# Terna Bahrain Holding W.L.L.

## REPORT OF THE BOARD OF DIRECTORS AND FINANCIAL STATEMENTS

31 DECEMBER 2009

Terna Bahrain Holding W.L.L.

REPORT OF THE BOARD OF DIRECTORS

The Board of Directors has pleasure in submitting their annual report and the audited financial statements for the year ended 31 December 2009.

**Principal activities and results for the period**

The Company was incorporated on 23 November 2006 to act as a holding company and carry out business activities through subsidiaries, branches, divisions and investments in other entities. The Company also carries out contract activities. Details of the Company's investments in subsidiaries and its associate are contained in note no 1 to the accompanying finacial statements.

**Results and retained earnings (accumulated losses)**

The results and retained earnings (accumulated losses) of the Company are as follows:

| | ***2009*** | *2008* |
|---|---|---|
| | ***BD*** | *BD* |
| Balance at the beginning of the year | **171,805** | 320,493 |
| Loss for the year | **(4,684,846)** | (148,688) |
| Balance at the end of the year | **(4,513,041)** | 171,805 |

**Auditors**

Ernst & Young have expressed their willingness to continue in office, and a resolution proposing their appointment, as auditors of the Company for the year ending 31 December 2010, will be submitted at the Annual General Meeting.

Signed on behalf of the Board of Directors

Chairman

23 March 2010

TERNA MECHANICAL & ELECTRICAL W.L.L.

ركة تيرنا الميكانيكية والكهربائية ذ م.م

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

We have audited the accompanying financial statements of Terna Bahrain Holding W.L.L. ('the Company'), which comprise the statement of financial position as at 31 December 2009 and the statements of comprehensive income, cash flows statement and changes in equity for the year then ended and a summary of significant accounting policies and other explanatory notes.

**Directors' Responsibility for the Financial Statements**

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

**Auditors' Responsibility**

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosure in the financial statements. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate for the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

ERNST & YOUNG

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

**Opinion**

In our opinion, the financial statements present fairly, in all material respects, the financial position of the Company as of 31 December 2009 and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards.

**Going Concern**

Without further qualifying our opinion we draw attention to note 2 to the financial statements. As of 31 December 2009, the Company had a deficiency of assets of BD 3,629,689 and the total current liabilities exceeded the total current assets by BD 5,296,317. These conditions indicate the existence of a material uncertainty which may cast significant doubt about the Company's ability to continue as a going concern. However, these financial statements have been prepared on a going concern basis as have agreed to provide financial support to the Company to meet its obligations as and when they fall due.

**Other Matters**

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

Ernst + Young

23 March 2010
Manama, Kingdom of Bahrain

## Terna Bahrain Holding W.L.L.
## STATEMENT OF FINANCIAL POSITION
At 31 December 2009

| | Note | 2009 BD | 2008 BD |
|---|---|---|---|
| **ASSETS** | | | |
| **Non-current assets** | | | |
| Investment in subsidiaries | 6 | **1,539,900** | 1,539,900 |
| Investment in an associate | 7 | **4,376,754** | 8,568,146 |
| | | **5,916,654** | 10,108,046 |
| **Current assets** | | | |
| Amounts due from related parties | 8 | **8,887,617** | 7,288,010 |
| Amounts due from an associate | 9 | **2,901,879** | 2,844,997 |
| Other receivables | | **55,332** | 55,332 |
| Bank balances, short-term deposits and cash | 10 | **539,289** | 6,971,408 |
| | | **12,384,117** | 17,159,747 |
| **TOTAL ASSETS** | | **18,300,771** | 27,267,793 |
| **(DEFICIENCY OF ASSETS) EQUITY AND LIABILITIES** | | | |
| **(Deficiency of assets) equity** | | | |
| Share capital | 11 | **847,742** | 847,742 |
| Statutory reserve | 12 | **35,610** | 35,610 |
| (Accumulated losses) retained earnings | | **(4,513,041)** | 171,805 |
| **Total (deficiency of assets) equity** | | **(3,629,689)** | 1,055,157 |
| **Non-current liability** | | | |
| Term loan | 13 | **4,250,026** | 5,703,000 |
| **Current liabilities** | | | |
| Amounts due to related parties | 14 | **17,583,706** | 20,460,953 |
| Trade payables and accruals | | **96,728** | 48,683 |
| | | **17,680,434** | 20,509,636 |
| **Total liabilities** | | **21,930,460** | 26,212,636 |
| **TOTAL (DEFICIENCY OF ASSETS) EQUITY AND LIABILITIES** | | **18,300,771** | 27,267,793 |

D. Antonakos
Chairman

K. Iliadis
Director

The attached notes 1 to 18 form part of these financial statements.

