Financial statements and independent auditors' report

Terna Contracting W.L.L.

For the year ended 31 December 2020

Contents

General information

Commercial registration	:	68262-1 obtained on 2 April 2008 68262-2 obtained on 5 July 2010
Partners	:	Terna Bahrain Holding W.L.L. Terna Overseas Limited
Registered office	:	Building 418 Road 3207, Block 332 Mahooz, Kingdom of Bahrain
Banker	:	Bank of Bahrain and Kuwait HSBC Bank Middle East National Bank of Bahrain
Auditors	:	Grant Thornton - Abdulaal P.O. Box 11175 12th Floor, Al Nakheel Tower Seef District, Kingdom of Bahrain

Directors' report

The Board of Directors of Terna Contracting W.L.L. (together the "Company") has pleasure in presenting the annual report and audited financial statements of the Company for the year ended 31 December 2020.

Principal activities

The Company principal activities are construction of roads, railways and buildings and real estate activities with own or leased properties

Financial highlights

The total revenue of the Company for the year ended 31 December 2020 was BD7,629,180 as compared to previous year's revenue of BD12,325,716. The Company has reported a profit of BD2,437,451 for the year ended 31 December 2020 as compared to loss of BD2,214,198 in the year 2019.

Directors

The following persons served as the Directors of the Company during the year ended 31 December 2020:

Sofoklis Sarantellis	-	Chairman
Konstantinos Iliadis	-	Vice chairman
Dimitrios Alexandros Xoudis	-	Managing Director
Dimitrios Salamanos	-	Director
Georgios Stratigos	-	Director

Auditors

The financial statements have been audited by Grant Thornton - Abdulaal who have expressed their willingness and considered themselves eligible for re-appointment.

The Directors take this opportunity to place on record their sincere appreciation to the staff for their loyalty and dedication, which has greatly helped to maintain the reputation and results of the Company.

On behalf of the Board of Directors

Georgios Stratigos
Director

Dimitrios Salamanos
Director

7 March 2021
Manama, Kingdom of Bahrain

Independent auditors' report

To the Partners of
Terna Contracting W.L.L.

Report on the Audit of the Financial Statements

Opinion

We have audited the financial statements of **Terna Contracting W.L.L.** (the "**Company**"), which comprise the statement of financial position as at 31 December 2020, and the statements of comprehensive income, changes in equity and cash flows for the year then ended, and notes to the financial statements, including a summary of significant accounting policies.

In our opinion the accompanying financial statements present fairly, in all material respects, the financial position of the Company as at 31 December 2020, and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards (IFRSs).

Basis for Opinion

We conducted our audit in accordance with International Standards on Auditing (ISAs). Our responsibilities under those standards are further described in the *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 opinion.

Emphasis of Matter

Without qualifying our opinion, we draw attention to Note 7 to the financial statements that the Company has recorded contract receivables of BD5,422,218 including accrued interest of BD746,170 following declaration of result of arbitration by International Chamber of Commerce which resulted in other income of BD2,555,630. The Company commenced proceedings for enforcement before the High Court of the Kingdom of Bahrain and judgment was delivered in favour of the Company. The Company has been granted application before the Execution Department for seizure of the counterparty's assets including, amongst other, any amounts deposited in counterparty's bank accounts. As of the date of approval of the financial statements, this process is still on-going.

Other Matter

The financial statements of the Company for the year ended 31 December 2019 were audited by another auditor who expressed an unmodified opinion on those statements on 27 May 2020.

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 Directors' report set out on page 2.

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.

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 IFRSs, and for such internal control as the Board of Directors determines 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 intends 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 Directors' 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 Legal and Regulatory Requirements

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

a.) the Company has maintained proper accounting records and the financial statements in agreement therewith;
b.) the financial information contained in the Directors' report is consistent with the financial statements;
c.) nothing has come to our attention which causes us to believe that the Company has, during the year, breached any of the applicable provisions of the Commercial Company's Law, or its Articles and Memorandum of Association that would have a material adverse effect on its business or its financial position; and
d.) satisfactory explanations and information have been provided to us by management in response to all our requests

Partner's Registration No. 198
7 March 2021
Manama, Kingdom of Bahrain

Statement of financial position

	Notes	31 December 2020	31 December 2019
		BD	BD
Assets			
Non-current assets			
Plant and equipment	3	8,461	74,973
Right-of-use assets	4	117,544	287,245
Intangible assets		-	504
Retention receivables		331,074	178,536
		457,079	**541,258**
Current assets			
Inventories	5	78,593	156,133
Contract assets	6	453,005	2,519,189
Contract and other receivables	7	7,910,334	5,524,929
Cash and cash equivalents	8	800,716	1,768,312
		9,242,648	**9,968,563**
Total assets		**9,699,727**	**10,509,821**
Equity and liabilities			
Equity			
Share capital	14	4,500,000	4,500,000
Statutory reserve	15	694,671	450,926
Accumulated losses		(2,647,887)	(4,841,593)
		2,546,784	**109,333**
Liabilities			
Non-current liabilities			
Lease liabilities	11	26,996	152,213
Retention payable		56,232	33,703
Employee's terminal benefits	13	250,716	454,903
		333,944	**640,819**
Current liabilities			
Trade and other payables	9	1,613,728	4,451,286
Amounts due to related parties	10	5,092,576	5,099,489
Current portion of lease liabilities	11	96,017	141,549
Term loan	12	16,678	58,343
Bank overdraft		-	9,002
		6,818,999	**9,759,669**
Total liabilities		**7,152,943**	**10,400,488**
Total equity and liabilities		**9,699,727**	**10,509,821**

These financial statements were approved by the Board of Directors on 7 March 2021 and signed on its behalf by:

Georgios Stratigos
Director

Dimitrios Salamanos
Director

The accounting policies and the notes from pages 10 to 28 form an integral part of these financial statements.

