Terna Contracting WLL

FINANCIAL STATEMENTS

31 DECEMBER 2018

CONTENTS

GENERAL INFORMATION

Commercial registration	68262-1
Registered Office	Building 418, Road 3207, Block 332 Mahooz Kingdom of Bahrain
Chairman & Director	Mr. Sofoklis Sarantellis
Directors	Mr. Konstantinos Iliadis *(Vice Chairman)* Mr. Dimitrios Alexandros Xoudis (Managing Director) Mr. Dimitrios Salamanos Mr. Georgios StratigosW
Bankers	Bank of Bahrain and Kuwait HSBC Bank Middle East
Auditors	KPMG Fakhro

REPORT OF THE BOARD OF DIRECTORS
As at 31 December 2018 Bahraini Dinars

In accordance with Article 286 of the Commercial Companies Law, on behalf of the board of directors, I have pleasure in presenting the audited financial statements of Terna Contracting WLL (the "Company") for the year ended 31 December 2018 as set out on pages 5 to 30.

Financial highlights	2018	2017
Revenue	11,361,140	13,858,486
Gross (loss) / profit	(716,785)	812,574
(Loss) / profit for the year	(1,341,555)	175,590
Total assets	17,474,817	16,237,683
Total equity	5,042,555	6,384,110

Representations and audit

The Company's activities for the year as at 31 December 2018 have been conducted in accordance with the Commercial Companies Law and other relevant statutes of the Kingdom of Bahrain.

There have been no events subsequent to 31 December 2018, which would in any way invalidate the financial statements as set out on pages 5 to 30.

The Company has maintained proper, complete accounting records and these, together with all other information and explanations, have been made freely available to the auditors, KPMG Fakhro.

On behalf of the board of directors:

Dimitrios Alexandros Xoudis
Managing Director

Dimitrios Salamanos
Director

22 March 2019

KPMG Fakhro
Audit
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INDEPENDENT AUDITORS' REPORT TO THE SHAREHOLDERS

Terna Contracting WLL
Manama, Kingdom of Bahrain

Report on the audit of the financial statements

Opinion
We have audited the accompanying financial statements of Terna Contracting WLL (the "Company"), which comprise the statement of financial position as at 31 December 2018, the statements of profit or loss and other comprehensive income, changes in equity and cash flows for the year then ended, and notes, comprising significant accounting policies and other explanatory information.

In our opinion, except for the possible effects of the matter described in the *Basis for Qualified Opinion* section of our report, the accompanying financial statements present fairly, in all material respects, the financial position of the Company as at 31 December 2018, and its financial performance and its cash flows for the year ended in accordance with International Financial Reporting Standards (IFRS).

Basis for Qualified Opinion
As described in the Other Matter paragraph, the opinion expressed on the financial statements of the Company as at and for the year ended 31 December 2017 was qualified opinion due to the departure on recognition of revenue and receivables as a result of a claim the Company has made with a customer. The previous financial statements include revenue and corresponding receivables amounting to BD 2.7 million which have been recognized as a result of a claim the Company has made against a customer for prolongation and variation costs (Note 19). This amount have not been also recorded in accordance with IFRS 15 (Revenue from contracts with customers). Accordingly, the Company's records indicate that, had management not recorded the revenue in previous year from the above mentioned claim, revenue would have been decreased by BD 2.7 million and the results, equity would have been reduced by the same amount in the current year.

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

Emphasis of a matter
We draw attention to Note 19 to the financial statements, which describes the uncertainty related to the outcome of an ongoing arbitration between a customer and the Company. Legal proceedings related to the arbitration are in progress and the ultimate outcome of the matter cannot presently be determined. Our opinion is not modified in respect of this matter.

Other matter
The financial statements of the Company as at and for the year ended 31 December 2017 were audited by another auditor whose expressed a qualified opinion on those statements on 28 March 2018 due to the departure on recognition of revenue and receivables as a result of a claim the Company has made with a customer.

Other information
The board of directors is responsible for the other information. The other information obtained at the date of this auditors' report is the report of the board of directors set out on page 1.

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

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated. If, based on the work we have performed on the other information obtained prior to the date of this auditors' report, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

INDEPENDENT AUDITORS' REPORT TO THE SHAREHOLDERS (continued)

Terna Contracting WLL
Manama, Kingdom of Bahrain

Responsibilities of the board of directors for the financial statements
The board of directors is responsible for the preparation and fair presentation of the financial statements in accordance with IFRS, and for such internal control as the board of directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the board of directors is responsible for assessing the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the board of directors either intend to liquidate the Company or to cease operations, or has no realistic alternative but to do so.

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

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

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

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

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the board of directors.

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

- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

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

Report on other regulatory requirements

As required by the Commercial Companies Law, we report that:
a) the Company has maintained proper accounting records and the financial statements are in agreement therewith;
b) the financial information contained in the report of the board of directors is consistent with the financial statements;
c) we are not aware of any violations during the year of the Commercial Companies Law or the terms of the Company's memorandum of association that would have had a material adverse effect on the business of the Company or on its financial position; and
d) satisfactory explanations and information have been provided to us by management in response to all our requests.

KPMG Fakhro
Partner Registration No. 136
22 March 2019

STATEMENT OF FINANCIAL POSITION
As at 31 December 2018

Bahraini Dinars

	Note	31 December 2018	31 December 2017
ASSETS			
Non-current assets			
Property and equipment	5	286,868	625,604
Intangible assets		1,853	2,000
Retention receivable		471,842	3,461,198
Total non-current assets		**760,563**	4,088,802
Current assets			
Inventories	6	195,174	256,467
Contract assets	7	8,295,419	8,341,135
Contract and other receivables	8	6,852,509	2,102,563
Due from related parties	9 b)	42,691	213,113
Cash and cash equivalents	10	1,328,461	1,235,603
Total current assets		**16,714,254**	12,148,881
Total assets		**17,474,817**	16,237,683
EQUITY AND LIABILITIES			
Equity			
Share capital		4,500,000	2,000,000
Investment contribution from shareholders	1	-	2,500,000
Statutory reserve		450,926	450,926
Retained earnings		91,629	1,433,184
Total equity (page 7)		**5,042,555**	6,384,110
Non-current liabilities			
Provision for employees' leaving indemnities	11	649,236	604,553
Non-current portion of retention payable		112,358	631,879
Non-current portion of term loans	13	58,343	158,339
Total non-current liabilities		**819,937**	1,394,771
Current liabilities			
Bank overdraft	10	824,837	689,336
Current portion of term loans	13	99,996	195,203
Trade and other payables	12	6,982,547	5,936,510
Due to related parties	9 c)	3,704,945	1,637,753
Total current liabilities		**11,612,325**	8,458,802
Total liabilities		**12,432,262**	9,853,573
Total equity and liabilities		**17,474,817**	16,237,683

The financial statements were approved by the Board of Directors on 22 March 2019 and signed on its behalf by:

Dimitrios Alexandros Xoudis
Managing Director

Dimitrios Salamanos
Director

The accompanying notes 1 to 21 are an integral part of these financial statements.

STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME
For the year ended 31 December 2018

Bahraini Dinars

	Note	2018	2017
Contract revenue		11,361,140	13,858,486
Direct costs	14	(12,077,925)	(13,045,912)
Gross (loss) / profit		(716,785)	812,574
Other income	15	1,409,530	1,663,937
Foreign exchange loss, net		(1,421)	(30,385)
General and administrative expenses	16	(1,829,119)	(1,813,310)
Finance costs	17	(99,354)	(457,226)
Gain on disposal of property and equipment		5,000	-
Bad debts	20 a)	(52,234)	-
Other expenses		(57,172)	-
(Loss) / profit for the year		**(1,341,555)**	175,590
Other comprehensive income		-	-
Total comprehensive income for the year		(1,341,555)	175,590

Dimitrios Alexandros Xoudis
Managing Director

Dimitrios Salamanos
Director

The accompanying notes 1 to 21 are an integral part of these financial statements.

STATEMENT OF CHANGES IN EQUITY
For the year ended 31 December 2018 Bahraini Dinars

2018	**Share capital**	**Investment contribution from shareholders**	**Statutory reserve**	**Retained earnings**	**Total**
At 1 January	2,000,000	2,500,000	450,926	1,433,184	6,384,110
Total comprehensive income for the year (page 6)	-	-	-	(1,341,555)	(1,341,555)
Additional share capital introduced	2,500,000	(2,500,000)	-	-	-
At 31 December	**4,500,000**	**-**	**450,926**	**91,629**	**5,042,555**

2017	Share capital	Investment contribution from shareholders	Statutory reserve	Accumulated losses	Total
At 1 January	1,000,000	1,000,000	433,367	1,275,153	3,708,520
Total comprehensive income for the year (page 6)	-	-	-	175,590	175,590
Increase in share capital	1,000,000	(1,000,000)	-	-	-
Additional contribution	-	2,500,000	-	-	2,500,000
Transfer to statutory reserve	-	-	17,559	(17,559)	-
At 31 December	2,000,000	2,500,000	450,926	1,433,184	6,384,110

The accompanying notes 1 to 21 are an integral part of these financial statements.

STATEMENT OF CASH FLOWS

For the year ended 31 December 2018 — Bahraini Dinars

	Note	2018	2017
OPERATING ACTIVITIES			
(Loss) / profit for the year (page 6)		**(1,341,555)**	175,590
Adjustments for non-cash items:			
Depreciation	5	380,551	377,735
Amortisation of intangible assets		1,665	1,975
Gain on disposal of property and equipment		(5,000)	(82,697)
Gain on disposal of intangible assets		-	(600)
Bad debts		52,234	-
Provision for leaving indemnity	11	162,271	183,855
Foreign exchange loss		(8,461)	30,385
Finance costs		77,644	50,385
Operating (loss) / profit before working capital changes		**(680,651)**	736,628
Working capital changes:			
Retention receivables		2,989,356	(2,432)
Inventories		61,293	290,371
Contract assets		29,945	(5,279,680)
Contract and other receivables		(4,800,697)	3,813,193
Retention payables		(519,521)	(264,080)
Employees end of service paid	11	(117,588)	(240,263)
Trade and other payables		1,061,134	(2,642,945)
Interest paid on bank overdrafts		(61,750)	(41,357)
Net cash used in operating activities		**(1,357,828)**	(4,367,193)
INVESTING ACTIVITIES			
Acquisition of property and equipment	5	(45,318)	(425,005)
Acquisition of intangible assets		(1,517)	(2,926)
Proceeds from disposal of intangible assets		-	600
Proceeds from disposal of property and equipment		8,502	95,995
Net cash used in investing activities		**(38,333)**	(331,336)
FINANCING ACTIVITES			
Additional capital contribution received		-	2,500,000
Repayment of term loan	13	(195,203)	-
Additional term loan availed	13	-	314,938
Receipts from related parties ,net		2,245,266	1,413,740
Margin deposit		-	245,769
Interest paid	17	(15,894)	(9,028)
Net cash generated from financing activities		**2,034,169**	4,465,419
Net (decrease) / increase in cash and cash equivalents during the year		**(42,643)**	503,518
Cash and cash equivalents at 1 January		546,267	42,749
Cash and cash equivalents at 31 December	10	**503,624**	546,267

The accompanying notes 1 to 21 are an integral part of these financial statements.

1 REPORTING ENTITY

Terna Contracting WLL (the "Company") is a limited liability company incorporated in the Kingdom of Bahrain on 2 April 2008 and registered with the Ministry of Industry, Commerce and Tourism under commercial registration number 68262-1. The Company is engaged in construction and contracting activities.

The Company's authorised, issued and fully paid up share capital as at 31 December 2017 was BD 2,000,000 comprises of 40,000 shares of BD 50 each and are held as follows:

Shareholders	Number of shares	Shareholding (%)	Amount (BD)
Terna Bahrain Holding WLL	39,996	99.99	1,999,800
Terna Overseas Limited	4	0.01	200
Total	**40,000**	**100**	**2,000,000**

During the year, the Company increased its share capital to 4,500,000 comprising of 90,000 shares of BD 50 each and are held as follows:

Shareholders	Number of shares	Shareholding (%)	Amount (BD)
Terna Bahrain Holding WLL	89,991	99.9999	4,499,550
Terna Overseas Limited	9	0.0001	450
Total	**90,000**	**100**	**4,500,000**

The Company is a wholly owned subsidiary of Terna Bahrain Holding WLL (the 'Parent Company), a company incorporated in and operating under the laws of the Kingdom of Bahrain. The ultimate parent company is GEK TERNA Societe Anonyme Holdings Real Estate Constructions ('GEK TERNA'), a company incorporated in and operating under laws of the Republic of Greece.

The Company also has a branch, Terna Real Estate WLL (the "Branch"), in the Kingdom of Bahrain which is registered under commercial registration number 68262-2. The branch was formed to engage in real estate activities through owning or leasing property. As of 31 December 2018, there were no operations in the branch.

Investments in joint operations

The Company has 50% interest in the following unincorporated Joint Operations, with the other 50% held by Combined Group Contracting Emirates L.L.C. ("the Joint Operator"), a company registered in the United Arab Emirates.

(i) Terna-CGCE JV (AMAS -1)
The Joint Operation was formed on 19 August 2015 and is involved in the construction, testing and commissioning of the Primary Sewer Testing and TSE networks of the Al Madina Al Shamaliya Project, Northern Governorate, Kingdom of Bahrain for the Ministry of Housing, Kingdom of Bahrain. The Join Operation initiated procedures related to liquidation as of reporting date.

1 REPORTING ENTITY (continued)

(ii) Terna-CGCE JV (AMAS -2)
AMAS -2 (the "Joint Operation") was formed on 7 April 2016 for the Construction of Infrastructure and Utilities in Al Madina Al Shamaliya, Islands 10, 11 and 12 respectively for the Ministry of Housing, Kingdom of Bahrain and the Joint Operation commenced its operations on 25 May 2016.

(iii) Terna-CGCE JV (AMAS -3)
AMAS -3 (the "Joint Operation") was formed on 28 June 2018 for the Construction of Bridges, Islands 9 & 10 and 11 & 12 at Madinat Salman respectively for the Ministry of Housing, Kingdom of Bahrain and the Joint Operation commenced its operations on 26 August 2018.