Terna Bahrain Holding W.L.L.

# STATEMENT OF COMPREHENSIVE INCOME

For the Year Ended 31 December 2009

| | 2009 BD | 2008 BD |
|---|---|---|
| Contract revenue | - | 248,623 |
| Interest income | **51,597** | 224,316 |
| Other income | **88,296** | 258,933 |
| Foreign exchange gains and losses | **228,483** | - |
| | **368,376** | 731,872 |
| Impairment of investment in an associate | **(4,500,000)** | - |
| Staff costs | **(65,826)** | (228,492) |
| General and administrative expenses | **(317,290)** | (241,655) |
| Finance costs | **(157,890)** | (257,837) |
| Bank charges | **(12,216)** | (53,945) |
| Foreign exchange gains and losses | - | (98,631) |
| **LOSS FOR THE YEAR** | **(4,684,846)** | (148,688) |
| Other comprehensive income | - | - |
| **COMPREHENSIVE LOSS FOR THE YEAR** | **(4,684,846)** | (148,688) |

The attached notes 1 to 18 form part of these financial statements.

# STATEMENT OF CASH FLOWS

For the Year Ended 31 December 2009

| | Note | 2009 BD | 2008 BD |
|---|---|---|---|
| **OPERATING ACTIVITIES** | | | |
| Loss for the year | | **(4,684,846)** | (148,688) |
| Adjustments for: | | | |
| Impairment of investment in associate | | **4,500,000** | - |
| Finance costs | | **157,890** | 257,837 |
| Interest income | | **(51,597)** | (224,316) |
| Unrealised foreign exchange gain | | **-** | 33,000 |
| Operating loss (profit) before working capital changes: | | **(78,553)** | (82,167) |
| Working capital changes: | | | |
| (Decrease) increase in amounts due to related parties | | **(2,877,247)** | 18,856,822 |
| Increase in amounts due from related parties | | **(1,599,607)** | (6,788,527) |
| Increase in amounts due from an associate | | **(56,882)** | (2,798,786) |
| Increase in other receivables | | **-** | 463,261 |
| Increase (decrease) in trade and other payables | | **48,045** | (139,675) |
| Net cash (used in) from operating activities | | **(4,564,244)** | 9,510,928 |
| **INVESTING ACTIVITIES** | | | |
| Investment in subsidiaries | | **-** | (1,139,900) |
| Investment in associate | 7 | **(308,608)** | (4,348,231) |
| Interest received | | **51,597** | 224,316 |
| Net cash used in investing activities | | **(257,011)** | (5,263,815) |
| **FINANCING ACTIVITIES** | | | |
| Finance costs paid | | **(157,890)** | (285,125) |
| Term loan paid | | **(1,452,974)** | - |
| Net cash used in financing activities | | **(1,610,864)** | (285,125) |
| **(DECREASE) INCREASE IN CASH AND CASH EQUIVALENTS** | | **(6,432,119)** | 3,961,988 |
| Cash and cash equivalents at the beginning of the year | | **6,971,408** | 3,009,420 |
| **CASH AND CASH EQUIVALENTS AT THE END OF THE YEAR** | 10 | **539,289** | 6,971,408 |

The attached notes 1 to 18 form part of these financial statements.