Statement of comprehensive income

	Notes	Year ended 31 December 2020	Year ended 31 December 2019
		BD	BD
Contract revenue		3,560,226	9,896,578
Direct costs	16	(2,096,381)	(10,801,544)
Gross income/(loss)		**1,463,845**	**(904,966)**
Other income	17	4,068,954	2,429,138
		5,532,799	**1,524,172**
Expenses			
General and administrative expense	18	(2,902,366)	(1,572,700)
Impairment allowance for contract and other receivables	7	(5,051)	(288)
Depreciation	3	(1,279)	(7,358)
Depreciation of right-of-use assets	4	(57,009)	(66,429)
Foreign exchange loss, net		(35,645)	(39,435)
Bad debts		(10,993)	-
Impairment allowance for contract assets	6	-	(1,900,000)
Finance costs		(83,005)	(152,160)
		(3,095,348)	**(3,738,370)**
Profit/(loss) for the year		**2,437,451**	**(2,214,198)**

These financial statements were approved by the Board of Directors on 7 March 2021 and signed on its behalf by:

Georgios Stratigos
Director

Dimitrios Salamanos
Director

The accounting policies and the notes from pages 10 to 28 form an integral part of these financial statements.

Statement of changes in equity

	Share capital	Statutory reserve	Accumulated losses	Total
	BD	BD	BD	BD
At 1 January 2019	4,500,000	450,926	(2,627,395)	2,323,531
Loss for the year	-	-	(2,214,198)	(2,214,198)
At 31 December 2019	**4,500,000**	**450,926**	**(4,841,593)**	**109,333**
At 1 January 2020	4,500,000	450,926	(4,841,593)	109,333
Profit for the year	-	-	2,437,451	2,437,451
Transferred to statutory reserve	-	243,745	(243,745)	-
At 31 December 2020	**4,500,000**	**694,671**	**(2,647,887)**	**2,546,784**

Statement of cash flows

	Year ended 31 December 2020	Year ended 31 December 2019
	BD	BD
Operating activities		
Profit/(loss) for the year	2,437,451	(2,214,198)
Adjustments for:		
Depreciation of plant and equipment	152,842	248,280
Depreciation of right-of-use assets	137,731	147,151
Amortization	504	3,616
Gain on sale of plant and equipment	(116,809)	(117,085)
Impairment on contract assets	-	1,900,000
Provision for employees' terminal benefits	81,707	138,602
Bad debts	10,993	288
Foreign exchange loss	-	(39,435)
Finance costs	83,005	152,160
Operating profit before working capital changes	2,787,424	219,379
Changes in operating assets and liabilities:		
Change in inventories	77,540	39,041
Change in contract assets	2,066,184	1,157,206
Change in trade and other receivables	(2,396,398)	1,327,580
Change in amounts due from related parties	-	(58,798)
Change in trade and other payables	(2,837,558)	(2,531,261)
Change in amounts due to related parties	(6,913)	1,394,544
Change in retention receivables	(152,538)	293,306
Change in retention payables	22,529	(78,655)
Payment of employees' terminal benefits	(285,894)	(332,934)
Net cash (used in)/generated from operating activities	**(725,624)**	**1,429,408**
Investing activities		
Purchase of plant and equipment	(12,793)	(169,209)
Purchase of intangible assets	-	(2,268)
Proceeds from disposal of plant and equipment	43,272	249,911
Reversal of right-of-use asset	31,970	-
Net cash generated from investing activities	**62,449**	**78,434**
Financing activities		
Repayments of term loan	(41,665)	(99,996)
Repayment of lease liabilities	(170,749)	-
Finance costs paid	(83,005)	(152,160)
Net cash used in financing activities	**(295,419)**	**(252,156)**
Net change in cash and cash equivalents	(958,594)	1,255,686
Cash and cash equivalents, beginning of the year	1,759,310	503,624
Cash and cash equivalents, end of the year	**800,716**	**1,759,310**
Comprises:		
Cash in hand	4,354	2,692
Bank balances	796,362	1,765,620
Bank overdraft	-	(9,002)
	800,716	**1,759,310**

The accounting policies and the notes from pages 10 to 28 form an integral part of these financial statements.

Notes to financial statements
31 December 2020

1. Organisation and activities

Terna Contracting W.L.L. (the "Company") is a limited liability company registered in the Kingdom of Bahrain with the Ministry of Industry, Commerce and Tourism under commercial registration number 68262-1 obtained on 2 April 2008.

The Company's registered office is situated in the Kingdom of Bahrain.

The Company has the following Branch:

i) Terna Real Estate W.L.L.; CR. No. 68262-2 obtained on 5 July 2010.

The principal activities of the Company are:

- Construction of roads and railways;
- Construction of buildings; and
- Real estate activities with own or leased property.

