332	653,330
Other current liabilities	16	8,308,474	8,437,398
		8,967,806	9,090,728
Total liabilities		14,901,117	15,234,710
TOTAL EQUITY AND LIABILITIES		99,904,886	106,887,296

The attached notes 1 to 27 form part of these consolidated financial statements

CONSOLIDATED STATEMENT OF INCOME AND COMPREHENSIVE INCOME
Year Ended December 31, 2016

	Notes	2016 U.S. $	2015 U.S. $
<u>**Revenues**</u>			
Capacity charges	17	31,360,512	28,080,126
Discounts on capacity charges' invoices	9	(150,000)	-
Operating expenses	18	(15,538,434)	(13,927,234)
		15,672,078	14,152,892
Accounts receivable written off	9	(15,911,137)	-
Finance costs		(413,569)	(259,610)
Other revenues (expenses)		3,811	(244,916)
(Loss) profit for the year		(648,817)	13,648,366
Other comprehensive income		-	-
Total comprehensive income for the year		(648,817)	13,648,366
Basic and diluted (losses) earnings per share	19	(0.01)	0.23

The attached notes 1 to 27 form part of these consolidated financial statements

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
Year Ended December 31, 2016

	Paid-in Share Capital	Statutory Reserve	Retained Earnings	Total Equity
	U.S. $	U.S. $	U.S. $	U.S. $
2016				
Balance, beginning of the year	60,000,000	9,742,737	21,909,849	91,652,586
Total comprehensive income for the year	-	-	(648,817)	(648,817)
Dividends (note 20)	-	-	(6,000,000)	(6,000,000)
Balance, end of year	60,000,000	9,742,737	15,261,032	85,003,769
2015				
Balance, beginning of the year	60,000,000	8,377,900	9,626,320	78,004,220
Total comprehensive income for the year	-	-	13,648,366	13,648,366
Transferred to statutory reserve	-	1,364,837	(1,364,837)	-
Balance, end of year	60,000,000	9,742,737	21,909,849	91,652,586

CONSOLIDATED STATEMENT OF CASH FLOWS
Year Ended December 31, 2016

	Note	2016 U.S. $	2015 U.S. $
Operating activities			
(Loss) profit for the year		(648,817)	13,648,366
Adjustments:			
Provision for employees' indemnity		631,472	416,433
Depreciation of property, plant and equipment		6,303,966	6,307,001
Amortization		221,583	221,583
Finance costs		413,569	259,610
Gain from disposal of property, plant and equipment		(5,000)	-
Accounts receivable written off		15,911,137	-
		22,827,910	20,852,993
Working capital adjustments:			
Accounts receivable		(9,981,041)	(7,576,794)
Other current assets		(2,274,710)	2,185,430
Materials and inventories		(244,549)	(547,017)
Other current liabilities		(597,264)	(239,398)
Employees' indemnity paid		(182,811)	(247,700)
Net cash flows from operating activities		9,547,535	14,427,514
Investing activities			
Purchase of property, plant and equipment		(29,582)	(65,282)
Proceeds from sale of property, plant and equipment		5,000	-
Available-for-sale investment		(250,000)	-
Project in progress		-	(149,860)
Net cash flows used in investing activities		(274,582)	(215,142)
Financing activities			
Loan repayments		(653,330)	(647,382)
Finance costs paid		(397,666)	(240,613)
Dividends paid		(5,547,563)	(9,594,875)
Net cash flows used in financing activities		(6,598,559)	(10,482,870)
Increase in cash and cash equivalents		2,674,394	3,729,502
Cash and cash equivalents, beginning of the year		14,661,078	10,931,576
Cash and cash equivalents, end of year	11	17,335,472	14,661,078

1. General

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

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

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

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

The consolidated financial statements were authorized for issuance by the Company's Board of Directors on March 28, 2017.

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, 2016. GPGC was established in Gaza with an authorized share capital of 6,000,000 shares of U.S. $ 10 par value each.

3. Accounting Policies

3.1 Basis of preparation

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

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

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

3.2 Basis of consolidation

The consolidated financial statements comprise the financial statements of the Company and its subsidiary as at December 2016. Control is achieved when the Company is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee. Specifically, the Company controls an investee if, and only if, the Company has:

- Power over the investee (i.e. existing rights that give it the current ability to direct the relevant activities of the investee)
- Exposure, or rights, to variable returns from its involvement with the investee
- The ability to use its power over the investee to affect its returns.

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

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

3.3 Changes in accounting policies

The accounting policies adopted are consistent with those of the previous financial year except that the Company has adopted amended IFRS which they became effective. The adoption of these amendments did not have an impact on the financial position or performance of the Company.