2 BASIS OF PREPARATION

a) Statement of compliance

The financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS) and in compliance with the Commercial Companies Law.

b) Basis of measurement

The financial statements have been drawn up from the accounting records of the Company maintained under the historical cost convention.

c) Functional and presentation currency

Items included in the financial statements of the Company are measured using the currency of the primary economic environment in which the entity operates (the "functional currency"). The financial statements are presented in Bahraini Dinars ("BD"), which is the Company's functional and presentation currency. All financial information presented in the financial statements has been rounded off to the nearest Bahraini Dinars.

d) Use of estimates and judgments

The preparation of financial statements in conformity with IFRSs requires management to make judgements, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses. Actual results may differ from these estimates.

Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimates are revised and in any future periods affected.

The areas involving a higher degree of judgment or complexity or areas where assumptions and estimates are significant to the financial statements are described in note 4.

3 SIGNIFICANT ACCOUNTING POLICIES

The significant accounting policies applied by the Company in the preparation of the financial statements are consistent with those applied in the preparation of the Company's financial statements as at and for the year ended 31 December 2018, except for the changes arising from adoption of IFRS 15 and IFRS 9 on 1 January 2018.

3 SIGNIFICANT ACCOUNTING POLICIES (continued)

a) Adoption of IFRS 9

The Company has adopted IFRS 9 as issued by the IASB in July 2014 with a date of transition of 1 January 2018, which resulted in changes in accounting policies and adjustments to the amounts previously recognised in the financial statements as of and for the year ended 31 December 2017.

As permitted by the transitional provisions of IFRS 9, the Company elected not to restate comparative figures. Any adjustments to the carrying amounts of financial assets and liabilities at the date of transition were immaterial.

The adoption of IFRS 9 has resulted in changes in the accounting policies for recognition, classification and measurement of financial assets and financial liabilities. IFRS 9 also significantly amends other standards dealing with financial instruments such as IFRS 7 'Financial Instruments: Disclosures'.

The key changes to the Company's accounting policies resulting from the adoption of IFRS 9 are summarised below. Since the comparative financial information has not been restated, the accounting policies in respect of the financial instruments for comparative periods are based on IAS 39 as disclosed in the audited financial statements as of and for the year ended 31 December 2017.

(i) Classification and measurement of financial assets and financial liabilities
IFRS 9 largely retains the existing requirements in IAS 39 for the classification and measurement of financial liabilities. However, it eliminates the previous IAS 39 categories for financial assets of held to maturity, loans and receivables and available for sale.

The adoption of IFRS 9 did not have a significant impact on the classification and measurement of the Company's financial assets.

The Company performed a detailed analysis of its business models for managing financial assets as well as analysing of their cash flow characteristics.

The below table reconciles the original measurement categories and carrying amounts of financial assets in accordance with IAS 39 and the new measurement categories under IFRS 9 as at 31 December 2017.

Financial assets	Original classification under IAS 39	New classification under IFRS 9	Original carrying amount	Re-measure-ment	New carrying amount
Retention receivables	Loans and receivables	Amortised cost	3,461,198	-	3,461,198
Due from related parties	Loans and receivables	Amortised cost	213,113	-	213,113
Contract and other receivables	Loans and receivables	Amortised cost	2,102,563	-	2,102,563
Cash and balance with banks	Loans and receivables	Amortised cost	1,235,603	-	1,235,603
Contract assets	Loans and receivables	Amortised cost	8,341,135	-	8,341,135
			15,353,612	**-**	**15,353,612**

3 SIGNIFICANT ACCOUNTING POLICIES (continued)

There were no significant changes to the classification and measurement of financial liabilities.

(ii) Expected credit loss / Impairment allowances
IFRS 9 replaces the 'incurred loss' model in IAS 39 with an 'expected credit loss' (ECL) model. The new impairment model applies to financial assets measured at amortised cost, contract assets and debt investments at FVOCI, but not to investments in equity instruments. Under IFRS 9, credit losses are recognised earlier than under IAS 39.

The financial assets at amortised cost consist of contract assets, contract and other receivables, retention receivables, cash and bank balances and due from related parties at amortised cost.

Measurement of ECL: ECLs are a probability-weighted estimate of credit losses. The Company applies the simplified approach of IFRS 9 for the calculation of expected credit losses, according to which the provision for impairment is always measured at an amount equal to the expected credit losses over the life of the financial asset. In this context, the expected credit losses represent the expected shortfalls in the contractual cash flows, taking into account the possibility of default at any point during the life of the financial instrument. In calculating the expected credit losses, the Company uses a provisioning table by grouping the above financial instruments based on the nature and maturity of the balances by taking into account available historical data regarding the obligors, adjusted for future factors in relation to the obligors and the economic environment.

Presentation of ECL: Loss allowances for financial assets measured at amortised cost are deducted from the gross carrying amount of the assets.

b) Adoption of IFRS 15

IFRS 15 establishes a comprehensive framework for determining whether, how much and when revenue is recognised. It replaces existing revenue recognition guidance, including IAS 18 Revenue, IAS 11 Construction Contracts and IFRIC 13 Customer Loyalty Programmes.

IFRS 15 was effective from 1 January 2018 and adoption of IFRS 15 did not have a significant impact on the Company's financial statements.

c) Financial instruments

(i) Recognition and initial measurement
Trade receivables and debt securities are initially recognised when they are originated. All other financial assets and financial liabilities are initially recognised when the Company becomes a party to the contractual provisions of the instrument.

A financial asset (unless it is a trade receivable without a significant financing component) or financial liability is initially measured at fair value plus, for an item not at FVTPL, transaction costs that are directly attributable to its acquisition or issue. A trade receivable without a significant financing component is initially measured at the transaction price.

(ii) Classification and subsequent measurement

Financial assets – Policy applicable from 1 January 2018

On initial recognition, a financial asset is classified as measured at: amortised cost; FVTOCI – debt security; FVTOCI – equity security; or FVTPL.

Financial assets are not reclassified subsequent to their initial recognition unless Company changes its business model for managing financial assets, in which case all affected financial assets are reclassified on the first day of the first reporting period following the change in the business model.

3 SIGNIFICANT ACCOUNTING POLICIES (continued)

A financial asset is measured at amortised cost if it meets both of the following conditions and is not designated as at FVTPL:

- it is held within a business model whose objective is to hold assets to collect contractual cash flows; and
- its contractual terms give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

A debt security is measured at FVTOCI if it meets both of the following conditions and is not designated as at FVTPL:

- it is held within a business model whose objective is achieved by both collecting contractual cash flows and selling financial assets; and
- its contractual terms give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

On initial recognition of an equity security that is not held for trading, the Company may irrevocably elect to present subsequent changes in the investment's fair value in OCI. This election is made on a security-by-security basis.

All financial assets not classified as measured at amortised cost or FVTOCI as described above are measured at FVTPL. On initial recognition, the Company may irrevocably designate a financial asset that otherwise meets the requirements to be measured at amortised cost or at FVTOCI as at FVTPL if doing so eliminates or significantly reduces an accounting mismatch that would otherwise arise.

Financial liabilities – Classification, subsequent measurement and gains and losses

Financial liabilities are classified as measured at amortised cost or FVTPL. A financial liability is classified as at FVTPL if it is classified as held-for-trading, it is a derivative or it is designated as such on initial recognition. Financial liabilities at FVTPL are measured at fair value and net gains and losses, including any interest expense, are recognised in profit or loss.

Other financial liabilities are subsequently measured at amortised cost using the effective interest method. Interest expense and foreign exchange gains and losses are recognised in profit or loss. Any gain or loss on derecognition is also recognised in profit or loss.

