# Terna Contracting W.L.L.

## REPORT OF THE BOARD OF DIRECTORS AND FINANCIAL STATEMENTS

**31 DECEMBER 2011**

# REPORT OF THE BOARD OF DIRECTORS

The Directors have the pleasure in submitting their report and the audited financial statements of Terna Contracting W.L.L. ("the Company") for the year ended 31 December 2011.

**Principal activities and results for the year**

Terna Contracting W.L.L is a wholly owned subsidiary of Terna Bahrain Holding W.L.L. The company is engaged in construction contracting activities.

**Results and retained earnings**

During the year, the Company generated contract revenue of BD 15,688,227 (2010: BD 4,167,972) and reported a profit of BD 1,924,774 (2010: BD 171,127).

The movements in retained earnings are as follows:

| | ***2011 BD*** | *2010 BD* |
|---|---|---|
| Balance at 1 January | **1.719.643** | 1.565.629 |
| Profit for the year | **1.924.774** | 171.127 |
| Transfer to statutory reserve | **(192.477)** | (17.113) |
| Balance at 31 December | **3.451.940** | 1.719.643 |

**Auditors**

Ernst & Young have expressed their willingness to continue in office, and a resolution proposing their appointment, as auditors of the Company for the year ending 31 December 2012, will be submitted at the Annual General Meeting.

Signed on behalf of the Board of Directors

Dimitrios Antonakos
Chairman
10 March 2012

ERNST & YOUNG

P.O. Box 140
14th Floor - The Tower
Bahrain Commercial Complex
Manama, Kingdom of Bahrain
Tel: +973 1753 5455 Fax: +973 1753 5405
manama@bh.ey.com
www.ey.com/me
C.R. No. 6700

# INDEPENDENT AUDITORS' REPORT TO THE SHAREHOLDERS OF TERNA CONTRACTING W.L.L.

## Report on the Financial Statements

We have audited the accompanying financial statements of Terna Contracting W.L.L. ("the Company"), which comprise the statement of financial position as at 31 December 2011, and the statements of comprehensive income, cash flows and changes in equity for the year then ended, and a summary of significant accounting policies and other explanatory information.

*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, and for such internal control as the Board of Directors determines is necessary to enable the preparation of the financial statements that are free from material misstatement, whether due to fraud or error.

*Auditors' Responsibility*

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the 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' judgement, 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 in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the Board of Directors, 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.

ERNST & YOUNG

INDEPENDENT AUDITORS' REPORT TO THE SHAREHOLDERS OF
TERNA CONTRACTING W.L.L. (continued)

*Opinion*

In our opinion, the financial statements present fairly, in all material respects, the financial position of the Company as of 31 December 2011, its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards.

**Report on Other Regulatory Requirements**

As required by the Bahrain Commercial Companies Law, we report that:

a) the Company has maintained proper accounting records and the financial statements are in agreement therewith; and
b) the financial information contained in the Report of the Board of Directors is consistent with the financial statements.

We are not aware of any violations of the Bahrain Commercial Companies Law or the terms of the Company's memorandum and articles of association during the year ended 31 December 2011 that might have had a material adverse effect on the business of the Company or on its financial position. Satisfactory explanations and information have been provided to us by the management in response to all our requests.

Ernst + Young

10 March 2012
Manama, Kingdom of Bahrain

## Terna Contracting W.L.L.
## STATEMENT OF FINANCIAL POSITION
At 31 December 2011

| | Note | *2011* *BD* | *2010* *BD* |
|---|---|---|---|
| **ASSETS** | | | |
| **Non-current asset** | | | |
| Property, plant and equipment | 5 | **605,610** | 325,670 |
| Intangible assets | 6 | **-** | 458 |
| | | **605,610** | 326,128 |
| **Current assets** | | | |
| Due from customers for construction contracts | 7 | **2,035,017** | 1,217,880 |
| Contract and other receivables | 8 | **9,439,388** | 3,236,211 |
| Bank balances and cash | 9 | **412,861** | 319,918 |
| | | **11,887,266** | 4,774,009 |
| **TOTAL ASSETS** | | **12,492,876** | 5,100,137 |
| **EQUITY AND LIABILITIES** | | | |
| **Equity** | | | |
| Share capital | 10 | **1,000,000** | 1,000,000 |
| Statutory reserve | 11 | **383,549** | 191,072 |
| Retained earnings | | **3,451,940** | 1,719,643 |
| **Total equity** | | **4,835,489** | 2,910,715 |
| **Non-current liabilities** | | | |
| Employees' end of service benefits | 12 | **381,828** | 89,172 |
| **Current liabilities** | | | |
| Due to customers for construction contracts | 7 | **156,409** | - |
| Trade and other payables | 13 | **7,119,150** | 2,100,250 |
| | | **7,275,559** | 2,100,250 |
| **Total liabilities** | | **7,657,387** | 2,189,422 |
| **TOTAL EQUITY AND LIABILITIES** | | **12,492,876** | 5,100,137 |

D. Antonakos
Chairman

D.Xoudis
Director

The attached notes 1 to 20 form part of these financial statements.

Terna Contracting W.L.L.