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

IFRS 9 Financial Instruments

During July 2014, the IASB issued IFRS 9 " Financial Instruments" with all the three phases. IFRS 9 sets out the requirements for recognizing and measuring financial assets, financial liabilities and some contracts to buy or sell non-financial items. IFRS 9 replaces IAS 39 "Financial Instruments: Recognition and Measurement". IFRS 9 as issued in July 2014 will be implemented at the mandatory date on January 1, 2018, which will have an impact on the recognition and measurement of financial assets.

IFRS 16 Leases

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

IFRS 16 substantially carries forward the lessor accounting requirements in IAS 17. Accordingly, a lessor continues to classify its leases as operating leases or finance leases, and to account for those two types of leases differently.

IFRS 16 introduced a single lessee accounting model and requires a lessee to recognize assets and liabilities for all leases with a term of more than 12 months, unless the underlying asset is of low value. A lessee is required to recognize a right-of-use asset representing its right to use the underlying leased asset and a lease liability representing its obligation to make lease payments.

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

3.4 Estimates and assumptions

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

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

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

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

3.5 Summary of significant accounting policies

Revenue recognition

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

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

- The purchaser has the ability or right to operate the asset or direct others to operate the asset in a manner it determines while obtaining or controlling more than an insignificant amount of the output or other utility of the asset.
- The purchaser has the ability or right to control physical access to the underlying asset while obtaining or controlling more than an insignificant amount of the output or other utility of the asset.
- Facts and circumstances indicate that it is remote that one or more parties other than the purchaser will take more than an insignificant amount of the output or other utility that will be produced or generated by the asset during the term of the arrangement, and the price that the purchaser will pay for the output is neither contractually fixed per unit of output nor equal to the current market price per unit of output as of the time of delivery of the output.

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

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

Expense recognition

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

Finance costs

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

Property, plant and equipment

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

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

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

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

Project in progress

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

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

Intangible assets

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

Intangible assets with finite lives are amortized over the useful economic life and assessed for impairment whenever there is an indication that the intangible asset may be impaired. The amortization period and the amortization method for an intangible asset with a finite useful life is reviewed at least 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 statement of income and comprehensive income in the expense category consistent with the function of the intangible asset.

Right to use PENRA's transformers

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

Current versus non-current classification

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

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

All other assets are classified as non-current.

A liability is current when:

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

The Company classifies all other liabilities as non-current.

Materials and inventories

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

Accounts receivable

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

Available-for-sale investments

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

Fair value measurement

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

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

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

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

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

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

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

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

Impairment of financial assets

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

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

Cash and cash equivalents

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

Loans

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

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

Accounts payable and accruals

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

Provisions

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

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 indemnity 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 consolidated financial statements date. All differences are recognized to the consolidated statement of income and comprehensive income.

Earnings per share

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

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

4. Property, Plant and Equipment

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

2015	Power plant	Buildings	Motor vehicles	Computers and printers	Office equipment	Furniture and fixture	Total
	U.S. $	U.S. $	U.S. $	U.S. $	U.S. $	U.S. $	U.S. $
Cost:							
Balance, beginning of the year	123,579,669	1,464,904	505,192	368,825	139,338	219,665	126,277,593
Additions	-	-	-	11,527	53,214	541	65,282
Balance, end of year	123,579,669	1,464,904	505,192	380,352	192,552	220,206	126,342,875
Accumulated depreciation:							
Balance, beginning of the year	73,473,553	704,394	466,860	321,226	138,329	203,762	75,308,124
Depreciation charges for the year	6,181,480	73,245	12,960	21,751	12,656	4,909	6,307,001
Balance, end of year	79,655,033	777,639	479,820	342,977	150,985	208,671	81,615,125
Net carrying amount:							
At December 31, 2015	43,924,636	687,265	25,372	37,375	41,567	11,535	44,727,750

Property, plant and equipment include U.S. $ 1,096,570 and U.S. $ 1,094,987 of fully depreciated assets as at December 31, 2016 and 2015, respectively, which are still used in the Company's operations.

5. Intangible Assets

	2016	2015
	U.S. $	U.S. $
Balance, beginning of the year	1,858,711	2,080,294
Amortization	(221,583)	(221,583)
Balance, end of year	1,637,128	1,858,711

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

6. Available-for-sale Investment

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

7. Project in Progress

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

8. Materials and Inventories

	2016	2015
	U.S. $	U.S. $
Spare parts	7,150,796	7,552,471
Consumables	243,667	319,566
Goods in transit	1,008,289	285,095
Others	72,890	73,961
	8,475,642	8,231,093

9. Accounts Receivable

	2016	2015
	U.S. $	U.S. $
Accounts receivable from capacity charges	59,704,956	49,723,915
Accounts receivable written off *	(30,000,000)	-
	29,704,956	49,723,915
Impairment of accounts receivable	-	(14,088,863)
	29,704,956	35,635,052
Current portion of accounts receivable	(22,205,446)	(35,635,052)
Noncurrent portion of accounts receivable	7,499,510	-

