PCC - Terna Contracting Company W.L.L.

REPORT OF THE BOARD OF DIRECTORS AND FINANCIAL STATEMENTS

31 DECEMBER 2009

PCC - Terna Contracting Company W.L.L.

REPORT OF THE BOARD OF DIRECTORS

The Directors have the pleasure in submitting their report and the audited financial statements of PCC - Terna Contracting Company W.L.L. ("the Company") for the year ended 31 December 2009.

Principal activities and results for the year

PCC - Terna Contracting Company W.L.L is a subsidiary of Terna Bahrain Holding Company W.L.L. The Company is engaged in construction contracting activities and is currently working on the sole project of construction of Riffa Views villas.

Results and retained earnings / accumulated losses:

During the year, the Company generated contract revenue of BD 16,395,674 (2008: BD 14,796,245) and reported a loss of BD 390,777 (2008: loss of BD 1,716,267).

The movements in retained earnings (accumulated losses) are as follows:

	2009	*2008*
	BD	*BD*
Balance at 1 January 2009	**(1,581,733)**	134,534
Loss for the year	**(390,777)**	(1,716,267)
Balance at the end of the year	**(1,972,510)**	(1,581,733)

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 2010, will be submitted at the Annual General Meeting.

Signed on behalf of the Board of Directors

PCC-TERNA CONTRACTING CO. W.L.L.
C.R. 64762
P.O. Box: 54368
Kingdom of Bahrain

Chairman

23/03 2010

ERNST & YOUNG

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INDEPENDENT AUDITORS' REPORT TO THE SHAREHOLDERS OF PCC - TERNA CONTRACTING COMPANY W.L.L.

We have audited the accompanying financial statements of PCC -Terna Contracting Company W.L.L. ("the Company"), comprising of the statement of financial position as at 31 December 2009 and the related 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 notes.

Directors' Responsibility for the Financial Statements

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

Auditors' Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance 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 for the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the 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
PCC - TERNA CONTRACTING COMPANY 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 2009 and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards.

Going Concern

Without qualifying our opinion we draw attention to note 1 to the financial statements. As of 31 December 2009, the Company had a deficiency of assets of BD 1,457,562 and the total current liabilities exceeded the total current assets by BD 1,075,626. These conditions indicate the existence of a material uncertainty which may cast significant doubt about the Company's ability to continue as a going concern. However, these financial statements have been prepared on a going concern basis as the shareholders have agreed to provide financial support to the Company to meet its obligations as and when they fall due.

Other Matters

We confirm that, in our opinion, proper accounting records have been kept by the Company and the financial statements, and the contents of the report of the Board of Directors relating to these financial statements, are in agreement therewith. We further report, to the best of our knowledge and belief, that no violations of the Bahrain Commercial Companies Law, nor of the memorandum or articles of association of the Company have occurred during the year ended 31 December 2009 that might have had a material adverse effect on the business of the Company or on its financial position.

Ernst + Young

23 March 2010
Manama, Kingdom of Bahrain

PCC - Terna Contracting Company W.L.L.
STATEMENT OF FINANCIAL POSITION
At 31 December 2009

	Notes	2009 BD	2008 BD
ASSETS			
Non-current asset			
Property, plant and equipment	6	**591,503**	1,224,813
Current assets			
Inventories	7	**635,467**	778,486
Due from customers for construction contracts	8	**3,485,085**	2,049,378
Contract and other receivables	9	**10,652,864**	9,127,967
Bank balances and cash	10	**85,283**	585,354
		14,858,699	12,541,185
TOTAL ASSETS		**15,450,202**	13,765,998
DEFICIENCY OF ASSETS AND LIABILITIES			
Deficiency of assets			
Share capital	11	**500,000**	500,000
Statutory reserve	12	**14,948**	14,948
Accumulated losses		**(1,972,510)**	(1,581,733)
Total deficiency of assets		**(1,457,562)**	(1,066,785)
Non-current liabilities			
Term loan	13	**607,500**	877,500
Employees' end of service benefits	14	**119,652**	83,759
Other employee benefits		**246,287**	227,225
		973,439	1,188,484
Current liabilities			
Current portion of term loan	13	**270,000**	270,000
Trade and other payables	15	**15,664,325**	13,374,299
		15,934,325	13,644,299
Total Liabilities		**16,907,764**	14,832,783
TOTAL DEFICIENCY OF ASSETS AND LIABILITIES		**15,450,202**	13,765,998

D. Rammos
Chairman

G. Stratigos
Director

The attached notes 1 to 23 form part of these financial statements.