# STATEMENT OF COMPREHENSIVE INCOME

For the Year Ended 31 December 2011

| | Note | 2011 BD | 2010 BD |
|---|---|---|---|
| Contract revenue | | **15,688,227** | 4,167,972 |
| Operating costs | 13 | **(9,449,929)** | (2,002,770) |
| Project material and equipment expenses | 14 | **(3,091,975)** | (1,361,609) |
| | | **3,146,323** | 803,593 |
| General and administrative expenses | | **(1,723,956)** | (763,428) |
| Finance costs | | **(144,567)** | (60,521) |
| Write back of future projected losses on projects | | **6,889** | 6,229 |
| Other income | 15 | **640,085** | 185,254 |
| **PROFIT FOR THE YEAR** | 16 | **1,924,774** | 171,127 |
| Other comprehensive income | | - | - |
| **TOTAL COMPREHENSIVE INCOME FOR THE YEAR** | | **1,924,774** | 171,127 |

The attached notes 1 to 20 form part of these financial statements.

Terna Contracting W.L.L.

## STATEMENT OF CASH FLOWS

For the Year Ended 31 December 2011

| | Note | 2011 BD | 2010 BD |
|---|---|---|---|
| **OPERATING ACTIVITIES** | | | |
| Profit for the year | | **1,924,774** | 171,127 |
| Adjustments for: | | | |
| Depreciation | 4 | **186,886** | 102,517 |
| Write off of property, plant and equipment | | **19,767** | - |
| Amortisation | | **458** | 2,017 |
| Provision for employees' end of service benefits | 11 | **93,244** | 51,897 |
| Operating profit before working capital changes | | **2,225,129** | 327,558 |
| Working capital changes: | | | |
| Contract and other receivables | | **(5,998,417)** | (911,863) |
| Due from customers for contract work | | **(817,137)** | 705,162 |
| Due to customers for contract work | | **156,409** | - |
| Trade and other payables | | **4,798,140** | 420,615 |
| | | **(1,861,005)** | 213,914 |
| Employees' end of service benefits paid | 11 | **(5,348)** | - |
| Net cash from operating activities | | **358,776** | 541,472 |
| **INVESTING ACTIVITIES** | | | |
| Additions to property, plant and equipment | 4 | **(265,833)** | (276,641) |
| **INCREASE IN CASH AND CASH EQUIVALENTS** | | **92,943** | 264,831 |
| Cash and cash equivalent at I January | | **319,918** | 55,087 |
| **CASH AND CASH EQUIVALENTS AT 31 DECEMBER** | 8 | **412,861** | 319,918 |

**Non-cash items:**

(i) The net book value of property, plant and equipment of BD 220,760 transferred from PCC - Terna Contracting W.L.L. has been adjusted against trade and other payables (2010: nil).

(ii) Employees' end of service benefits of BD 204,760 (2010: BD 4,849) transferred from group companies has been adjusted against trade and other receivables.

# Terna Contracting W.L.L.

## STATEMENT OF CHANGES IN EQUITY

For the Year Ended 31 December 2011

| | *Share capital BD* | *Statutory reserve BD* | *Retained earnings BD* | *Total BD* |
|---|---|---|---|---|
| As at 1 January 2011 | 1,000,000 | 191,072 | 1,719,643 | 2,910,715 |
| Total comprehensive income for the year | - | - | 1,924,774 | 1,924,774 |
| Transfer to statutory reserve (note 10) | - | 192,477 | (192,477) | - |
| **As at 31 December 2011** | **1,000,000** | **383,549** | **3,451,940** | **4,835,489** |
| As at 1 January 2010 | 1,000,000 | 173,959 | 1,565,629 | 2,739,588 |
| Total comprehensive income for the year | - | - | 171,127 | 171,127 |
| Transfer to statutory reserve (note 10) | - | 17,113 | (17,113) | - |
| As at 31 December 2010 | 1,000,000 | 191,072 | 1,719,643 | 2,910,715 |

The attached notes 1 to 20 form part of these financial statements.

## 1 ACTIVITIES

Terna Contracting W.L.L. ("the Company") is a limited liability company incorporated in the Kingdom of Bahrain and registered with the Ministry of Industry and Commerce under commercial registration (CR) number 68262 on 2 April 2008. The company is engaged in construction contracting activities.

The Company is a subsidiary of Terna Bahrain Holding W.L.L. ('Parent Company'), a company incorporated in the Kingdom of Bahrain. The ultimate parent company is Terna SA, a company incorporated in and under the laws of Greece. Its registered office is at 85 Mesogeion Av, T.K. 115-26, Athens, Greece.

The Company's registered office is at Villa 418, Road 3207, Block 332, Zinj Area, P O Box 54368, Manama, Kingdom of Bahrain.

The shares of the Company are owned as follows:

| *Name of the shareholder* | *Percentage of shareholding* |
|---|---|
| Terna Bahrain Holding W.L.L. | 99.99% |
| Terna Overseas Limited | 0.01% |

On 14 September 2011, the Parent Company's Board of Directors resolved to liquidate one of its subsidiary, PCC Terna Contracting W.L.L. (PCC Terna) as at 30 September 2011 and also resolved to transfer all of PCC Terna's assets and liabilities to Terna Contracting W.L.L. effective 1 October 2011. Consequently, all the assets and liabilities of PCC Terna were transferred to the Company at their carrying values as of 1 October 2011 and the resultant payable was included as amounts due to shareholder in the statement of financial position.

The financial statements were authorised for issue in accordance with a resolution of the Board of Directors on 10 March 2012.