(i) Derecognition of financial assets and liabilities
Financial assets are derecognised and removed from the statement of financial position when the right to receive cash flows from the assets has expired; the Company has transferred its contractual right to receive the cash flows from the assets, and substantially all the risks and rewards of ownership; or where control is not retained. Financial liabilities are derecognised and removed from the statement of financial position when the obligation is discharged, cancelled, or expires.

(ii) Offsetting
Financial assets and financial liabilities are offset and the net amount presented in the statement of financial position when, and only when, the Company currently has a legally enforceable right to set off the amounts and it intends either to settle them on a net basis or to realise the asset and settle the liability simultaneously.

Financial instruments –Policy applicable before 1 January 2018

(i) Non-derivative financial assets
The Company initially recognizes receivables on the date that they are originated. All other financial assets are recognized initially on the trade date, which is the date that the Company becomes a party to the contractual provisions of the instrument.

The Company derecognises a financial asset when the contractual rights to the cash flows from the asset expire or if the Company transfers the financial asset to another party without retaining control or substantially all risks and rewards of the asset are transferred. Any interest in such transferred financial assets that is created or retained by the Company is recognized as a separate asset or liability.

Financial assets and liabilities are offset and the net amount presented in the statement of financial position when, and only when, the Company has a legal right to offset the amounts and intends either to settle them on a net basis or to realise the asset and settle the liability simultaneously.

The Company classifies non-derivative financial assets as loans and receivables and cash and cash equivalents.

(ii) Loans and receivables
Loans and receivables are financial assets with fixed or determinable payments that are not quoted in an active market. Such assets are recognized initially at fair value plus any direct attributable transaction costs. Subsequent to initial recognition, loans and receivables are measured at amortized cost using the effective interest method, less any impairment losses. Loans and receivables comprise accounts and other receivables and due from related parties. Cash and cash equivalents comprise cash in hand and bank balances.

(iii) Non-derivative financial liabilities
Non-derivative financial liabilities comprise bank overdrafts, trade and other payables, retention payables, term loan and due to related parties. The Company initially recognises liabilities on the date that they are originated. The Company derecognises a financial liability when its contractual obligations are discharged or cancelled or expire.

d) Impairment of financial assets

Policy applicable from 1 January 2018

The Company recognises loss allowances for expected credit losses (ECLs) on financial assets measured at amortised cost. The financial assets at amortised cost consist of margin deposit, due from related parties, other receivables and cash and cash equivalents.

Under IFRS 9, loss allowances are measured on either of the following bases:

- 12-month ECLs: these are ECLs that result from possible default events within the 12 months after the reporting date; and
- lifetime ECLs: these are ECLs that result from all possible default events over the expected life of a financial instrument.

The maximum period considered when estimating ECLs is the maximum contractual period over which the Company is exposed to credit risk.

The Company measures loss allowances at an amount equal to lifetime ECLs, except for the following, which are measured at 12-month ECLs:

- debt securities that are determined to have low credit risk at the reporting date; and
- other debt securities and bank balances for which credit risk (i.e. the risk of default occurring over the expected life of the financial instrument) has not increased significantly since initial recognition.

When determining whether the credit risk of a financial asset has increased significantly since initial recognition and when estimating ECLs, the Company considers reasonable and supportable information that is relevant and available without undue cost or effort. This includes both quantitative and qualitative information and analysis, based on the Company's historical experience and informed credit assessment and including forward-looking information.

3 SIGNIFICANT ACCOUNTING POLICIES (continued)

The Company considers a financial asset to be in default when:

- the borrower is unlikely to pay its credit obligations to the Company in full, without recourse by the Company to actions such as realising security (if any is held).

Measurement of ECLs
ECLs are a probability-weighted estimate of credit losses. The Company applies the simplified approach of IFRS 9 for the calculation of expected credit losses, according to which the provision for impairment is always measured at an amount equal to the expected credit losses over the life of the financial asset. In this context, the expected credit losses represent the expected shortfalls in the contractual cash flows, taking into account the possibility of default at any point during the life of the financial instrument. In calculating the expected credit losses, the Company uses a provisioning table by grouping the above financial instruments based on the nature and maturity of the balances by taking into account available historical data regarding the obligors, adjusted for future factors in relation to the obligors and the economic environment.

Credit-impaired financial assets
At each reporting date, the Company assesses whether financial assets carried at amortised cost and debt securities at are credit-impaired. A financial asset is 'credit-impaired' when one or more events that have a detrimental impact on the estimated future cash flows of the financial asset have occurred.

Evidence that a financial asset is credit-impaired includes the following observable data:

- significant financial difficulty of the borrower or issuer;
- a breach of contract such as a default;
- it is probable that the borrower will enter bankruptcy or other financial reorganisation; or
- the disappearance of an active market for a security because of financial difficulties.

Presentation of allowance for ECL in the statement of financial position
Loss allowances for financial assets measured at amortised cost are deducted from the gross carrying amount of the assets.

Write-off
The gross carrying amount of a financial asset is written off when the Company has no reasonable expectations of recovering a financial asset in its entirety or a portion thereof and is charged to the statement of profit or loss and other comprehensive income. However, financial assets that are written off could still be subject to enforcement activities in order to comply with the Company's procedures for recovery of amounts due.

Policy applicable before 1 January 2018

Financial assets not classified as at fair value, are assessed at each reporting date to determine whether there is an objective evidence of impairment. A provision for impairment is established where there is objective evidence that the Company will not collect all amounts due, in accordance with the contractual terms of the investment.

Objective evidence that a financial asset is impaired may include the issuer will enter bankruptcy, the disappearance of an active market for a security, or other observable data relating to a group of assets such as adverse changes in the payment status of issuers in the group, or economic conditions that correlate with defaults in the group.

Provisions for impairment are determined based on the difference between the net carrying amount and the recoverable amount of the financial asset. The recoverable amount is measured as the present value of expected future cash flows, including amounts recoverable from guarantees and collateral, discounted based on the at the current market rate of interest for a similar financial asset.

e) New standards, amendments and interpretations issued but not yet effective

A number of new standards and amendments to standards are effective for annual periods beginning after 1 January 2019 and earlier application is permitted; however; the Company has not early applied the following new or amended standards in preparing these financial statements.

IFRS 16 Leases
IFRS 16 introduces a single, on-balance lease sheet accounting model for lessees. A lessee recognises a right-of-use asset representing its right to use the underlying asset and a lease liability representing its obligation to make lease payments. There are optional exemptions for short-term leases and leases of low value items. Lessor accounting remains similar to the current standard- i.e. lessors continue to classify leases as finance or operating leases.

IFRS 16 replaces existing leases guidance including IAS 17 Leases, IFRIC 4 Determining whether an Arrangement contains a Lease, SIC-15 Operating Leases-Incentives and SIC-27 Evaluating the Substance of Transactions Involving the Legal Form of a Lease. The standard is effective for annual periods beginning on or after 1 January 2019. Early adoption is permitted for entities that apply IFRS 15 Revenue from Contracts with Customers at or before the date of initial application of IFRS 16.

The Company has assessed the estimated impact that initial application of IFRS 16 will have on its financial statements, as described below. The actual impacts of adopting the standard on 1 January 2019 may change because:

- the Company has not finalised the testing and assessment of controls over its new IT systems; and
- the new accounting policies are subject to change until the Company presents its first financial statements that include the date of initial application.