The Company's registered office is situated in the Kingdom of Bahrain.

The Company has 50% interest in the following unincorporated Joint Operation, with the other 50% held by Combined Group Contracting Emirates L.L.C. (the "Joint Operation"), 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, Northen Governante, Kingdom of Bahrain for the Ministry of Housing. The Joint Operation is under liquidation process as of reporting date.

(ii) Terna-CGCE JV (AMAS -2)

AMAS -2 (the "Joint Operation") was formed on 7 April 2016 for the construction of Infrastructure and Utiliies 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 Connecting Island 9 & 10 in Madinat Salman, Kingdom of Bahrain respectively for the Ministry of Housing, Kingdom of Bahrain and the Joint Operation commenced its operations on 26 August 2018.

1A. COVID impact during the year

On 21 February 2020, Kingdom of Bahrain confirmed the first case of COVID-19 whilst Health Ministry in Bahrain was on high alert and started implementing pre-emptive measures from January 2020. On 11 March 2020, World Health Organization (WHO) declared COVID-19 outbreak a global pandemic and asserted the threat posed by this virus. COVID-19 pandemic is presenting challenges for many entities throughout the world. The pandemic arrested the growth in business and resulted in pulling down the activities of the Company.

Government assistance

The Company received waiver in electricity bills from Electricity and Water Authority (EWA) for 3 months starting April 2020 to June 2020 to the extent of bills in the comparative year.

Further, the Company received salary support for the Bahraini staff employed by the Company in the amount of BD62,940.

2. Summary of significant accounting policies

2.1 Basis of preparation

The Company's financial statements have been prepared on accrual basis and under the historical cost convention. The Company's financial statements are presented in Bahrain Dinars. All values are rounded to the nearest Bahrain Dinar.

2.2 Statement of compliance and going concern assumption

The financial statements of the Company have been prepared in accordance with International Financial Reporting Standards (IFRS) as issued by the International Accounting Standards Board (IASB) and in conformity with the Bahrain Commercial Companies Law. They have been prepared under the assumption that the Company operates on a going concern basis.

2.3 New or revised Standards or Interpretations

New Standards adopted as at 1 January 2020

Some accounting pronouncement which have become effective from 1 January 2020 and have therefore been adopted do not have a significant impact on the Company's financial results or position.

Standards, amendments and Interpretations to existing Standards that are not yet effective and have not been adopted early by the Company

At the date of authorisation of these financial statements, several new, but not yet effective, Standards, amendments to existing Standards, and Interpretations have been published by the IASB. None of these Standards or amendments to existing Standards have been adopted early by the Company.

Management anticipates that all relevant pronouncements will be adopted for the first period beginning on or after the effective date of the pronouncement. New Standards, amendments to Interpretations not adopted in the current year have not been disclosed as they are not expected to have a material impact on the Company's financial statements.

2.4 Plant and equipment

Items of plant and equipment, except building, are measured at cost less accumulated depreciation and any accumulated impairment losses.

Building is measured at revalued amount less accumulated depreciation and any accumulated impairment losses.

The cost of the plant and equipment includes the cost of bringing them to their present location and condition. The cost of replacing part of an item of plant and equipment is recognised in carrying amount of the item if it is probable that the future economic benefits embodied within the part will flow to the Company and its cost can be measured reliably. All other costs are recognised in the statement of comprehensive income as expenditure incurred.

Depreciation is recognised on a straight-line basis to write down the cost less estimated residual value of plant and equipment. The estimated useful lives of plant and equipment for the depreciation purpose are as follows:

Porta cabins - site office	5 years
Equipment	1-10 years
Furniture, fixtures and office equipment	2-5 years
Motor vehicles	1-2 years

Gains or losses arising on the disposal of plant and equipment are determined as the difference between the disposal proceeds and the carrying amount of the assets and are recognised in the statement of comprehensive income.

If there is an indication that there has been a significant change in depreciation rate, useful life or residual value of an asset, the depreciation of that asset is revised prospectively to reflect the new expectation.

2.5 Leased assets

The Company as a lessee

The Company makes the use of leasing arrangements principally for the provision of the office building and land. The rental contracts for offices building and land are typically negotiated for terms of between 2-3 years. The Company does not enter into sale and leaseback arrangements. All the leases are negotiated on an individual basis and contain a wide variety of different terms and conditions such as purchase options and escalation clauses.

The Company assesses whether a contract is or contains a lease at inception of the contract. A lease conveys the right to direct the use and obtain substantially all of the economic benefits of an identified asset for a period of time in exchange for consideration.

Some lease contracts contain both lease and non-lease components. The Company has elected to not separate its leases for offices into lease and non-lease components and instead accounts for these contracts as a single lease component.

Measurement and recognition of leases as a lease

At lease commencement date, the Company recognises a right-of-use asset and a lease liability in its statement of financial position. The right-of-use asset is measured at cost, which is made up of the initial measurement of the lease liability, any initial direct costs incurred by the Company, an estimate of any costs to dismantle and remove the asset at the end of the lease, and any lease payments made in advance of the lease commencement date (net of any incentives received).

The Company depreciates the right-of-use asset on a straight-line basis from the lease commencement date to the earlier of the end of the useful life of the right-of-use asset or the end of the lease term. The Company also assesses the right-of-use asset for impairment when such indicators exist.