STATEMENT OF COMPREHENSIVE INCOME

For the Year Ended 31 December 2009

	Note	2009 BD	2008 BD
Contract revenue		**16,395,674**	14,796,245
Other income	17	**69,880**	59,722
		16,465,554	14,855,967
Operating costs	19	**(10,517,511)**	(7,623,916)
Project material and equipment expenses		**(5,918,559)**	(7,134,210)
General and administrative expenses		**(585,214)**	(723,360)
Finance costs	20	**(193,561)**	(131,679)
Future projected losses on contract written back / (provided for)		**358,514**	(959,069)
LOSS FOR THE YEAR		**(390,777)**	(1,716,267)
Other comprehensive income		**-**	-
COMPREHENSIVE LOSS FOR THE YEAR		**(390,777)**	(1,716,267)

The attached notes 1 to 23 form part of these financial statements.

STATEMENT OF CASH FLOWS

For the Year Ended 31 December 2009

	Note	2009 BD	2008 BD
OPERATING ACTIVITIES			
Loss for the year		**(390,777)**	(1,716,267)
Adjustments for:			
Depreciation	6	**687,083**	688,332
Provision for employees' end of service benefits	14	**42,136**	61,984
Provision for other employee benefits		**19,062**	171,828
Profit on sale of property, plant and equipment		-	(4,198)
Finance costs		**193,561**	131,679
Interest income		-	(29,276)
Operating profit (loss) before working capital changes		**551,065**	(695,918)
Working capital changes:			
Decrease (increase) in Inventories		**143,019**	(648,437)
Increase in due from customers for construction contracts		**(1,435,707)**	(529,342)
Increase in contract and other receivables		**(1,524,897)**	(7,130,749)
Increase in trade and other payables		**2,290,026**	7,269,003
Net cash generated from (used in) operations		**23,506**	(1,735,443)
Employees' end of service benefits paid	14	**(6,243)**	(5,039)
Net cash from (used in) operating activities		**17,263**	(1,740,482)
INVESTING ACTIVITIES			
Purchase of property, plant and equipment	6	**(53,773)**	(703,903)
Proceeds from sale of property, plant and equipment		-	14,000
Interest received		-	29,276
Net cash used in investing activities		**(53,773)**	(660,627)
FINANCING ACTIVITIES			
Term loan	13	**(270,000)**	1,147,500
Finance costs paid		**(193,561)**	(131,679)
Net cash (used in) from financing activities		**(463,561)**	1,015,821
DECREASE IN CASH AND CASH EQUIVALENTS		**(500,071)**	(1,385,288)
Cash and cash equivalents at the beginning of the year		**585,354**	1,970,642
CASH AND CASH EQUIVALENTS AT THE END OF THE YEAR	10	**85,283**	585,354

STATEMENT OF CHANGES IN EQUITY

For the Year Ended 31 December 2009

	Share capital BD	Statutory reserve BD	Retained earnings (accumulated losses) BD	Total BD
Balance at 1 January 2009	500,000	14,948	(1,581,733)	(1,066,785)
Comprehensive loss for the year	-	-	(390,777)	(390,777)
Balance at 31 December 2009	**500,000**	**14,948**	**(1,972,510)**	**(1,457,562)**
Balance at 1 January 2008	500,000	14,948	134,534	649,482
Comprehensive loss for the year	-	-	(1,716,267)	(1,716,267)
Balance at 31 December 2008	500,000	14,948	(1,581,733)	(1,066,785)

1 ACTIVITIES

PCC - Terna Contracting Company W.L.L. ("the Company") is a limited liability company incorporated in the Kingdom of Bahrain on 29 March 2007 and registered with the Ministry of Industry and Commerce under commercial registration (CR) number 64762. The company is engaged in construction contracting activities.