Leases in which the Company is a lessee
The Company will recognise new assets and liabilities for its operating leases of machineries and equipment. The nature of expenses related to those leases will now change because the Company will recognise a depreciation charge for right-of-use assets and interest expense on lease liabilities.

Previously, the Company recognised operating lease expense on a straight-line basis over the term of the lease, and recognised assets and liabilities only to the extent that there was a timing difference between actual lease payments and the expense recognized.

The Company will elect to use the exemptions proposed by the standard on lease contracts for which the lease terms ends within 12 months as of the date of initial application, and lease contracts for which the underlying asset is of low value.

The Company does not expect to have a significant impact on its finance leases as result of adopting IFRS 16.

Based on the information currently available, the Company estimates that it will recognise additional lease liabilities of BD 314,125 as at 1 January 2019.

Leases in which the Company is a lessor
The Company will reassess the classification of sub-leases in which the Company is a lessor, if any. No significant impact is expected for other leases in which the Company is a lessor.

Transition
The Company plans to apply IFRS 16 initially on 1 January 2019, using the modified retrospective approach. Therefore, the cumulative effect of adopting IFRS 16 will be recognised as an adjustment to the opening balance of retained earnings at 1 January 2019, with no restatement of comparative information.

The Company plans to apply the practical expedient to grandfather the definition of a lease on transition. This means that it will apply IFRS 16 to all contracts entered into before 1 January 2019 and identified as leases in accordance with IAS 17 and IFRIC 4.

f) Provisions

A provision is recognised in the statement of financial position when the Company has a legal or constructive obligation as a result of a past event, and it is probable that an outflow of economic benefits will be required to settle the obligation.

g) Statutory reserve

In accordance with the Commercial Companies Law, 10 percent of profit for the year is appropriated to statutory reserve, until it reaches 50 percent of the paid up share capital. Statutory reserve is not normally distributable except in the circumstances stipulated in the Commercial Companies Law.

h) Revenue recognition

Revenue recognition (applicable before 1 January 2018)
The Company principally undertakes fixed price contracts. If the customer of such a contract can be measured reliably, revenue associated with the construction contract is recognised by reference to the stage of completion of the contract activity at year end (the percentage of completion method).

The outcome of the construction contract can be measured reliably when: (i) the total contract revenue can be measured reliably; (ii) it is probable that economic benefits associated with the contract will flow to the entity; (iii) the costs to complete the contract and the stage of completion can be measured reliably; and (iv) contract costs attributable to the contract can be clearly identified and measured reliably so that actual contract costs incurred can be compared with prior estimates. When the outcome of construction cannot be estimated reliably (principally during early stages of a contract), contract revenue is recognised only to the extent of costs incurred that are expected to be recoverable.

Revenue recognition (applicable from 1 January 2018)
For construction contracts, the Company has assessed that there is only one performance obligation in these contracts and that construction revenue qualifies to be recognized over time under IFRS 15 because the Company's performance creates or enhances an asset that the customer controls as the asset is created or enhanced. The Company has chosen to use input method (on the basis of costs incurred) to measure progress towards complete satisfaction of the performance obligation. Prior to adoption of IFRS 15, the Company's construction revenue are recognized over time and measured on the basis of estimated completion of the physical proportion of the contract work. Upon adoption of IFRS 15, the Company's construction costs are recognized as incurred except for those costs to fulfill that qualify to be capitalized under IFRS 15. These costs to fulfill are amortized on a systematic basis that is consistent with the transfer to the customer of the goods or services to which the assets relate. Moreover, under IFRS 15, any earned consideration that is conditional should be recognized as a contract asset rather than receivable. Therefore, upon adoption of IFRS 15, the Company made reclassifications from costs and estimated earnings in excess of billings on uncompleted contracts and billings in excess of costs and estimated earnings on uncompleted contracts to contract assets. Advance payments received from customers are presented as contract liabilities in the statement of financial position.

i) Employee benefits

Short-term employee benefits are recognised in the statement of profit or loss and other comprehensive income on an accrual basis.

Pensions and other social benefits for *Bahraini employees* are covered by the Social Insurance Organisation scheme to which employees and employers contribute monthly on a fixed-percentage-of-salaries basis. The Company's contribution to this scheme, which represents a defined contribution scheme under International Accounting Standard 19 - Employee Benefits, is expensed as incurred.

3 *SIGNIFICANT ACCOUNTING POLICIES (continued)*

Expatriate employees are entitled to leaving indemnities payable under the Bahrain Labour Law for the Private Sector - Law no (36) of 2012, based on length of service and final remuneration. Provision for this unfunded commitment which represents a defined benefit plan under International Accounting Standard-19 Employee Benefits has been made by calculating the notional liability had all employees left at the reporting date.

j) Interest expense

Interest expenses are recognised as expenses in the year in which these are incurred, except the interest expenses that are directly attributable to the acquisition or construction of property and equipment, which are capitalised as part of the cost of that asset.

k) Foreign currency transactions and balances

Transactions in foreign currencies are translated to Bahraini Dinars at the foreign exchange rates ruling at the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies at the reporting date are translated into Bahraini dinars at the foreign exchange rate ruling at that date. All foreign exchange differences arising on conversion and translation are recognized in the statement of profit or loss and other comprehensive income.

l) Operating lease

An operating lease is a lease other than a financial lease. Operating lease is recognized on a straight line basis over the lease term.

m) Contract assets

The contract assets primarily relate to the Companys' rights to consideration for work completed but not billed at the reporting date. The contract assets are transferred to receivables when the rights become unconditional. This usually occurs when the Company issues an invoice to the customer.

4 CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENT IN APPLYING ACCOUNTING POLICIES

The areas involving a higher degree of judgement or complexity or areas where assumption and estimates are significant to the financial statements includes:

a) Provision for expected credit losses

Impairment of financial instruments
Assessment of whether credit risk on the financial asset has increased significantly since initial recognition and incorporation of forward-looking information in the measurement of ECL.

Significant increase in credit risk
When determining whether the risk of default on a financial instrument has increased significantly since initial recognition, the Company considers reasonable and supportable information that is relevant and available without undue cost or effort. This includes both quantitative and qualitative information and analysis, based on the Companys' historical experience and expert credit assessment and including forward-looking information.

Inputs, assumptions and techniques used for estimating impairment
The estimation of credit exposure for risk management purposes is complex and requires the use of models, as the exposure varies with changes in market conditions, expected cash flows and the passage of time. The assessment of credit risk of a portfolio of assets entails further estimations as to the likelihood of defaults occurring, of the associated loss ratios and of default correlations between counterparties.

NOTES TO THE FINANCIAL STATEMENTS
For the year ended 31 December 2018 Bahraini Dinars

4 CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENT IN APPLYING ACCOUNTING POLICIES (continued)

b) Useful life and residual value of furniture, equipment and vehicles

The Company reviews the useful life and residual value of the furniture, equipment and vehicles at each reporting date to determine whether an adjustment to the useful life and residual value is required. The useful life and residual value are estimated based on the similar assets of the industry, and future economic benefit expectations of the management.

c) Write down of inventories to net realizable value

The Company reviews the carrying amounts of the inventories at each reporting date to determine whether the inventories have to be written down to net realizable value. The Company identifies the inventories, based on the evaluation of age of the inventory, current selling price, their movement and consumption over the period and estimate of their future demand for various items in the inventory. If inventories are assessed for a write down, they are written down to their recoverable amount, which are estimated based on past experience and future expectations of realization by the management. At the reporting date, gross inventories were BD 195,174 (2017: BD 256,467) and the management's assessment indicated that no provision for slow moving inventories is required as of 31 December 2018.