At the commencement date, the Company measures the lease liability at the present value of the lease payments unpaid at that date, discounted using the Company's incremental borrowing rate because as the lease contracts are negotiated with third parties it is not possible to determine the interest rate that is implicit in the lease. The incremental borrowing rate is the estimated rate that the Company would have to pay to borrow the same amount over a similar term, and with similar security to obtain an asset of equivalent value. This rate is adjusted should the lessee entity have a different risk profile to that of the Company.

Lease payments included in the measurement of the lease liability are made up of fixed payments (including in substance fixed).

Subsequent to initial measurement, the liability will be reduced by lease payments that are allocated between repayments of principal and finance costs. The finance cost is the amount that produces a constant periodic rate of interest on the remaining balance of the lease liability.

The lease liability is reassessed when there is a change in the lease payments. Changes in lease payments arising from a change in the lease term or a change in the assessment of an option to purchase a leased asset. The revised lease payments are discounted using the Company's incremental borrowing rate at the date of reassessment when the rate implicit in the lease cannot be readily determined. The amount of the remeasurement of the lease liability is reflected as an adjustment to the carrying amount of the right-of-use asset. The exception being when the carrying amount of the right-of-use asset has been reduced to zero then any excess is recognised in profit or loss.

The remeasurement of the lease liability is dealt with by a reduction in the carrying amount of the right-of-use asset to reflect the full or partial termination of the lease for lease modifications that reduce the scope of the lease. Any gain or loss relating to the partial or full termination of the leases recognised in profit or loss. The right-of-use asset is adjusted for all other lease modifications.

The Company has elected to account for short-term leases and leases of low-value assets using the practical expedients. Instead of recognising a right-of-use asset and lease liability, the payments in relation to these are recognised as an expense in profit or loss on a straight-line basis over the lease term.

The Company as a lessor

As a lessor the Company classifies its leases as either operating or finance leases.

A lease is classified as a finance lease if it transfer substantially all the risks and rewards incidental to ownership of the underlying asset and classified as an operating lease if it does not.

2.6 Impairment of assets

The carrying amounts of the Company's assets are reviewed at each reporting date to determine whether there is any indication of impairment. If any such indication exists, the assets recoverable amount is estimated. An impairment loss is recognised when the carrying amount of an asset exceeds its estimated recoverable amount. Recoverable amount is higher of an asset's fair value less cost to sell and value in use. All impairment losses are recognised in the statement of comprehensive income. Impairment losses are reversed only if there is an indication that the impairment loss no longer exist and there has been a change in the estimates used to determine the recoverable amount.

2.7 Cash and cash equivalents

For the purpose of statement of cash flows, cash and cash equivalents comprises of cash in hand and bank balances, net of bank overdrafts. In the statement of financial position, bank overdraft is disclosed under current liabilities.

2.8 Provisions

Provisions are recognised by considering an obligation of the Company as on date resulting from past events, and where it is probable that such obligation will result in outflow of economic resources and amount can be reliably estimated.

2.9 Employees' terminal benefits

Employees' terminal benefits and entitlements to annual leave, holiday, air passage and other short term benefits are recognized as they accrue to the employees. The Company contributes to the pension scheme for Bahraini nationals administered by the Social Insurance Organization in the Kingdom of Bahrain. The Company's share of contribution to this funded scheme which is defined contribution scheme under IAS-19 - Employee benefits, is recognised as an expense in the statement of comprehensive income.

The expatriate employees of the Company are paid leaving indemnity in accordance with the provisions of the Bahrain Labour Law for private sector 2012, based on length of service and final salary. Provision for this, which is unfunded and represents a defined contribution plan under IAS-19 has been made by calculating the notional liability had all employees left at the reporting date. The provision is classified as a non-current liability in the statement of financial position.

2.10 Revenue recognition

Revenue arises mainly from services.

To determine whether to recognise revenue, the Company follows a 5-step process:

1. Identifying the contract with a customer
2. Identifying the performance obligations

3. Determining the transaction price
4. Allocating the transaction price to the performance obligations
5. Recognising revenue when/as performance obligation(s) are satisfied.

The Company often enters into transactions involving a range of the Company's products and services. In all cases, the total transaction price for a contract is allocated amongst the various performance obligations based on their relative stand-alone selling prices. The transaction price for a contract excludes any amounts collected on behalf of third parties

Revenue is recognised either at a point in time or over time, when (or as) the Company satisfies performance obligations by transferring the promised goods or services to its customers.

2.11 Other income

Other income is recognised on an accrual basis or when the Company's right to receive payment is established.

2.12 Operating expenses

Operating expenses are recognised in profit or loss upon utilisation of the service or as incurred.

2.13 Foreign currency transactions

Transactions in foreign currencies are translated into Bahrain Dinars and recorded at the appropriate rates of exchange prevailing at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are translated into Bahrain Dinars at the exchange rates prevailing at the financial position date. The resultant exchange gains and losses are recognized in the statement of comprehensive income.

2.14 Borrowing costs

Borrowing costs primarily comprise interest on the Company's borrowings. Borrowing costs directly attributable to the acquisition, construction or production of a qualifying asset are capitalized during the period of time that is necessary to complete and prepare the asset for its intended use or sale. Other borrowing costs are expensed in the period in which they are incurred and reported within 'finance costs'.