## 2 SIGNIFICANT ACCOUNTING POLICIES

### Basis of preparation
These financial statements have been prepared under the historical cost convention.

The financial statements have been presented in Bahrain Dinars (BD), being the functional currency of the Company.

### Statement of compliance
The financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS) issued by the International Accounting Standards Board (IASB) and in conformity with the Bahrain Commercial Companies Law.

### New and amended standards and interpretation effective as of 1 January 2011
The accounting policies adopted by the Company are consistent with those used in the previous year, except that the Company has adopted the following new and amended IFRS and International Financial Reporting Interpretations Committee (IFRIC) interpretations as of 1 January 2011.

- *IAS 24 Related Party Disclosures (Amendment) effective for annual periods beginning on or after 1 January 2011;*
- *IAS 32 Financial Instruments: Presentation (Amendment) effective for annual periods beginning on or after 1 January 2011;*
- *IFRS 7 financial Instruments: Disclosures (Amendment) effective for annual periods beginning on or after 1 January 2011;*
- *Improvements to IFRSs (issued in May 2010) effective for annual periods on or after either 1 July 2010 or 1 January 2011.*

**2 SIGNIFICANT ACCOUNTING POLICIES (continued)**

**Changes in accounting policies and procedures (continued)**

*IAS 24 Related Party Disclosures (Amendment)*

The IASB has issued an amendment to IAS 24 that clarifies the identification of related party relationships, particularly in relation to significant influence or joint control. The new definitions emphasize a symmetrical view on related party relationships as well as clarifying in which circumstances persons and key management personnel affect related party relationships of an entity. Secondly, the amendment introduces an exemption from the general related party disclosure requirements for transactions with a government and entities that are controlled, jointly controlled or significantly influenced by the same government as the reporting entity. The adoption of the amendment did not have any impact on the financial statements of the Company.

**Improvements to IFRSs**

In May 2010 the IASB issued its third omnibus of amendments to its standards, primarily with a view to removing inconsistencies and clarifying wording. There are separate transitional provisions for each standard. The adoption of the following amendments resulted in changes to accounting policies, but did not have any impact on the financial position or performance of the Company.

- *IFRS 7 Financial Instruments – Disclosures*
- *IAS 1 Presentation of Financial Statements*

Other amendments resulting from Improvements to IFRSs did not have any impact on the accounting policies, financial position or performance of the Company

**IASB standards and interpretations issued but not effective**

Standards issued but not yet effective up to the date of issuance of the Company's financial statements are listed below. This listing is of standards and interpretations issued, which the Company reasonably expects to be applicable at a future date. The Company intends to adopt those standards (where applicable) when they become effective:

*IAS 1 Financial Statement Presentation*
*IFRS 9 Financial Instruments*
*IFRS 13 Fair Value Measurement*

**Foreign currencies**

Transactions in foreign currencies are initially recorded at the functional currency rate prevailing at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are retranslated at the functional currency rate ruling at the statement of position date. All differences are taken to the income statement. Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rates as at the dates of the initial transactions.

**Property, plant and equipment**

Property, plant and equipment are stated at cost less accumulated depreciation and any impairment in value.

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

| | |
|---|---|
| Porta cabins | 5 years |
| Plant and equipment | 1 to 5 years |
| Furniture and fixtures | 1 to 5 years |
| Motor vehicles | 5 years |

**2 SIGNIFICANT ACCOUNTING POLICIES (continued)**

Expenditure incurred to replace a component of an item of property, plant and equipment that is accounted for separately is capitalised and the carrying amount of the component that is replaced is written off. Other subsequent expenditure is capitalised only when it increases future economic benefits of the related item of property, plant and equipment. All other expenditure is recognised in the statement of comprehensive income as the expense is incurred.

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 such 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.

An item of property, plant and equipment is derecognised 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 statement of comprehensive income in the year the asset is derecognised.

**Intangible assets**
Intangible assets with finite lives are amortised over the useful economic life and assessed for impairment whenever there is an indication that the intangible asset may be impaired. The amortisation period and the amortisation method for an intangible asset with a finite useful life is reviewed at least at the end of each reporting period. 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 amortisation period or method, as appropriate, and are treated as changes in accounting estimates. The amortisation expense on intangible assets with finite lives is recognised in the income statement in the expense category consistent with the function of the intangible assets.

**Due from / to customers for contract work**
The aggregate of the costs incurred and the profit/loss recognised on the contract is compared against the progress billings up to the period-end. Where the sum of the costs incurred and recognised profit or recognised loss exceeds the progress billings, the balance is shown as due from customers for construction contracts. Where the progress billings exceed the sum of costs incurred and recognised profit or recognised loss, the balance is shown as due to customers for construction contracts.

**Financial assets**
Financial assets are recognised initially at fair value plus, in the case of investments not at fair value through profit or loss, directly attributable transaction costs.

The Company's financial assets include contract and other receivables and bank balances and cash.

*Contract and other receivables*
Contract and other receivables are stated at original invoice amount less a provision for any uncollectible amounts. Subsequent to initial recognition these are carried at amortised cost using effective interest rate method. 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 statement of the cash flows , cash and cash equivalents consist of cash in hand, bank balances, and short-term deposits with an original maturity of three months or less, net of outstanding bank overdrafts, if any.