The Company is a subsidiary of Terna Bahrain Holding Company W.L.L. 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 financial statements were authorised for issue in accordance with a resolution of the Board of Directors on 23 March 2010.

The shares of the Company are owned as follows:

Name of the shareholder	*Percentage of shareholding*
Terna Bahrain Holding Company	80%
Poullaides Construction Company	20%

2 FUNDAMENTAL ACCOUNTING CONCEPT

Although the Company has a deficiency of assets and net current liabilities at the statement of position date, the financial statements have been prepared under the going concern assumption as the parent company has agreed to extend financial support to enable the Company to meet its liabilities to third parties as and when they fall due.

The accumulated losses of the Company at the statement of financial position date exceeded its share capital. The Bahrain Commercial Companies Law requires that in such situations, an Extraordinary General Meeting of the shareholders should be convened at which the shareholders resolve whether or not to continue the operations of the Company. This meeting has not been convened till date.

3 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, 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.

3 **SIGNIFICANT ACCOUNTING POLICIES (continued)**

Changes in accounting policies and disclosures
The accounting policies are consistent with those used in the previous year, except that the Company has adopted the following new and amended IFRS and IFRIC interpretations:

- Amendments to IFRS 1 First-time Adoption of International Financial Reporting Standards and Consolidated and Separate Financial Statements effective 1 July 2009 (early adopted)
- IFRS 2 Share-based Payment: Group Cash-settled Share-based Payment Transactions effective 1 January 2010 (early adopted)
- IFRS 7 Financial Instruments: Disclosures effective 1 January 2009
- IFRS 8 Operating Segments effective 1 January 2009
- IAS 1 - Presentation of financial statements (Revised) effective 1 January 2009
- IAS 32 Financial Instruments: Presentation and IAS 1 Puttable Financial Instruments and Obligations Arising on Liquidation effective 1 January 2009
- IFRIC 9 Remeasurement of Embedded Derivatives and IAS 39 Financial Instruments: Recognition and Measurement effective for periods ending on or after 30 June 2009
- IFRIC 15 Agreement for the Construction of Real Estate 1 January 2009
- IFRIC 16 Hedges of a Net Investment in a Foreign Operation, effective 1 October 2008
- Improvements to IFRSs

When the adoption of the standard or interpretation is deemed to have an impact on the financial statements or performance of the Company, its impact is described below:

IFRS 7 Financial Instruments: Disclosures
The amended standard requires additional disclosures about fair value measurement and liquidity risk. Fair value measurements related to items recorded at fair value are to be disclosed by source of inputs using a three level fair value hierarchy, by class, for all financial instruments recognised at fair value. In addition, a reconciliation between the beginning and ending balance for level three fair value measurements is now required, as well as significant transfers between levels in the fair value hierarchy. The amendments also clarify the requirements for liquidity risk disclosures with respect to derivative transactions and assets used for liquidity management.

IAS 1 Presentation of Financial Statements
The revised standard separates owner and non-owner changes in equity. The statement of changes in equity includes only details of transactions with owners, with non-owner changes in equity presented in a reconciliation of each component of equity. In addition, the standard introduces the statement of comprehensive income: it presents all items of recognised income and expense, either in one single statement, or in two linked statements. The Company has elected to present one single statement.

Improvements to IFRSs
In April 2009 the Board issued its first 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 amendment resulted in changes to accounting policies but did not have any impact on the financial position or performance of the Company. The principal effects of the changes are as follows:

IAS 18 Revenue
The Board has added guidance (which accompanies the standard) to determine whether an entity is acting as a principal or as an agent. The features to consider are whether the entity:

- *Has primary responsibility for providing the goods or service*
- *Has inventory risk*
- *Has discretion in establishing prices*
- *Bears the credit risk*

3 **SIGNIFICANT ACCOUNTING POLICIES (continued)**

Improvements to IFRSs (continued)
The Company has assessed its revenue arrangements against these criteria and concluded that it is acting as principal in all arrangements. The revenue recognition accounting policy has been updated accordingly.