2.15 Financial instruments

Recognition and derecognition

Financial assets and liabilities are recognized when the Company becomes a party to the contractual provisions of the financial instrument.

Financial assets are derecognised when the contractual rights to the cash flows from the financial asset expire, or when the financial asset and substantially all the risks and rewards are transferred. A financial liability is derecognised when it is extinguished, discharged, cancelled or expires.

a. Financial assets

Classification and initial measurement of financial assets

All financial assets are initially measured at fair value adjusted for transaction costs (where applicable), except for those accounts receivables that do not contain a significant financing component and are measured at the transaction price in accordance with IFRS 15.

Financial assets are classified into the following categories:

• amortised cost,
• fair value through profit or loss (FVTPL), and
• fair value through other comprehensive income (FVOCI).

In the periods presented the Company does not have any financial assets categorised as FVTPL or FVOCI.

The classification is determined by both:

• the entity's business model for managing the financial asset, and
• the contractual cash flow characteristics of the financial asset.

All income and expenses relating to financial assets that are recognised in profit or loss are presented within finance costs, finance income or other financial items, except for impairment of accounts receivables which is presented separately in the statement of comprehensive income.

Subsequent measurement of financial assets

Financial assets at amortised cost

Financial assets are measured at amortised cost if the assets meet the following conditions (and are not designated as FVTPL):

• they are held within a business model whose objective is to hold the financial assets and collect its contractual cash flows, and
• the contractual terms of the financial assets give rise to cash flows that are solely payments of principal and interest on the principal amount outstanding.

After initial recognition, these are measured at amortised cost using the effective interest method. Discounting is omitted where the effect of discounting is immaterial. The Company's cash and cash equivalents contract and other receivables, contract assets and retention receivable fall into this category of financial instruments.

Impairment of financial assets

IFRS 9's impairment requirements use more forward-looking information to recognise expected credit losses - the 'expected credit loss (ECL) model'. Instruments within the scope of the new requirements included loans and other debt-type financial assets measured at amortised cost and FVOCI, accounts receivables, contract assets recognised and measured under IFRS 15 and loan commitments and some financial guarantee contracts (for the issuer) that are not measured at fair value through profit or loss.

The Company considers a broader range of information when assessing credit risk and measuring expected credit losses, including past events, current conditions, reasonable and supportable forecasts that affect the expected collectability of the future cash flows of the instrument.

In applying this forward-looking approach, a distinction is made between:

• financial instruments that have not deteriorated significantly in credit quality since initial recognition or that have low credit risk ('Stage 1') and
• financial instruments that have deteriorated significantly in credit quality since initial recognition and whose credit risk is not low ('Stage 2').

'Stage 3' would cover financial assets that have objective evidence of impairment at the reporting date.

'12-month expected credit losses' are recognised for the first category while 'lifetime expected credit losses' are recognised for the second category.

Measurement of the expected credit losses is determined by a probability-weighted estimate of credit losses over the expected life of the financial instrument.

Contract and other receivables and contract assets

The Company makes use of a simplified approach in accounting for contract and other receivables as well as contract assets and records the loss allowance as lifetime expected credit losses. These are the expected shortfalls in contractual cash flows, considering the potential for default at any point during the life of the financial instrument. In calculating, the Company uses its historical experience, external indicators and forward-looking information to calculate the expected credit losses using a provision matrix.

The Company assess impairment of accounts receivables on a collective basis as they possess shared credit risk characteristics they have been grouped based on the days past due. Refer to Note 22(d) for a detailed analysis of how the impairment requirements of IFRS 9 are applied.

b. Classification and measurement of financial liabilities

The Company's financial liabilities include term loan, accounts and other payables and amounts due to related parties. Financial liabilities are initially measured at fair value, and, where applicable, adjusted for transaction costs unless the Company designated a financial liability at fair value through profit or loss, if any. Subsequently, financial liabilities are measured at amortised cost using the effective interest method except for financial liabilities designated at fair value through profit or loss, which are carried subsequently at fair value with gains or losses recognised in profit or loss. All interest-related charges and, if applicable, changes in an instrument's fair value that are reported in profit or loss are included within finance costs or finance income.

2.16 Significant management judgement in applying accounting policies and estimation uncertainty

When preparing the financial statements, management makes a number of judgements, estimates and assumptions about the recognition and measurement of assets, liabilities, income and expenses.

a. Significant management judgments

During the year, there were no judgements made by management in applying the accounting policies of the Company that have the most significant effect on the financial statements.

b. Estimation uncertainty

Information about estimates and assumptions that may have the most significant effect on recognition and measurement of assets, liabilities, income and expenses is provided below. Actual results may be substantially different.

Useful lives of depreciable assets. Management reviews its estimate of the useful lives of depreciable assets at each reporting date, based on the expected utility of the assets. Uncertainties in these estimates relate to technological obsolescence that may change the utility of the assets.

Therefore, the amount and timing of recorded expense for any period would differ depending on the judgments and estimates made for the year.