**2 SIGNIFICANT ACCOUNTING POLICIES (continued)**

**Impairment and uncollectibility of financial assets**
The Company assesses at each reporting date whether there is any objective evidence that a financial asset or a group of financial assets is impaired. A financial asset or a group of financial assets is deemed to be impaired if, and only if, there is objective evidence of impairment as a result of one or more events that has occurred after the initial recognition of the asset (an incurred 'loss event') and that loss event has an impact on the estimated future cash flows of the financial asset or the group of financial assets that can be reliably estimated. Evidence of impairment may include indications that the debtors or a group of debtors is experiencing significant financial difficulty, default or delinquency in interest or principal payments, the probability that they will enter bankruptcy or other financial reorganisation and where observable data indicate that there is a measurable decrease in the estimated future cash flows, such as changes in arrears or economic conditions that correlate with defaults.

*Other receivables*
For other receivables carried at amortised cost, the Company first assesses whether objective evidence of impairment exists individually for financial assets that are individually significant, or collectively for financial assets that are not individually significant. If the Company determines that no objective evidence of impairment exists for an individually assessed financial asset, whether significant or not, it includes the asset in a group of financial assets with similar credit risk characteristics and collectively assesses them for impairment. Assets that are individually assessed for impairment and for which an impairment loss is, or continues to be, recognised are not included in a collective assessment of

If there is objective evidence that an impairment loss has been incurred, the amount of the impairment loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future expected credit losses that have not yet been incurred). The present value of the estimated future cash flows is discounted at the financial asset's original effective interest rate.

**Financial liabilities**
Financial liabilities are recognised initially at fair value and in the case of loans and borrowings directly attributable transaction costs.

The Company's financial liabilities include trade and other payables.

*Trade and other payables*
Liabilities for trade and other amounts payable are carried at cost, which is the fair value of the consideration to be paid in the future for goods and services received, whether or not billed to the Company.

**Offsetting of financial instruments**
Financial assets and financial liabilities are offset and the net amount reported in the statement of financial position if, and only if, there is a currently enforceable legal right to offset the recognised amounts and there is an intention to settle on a net basis, or to realise the assets and settle the liabilities simultaneously.

**Amortised cost of financial instruments**
Amortised cost is computed using the effective interest method less any allowance for impairment and principal repayment or reduction. The calculation takes into account any premium or discount on acquisition and includes transaction costs and fees that are an integral part of the effective interest rate.

**2 SIGNIFICANT ACCOUNTING POLICIES (continued)**

**Fair value of financial instruments**
The fair value of financial instruments that are actively traded in organised financial markets is determined by reference to quoted market bid prices at the close of business on the reporting date. For financial instruments where there is no active market, fair value is determined using valuation techniques. Such techniques may include using recent arm's length market transactions; reference to the current fair value of another instrument that is substantially the same; discounted cash flow analysis or other valuation models.

**Derecognition of financial instruments**
A financial asset (or, where applicable a part of a financial asset or part of a Company of similar financial assets) is derecognised when:

- the rights to receive cash flows from the asset have expired; or
- the Company has transferred its rights to receive cash flows from the asset or has assumed an obligation to pay the received cash flows in full without material delay to a third party under a 'pass-through' arrangement; and either (a) the Company has transferred substantially all the risks and rewards of the asset, or (b) the Company has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

A financial liability is derecognised when the obligation under the liability is discharged or cancelled or expires.

**Provisions**
Provisions are recognised 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. Where the Company expects some or all of a provision to be reimbursed, for example, under an insurance contract, the reimbursement is recognised as a separate asset, but only when the reimbursement is virtually certain. The expense relating to any provision is presented in the statement of comprehensive income net of any reimbursement.

**Employees end of service benefits**
The Company makes contributions to the Social Insurance Organisation (SIO) for its employees calculated as a percentage of the employees' salaries. The Company's obligations are limited to these contributions, which are expensed when due.

The Company also provides end of service benefits to its expatriate employees. The entitlement to these benefits is based upon the employees' final salary and length of service, subject to the completion of a minimum service period. The expected costs of these benefits are accrued over the period of employment.

**Revenue recognition**
Revenue is recognised to the extent that it is probable that the economic benefits will flow to the Company and the revenue can be reliably measured. Revenue is measured at the fair value of the consideration received or receivable, excluding discounts and rebates. The following specific recognition criteria must also be met before revenue is recognised:

## 2 SIGNIFICANT ACCOUNTING POLICIES (continued)

**Revenue recognition (continued)**

*Contract revenue*

Contract revenue is recognised under the percentage of completion method.

When the outcome of the contract can be reliably estimated profit is recognised by reference to completion of the physical proportion of the contract work. When the contract is at an early stage (normally below 20% completion) and its outcome cannot be reliably estimated, revenue is recognised to the extent of costs incurred up to the period-end, which is considered recoverable. Revenue arising from contract, variations/claim is not accounted for unless it is probable that the customer will approve the variations/claim and the amount of revenue arising from the variation/claim can be measured reliably.

The aggregate of the costs incurred and the profit / loss recognised on the contract is compared against the progress billings up to the period-end. Where the sum of the costs incurred and recognised profit or recognised loss exceeds the progress billings, the balance is shown as due from customers for construction contracts. Where the progress billings exceed the sum of costs incurred and recognised profit or recognised loss, the balance is shown as due to customers for construction contracts.