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

- *IFRS 2 Share-based Payment*
- *IFRS 5 Non-current Assets Held for Sale and Discontinued Operations*
- *IFRS 7 Financial Instruments: Disclosures*
- *IFRS 8 Operating Segment Information*
- *IAS 7 Statement of Cash Flows*
- *IAS 8 Accounting Policies, Change in Accounting Estimates and Error*
- *IAS 10 Events after the Reporting Period*
- *IAS 19 Employee Benefits*
- *IAS 20 Accounting for Government Grants and Disclosures of Government Assistance*
- *IAS 27 Consolidated and Separate Financial Statements*
- *IAS 34 Interim Financial Reporting*
- *IAS 39 Financial Instruments: Recognition and Measurement*
- *IAS 40 Investment Properties*
- *IFRIC 9 Reassessment of Embedded Derivatives*
- *IFRIC 16 Hedge of a Net Investment in a Foreign Operation*

Foreign currencies
The Company's financial statements are presented in Bahraini Dinars (BD), which is also the functional currency of the Company. That is the currency of the primary economic environment in which the Company operates. 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 financial position date. All differences are taken to the statement of comprehensive income. Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rates as at dates of the initial transactions.

Financial Assets
The Company's financial assets include bank balances and cash, inventories and contract and other receivables.

Initial recognition
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.

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 the 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 the statement of 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 and net of outstanding overdrafts.

3 **SIGNIFICANT ACCOUNTING POLICIES (continued)**

Impairment and uncollectibility of financial assets
An assessment is made at each statement of position date to determine whether there is objective evidence that a specific financial asset may be impaired. If such evidence exists, any impairment loss is recognised in the statement of 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.

Financial liabilities
The Company's financial liabilities include long term loan and trade and other payables.

Interest bearing loans and borrowings
All loans and borrowings are initially recognized at fair value of the consideration received less directly attributable transaction costs. After initial recognition, interest-bearing loans and borrowings are subsequently measured at amortised cost using the effective interest method.

Gains and losses, other than the borrowing costs eligible for capitalization, are recognized in the statement of comprehensive income when the liabilities are derecognized as well as through the amortization process.

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.

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 statement of position 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.

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.

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.

3 **SIGNIFICANT ACCOUNTING POLICIES (continued)**

Provisions
Provisions are recognised when the Company has a present obligation (legal or constructive) arising from a past event and the costs to settle the obligation are both probable and able to be reliably measured.

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	5 years
Furniture and fixtures	5 years
Motor vehicles	5 years

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 the 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.

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 and its outcome cannot be reliably estimated, revenue is recognised to the extent of costs incurred up to the year-end, which is considered recoverable. Revenue arising from contract, variations/claims is not accounted for unless it is probable that the customer will approve the variations/claims and the amount of revenue arising from the variation/claims 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 year-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.

4 STANDARDS ISSUED BUT NOT YET EFFECTIVE

Standards issued but not yet effective and not early adopted up to the date of the issuance of Company's financial statements are listed below:

- IFRS 2 Share-based Payment: Group Cash-settled Share-based Payment Transactions effective 1 January 2010
- IFRS 3 Business Combinations (Revised) and IAS 27 Consolidated and Separate Financial Statements (Amended) effective 1 July 2009 including consequential amendments to IFRS 7, IAS 21, IAS 28, IAS 31 and IAS 39
- IAS 39 Financial Instruments: Recognition and Measurement – Eligible Hedged Items effective 1 July 2009
- IFRIC 17 Distributions of Non-cash Assets to Owners effective 1 July 2009
- IFRIC 18 Transfers of Assets from Customers effective 1 July 2009

It is not expected the implementation of these revisions and amendments will have any impact on the Company's financial performance or position.