Movement on the impairment provision of account receivable as of December 31, 2016 and 2015 was as follows:

	2016	2015
	U.S. $	U.S. $
Balance, beginning of the year	14,088,863	14,088,863
Accounts receivable written off *	(14,088,863)	-
Balance, end of year	-	14,088,863

* On November 7, 2016, GPGC, together with PENRA and the Palestinian Ministry of Finance and Planning signed an amendment to the power purchase agreement according to which, the parties agreed to settle only U.S. $ 34,729,958 of the entire accounts receivable at October 31, 2016 which amounted to U.S. $ 64,729,958 and agreed to settle the balance over 5 instalments during a period of 15 months according to agree upon payments schedule. As a result, GPGC wrote off U.S. $ 30 million of accounts receivable and allocated part of it against previously provided impairment provision of U. S. $ 14,088,863 and the remaining amount of U.S. $ 15,911,137 was recorded as a loss in 2016 consolidated income statement. Subsequently, PENRA made its first payment of U.S. $ 6,392,481.

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

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

10. Other Current Assets

	2016	2015
	U.S. $	U.S. $
Value Added Tax receivable	126,960	33,152
Due from shareholders	2,006,783	596,258
Prepaid insurance	741,467	25,228
Advances to suppliers	400,178	297,490
Others	23,562	72,112
	3,298,950	1,024,240

11. Cash and Cash Equivalents

	2016	2015
	U.S. $	U.S. $
Cash on hand	8,290	6,636
Current accounts at banks	17,327,182	14,654,442
	17,335,472	14,661,078

12. Paid-in Share Capital

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

13. Statutory Reserve

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

14. Long Term Loans

On November 7, 2013, GPGC signed an agreement with a 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 of which was due on April 5, 2014 and the last installment will be due on December 5, 2021. The loan is subject to an annual interest rate of six-month LIBOR plus 3% with minimum rate of %5.5 and maximum of 7% and an annual commission at a rate of 1%. As a collateral for the loan, GPGC committed to transfer accounts receivable collections to the local bank and endorse the bank as a partial beneficiary to GPGC's assets and equipment under its insurance policy, in addition to the guarantee of the Company.

Payment schedule of the loans is as follows:

	U.S. $
2017	659,332
2018	665,390
2019	671,504
2020	677,673
2021	683,900
	3,357,799

15. Provision for Employees' Indemnity

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

	2016	2015
	U.S. $	U.S. $
Balance, beginning of the year	2,786,183	2,617,450
Additions	631,472	416,433
Payments	(182,811)	(247,700)
Balance, end of year	3,234,844	2,786,183

16. Other Current Liabilities

	2016	2015
	U.S. $	U.S. $
Dividends payable	2,560,272	2,107,835
Maintenance payable and provisions	3,871,773	3,871,773
Due to Consolidated Contractors Company	62,370	515,586
Accrued Board of Directors expenses	-	314,900
Accrued expenses	308,086	445,740
Land's lease	735,000	588,000
Provision for employees' vacations	270,747	235,652
Accrued loan expenses	15,903	18,997
Others	484,323	338,915
	8,308,474	8,437,398

17. Capacity Charges

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

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

During April 2015, GPGC undertook maintenance and repairs which enabled it to resume its ability of full capacity and therefore issued full capacity charges invoices; that was after the reduction of capacity charges to 92.4 MW as a result of the Israeli air strike during July 2014.

18. Operating Expenses

	2016	2015
	U.S. $	U.S. $
Salaries and wages	4,912,119	4,480,243
Provision for employees' indemnity	631,472	416,433
Board of Directors expenses	202,100	166,850
Employees' insurance	106,091	130,694
Development and technical advisory services	24,000	100,000
Travel and transportation	341,656	391,357
Power plant insurance	817,381	174,822
Power plant operation and maintenance	1,082,208	857,485
Depreciation of property, plant and equipment	6,303,966	6,307,001
Amortization of intangible assets	221,583	221,583
Land lease	147,000	147,000
Professional and consultancy fees	196,070	142,003
Telephone and fax	156,741	104,625
Palestine Securities Exchange listing fees	37,754	17,357
Office supplies	51,487	62,404
Advertisements	18,360	15,437
Security service costs	48,040	14,148
Miscellaneous	240,406	177,792
	15,538,434	13,927,234

19. Basic and Diluted (Losses) Earnings Per Share

	2016	2015
	U.S. $	U.S. $
Loss (profit) for the year	(648,817)	13,648,366
	Shares	Shares
Weighted average of subscribed share capital during the year	60,000,000	60,000,000
	U.S. $	U.S. $
Basic and diluted (losses) earnings per share	(0.01)	0.23