3. Plant and equipment

	Porta Cabins – site office	Equipment	Furniture, fixtures and office equipment	Motor vehicles	2020 Total	2019 Total
	BD	BD	BD	BD	BD	BD
Cost/ valuation						
At 1 January	443,500	1,946,236	341,742	621,851	3,353,329	3,749,590
Additions	-	10,206	2,587	-	12,793	169,209
Disposals	(147,681)	(691,582)	(23,159)	(266,469)	(1,128,891)	(565,470)
At 31 December	**295,819**	**1,264,860**	**321,170**	**355,382**	**2,237,231**	**3,353,329**
Accumulated depreciation/ impairment						
At 1 January	427,173	1,898,578	336,483	616,122	3,278,356	3,462,722
Charge for the year	13,226	51,816	12,491	75,309	152,842	248,280
Disposals	(147,681)	(685,534)	(30,494)	(338,719)	(1,202,428)	(432,646)
At 31 December	**292,718**	**1,264,860**	**318,480**	**352,712**	**2,228,770**	**3,278,356**
Net book value						
At 31 December 2020	**3,101**	**-**	**2,690**	**2,670**	**8,461**	**-**
At 31 December 2019	**16,327**	**47,658**	**5,259**	**5,729**	**-**	**74,973**

Out of the total depreciation, BD151,563 (2018: BD240,922) is included under direct costs (Note 16) and BD1,279 (2018: BD7,358) is included as expense in the statement of comprehensive income.

4. Right-of-use assets

	Right-of-use asset - land BD	Right-of-use asset - building BD	2020 Total BD	2019 Total BD
Cost				
At 1 January	277,009	157,387	434,396	-
Reversal	-	(31,970)	(31,970)	434,396
At 31 December	**277,009**	**125,417**	**402,426**	**434,396**
Accumulated depreciation				
At 1 January	107,804	39,347	147,151	-
Charge for the year	101,936	35,795	137,731	147,151
At 31 December	**209,740**	**75,142**	**284,882**	**147,151**
Net book value				
At 31 December 2020	**67,269**	**50,275**	**117,544**	**-**
At 31 December 2019	**169,205**	**118,040**	**-**	**287,245**

Out of the total depreciation, BD80,722 (2019: BD80,722) is included under direct costs (Note 16) and BD57,009 (2019: BD66,429) is included as expense in the statement of comprehensive income.

5. Inventories

	2020 BD	2019 BD
Inventories	**78,593**	**156,133**

6. Contract assets

	2020 BD	2019 BD
Contract cost incurred to date	7,074,475	64,529,968
Attributable loss	-	(458,064)
Progress billings to date	(6,621,470)	(59,652,715)
Less: Allowance for impairment loss	-	(1,900,000)
	453,005	**2,519,189**

7. Contract and other receivables

	2020 BD	2019 BD
Contract receivables	6,277,740	1,709,202
Retention receivables	1,179,578	2,600,123
Less: Allowance for impairment loss	(6,521)	(2,496)
	7,450,797	4,306,829
Advance to suppliers	147,387	345,423
Prepayments	21,255	27,560
Other receivables	290,895	845,117
	7,910,334	**5,524,929**

On 16 April 2014, the Company entered into an agreement with a customer to provide all work and services required for the construction of social housing units and additional private property in Al-Lawzi 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 a customer 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 a customer and associated prolongation costs and other sums for amounts certified but withheld by a customer. The Company had recorded uncertified revenue of BD6.5 million out of which BD3.8 million were quantified by a customer which was further impaired by BD1.9 million as per the IFRS 9.

As at 31 December 2019, the Company had recorded contract assets of BD1.9 million and contract receivables of BD1.1 million receivable from a customer. As on 25 May 2020, the result of arbitration was declared by the ICC in favor of the Company amounting to BD5.4 million including accrued interest of BD0.7 million which resulted in other income of BD2.5 million. The Company commenced proceedings for enforcement before the High Court of the Kingdom of Bahrain and judgment was delivered in favour of the Company. The Company has granted application before the Execution Department for seizure of the counterparty's assets including, amongst other, any amounts deposited in the counterparty's bank accounts.

On 14 February 2021, the customer filed a second appeal before the Supreme Court of Appeal which mirrored its previous application before the local court, seeking cancellation of the High Court judgement in favour of the Company. The Company submitted its response to such appeal on 7 March 2021 and the Company expects the Supreme Court to issue a schedule for further proceedings in due course. In the meantime, enforcement proceedings have not been stayed or suspended on account of the counterparty's appeal.

All amounts are short term. The net carrying value of accounts and other receivables is considered to be a reasonable approximate of fair value.

The movements in the allowance for impairment losses are presented below:

	2020 BD	2019 BD
At 1 January	2,496	24,744
Impairment allowance for the year	5,051	288
Bad debts written off	(1,026)	(22,536)
At 31 December	**6,521**	**2,496**

8. Cash and cash equivalents

	2020 BD	2019 BD
Cash in hand	4,354	2,692
Bank balances	796,362	1,765,620
	800,716	**1,768,312**

There are no restrictions on bank balances at the time of approval of the financial statements.

9. Trade and other payables

	2020 BD	2019 BD
Trade payables	580,145	1,168,105
Accruals	383,613	675,514
Contract liabilities	42,446	864,953
Leave salary and air passage	99,730	252,652
Retention payable	281,443	625,366
Other payables	226,351	864,696
	1,613,728	**4,451,286**

The carrying values of accounts and other payables are considered to be a reasonable approximation of fair values.