5 PROPERTY AND EQUIPMENT

2018	Porta cabins-site offices	Equipment	Furniture, fixtures and office equipment	Vehicles	2018 Total	2017 Total
Cost						
At 1 January	416,574	2,406,097	318,915	622,742	3,764,328	3,547,425
Additions during the year	-	15,116	26,343	3,859	45,318	425,005
Disposal	(1,151)	(50,270)	(8,635)	-	(60,056)	(208,101)
At 31 December	**415,423**	**2,370,943**	**336,623**	**626,601**	**3,749,590**	3,764,329
Depreciation						
At 1 January	345,981	2,072,175	251,106	469,463	3,138,725	2,955,793
Charge for the year	33,556	181,228	59,826	105,941	380,551	377,735
Disposal	(1,150)	(50,223)	(5,181)	-	(56,554)	(194,803)
At 31 December	**378,387**	**2,203,180**	**305,751**	**575,404**	**3,462,722**	3,138,725
Net carrying value at 31 December	**37,036**	**167,763**	**30,872**	**51,197**	**286,868**	625,604

The depreciation charge for the year has been included in the statement of profit or loss and other comprehensive income as follows:

	2018	2017
Direct costs (note 14)	363,068	358,610
General and administrative expenses (note 16)	17,483	19,125
	380,551	377,735

6 INVENTORIES

Inventories comprise site materials and consumables required for construction purposes. As of 31 December 2018 and 2017, there were no slow moving inventories.

7 CONTRACT ASSETS

	2018	2017
Contract cost incurred to date	60,785,140	64,751,961
Attributable loss / profits	(875,330)	101,799
Progress billings to date	(51,612,922)	(56,512,625)
Less: allowance for impairment loss	(1,469)	-
	8,295,419	8,341,135

Included in the above is an amount of BD 6.5 millions which is subject to a legal case (note 19).

8 CONTRACT AND OTHER RECEIVABLES

	2018	2017
Contract receivables	1,080,426	980,925
Retention receivables	4,595,007	566,688
Less: allowance for impairment loss	(24,744)	-
	5,650,689	1,547,613
Advance to suppliers	700,787	190,639
Prepayments	118,091	120,669
Other receivables	382,942	243,642
	6,852,509	2,102,563

9 RELATED PARTIES

Parties are considered to be related if one party has the ability to control the other party or exercise significant influence over the other party in making financial and operating decisions. These represent transactions with companies under the same management and key management personnel. The Company enters into transactions with related parties in the normal course of business.

a) **Significant related party transactions**	2018	2017
Expenses paid on behalf of related parties	**49,890**	31,367

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9 *RELATED PARTIES (continued)*

b) Due from related parties	*Relationship*	2018	2017
Terna S.A. (Saudi Branch)	*Affiliate*	42,205	36,975
Terna Ventures WLL	*Affiliate*	500	500
Terna S.A. (Abu Dhabi Branch)	*Affiliate*	-	175,638
		42,705	213,113
Less: allowance for impairment loss		(14)	-
		42,691	213,113

c) Due to related parties	*Relationship*	2018	2017
Terna Bahrain Holding	*Parent company*	3,123,897	1,384,934
Terna S.A. (Abu Dhabi Branch)	*Affiliate*	286,372	-
Terna S.A. (Head office)	*Affiliate*	215,148	202,134
Terna S.A. (Sharjah Branch)	*Affiliate*	50,562	50,685
Terna Qatar	*Affiliate*	27,889	-
Terna Overseas	Shareholder	1,077	-
		3,704,945	1,637,753

Related party balances will be settled on demand.

d) Transactions with key management personnel

Key management personnel are those persons having authority and responsibility for planning, directing and controlling the activities of the Company. The key management personnel are the board of directors and key members of the management and the compensation paid during the year are as follows:

	2018	2017
Short term benefits	147,840	118,272
Employees' leaving indemnities	17,175	7,730
	165,015	126,002

10 CASH AND CASH EQUIVALENTS

	2018	2017
Cash in hand	2,190	6,093
Cash at bank	1,326,271	1,229,510
Cash and cash equivalents as per statement of financial position	1,328,461	1,235,603
Bank overdraft	(824,837)	(689,336)
Cash and cash equivalents as per statement of cash flow	**503,624**	546,267

11 PROVISION FOR EMPLOYEES' LEAVING INDEMNITIES

	2018	2017
At 1 January	604,553	660,961
Charged during the year	162,271	183,855
Payments during the year	(117,588)	(240,263)
	649,236	604,553

During the year ended 31 December 2018, employees leaving indemnities of BD 62,104 (2017: BD 60,270) relating to the Company's employees recruited for the Joint Operations have been recharged to the latter and the Company's share is BD 31,052 (2017: BD 30,135).

12 TRADE AND OTHER PAYABLES

	2018	2017
Trade payables	3,196,938	1,712,691
Accrued expenses	523,338	543,173
Advance from customer	1,610,600	2,231,309
Provision for employees' benefits	376,377	457,779
Retention payable	792,603	537,490
Others	482,691	454,068
	6,982,547	5,936,510

13 TERM LOANS

	2018	2017
At 1 January	353,542	38,604
Availed during the year	-	314,938
Payments during the year	(195,203)	-
	158,339	353,542
Non-current portion of term loans	58,343	158,339
Current portion of term loans	99,996	195,203
	158,339	353,542

The loan, denominated in Bahraini Dinars, was obtained from a commercial bank in the Kingdom of Bahrain to finance the purchase of assets for the construction of a project. The loan carries interest at one month Bahrain Interbank Offer Rate (BIBOR) plus 5 % per annum (2017: 5 % per annum). The loan including the interest is repayable in 36 monthly instalments. The effective interest rate of the loan as of 31 December 2018 was 8.31 % (2017: 7.45% per annum).

Term loan is secured by assignment of collections from contract receivables and retentions (Note 6) and the assignment of subcontractors bonds/ guarantees to the bank.