5 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 receivables 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 statement of financial position date, gross contract receivables was BD 8,086,407 (2008: BD 3,916,230) and there was no provision for doubtful debts (2008: same). Any difference between the amounts actually collected in future periods and the amounts expected will be recognised in the statement of comprehensive income.

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 asset's recoverable amount. An asset's recoverable amount is 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 statement of financial position date.

5 SIGNIFICANT ACCOUNTING JUDGMENTS AND ESTIMATES (continued)

Useful lives of property, plant and equipment

The Company's management determines the estimated useful lives of its property, plant and equipment for calculating depreciation. 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 would be adjusted where the management believes the useful lives differ from previous estimates.

Construction contracts

Revenue and profit recognition on an uncompleted 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 2009, the management considered that all costs to complete and revenue can be reliably measured.

6 PROPERTY, PLANT AND EQUIPMENT

31 December 2009

	Porta cabins BD	*Plant and equipment BD*	*Fixtures and fittings BD*	*Motor vehicles BD*	*Total BD*
Cost:					
At 1 January 2009	361,415	1,272,536	147,130	344,360	2,125,441
Additions during the year	7,365	40,733	5,675	-	53,773
At 31 December 2009	368,780	1,313,269	152,805	344,360	2,179,214
Depreciation:					
At 1 January 2009	(158,634)	(492,842)	(120,119)	(129,033)	(900,628)
Depreciation charge for the year	(55,837)	(538,135)	(32,686)	(60,425)	(687,083)
At 31 December 2009	(214,471)	(1,030,977)	(152,805)	(189,458)	(1,587,711)
Net carrying amount:					
At 31 December 2009	**154,309**	**282,292**	**-**	**154,902**	**591,503**

31 December 2008

	Porta cabins BD	*Plant and equipment BD*	*Fixtures and fittings BD*	*Motor vehicles BD*	*Total BD*
Cost:					
At 1 January 2008	271,009	703,477	140,392	320,660	1,435,538
Additions during the year	90,406	583,059	6,738	23,700	703,903
Disposals during the year	-	(14,000)	-	-	(14,000)
At 31 December 2008	361,415	1,272,536	147,130	344,360	2,125,441
Depreciation:					
At 1 January 2008	(59,179)	(65,762)	(38,709)	(52,844)	(216,494)
Depreciation charge for the year	(99,455)	(431,278)	(81,410)	(76,189)	(688,332)
Depreciation on disposals	-	4,198	-	-	4,198
At 31 December 2008	(158,634)	(492,842)	(120,119)	(129,033)	(900,628)
Net carrying amount:					
At 31 December 2008	202,781	779,694	27,011	215,327	1,224,813

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

	2009 BD	*2008 BD*
Project material and equipment expenses	**626,658**	612,143
General and administrative expenses	**60,425**	76,189
	687,083	688,332

7 INVENTORIES

	2009 BD	2008 BD
Materials at site	**635,467**	778,486

8 DUE FROM CUSTOMERS FOR CONSTRUCTION CONTRACTS

	2009 BD	2008 BD
Contract cost incurred till date	**37,004,801**	19,778,337
Recognized losses	**(2,163,261)**	(1,690,985)
Total value of work executed till date including losses	**34,841,540**	18,087,352
Less: Progress billings	**(31,356,455)**	(16,037,974)
	3,485,085	2,049,378

9 CONTRACT AND OTHER RECEIVABLES

	2009 BD	2008 BD
Contract receivables	**8,086,407**	3,916,230
Advances to subcontractors and suppliers	**2,520,715**	5,120,582
Prepayments	**23,519**	45,764
Due from related parties (note 16)	**7,609**	-
Other receivables	**14,614**	45,391
	10,652,864	9,127,967

In August 2009, the Company entered into an agreement with Riffa Views B.S.C. ("Riffa") the Company's client for the construction of a villa development at Riffa Views, for the purchase of the title deeds of 33 villas at an agreed total value of BD 8.4 million to secure receivables from Riffa of that amount. The title deeds will be held by the Company until 31 December 2010 when Riffa is obliged to buy-back all villas at the agreed value. Arcapita Bank B.S.C. ("Arcapita"), the management administrator and shareholder of Riffa has issued a guarantee for the buy back. If Riffa or Arcapita are unable to buy-back the villas at the date of buy back, full and clear title of the villas will revert to the Company. The current sales values of the villas are estimated to exceed the agreed values as at 31 December 2009.