*Interest income*

Interest income is recognised as interest accrues (using the effective interest method) unless collectability is in doubt.

**Leases**

The determination of whether an arrangement is, or contains a lease is based on the substance of the arrangement at inception date: whether fulfilment of the arrangement is dependent on the use of a specific asset or assets or the arrangement conveys a right to use the asset.

Leases where the lessor retains substantially all the risks and benefits of ownership of the asset are classified as operating leases. Operating lease payments are recognised as an expense in the consolidated statement of income on a straight-line basis over the lease term.

## 3 SIGNIFICANT ACCOUNTING JUDGMENTS AND ESTIMATES

The preparation of the Company's financial statements requires management to make judgments, estimates and assumptions that affect the reported amounts of revenues, expenses, assets and liabilities, and the disclosure of contingent liabilities, at the reporting date. However, uncertainty about these assumptions and estimates could result in outcomes that require a material adjustment to the carrying amount of the asset or liability affected in future periods.

The key assumptions concerning the future and other key sources of estimation uncertainty at the statement of position date, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are discussed below.

*Impairment of contract receivables*

An estimate of the collectible amount of contract accounts receivable is made when collection of the full amount is no longer probable. For individually significant amounts, this estimation is performed on an individual basis. Amounts which are not individually significant, but which are past due, are assessed collectively and a provision applied according to the length of time past due, based on historical recovery rates.

At the reporting date, gross contract receivables were BD 7,281,581 (2010: BD 887,090) and the provision for doubtful debts was nil (2010: nil). Any difference between the amounts actually collected in future periods and the amounts expected will be recognised in the statement of comprehensive income.

## 3 SIGNIFICANT ACCOUNTING JUDGMENTS AND ESTIMATES (continued)

*Construction contracts*

Revenue and profit recognition on an incomplete project is dependent on estimating the total outcome of the construction contract, as well as the work done to date. Based on the management team's experience and the nature of the construction activity undertaken, the management makes estimates of the point at which it considers the work is sufficiently advanced such that the cost to complete, rectification costs and revenue can be reliably estimated. In addition, actual outcomes in terms of total cost or revenue may be higher or lower than estimated at the statement of financial position date, which would affect the revenue and the profit recognised in the future years as an adjustment to the amounts recorded to date. As at 31 December 2011, the management considered that all costs to complete and revenue can be reliably measured.

*Impairment of property, plant and equipment*

The Company assesses at each reporting date whether there is any indication that an asset may be impaired. If any such indication exists, or when annual impairment testing for an asset is required, the Company makes an estimate of the assets' recoverable amount. An asset's recoverable amount is the higher of an asset's or cash-generating unit's fair value less costs to sell and its value in use and is determined for an individual asset, unless the asset does not generate cash inflows that are largely independent of those from other assets or group of assets. Where the carrying amount of an asset exceeds its recoverable amount, the asset is considered impaired and is written down to its recoverable amount. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessment of the time value of money and the risks specific to the assets. Management does not believe there is any impairment of property, plant and equipment as at the reporting date.

*Useful lives of property, plant and equipment and intangible assets*

The Company's management determines the estimated useful lives of its property, plant and equipment and intangible assets for calculating depreciation and amortisation. This estimate is determined after considering the expected usage of the asset or physical wear and tear. Management reviews the residual value and useful lives annually and future depreciation charges/amortisation would be adjusted where the management believes the useful lives differ from previous estimates.

## 4 PROPERTY, PLANT AND EQUIPMENT

| *2011* | *Porta cabins BD* | *Plant and equipment BD* | *Fixtures and fittings BD* | *Motor vehicles BD* | *Total BD* |
|---|---|---|---|---|---|
| Cost: | | | | | |
| At 1 January 2011 | 57,186 | 422,327 | 29,759 | 66,682 | 575,954 |
| Additions during the year | - | 216,344 | 24,890 | 24,599 | 265,833 |
| Transfer from a related party | 368,780 | 1,331,425 | 152,805 | 313,360 | 2,166,370 |
| Written off during the year | (95,056) | (153,743) | (37,693) | (9,450) | (295,942) |
| At 31 December 2011 | 330,910 | 1,816,353 | 169,761 | 395,191 | 2,712,215 |
| Depreciation: | | | | | |
| At 1 January 2011 | 22,083 | 172,625 | 26,149 | 29,427 | 250,284 |
| Depreciation charge for the year | 18,825 | 133,588 | 9,643 | 24,830 | 186,886 |
| Transfer from a related party | 312,126 | 1,216,517 | 152,805 | 264,162 | 1,945,610 |
| Relating to write off | (88,587) | (140,445) | (37,693) | (9,450) | (276,175) |
| At 31 December 2011 | 264,447 | 1,382,285 | 150,904 | 308,969 | 2,106,605 |
| Net book value: | | | | | |
| **At 31 December 2011** | **66,463** | **434,068** | **18,857** | **86,222** | **605,610** |

| *2010* | *Porta cabins BD* | *Plant and equipment BD* | *Fixtures and fittings BD* | *Motor vehicles BD* | *Total BD* |
|---|---|---|---|---|---|
| Cost: | | | | | |
| At 1 January 2010 | 45,736 | 168,078 | 25,829 | 59,670 | 299,313 |
| Additions during the year | 11,450 | 254,249 | 3,930 | 7,012 | 276,641 |
| At 31 December 2010 | 57,186 | 422,327 | 29,759 | 66,682 | 575,954 |
| Depreciation: | | | | | |
| At 1 January 2010 | 12,215 | 95,607 | 23,153 | 16,792 | 147,767 |
| Depreciation charge for the year | 9,868 | 77,018 | 2,996 | 12,635 | 102,517 |
| At 31 December 2010 | 22,083 | 172,625 | 26,149 | 29,427 | 250,284 |
| Net book value: | | | | | |
| At 31 December 2010 | 35,103 | 249,702 | 3,610 | 37,255 | 325,670 |