10. Amounts due to related parties

	2020 BD	2019 BD
Terna Bahrain Holding W.L.L.	4,843,677	4,867,755
Terna S.A (Head office)	240,793	231,734
Terna Overseas Limited	8,106	-
	5,092,576	**5,099,489**

Amounts due to related parties are unsecured, bear no interest and have no fixed repayment terms.

11. Leases

Lease liabilities are presented in the statement of financial position as follows:

	2020 BD	2019 BD
Current	96,017	141,549
Non-current	26,996	152,213
	123,013	**293,762**

The Company has leases for the land and buildings. With the exception of short-term leases and leases of low-value underlying assets, each lease is reflected on the balance sheet as a right-of-use assets and a lease liabilities. Variable lease payments which do not depend on an index or a rate (such as lease payments based on a percentage of Company sales) are excluded from the initial measurement of the lease liabilities and asset. The Company classifies its right-of-use assets as a separate line item in the statement of financial position (Note 4).

Each lease generally imposes a restriction that, unless there is a contractual right for the Company to sublet the asset to another party, the right-of-use assets can only be used by the Company. Some leases contain an option to extend the lease for a further term. The Company is prohibited from selling or pledging the underlying leased assets as security.

Finance costs related to lease liabilities amounted to BD8,991 (2019: BD15,665).

The table below describes the nature of the Company's leasing activities by type of right-of-use assets recognised on the statement of financial position:

Right-of-use assets	No. of right-of-use assets leased	Range of remaining term	Average remaining lease term	No. of leases with extension options	No. of leases with termination options
Lands	2	1 year	1 year	-	-
Buildings	2	2 years	2 years	-	-

The lease liabilities are secured by the related underlying assets. Future minimum lease payments at 31 December 2020 were as follows:

	Minimum lease payments due		
	Within 1 year	1-2 years	Total
	BD	BD	BD
31 December 2020			
Lease payments	98,850	27,600	126,450
Finance charges	(2,833)	(604)	(3,437)
Net present values	**96,017**	**26,996**	**123,013**

Additional information on the right-of-use assets by class of assets is set out in Note 4.

12. Term loan

	2020	2019
	BD	BD
Bank of Bahrain and Kuwait	**16,678**	**58,343**

It represents credit facility obtained to finance the purchase of assets. Which is repayable equal monthly instalments of BD8,333. It is secured by assignment of collections from contract receivable. It bears interest rate of BIBOR+ 5% per annum.

13. Employees' terminal benefits

The movement in leaving indemnity liability applicable to expatriate employees is as follows:

	2020 BD	2019 BD
At 1 January	454,903	649,236
Amounts provided for the year	81,707	138,601
Amounts paid during the year	(285,894)	(332,934)
At 31 December	**250,716**	**454,903**

The number of expatriate staff employed by the Company at 31 December 2020 was 399 (2019: 793).

14. Share capital

The share capital of the Company consists of 90,000 shares of BD50 each, authorized, issued and fully paid up.

	Number of shares	%	Amount BD
Terna Bahrain Holding W.L.L.	89,991	99.99%	4,499,550
Terna Overseas Limited	9	0.01%	450
	90,000	**100%**	**4,500,000**

15. Statutory reserve

Under the provision of Bahrain Commercial Companies Law, an amount equivalent to 10% of the Company's profit for the year before appropriation is required to be transferred to as non-distributable reserve account up to a maximum of 50% of the issued share capital. During the year, BD243,745 has been transferred to this reserve (2019: Nil).

16. Direct costs

	2020 BD	2019 BD
Material costs	700,452	2,888,624
Subcontractor costs	639,065	3,473,769
Motor vehicles hire and expenses	373,328	579,406
Depreciation	151,563	240,922
Depreciation on right-of-use assets	80,722	80,722
Consumables	61,364	421,927
Repairs and maintenance	43,642	78,713
Consultancy fees and technician charges	28,860	674,018
Amortisation	2,374	3,616
Travel expenses	1,481	21,946
Staff costs	-	2,005,978
Communication	-	12,980
Other expenses	13,530	318,923
	2,096,381	**10,801,544**

17. Other income

	2020 BD	2019 BD
Income from award of ICC arbitration	2,555,630	-
Income from recharge of expenses to the joint operator	1,269,881	2,284,165
Gain on sale of plant and equipment	116,809	117,085
Sale of scrap	16,059	268
Reversal of impairment allowance	-	24,019
Miscellaneous income	110,575	3,601
	4,068,954	**2,429,138**

18. General and administrative expenses

	2020 BD	2019 BD
Staff costs	1,875,311	928,820
Legal fees	390,442	36,822
Partnership and other third parties fees	229,246	472,303
Consumables	182,960	-
Motor vehicles hire and expenses	75,726	37,537
Communication	20,433	16,914
Professional fees	13,822	19,505
Material cost	13,584	-
Repairs and maintenance	11,390	16,541
Subcontractor costs	9,086	-
Travel expenses	5,392	13,356
Government fees	5,143	20,283
Miscellaneous expenses	69,831	10,619
	2,902,366	**1,572,700**

19. Related party transactions

The Company's related parties include its subsidiary, associate, Partners, Directors, their close relatives and businesses under their control. The Company's transactions with related parties are in the ordinary course of business. The balances with related parties at the financial position date have been separately disclosed in the financial statements.