In addition the Company has agreed with Riffa that sales proceeds of certain other villas sold will be kept in an escrow account which is required to meet all expected future billings of the Company to Riffa. Outflows from the escow account to the Company are expected to commence in January 2010.

The company has also issued a call option to Arcapita where it may buy-back all villas at the agreed value plus interest. The call option expires 31 March 2011.

As at year end the ageing of unimpaired contract receivable is as follows;

	Total BD	*Neither past due nor impaired BD*	*Past due but not impaired: < 30 days BD*	*30 – 60 days BD*	*60 – 90 days BD*	*90 – 120 days BD*	*>120 days BD*
2009	**8,086,407**	**760,259**	**-**	**186,660**	**5,439,113**	**1,700,375**	**-**
2008	3,916,230	1,914,039	-	2,002,190	-	-	-

10 BANK BALANCES AND CASH

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

	2009 ***BD***	*2008* *BD*
Bank balances	**84,189**	580,045
Cash in hand	**1,094**	5,309
	85,283	585,354

11 SHARE CAPITAL

	2009 ***BD***	*2008* *BD*
Authorised, issued and fully paid:		
10,000 ordinary shares of BD 50 each	**500,000**	500,000

12 STATUTORY RESERVE

The Bahrain Commercial Companies Law requires that 10% of the Company's profit be transferred to the 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. No amount has been transferred to the statutory reserve this year as the Company incurred a loss.

13 TERM LOAN

	2009 ***BD***	*2008* *BD*
Total amount outstanding	**877,500**	1,147,500
Less: current maturity of term loan	**(270,000)**	(270,000)
	607,500	877,500

In 2008 an installment loan facility of BD 1,350,000 was obtained from HSBC. The loan is repayable in five years in 60 equal monthly installments. The loan carries an effective interest rate of Base Lending Rate (BLR) minus 3.5% per annum and is collected in arrears every month. The interest rate as at 31 December was 8.5% (2008: 6%).

The installment loan facility is part of a total credit facility agreement obtained from HSBC of BD 10.85 million. The agreement includes facilities ("limits for specific facilities denoted') for Trade Finance (BD 1,000,000), Import Cash (BD 1,000,000), Guarantee Lines for Performance Bonds (BD 1,500,000), Advance Payment and Retention Bonds (BD 6,500,000) and Invoice Discounting (BD 500,000).

13 TERM LOAN (continued)

As at 31 December 2009 the following facilities had been utilised.

	BD 2009	BD 2008
Advance payment guarantees	-	4,291,204
Performance bonds	**1,500,000**	1,500,000
Retention bonds	-	1,490,628
Deferred payment credit	-	124,848
Other guarantees	-	48,589

HSBC has obtained the following securities over the facility:

- A 100% corporate guarantee from the ultimate parent company of BD 10.85 million;
- A letter of undertaking that the residual term loan will repaid within six months of the completion of the project and that the liquidation of machinery will be utilised for a bullet payment in the event of no further projects being undertaken; and
- A letter undertaking that the direct or indirect ownership of the Company by the ultimate parent entity will not be reduced below 80% without HSBC's prior consent.

Subsequent arrangements

On 24 January 2010, the loan facility was reviewed by HSBC and was renewed with a combined limit for the Riffa Views project of BD 2 million. The agreement includes the following facilities ("limits for specific facilities denoted') for Trade Finance (BD 500,000), Import Cash (BD 500,000), Guarantee Lines for Performance Bonds (BD 1,500,000) and Invoice Discounting (BD 500,000). Invoice Discounting and Trade Finance have a combined limit of BD 500,000.