Depreciation expense for the year has been included in the following accounts in the statement of comprehensive income:

| | ***2011 BD*** | *2010 BD* |
|---|---|---|
| Project material and equipment expenses (note 14) | **164,437** | 90,584 |
| General and administrative expenses | **22,449** | 11,933 |
| | **186,886** | 102,517 |

## 5 INTANGIBLE ASSETS

Intangible assets pertain to payroll software with an estimated useful life of 24 months (2010: same), which has been fully amortised.

## 6 DUE FROM (DUE TO) CUSTOMERS FOR CONTRACT WORK

| | *2011* | *2010* |
|---|---|---|
| | ***BD*** | *BD* |
| Contract cost incurred till date | **19,841,607** | 5,793,439 |
| Recognized profit | **1,765,463** | 370,361 |
| Total value of work executed till date including profit | **21,607,070** | 6,163,800 |
| Progress billings | **(19,728,462)** | (4,945,920) |
| | **1,878,608** | 1,217,880 |
| Due from customers for contract work | **2,035,017** | 1,217,880 |
| Due to customers for contract work | **(156,409)** | - |
| | **1,878,608** | 1,217,880 |

The amounts due from customers represent work in progress of ongoing projects. It includes a provision for future losses amounting to BD 5,912 (2010: BD 12,801).

## 7 CONTRACT AND OTHER RECEIVABLES

| | *2011* | *2010* |
|---|---|---|
| | ***BD*** | *BD* |
| Contract receivables | **7,281,581** | 887,090 |
| Retentions | **635,628** | 316,393 |
| Due from related parties (note 17) | **175,479** | 1,552,827 |
| Advances to suppliers | **964,483** | 293,975 |
| Prepayments | **65,224** | 167,157 |
| Other receivables | **316,993** | 18,769 |
| | **9,439,388** | 3,236,211 |

Contract receivables are non-interest bearing and are due to be settled within 15 days of approval of work completion certificate.

Terms and conditions relating to due from related parties are disclosed in note 17.

As at 31 December 2011, none of the contract receivables were impaired (2010: nil) and the ageing of unimpaired contract receivables is as follows:

| | | | *Past due but not impaired* | | | |
|---|---|---|---|---|---|---|
| | *Total* | *Neither past due nor impaired* | *< 30 days* | *30 – 60 days* | *60 – 90 days* | *>90 days* |
| | *BD* | *BD* | *BD* | *BD* | *BD* | *BD* |
| ***31 December 2011*** | **7,281,581** | **5,473,664** | **472,107** | **491,102** | **737,888** | **106,820** |
| *31 December 2010* | 887,090 | 401,601 | 343,004 | 142,485 | - | - |

Unimpaired contract receivables are expected, on the basis of past experience, to be fully recoverable. It is not the practice of the Company to obtain collateral over contract receivables and the majority are, therefore, unsecured.

## 8 BANK BALANCES AND CASH

Cash and cash equivalents included in the statement of cash flows comprise of the following statement of financial position amounts:

| | **2011** *BD* | *2010* *BD* |
|---|---|---|
| Bank balances - Bahraini Dinars | **392,449** | 319,729 |
| Cash in hand | **20,412** | 189 |
| | **412,861** | 319,918 |

## 9 SHARE CAPITAL

| | **2011** *BD* | *2010* *BD* |
|---|---|---|
| Authorised, issued and fully paid: | | |
| 20,000 ordinary shares of BD 50 each | **1,000,000** | 1,000,000 |

## 10 STATUTORY RESERVE

As required by Bahrain Commercial Companies Law and the Company's memorandum and articles of association, 10% of the net profit for the year has been transferred to statutory reserve. The Company may resolve to discontinue such annual transfers when the reserve totals 50% of the issued share capital. The reserve cannot be utilised for the purpose of distribution except in such circumstances as stipulated in the Bahrain Commercial Companies Law.

## 11 EMPLOYEES' END OF SERVICE BENEFITS

Movements in the provision recognised in the statement of financial position are as follows:

| | **2011** *BD* | *2010* *BD* |
|---|---|---|
| At 1 January | **89,172** | 32,426 |
| Provided during the year (note 16) | **93,244** | 51,897 |
| Transferred from group companies (note) | **204,760** | 4,849 |
| Paid during the year | **(5,348)** | - |
| At 31 December | **381,828** | 89,172 |

Note: Pertains to end of service benefits of employees transferred from group companies during the year (2010: same).