# STATEMENT OF CHANGES IN EQUITY

For the Year Ended 31 December 2009

| | *Share capital* *BD* | *Statutory reserve* *BD* | *Retained earnings (accumulated losses)* *BD* | *Total* *BD* |
|---|---|---|---|---|
| Balance at 1 January 2009 | 847,742 | 35,610 | 171,805 | 1,055,157 |
| Comprehensive loss for the year | - | - | (4,684,846) | (4,684,846) |
| **Balance at 31 December 2009** | **847,742** | **35,610** | **(4,513,041)** | **(3,629,689)** |
| Balance at 1 January 2008 | 847,742 | 35,610 | 320,493 | 1,203,845 |
| Comprehensive loss for the year | - | - | (148,688) | (148,688) |
| Balance at 31 December 2008 | 847,742 | 35,610 | 171,805 | 1,055,157 |

The attached notes 1 to 18 form part of these financial statements.

## 1 ACTIVITIES

Terna Bahrain Holding W.L.L. ("the Company") is a limited liability company incorporated in the Kingdom of Bahrain on 23 November 2006 and is registered with the Ministry of Industry and Commerce under commercial registration (CR) number 63267. The Company acts as a holding company and carries out its business activities through its subsidiaries, branches, divisions and investments in other entities. The Company also carries out contracting activities.

The Company is a wholly owned subsidiary of Terna Overseas Limited, a company incorporated in and operating under the laws of Cyprus . The ultimate parent company is Terna SA, a company incorporated in and operating under the laws of Greece. The ultimate holding company's registered office is at 85 Mesogeion Avenue, T.K. 115-26, Athens, Greece.

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

The financial statements were authorised for issue in accordance with a resolution of the Board of Directors on 23 March 2010.

The Company has the following subsidiaries and associate:

| *Name* | *Country of incorporation* | *Ownership interest* | *Date of effective control* | *Principal activity* |
|---|---|---|---|---|
| **Subsidiaries** | | | | |
| PCC Terna Contracting Company W.L.L. ("PCC Terna") | Kingdom of Bahrain | 80% | 23 March 2007 | Contracting and construction business. |
| Terna Contracting Capital Company W.L.L. ("Terna [illegible] | Kingdom of Bahrain | 99.99% | 2 April 2008 | Contracting and construction business. |
| Terna MEP Capital W.L.L. ("Terna MEP") | Kingdom of Bahrain | 70% | 5 October 2008 | Contracting of mechanical and electrical business. |
| **Associate** | | | | |
| Hamriya Cement Company FZC | United Arab Emirates | 40% | 19 June 2007 | Production and sale of cement. |

These are the financial statements of the Company only and have been prepared to determine the operating results of the Company's activities. The ultimate parent company has prepared consolidated financial statements incorporating the financial statements of the subsidiaries and accounting for the associated company on an equity basis. As permitted by IAS 27 "Consolidated and Separate Financial Statements", no consolidated financial statements of the Company have been prepared.

**2 FUNDAMENTAL ACCOUNTING CONCEPT**

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

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

**3 SIGNIFICANT ACCOUNTING POLICIES**

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

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

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

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

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

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

3 **SIGNIFICANT ACCOUNTING POLICIES (continued)**

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

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

**Improvements to IFRSs**
In April 2009 the Board issued its first omnibus of amendments to its standards, primarily with a view to removing inconsistencies and clarifying wording. There are separate transitional provisions for each standard. The adoption of the following amendment resulted in changes to accounting policies but did not have any impact on the financial position or performance of the Company. The principal effects of the changes are as follows:

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

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

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

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

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

3 **SIGNIFICANT ACCOUNTING POLICIES (continued)**

**Investments in subsidiaries and an associate**
Investments in subsidiaries and associate are carried at cost less provision, if any, for impairment.

***Subsidiaries***
Subsidiaries are entities, including unincorporated entities such as partnerships, that are controlled by the Company.

***Associate***
Associate is an entity over which the Company exercises significant influence and which is neither a subsidiary nor a joint venture.

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

**Financial Assets**
The Company's financial assets include bank balances, cash and short term deposits, trade and other receivables and amounts due from related parties and associate.

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

**Contract and other receivables**
Trade and other receivables are stated at original invoice amount less a provision for any uncollectible amounts. Subsequent to initial recognition these are carried at amortised cost using effective interest rate method. An estimate for doubtful debts is made when collection of the full amount is no longer probable. Bad debts are written off when there is no possibility of recovery.