14 DIRECT COSTS

	2018	2017
Staff costs	4,855,536	3,212,256
Material costs	3,284,207	2,126,950
Subcontractor costs	1,801,010	4,501,562
Motor vehicle hire and expenses	743,801	626,039
Consultant fees and technician charges	641,784	569,053
Depreciation (note 5)	363,068	358,610
Consumables	117,214	74,296
Travel expenses	82,372	60,663
Repairs and maintenance	53,782	46,309
Communication	7,416	9,966
Amortisation of intangible assets	1,665	1,975
Other expenses	126,070	1,458,233
	12,077,925	13,045,912

15 OTHER INCOME

	2018	2017
Income from recharge of expenses to the Joint Operator	1,393,289	1,575,017
Gain on disposal of property and equipment	-	82,697
Ancillary works not related to contracts	-	3,758
Sale of scrap	-	10
Other	16,241	2,455
	1,409,530	1,663,937

16 GENERAL AND ADMINISTRATIVE EXPENSES

	2018	2017
Staff costs	1,106,543	937,970
Partnership and other third parties fees	318,508	313,101
Material costs	74,612	57,800
Rentals	70,800	70,800
Motor vehicle hire and expenses	41,221	40,881
Repairs and maintenance	36,012	24,321
Legal fees	25,159	219,177
Professional fee	23,237	12,550
Communication	20,649	19,627
Travel expenses	17,890	20,519
Depreciation (note 5)	17,483	19,125
Government fees	3,334	6,767
Other expense	73,671	70,672
	1,829,119	1,813,310

17 FINANCE COSTS

	2018	2017
Interest on bank overdrafts	61,750	41,357
Bank charges	17,197	17,766
Interest on term loans	15,894	9,028
Commissions on letters of guarantee	4,513	389,075
	99,354	457,226

18 CONTINGENCIES AND COMMITMENTS

a) Guarantees

The Company's bankers have given performance and advance payment guarantees amounting to BD 5,713,124 (2017: BD 4,589,315) in respect of various contracts undertaken for execution. These are secured by joint and several guarantees from the Company's shareholders.

b) Lease commitments

Future minimum rentals payable under operating leases as of the reporting date are as follows:

	2018	2017
Less than one year	149,996	340,728
More than one year and less than five years	114,581	352,694
	264,577	693,422

19 LEGAL CASES

The Company has currently the following significant pending legal case for which the outcome is dependent on the arbitration process and results.

On 16 April 2014, the Company entered into an agreement with Sharaka for Housing Projects BSC ("Sharaka") to provide all work and services required for the construction of social housing units and additional private property in Al-Luwzi and Islands 13 and 14, North Bahrain New Town ("Bahrain Affordable Housing Project" or "the project").

On 13 August 2017, the Company commenced arbitration proceedings against Sharaka under the Rules of Arbitration of the International Chamber of Commerce (ICC) claiming, among other items, extension of the time for completion of the works due to delays attributable to Sharaka and associated prolongation costs and other sums for amounts certified but withheld by Sharaka.

Just after this event, the Company has ringfenced the project in terms of revenue and expenses to 30 September 2017. At that time, uncertified revenue amounting of BD 6.5 millions were recorded by the management, out of which BD 3.8 millions were quantified by the counterparty, subject to appropriate substantiation by the Company (as confirmed by the legal counsel).

Based on the above, the financial statements include receivables amounting to BD 2.7 millions which were not approved by the counterparty.

Furthermore, the Company claims reimbursement of the sum paid following Sharaka's partial call on the performance bond of the Nominated Subcontract (BD 1,260,659.00) in breach of an order for Sharaka not to pursue such call issued in the context of Emergency Arbitration Proceedings commenced by the Company under the ICC Rules of Arbitration (case number ICC/23019/AYZ (EA)). The Company claims also interest and other financial and moral damages as well as the costs of the Emergency Arbitration Proceedings awarded in its favor. At present, the claims of the Company are quantified at around BD 7,650,000 plus interest and the costs of the arbitration.

As per the ICC Rules of Arbitration, Sharaka submitted its Answer and Counterclaim on 20 September 2017. Sharaka claims delay liquidated damages arguing that the Company is responsible for the delayed completion of the works (in excess to the extension of time previously granted). Sharaka has quantified such damages at the maximum amount allowed under the Nominated Subcontract, i.e. BD 3,583,534.34 (or 10% of the Nominated Subcontract Price). Sharaka's claim is fully satisfied by means of withholding of payments certified as due to the Company and the partial call on the performance bond. Sharaka has not made, and may no longer make in the context of the ongoing arbitration, any other claims against the Company.

Moreover, in its answer, Sharaka admits that the Company is entitled to prolongation costs for the extension of time for completion of the works granted by Sharaka previously. Sharaka quantified such costs at around BD 3.8 million.

The arbitration is still ongoing and a final award is expected within six months. The Company's management and legal counsel are of the opinion that the Company's claims have a significant chance of success.

20 FINANCIAL INSTRUMENTS AND RISK MANAGEMENT

The table below sets out the Company's classification of each class of financial assets and financial liabilities:

2018	Amortized cost	Other financial liabilities	Total carrying amount
Assets			
Retention receivable	471,842	-	471,842
Contract assets	8,296,888		8,296,888
Due from related parties	42,705	-	42,705
Contract and other receivables (excluding prepayments and advances)	6,058,375	-	6,058,375
Cash and cash equivalents	1,328,461	-	1,328,461
	16,198,271	-	**16,198,271**
Liabilities			
Bank overdraft	-	824,837	824,837
Term loan	-	158,339	158,339
Retention payables	-	112,358	112,358
Due to related parties	-	3,704,945	3,704,945
Trade and other payables	-	6,982,547	6,982,547
	-	**11,783,026**	**11,783,026**

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20 FINANCIAL INSTRUMENTS AND RISK MANAGEMENT (continued)

2017	Amortized cost	Other financial liabilities	Total carrying amount
Assets			
Retention receivable	3,461,198	-	3,461,198
Contract assets	8,341,135	-	8,341,135
Due from related parties	213,113		213,113
Contract and other receivables (excluding prepayments and advances)	1,791,255	-	1,791,255
Cash and cash equivalents	1,235,603	-	1,235,603
	15,042,304	-	15,042,304
Liabilities			
Bank overdraft	-	689,336	689,336
Term loan	-	353,542	353,542
Retention payables	-	631,879	631,879
Due to related parties	-	1,637,753	1,637,753
Trade and other payables	-	5,936,510	5,936,510
	-	9,249,020	9,249,020

The Company has exposure to the following risks from its use of financial instruments:

- Credit risk
- Liquidity risk
- Market risk

This note presents information about the Company's exposure to each of the above risks, the Company's objectives, practises and processes for measuring and managing risk, and the Company's management of capital. The note also presents certain quantitative disclosures in addition to the disclosures throughout the separate financial statements.

The Board of Directors has overall responsibility for the establishment and oversight of the Company's risk management framework.

The Company's risk management practises are established to identify and analyze the risks faced by the Company, to set appropriate risk limits and controls, and to monitor risks and adherence to limits. Risk management practises and systems are reviewed regularly to reflect changes in market conditions and the Company's activities.

The accounting policies for financial assets and liabilities are described in note 3.

a) Credit risk

Credit risk is the risk of financial loss to the Company if a customer or counterparty to a financial instrument fails to meet its contractual obligations, and arises principally from the Company's contract and other receivables, retention receivables, due from related parties and bank balances.

(i) Due from related parties represent amount receivable from the entities under common management and the parent company and therefore the Company is exposed to a very limited credit risk on this amount.

(ii) The Company limits its exposure to credit risk on bank balances by maintaining balances with banks where the external credit ratings are high. The Company considers that its cash and cash equivalents have low credit risk based on the external credit ratings of the counterparties. The Company believes that no provision for impairment is necessary in respect of cash and cash equivalents.

20 FINANCIAL INSTRUMENTS AND RISK MANAGEMENT (continued)

(iii) The Company's exposure to credit risk is influenced mainly by the individual characteristics of each customer. However the management also considers the factors that may influence the credit risk of its customers base, including the default risk associated with the industry and country in which customers operate.

The creditworthiness of each customer is evaluated prior to sanctioning of credit facilities. Appropriate procedures for follow-up and recovery are in place to monitor credit risk.