## 12 TRADE AND OTHER PAYABLES

| | **2011** *BD* | *2010* *BD* |
|---|---|---|
| Contract payables | **4,045,439** | 761,205 |
| Contract advances | **1,387,441** | 201,460 |
| Retention payable | **720,333** | 176,420 |
| Accrued expenditure | **495,000** | 471,386 |
| Accruals for employee benefits | **271,193** | 133,256 |
| Other payables | **120,193** | 64,227 |
| Other payables - related party (note 17) | **79,551** | 132,808 |
| Contract payables - related party (note 17) | **-** | 159,488 |
| | **7,119,150** | 2,100,250 |

## 12 TRADE AND OTHER PAYABLES (continued)

Contract payables and accrued expenses (including amounts due to related parties) are non-interest bearing and are normally settled on 60-day terms.

Contract advances comprise of sums received from customers as per contractual agreements. They are adjusted according to the contractual provisions at the time of issuance of each invoice.

Retention money is non interest bearing and payable in accordance with the terms of contracts.

For terms and conditions for amounts due to a related party see note 17.

## 13 OPERATING COSTS

| | *2011* | *2010* |
|---|---|---|
| | *BD* | *BD* |
| Sub-contractors' work | **5,248,613** | 626,687 |
| Staff costs (note 16) | **3,110,980** | 1,100,394 |
| Repairs and maintenance | **377,301** | 27,812 |
| Motor vehicle hire and expenses | **312,581** | 108,025 |
| Other expenses | **160,856** | 23,577 |
| Consumables | **104,425** | 48,853 |
| Travel | **83,260** | 45,025 |
| Communication | **31,852** | 18,238 |
| Consultants fee and technician charges | **20,061** | 4,159 |
| | **9,449,929** | 2,002,770 |

## 14 PROJECT MATERIALS AND EQUIPMENT EXPENSES

| | *2011* | 2010 |
|---|---|---|
| | *BD* | *BD* |
| Materials | **2,913,813** | 727,458 |
| Depreciation (note 4) | **164,437** | 90,584 |
| Piling | **13,725** | 543,567 |
| | **3,091,975** | 1,361,609 |

## 15 OTHER INCOME

| | *2011* | 2010 |
|---|---|---|
| | *BD* | *BD* |
| Ancillary works not related to contracts | **634,297** | 182,678 |
| Exchange gain | **1,519** | 2,483 |
| Sale of scrap | **4,195** | - |
| Miscellaneous | **74** | 93 |
| | **640,085** | 185,254 |

## 16 PROFIT FOR THE YEAR

Profit for the year is stated after charging staff costs and operating lease rentals.

Staff costs have been included in the following accounts in the statement of comprehensive income:

| | ***2011*** | *2010* |
|---|---|---|
| | ***BD*** | *BD* |
| Operating costs (note 13) | **3,110,980** | 1,100,394 |
| General and administrative expenses | **1,126,959** | 335,031 |
| | **4,237,939** | 1,435,425 |
| Staff costs comprise of the following: | | |
| Salaries and wages | **2,614,202** | 911,961 |
| Other staff benefits and expenses | **757,941** | 386,892 |
| Hire of labour | **675,159** | 42,201 |
| Contribution to Social Insurance Organization | **97,393** | 42,474 |
| Employees' end of service benefits (note 11) | **93,244** | 51,897 |
| | **4,237,939** | 1,435,425 |
| Rentals-operating leases | **79,491** | 10,814 |

## 17 RELATED PARTY TRANSACTIONS

Related parties represent the ultimate parent company, the parent company, directors and key management personnel of the Company, and entities controlled, jointly controlled or significantly influenced by such parties. Pricing policies and terms of these transactions are approved by the Company's management.

Transactions with related parties included in the statement of comprehensive income are as follows:

| | ***2011*** | | *2010* | |
|---|---|---|---|---|
| | ***Expenses*** | ***Other income*** | *Expenses* | *Other income* |
| | ***BD*** | ***BD*** | *BD* | *BD* |
| Terna Mechanical and Electrical W.L.L | **170,258** | **785** | 924 | 3,313 |

**Transfer of assets and liabilities of PCC Terna**

As explained in note 1, the details of assets transferred and liabilities assumed by the Company as of 1 October 2011 are as follows:

| | ***BD*** |
|---|---|
| **ASSETS** | |
| Property, plant and equipment | **220,760** |
| Inter company receivables | **2,454,839** |
| Advances to suppliers and subcontractors | **24,456** |
| Prepayments | **261** |
| Cash at bank | **17,802** |
| Cash at hand | **2,538** |
| **LIABILITIES** | |
| Performance retentions | **(172,737)** |
| Payables | **(166,261)** |
| Net assets acquired - Due to a related party | **2,381,658** |

## 17 RELATED PARTY TRANSACTIONS (continued)

Amounts due from and due to related parties, as disclosed in notes 7 and 12 respectively, are as follows:

| | ***2011*** | | *2010* | |
|---|---|---|---|---|
| | ***Receivables BD*** | ***Payables BD*** | *Receivables BD* | *Payables BD* |
| ***Parent entities*** | | | | |
| Terna S.A. (Abu Dhabi branch) | **613** | - | 613 | - |
| Terna S.A. | - | **36,968** | - | 13,979 |
| Terna Overseas Ltd | - | **42,577** | - | 43,526 |
| Terna Bahrain Holding Company W.L.L | **12,192** | - | 1,550,529 | - |
| ***Group company*** | | | | |
| Terna Qatar Company L.L.C | **2,283** | - | 1,685 | - |
| ***Fellow subsidiaries*** | | | | |
| Terna Mechanical and Electrical W.L.L | **160,391** | - | - | 159,488 |
| PCC - Terna Contracting Company W.L.L. | - | - | - | 75,303 |
| | **175,479** | **79,545** | 1,552,827 | 292,296 |

**Terms and conditions of transactions with related parties:**
Outstanding balances at the year end are unsecured, interest free and payable on demand except for balances with Terna Mechanical and Electrical W.L.L. ("MEP"). Balances with MEP are trade payables and are normally payable within 30 to 60 days of invoice. There have been no guarantees provided or received for any related party receivables or payables. For the year ended 31 December 2011, the Company has not recorded any impairment of receivables relating to amounts owed by related parties (2010: nil).