The loan facility was limited to the balance of the loan at date of review of BD 877,500 with 39 monthly installment of BD 22,500 and interest set at the BLR less 1% per annum.

Securities and covenants for the facility have remained the same.

14 EMPLOYEES' END OF SERVICE BENEFITS

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

	2009 BD	2008 BD
Provision at the beginning of the year	**83,759**	26,814
Provided during the year	**42,136**	61,984
Paid during the year	**(6,243)**	(5,039)
Provision at the end of the year	**119,652**	83,759

15 TRADE AND OTHER PAYABLES

	2009 BD	2008 BD
Contract payables	**4,103,038**	3,311,938
Contract advances	**3,275,953**	7,079,739
Due to related parties (note 16)	**7,096,928**	2,171,996
Retentions payable	**975,719**	572,281
Accrued expenses	**104,394**	138,565
Other payables	**108,293**	99,780
	15,664,325	13,374,299

15 TRADE AND OTHER PAYABLES (continued)

Contract payables and accrued expenses are non-interest bearing and are normally settled on 60-day terms.

For terms and conditions for balances with related parties please refer to note 16.

Due to related parties are non-interest bearing and are normally settled on 30-day terms.

Retentions payable are non-interest bearing and have average term of one year.

Contract advances which are generally non-interest bearing comprise of sums received from the customer as per contractual agreement. They are adjusted according to the contractual provisions at the time of issuance of each invoice.

16 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.

Balances with related parties included in the statement of financial position are as follows:

	2009	*2008*
	BD	*BD*
Due from related parties		
Fellow subsidiaries		
Terna Mechanical and Electrical W.L.L.	**7,011**	-
Under common control		
Terna Qatar Company L.L.C	**598**	-
	7,609	-

	2009	*2008*
Due to related parties	*BD*	*BD*
Parent entities		
Terna Bahrain Holding Company W.L.L	**6,870,405**	1,861,804
Terna Overseas Ltd.	**18,005**	144,766
Terna S.A	**23,164**	4,887
Fellow subsidiary		
Terna Contracting Company W.L.L	**185,354**	134,268
Under common control		
Terna S.A Abu Dhabi (Branch of Terna S.A)	-	20,163
Terna S.A Sharjah (Branch of Terna S.A)	-	6,108
	7,096,928	2,171,996

There were no statement of comprehensive income transaction with related parties in either the current year or prior year.

Outstanding balances at the year end are unsecured, interest free and settlement occurs in cash. There have been no guarantees provided or received for any related party receivables or payables. For the year ended 31 December 2009, the Company has not recorded any impairment of receivables relating to amounts owed by related parties.

16 RELATED PARTY TRANSACTIONS (continued)

Compensation of key management personnel

The remuneration of key management personnel during the year was as follows:

	2009	*2008*
	BD	*BD*
Short-term benefits	**166,180**	135,000
Employees' end of service benefits	**-**	35,000
	166,180	170,000

17 OTHER INCOME

	2009	*2008*
	BD	*BD*
Interest income	**-**	29,276
Other income	**81,497**	24,386
Foreign exchange (loss) gain	**(11,617)**	6,060
	69,880	59,722

There were no statement of comprehensive income transactions with related parties in either the current or prior years

18 STAFF COSTS

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

	2009	*2008*
	BD	*BD*
Operating costs (note 19)	**3,737,089**	3,808,437
General and administrative expenses	**302,408**	363,183
	4,039,497	4,171,620

	2009	*2008*
	BD	*BD*
Staff costs are composed of the following expenses:		
Salaries and wages	**2,448,284**	2,472,158
Other staff benefits	**967,335**	980,164
Hire of labour	**478,844**	548,292
Contribution to Social Insurance Organisation	**102,898**	109,022
Employees' end of service benefits	**42,136**	61,984
	4,039,497	4,171,620