The maximum exposure to credit risk at the reporting date was:

	2018	2017
Retention receivable	471,842	3,461,198
Contract assets	8,296,888	8,341,135
Due from related parties	42,705	213,113
Contract and other receivables (excluding prepayments and advances)	6,058,375	1,791,255
Cash at bank	1,326,271	1,229,510
	16,196,081	15,036,211

Contract assets, contract and other receivables

Expected credit loss assessment for contract assets, contract and other receivables other receivables as at 1 January and 31 December 2018

The Company applies the simplified approach of IFRS 9 for the calculation of expected credit losses, according to which the provision for impairment is always measured at an amount equal to the expected credit losses over the life of the financial asset. In this context, the expected credit losses represent the expected shortfalls in the contractual cash flows, taking into account the possibility of default at any point during the life of the financial instrument. In calculating the expected credit losses, the Company uses a provisioning table by grouping the above financial instruments based on the nature and maturity of the balances by taking into account available historical data regarding the obligors, adjusted for future factors in relation to the obligors and the economic environment.

Movements on the allowance for impairment in respect of trade receivables

The movement in the allowance for impairment in respect of trade receivables and related party receivables during the year was as follows. Comparative amounts for 2017 represent the allowance account for impairment losses under IAS 39.

	2018	2017
Impairment allowance during the year	52,234	-
Written-off during the year	(26,007)	-
Balance at 31 December	**26,227**	-

Comparative information under IAS 39

An analysis of the credit quality of trade receivables that were neither past due nor impaired and the ageing of trade receivables that were past due but not impaired as at 31 December 2017 is as follows.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2018 Bahraini Dinars

20 FINANCIAL INSTRUMENTS AND RISK MANAGEMENT (continued)

2017	Total	Neither past due nor impaired	Past due but not impaired	Past due and impaired
Retention receivable	4,027,886	4,027,886	-	-
Due from related parties	213,113	213,113	-	-
Contract and other receivables	980,925	980,925	-	-

Cash and Bank balances

Impairment on cash and cash equivalents has been measured on a 12-month expected loss basis and reflects the short maturities of the exposures. The Company considers that its cash and cash equivalents have low credit risk based on the external credit ratings of the counterparties.

The Company assumes that the credit risk on cash and cash equivalents has been increased significantly if it is more than 30 days past due.

b) Liquidity risk

Liquidity risk is the risk that the Company will encounter difficulty in raising funds to meet commitments associated with financial instruments.

The Company's approach to managing liquidity is to ensure, as far as possible, that it will always have sufficient liquidity to meet its liabilities when due, under both normal and stressed conditions, without incurring unacceptable losses or risking damage to the Company's reputation.

The following are the contractual maturities of financial liabilities, including interest payments:

2018	**Carrying amount**	**Contractual undiscounted cash flows**	**6 months or less**	**6-12 months**	**More than 12 months**
Bank overdraft	824,837	847,520	847,520	-	-
Term loan	158,339	168,170	55,120	53,258	59,792
Retention payables	112,358	112,358	112,358	-	-
Due to related parties	3,704,945	3,704,945	3,704,945	-	-
Trade and other payables	6,982,547	6,982,547	6,982,547	-	-
	11,783,026	**11,815,540**	**11,702,490**	**53,258**	**59,792**

2017	Carrying amount	Contractual undiscounted cash flows	6 months or less	6-12 months	More than 12 months
Bank overdraft	689,336	708,293	708,293	-	-
Term loan	353,542	379,205	154,052	56,983	168,170
Retention payables	631,879	631,879	631,879	-	-
Due to related parties	1,637,753	1,637,753	1,637,753	-	-
Trade and other payables	5,936,510	5,936,510	5,936,510	-	-
	9,249,020	9,293,640	9,068,487	56,983	168,170

NOTES TO THE FINANCIAL STATEMENTS
For the year ended 31 December 2018 Bahraini Dinars
20 FINANCIAL INSTRUMENTS AND RISK MANAGEMENT (continued)

c) Market risk

Market risk is the risk that changes in market prices, such as foreign exchange rates and interest rates will affect the Company's income or the value of its holdings of financial instruments.

(i) Currency risk
Currency risk is the risk that the value of a financial instrument will fluctuate due to a change in foreign exchange rates.

The Company's exposure to foreign currency risk at the reporting date is as follows:

	2018	2017
Financial assets		
Euros	7,179	7,179
Financial liabilities		
Euros	(625,831)	(483,855)
	(618,652)	(476,676)

A 10% strengthening / (weakening) of the Bahraini Dinar against the Euro at reporting date would have increased / (decreased) equity and profit by BD 6,187 (2017: BD 4,767). This analysis assumes that all other variables, in particular interest rates, remain constant.

(ii) Interest rate risk
Interest rate risk is the risk that the Company's earnings will be affected as a result of fluctuations in the value of financial instruments due to changes in market interest rates.

Effective interest rates on financial instruments	2018	2017
Bank overdraft	**BIBOR + 5.5%**	BIBOR +5.5%
Term loans	**BIBOR + 5%**	BIBOR + 5%

At the reporting date, the interest rate profile of the Company's interest bearing financial instruments was:

Carrying amount of financial Instruments	2018	2017
Bank overdrafts	**824,837**	689,336
Term loans	**158,339**	353,542

(iii) Fair value sensitivity analysis for fixed rate instruments
The Company does not account for any fixed rate financial liabilities at fair value through the statement of profit or loss and other comprehensive income. Therefore a change in interest rates at the reporting date would not affect the profit or loss. Increase or decrease in equity resulting from variation in interest rates is not expected to be significant.

20 FINANCIAL INSTRUMENTS AND RISK MANAGEMENT (continued)

(iv) Cash flow sensitivity analysis for variable rate instruments

The Company does not account for any financial asset or financial liabilities at fair value through statement of profit or loss and other comprehensive income except for bank over draft and term loans. Therefore, a change in interest rates at the reporting date would not affect profit or loss. A change in 100 basis points in interest rate in the interest bearing financial instruments would have increased / (decreased) equity by BD 9,832 (2017: BD 10,429). This analysis assumes that all other variables remain constant.

(v) Other market risk

Other market rate risk is the risk that the fair value or future cash flows of the financial instrument will fluctuate due to changes in market prices (other than those arising from interest rate risk or currency risk), whether those changes are caused by factor specific to the individual financial instruments or its issuers, or factors affecting all similar financial instrument traded in the market.

The Company is not significantly exposed to any other market price risk as at the reporting date.

d) Capital management

The Company's objectives when managing capital is to safeguard the Company's ability to continue as a going concern, so that it can continue to provide returns for the shareholders and benefits to the other stakeholders.

There were no changes in the Company's approach to capital management during the period. The Company is not subject to externally imposed capital requirements.

e) Fair values of financial instruments

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date in the principal or, in its absence, the most advantageous market to which the Company has access at that date. The fair value of a liability reflects its non-performance risk. Differences can therefore arise between book values under the historical cost method and fair value estimates.

Underlying the definition of fair value is a presumption that an enterprise is a going concern without any intention or need to liquidate, curtail materially the scale of its operations or undertake a transaction on adverse terms. The fair value of the Company's financial assets and liabilities are not materially different from their carrying values due to their short term nature.

21 COMPARATIVES

The previous year's figures have been regrouped wherever necessary, in order to conform to the current year's presentation. Such regrouping does not affect previously total reported assets, total equity or profit or loss and other comprehensive income.