**Compensation of key management personnel**
The remuneration of key management personnel during the year was as follows;

| | ***2011 BD*** | *2010 BD* |
|---|---|---|
| Short-term benefits | **265,722** | 105,000 |
| Employees' end of service benefits | **21,875** | 20,000 |
| | **287,597** | 125,000 |

## 18 CONTINGENCIES AND COMMITMENTS

### a) Guarantees
The Company's bankers have given performance and advance payment guarantees amounting to BD 2,785,452 (2010: BD 2,373,753) in respect of various contracts undertaken for execution. These are secured by joint and several guarantees from the shareholders.

### b) Lease rental commitments
Future minimum rentals payable under non-cancellable operating leases as of the reporting date are as follows:

| | ***2011 BD*** | *2010 BD* |
|---|---|---|
| Not later than one year | **106,200** | 27,600 |
| Later than one year and not later than five years | **289,200** | 110,400 |
| Later than five years | **110,400** | 131,100 |
| | **505,800** | 269,100 |

## 19 FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

**Introduction**

The Company manages risk through a process of ongoing identification and monitoring of the risks it faces. The Company is exposed to credit risk, liquidity risk and currency risk.

The Company's senior management oversees the management of these risks. The Board of Directors reviews and agrees policies for managing each of these risks, which are summarised below:

**Credit risk**

Credit risk is the risk that one party to a financial instrument will fail to discharge an obligation and cause the other party to incur a financial loss.

The Company is exposed to credit risk on its bank balances including amounts due from related parties, contract receivables, retention receivables and other receivables. The Company places its deposit with banks having a good credit rating.

The Company has receivables of BD 175,479 (2010: BD 1,552,827) due from related parties. All the receivables are without security which renders them fully exposed to credit risk due to default by the counterparties. The Company does not perceive any risk with respect to related party receivables.

With respect to credit risk arising from the other financial assets of the Company, including bank balances and cash and other receivables, the Company's maximum exposure is equal to the carrying amount of these balances at the statement of financial position date as reflected in the statement of financial position.

**Liquidity risk**

Liquidity risk (also referred to as funding risk) is the risk that an entity will encounter difficulties in meeting its commitments associated with financial liabilities.

The Company limits its liquidity risk by ensuring that bank facilities are available. The Company's terms of contract agreement require amounts to be paid within 15 days of approval of work completion certificate. Trade payables are normally settled within 60 days of the date of purchase. The table below summarises the maturities of the Company's financial liabilities, based on payment dates:

The table below summarizes the maturities of the Company's undiscounted financial liabilities at:

| ***31 December 2011*** | ***Less than 3 months BD*** | ***3 to 12 months BD*** | ***Total BD*** |
|---|---|---|---|
| Contract payables | **4,045,439** | **-** | **4,045,439** |
| Amounts due to related parties | **79,551** | **-** | **79,551** |
| Retentions payable | **-** | **720,333** | **720,333** |
| Other payables | **615,193** | **271,193** | **886,386** |
| | **4,740,183** | **991,526** | **5,731,709** |

| *31 December 2010* | *Less than 3 months BD* | *3 to 12 months BD* | *Total BD* |
|---|---|---|---|
| Contract payables | 761,205 | - | 761,205 |
| Amounts due to related parties | - | 292,296 | 292,296 |
| Retentions payable | - | 176,420 | 176,420 |
| Other payables | 535,613 | 133,256 | 668,869 |
| | 1,296,818 | 601,972 | 1,898,790 |

## 19 FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

**Currency risk**

The Company's exposure to foreign currency risk is limited to its balances due to related parties that are denominated in Euro. The currency risk associated with a 5% change in foreign exchange rates on these balances is insignificant.

**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 maximise shareholder value and run its operations with funds generated from operations and minimise borrowings to the extent possible.

The Company sets the amount of capital in proportion to risk. The Company manages the capital structure and makes adjustments to it in the light of changes in economic conditions and the risk characteristics of the underlying assets. In order to maintain or adjust the capital structure, the Company may adjust the amount of dividends paid to shareholders. No changes were made in the objectives, policies or processes during the years ended 31 December 2011 and 31 December 2010. Capital comprises equity and is measured at BD 4,835,489 as at 31 December 2011 (2010: BD 2,910,715).

## 20 FAIR VALUES OF FINANCIAL INSTRUMENTS

Financial instruments comprise of financial assets and financial liabilities.

Financial assets consist of bank balances and cash, due from related parties and contract and other receivables. Financial liabilities consist of trade and other payables and due to related parties.

The fair values of the Company's financial assets and liabilities are not materially different from their carrying values as of the reporting date.