20. Dividends

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

21. 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	2016 U.S. $	2015 U.S. $
Cash at Arab Bank	Major shareholder	2,698,291	2,248,429
Due from shareholders	Major shareholders	2,006,783	596,258
Due to Consolidated Contractors Company	Major shareholder	62,370	515,586
Accrued Board of Directors expenses	Board of Directors	-	314,900

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

	Nature of relation	2016 U.S. $	2015 U.S. $
Development and technical advisory services fee charged by United Engineering Services S,A	Sister company	-	100,000
Consulting and services fee charged by Consolidated Contractors Company	Major shareholder	108,040	5,916
Salaries and wages	Key management	468,040	453,244
Employees' end of service indemnity	Key management	33,613	31,071
Board of Directors expenses	Board of Directors	202,100	166,850

22. Income Tax

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

As of the date of these consolidated financial statements, the Company did not obtain a tax settlement from the taxes authorities for the period from inception in 1999 until 2015.

23. Commitments and Contingencies

Commitment related to the contract of the leased land on which the power plant is built (became effective as of the date of commercial operation on March 15, 2004 and for 30 years) amounted to U.S. $ 1,911,000 and U.S. $ 2,058,000 as of December 31, 2016 and 2015, respectively.

Future capacity charges invoices from the use of the power plant according to the power purchase agreement (will be effective until the year 2024) amounted to U.S. $ 247,076,368 and U.S. $ 278,436,880 as of December 31, 2016 and 2015, respectively.

The unpaid portion of the Company's available for-sale-investment amounted to U.S. $ 250,000 which represents the un-requested part of the increase in the capital of Palestine Power Generating Company as at December 31, 2016.

24. 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	
	2016	2015	2016	2015
	U.S. $	U.S. $	U.S. $	U.S. $
Financial Assets				
Accounts receivables	29,704,956	35,635,052	29,704,956	35,635,052
Other financial assets	2,157,305	701,522	2,157,305	701,522
Cash and cash equivalents	17,327,182	14,654,442	17,327,182	14,654,442
Available-for-sale investment	750,000	500,000	750,000	500,000
	49,939,443	51,491,016	49,939,443	51,491,016
Financial Liabilities				
Long term loans	3,357,799	4,011,129	3,357,799	4,011,129
Other financial liabilities	7,225,727	7,536,746	7,225,727	7,536,746
	10,583,526	11,547,875	10,583,526	11,547,875

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

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

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

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

25. Risk Management

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

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

Interest rate risk

The following table demonstrates the sensitivity of the consolidated statement of income and comprehensive income to reasonably possible changes in interest rates as of December 31, 2016, with all other variables held constant.

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

	Increase in interest rate	Effect on profit for the year
	Basis points	U.S. $
2016		
U.S. Dollar	10	(3,358)
2015		
U.S. Dollar	10	(4,011)

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, 2016 and 2015 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, 2016				
Long term loans	-	688,605	2,754,420	3,443,025
Other current liabilities	451,441	6,774,286	-	7,225,727
	451,441	7,462,891	2,754,420	10,668,752
December 31, 2015				
Long term loans	-	688,605	3,443,025	4,131,630
Other current liabilities	402,091	7,134,655	-	7,536,746
	402,091	7,823,260	3,443,025	11,668,376

Foreign currency risk

The table below indicates the Company's foreign currency exposure, as a result of its monetary assets and liabilities. The analysis calculates the effect of a reasonably possible movement of the U.S. $ currency rate against foreign currencies, with all other variables held constant, on the consolidated statement of income and comprehensive income. The effect of decreases in foreign currency exchange rate is expected to be equal and opposite to the effect of increases shown below:

	Increase in EURO rate to U.S. $	Effect on profit for the year	Increase in ILS rate to U.S. $	Effect on profit for the year	Increase in SEK rate to U.S. $	Effect on profit for the year
	%	U.S. $	%	U.S. $	%	U.S. $
2016						
U.S. Dollar	10	(17,676)	10	(10,167)	10	157,079
2015						
U.S. Dollar	10	(8,488)	10	(20,961)	10	157,113

26. Capital Management

The primary objective of the Company's capital management is to ensure that it maintains healthy capital ratios in order to support its business and maximize shareholders value.

The Company manages its capital structure and makes adjustments to it in light of changes in business conditions. No changes were made in the objectives, policies or processes during the years ended December 31, 2016 and 2015. Capital comprises paid-in share capital, statutory reserve and retained earnings, and is measured at U.S. $ 85,003,769 and U.S. $ 91,652,586 as at December 31, 2016 and 2015, respectively.

27. Concentration of Risk in Geographic Area

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