19 OPERATING COSTS

	2009 BD	2008 BD
Sub-contractors' work	**6,131,873**	3,272,891
Staff costs (note 18)	**3,737,089**	3,808,437
Motor vehicle hire and expenses	**336,484**	290,533
Travel	**131,201**	130,938
Repairs and maintenance	**130,010**	73,081
Communication	**45,239**	28,971
Technician fees	**4,478**	14,304
Other expenses	**1,137**	4,761
	10,517,511	7,623,916

20 FINANCE COSTS

	2009 BD	2008 BD
Interest expense	**85,071**	53,335
Letter of guarantee and bond fees	**72,081**	62,439
Bank charges	**34,057**	6,317
Letter of credit charges	**2,352**	9,588
	193,561	131,679

21 FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

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

Board of Directors
The Board of Directors is responsible for the overall risk management approach and for approving the risk strategies and principles.

Interest rate risk
The Company has a term loan outstanding carrying an effective interest rate as mentioned in the note 13.

The following table demonstrates the sensitivity to a reasonably possible change in interest rates, with all other variables held constant, on the Company's profit:

	Increase / decrease in basis points	Effect on profit BD
2009	**+50**	3,036
	-50	(3,036)
2008	+ 50	4,388
	- 50	(4,388)

21 FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

Liquidity risk

The Company limits its liquidity risk by ensuring bank facilities are available.

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

31 December 2009	*Less than 3 months BD*	*3 to 12 months BD*	*1 to 5 years BD*	*More than 5 years BD*	*Total BD*
Contract payables	**4,103,038**	**-**	**-**	**-**	**4,103,038**
Due to related parties	**7,096,928**	**-**	**-**	**-**	**7,096,928**
Retentions payable	**-**	**975,719**	**-**	**-**	**975,719**
Term loan	**84,948**	**247,158**	**663,335**	**-**	**995,441**
Accrued expenses	**104,394**	**-**	**-**	**-**	**104,394**
Other payables	**108,293**	**-**	**-**	**-**	**108,293**
	11,497,601	**1,222,877**	**663,335**	**-**	**13,383,813**

31 December 2008	*Less than 3 months BD*	*3 to 12 months BD*	*1 to 5 years BD*	*More than 5 years BD*	*Total BD*
Contract payables	3,311,938	-	-	-	3,311,938
Due to related parties	2,171,996	-	-	-	2,171,996
Retentions payable	-	572,281	-	-	572,281
Term loan	83,811	246,229	960,752	-	1,290,792
Accrued expenses	138,565	-	-	-	138,565
Other payables	99,780	-	-	-	99,780
	5,806,090	818,510	960,752	-	7,585,352

Credit risk

The company has a contract receivable which is due from a single party. The net credit risk (netted with unadjusted advances from the customer) exposure of the company is 98% (2008: 35%) of the total contract receivable which is BD 7.95 million (2008: BD 1.37 million). The contract receivable balance is secured against properties in the project and a guarantee. Please see note 9 for more details.

With respect to credit risk arising from the other financial assets of the Company, including bank balances, cash and deposits, 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.

Foreign currency risk

The Company is exposed to foreign currency risk on its inter-company payables some of which are denominated in Euro and AED.

The following table demonstrates the sensitivity to a reasonably possible change in currency rates, with all other variables held constant, of the Company's profit:

	Increase / decrease in basis points	*Effect on profit BD*
2009	**+ 50**	**(206)**
	- 50	**206**
2008	+ 50	(880)
	- 50	880

21 FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

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 business conditions. In order to maintain or adjust the capital structure, the Company may adjust the amount of dividends paid to shareholders.

22 FAIR VALUES OF FINANCIAL INSTRUMENTS

Financial instruments comprises of financial assets and financial liabilities.

Financial assets consist of bank balances and cash, inventories, contract and other receivables and due from customers for construction contracts. short-term deposits and cash. Financial liabilities consist of trade and other payables, term loan and current portion of term loan.

23 COMPARATIVE FIGURES

Certain comparative figures for the previous year have been reclassified to conform with the presentation in the current year. Such reclassifications do not affect previously reported retained earnings or shareholders' equity.