Nature of transactions	2020 BD	2019 BD
Expenses paid on behalf of related parties	**57,640**	**37,909**

The total salaries and benefits to key management personnel in 2020 was BD172,161 (2019: BD173,297).

20. Financial assets and liabilities and risk management

The Company's principal financial instruments comprise of cash and cash equivalents, contract and other receivables, contract assets, trade and other payables, term loan, retention payable, bank overdraft and amounts due to related parties.

The Company does not actively engage in the trading of financial assets for speculative purposes nor does it write options.

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

a. Interest rate risk

The Company's policy is to minimize interest rate cash flow risk exposures on long-term financing. The Company is not significantly exposed to the risk for changes in interest rates since the Company's term loan which bears interest rate of 5% plus BIBOR. Sensitivity of profit to reasonably possible change in interest rate is not disclosed as it is not expected by the management to materially affect the results of the operation of the Company.

b. Liquidity risk

Liquidity risk is the risk arising from the Company not being able to meet its obligations. The Company's objective is to maintain a balance between continuity of funding and flexibility through the use of cash and cash equivalents.

The following table shows the maturity profile of financial liabilities as at 31 December 2020:

Particulars	**Due within 1 year**	**Due within 1 - 5 years**	**Total**
	BD	BD	BD
Trade and other payables	1,513,998	-	1,513,998
Amounts due to related parties	5,092,576	-	5,092,576
Term loan	16,678	-	16,678
Retention payable	-	56,232	56,232
	6,623,252	**56,232**	**6,679,484**

The following table shows the maturity profile of financial liabilities as at 31 December 2019:

Particulars	**Due within 1 year**	**Due within 1 - 5 years**	**Total**
	BD	BD	BD
Trade and other payables	4,198,634	-	4,198,634
Amounts due to related parties	5,099,489	-	5,099,489
Bank overdraft	9,002	-	9,002
Term loan	58,343	-	58,343
Retention payable	-	33,703	33,703
	9,365,468	**33,703**	**9,399,171**

The maturity profile of lease liabilities is separately disclosed in Note 11A to the financial statements.

c. Foreign currency risk

The Company's primary exposure to the risk in changes in foreign currency relates to the transactional currency exposures. Such exposure arises when the transaction is denominated in currencies other than the functional currency of the operating unit or the counterparty.

The currency risk on foreign currencies is actively monitored by the Management. The Company's transactions are predominantly in Bahraini Dinars.

d. Credit risk

Credit risk is the risk that a counterparty fails to discharge an obligation to the Company. The Company is exposed to credit risk from financial assets including cash and cash equivalents held at banks.

The table below shows the gross maximum exposure to the Company's credit risk, without considering the effects of collateral and credit enhancements as at 31 December:

	2020 BD	**2019** BD
Trade and other receivables	7,748,213	5,154,442
Retention receivable	331,074	178,536
Contract assets	453,005	2,519,189
Bank balances	796,362	1,765,620
	9,328,654	**9,617,787**

Credit risk management

The credit risk is managed on a Company basis based on the Company's credit risk management policies and procedures.

The credit risk in respect of cash balances held with banks and deposits with banks are managed by dealing with major reputable financial institutions.

The Company policy is to deal only with recognized, creditworthy counterparties. It is the Company's policy that all customers who wish to trade on credit terms are subject to credit verification procedures. A regular annual review and evaluation of these accounts are carried out to assess the credit standing of the customers.

Contract and other receivable

The Company applies the IFRS 9 simplified model of recognising lifetime expected credit losses for all contract and other receivable as these items do not have a significant financing component.

In measuring the expected credit losses, the contract and other receivable has been assessed on a collective basis as they possess shared credit risk characteristics. They have been grouped based on the days past due.

The expected loss rates are based on the payment profile for sales over the past 24 months before 31 December 2020 and 31 December 2019 respectively as well as the corresponding historical credit losses during that period. The historical rates are adjusted to reflect current and forwarding looking macroeconomic factors affecting the customer's ability to settle the amount outstanding. The Company has identified gross domestic product (GDP) and unemployment rates of the countries in which the customers are domiciled to be the most relevant factors and according adjusts historical loss rates for expected changes in these factors. However, given the short period exposed to credit risk, the impact of these macroeconomic factors has not been considered significant within the reporting period.

21. Capital management policy

The Company's capital management objectives are:

• to ensure the Company's ability to continue as a going concern, and
• to provide an adequate return to the Partners by pricing services in a way that reflects the level of risk involved in providing those goods and services.

The Company monitors capital using capital to overall financing ratio, which is capital divided by overall financing.

The amounts managed as capital by the Company for the reporting periods are summarised as follows:

	2020 BD	**2019** BD
Total equity	2,546,784	109,333
Less: Cash and cash equivalents	(800,716)	(1,768,312)
Capital	**1,746,068**	**(1,658,979)**
Total equity	2,546,784	109,333
Bank borrowing	16,678	67,345
Overall financing	**2,563,462**	**176,678**
Capital to overall financing ratio	**0.68**	**-**

22. Post- reporting date events

No adjusting or significant non-adjusting events have occurred between the reporting date and the - date of authorization.

23. Comparative figures

Comparative figures for the previous year have been reclassified/re-arranged wherever necessary to conform with the presentation in the current year's financial statements.