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

**Impairment and uncollectibility of financial assets**
An assessment is made at each statement of financial position date to determine whether there is objective evidence that a specific financial asset may be impaired. If such evidence exists, any impairment loss is recognised in the statement of comprehensive income. For assets carried at cost, impairment is the difference between carrying value and the present value of future cash flows discounted at the current market rate of return for a similar financial asset.

**Financial liabilities**
The Company's financial liabilities include term loan, amounts due to related parties and trade and other payables.

**3 SIGNIFICANT ACCOUNTING POLICIES (continued)**

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

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

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

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

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

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

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

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

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

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

## 3 SIGNIFICANT ACCOUNTING POLICIES (continued)

**Contract revenue**
Contract revenue is recognised under the percentage of completion method.

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

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

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

## 4 STANDARDS ISSUED BUT NOT YET EFFECTIVE

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

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

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

## 5 SIGNIFICANT ACCOUNTING JUDGMENTS AND ESTIMATES

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

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

## 5 SIGNIFICANT ACCOUNTING JUDGMENTS AND ESTIMATES (continued)

**Impairment of investment in subsidiaries and an associate**

The Company reviews its investments in subsidiaries and an associate at each period-end to determine if there is any evidence of impairment. The investments are considered impaired if there has been a significant prolonged decline in the entity's performance or where other objective evidence of impairment exists. In addition the Company evaluates other factors, including future cash flows and discount factors for similar investments.

## 6 INVESTMENT IN SUBSIDIARIES

| | *Percentage holding* | ***2009*** ***BD*** | *2008* *BD* |
|---|---|---|---|
| PCC Terna | 80% | 400,000 | 400,000 |
| Terna Contracting | 99.99% | 999,900 | 999,900 |
| Terna MEP | 70% | 140,000 | 140,000 |
| | | **1,539,900** | 1,539,900 |

## 7 INVESTMENT IN AN ASSOCIATE

| | *Percentage holding* | ***2009*** ***BD*** | *2008* *BD* |
|---|---|---|---|
| Hamriya Cement Company FZC | 40% | **8,876,754** | 8,568,146 |
| Less: provision for impairment | | **(4,500,000)** | - |
| | | **4,376,754** | 8,568,146 |

During the period the company was required to invest a further BD 308,608 (2008: BD 4,348,231) in the associate to further its operations. The Company's holding in the associate did not change.

## 8 AMOUNTS DUE FROM RELATED PARTIES

| | ***2009*** ***BD*** | *2008* *BD* |
|---|---|---|
| Parent company | **1,848,292** | 5,306,064 |
| ***Subsidiaries:*** | | |
| PCC Terna | **6,870,405** | 1,861,804 |
| Terna MEP | **120,242** | 120,142 |
| ***Group Companies:*** | | |
| Terna Qatar Company L.L.C | **48,139** | - |
| Malcem Construction Materials | **539** | - |
| | **8,887,617** | 7,288,010 |

For terms amd conditions please refer note 15.

## 9 AMOUNTS DUE FROM AN ASSOCIATE

| | 2009 BD | 2008 BD |
|---|---|---|
| Hamriya Cement Company FZC | **2,901,879** | 2,844,997 |

For terms amd conditions please refer note 15.

## 10 BANK BALANCES AND CASH

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

| | 2009 BD | 2008 BD |
|---|---|---|
| Cash in hand | **4** | 900 |
| Bank balances | **521,667** | 279,006 |
| Short term deposits | **17,618** | 6,691,502 |
| | **539,289** | 6,971,408 |

Short term deposits comprise of term deposits which are made for periods varying between 1 - 30 days earning interest at an effective interest rate of 3.25% (2008: 3.25%).

Bank balances denominated in currencies other than Bahraini Dinars are as follows :

| | 2009 BD | 2008 BD |
|---|---|---|
| Euro | **518,772** | 17,386 |
| UAE Dirhams | **15** | 15 |
| US Dollars | **63** | 65 |
| | **518,850** | 17,466 |

## 11 SHARE CAPITAL

| | 2009 BD | 2008 BD |
|---|---|---|
| Authorised, issued and fully paid: | | |
| 8,500 ordinary shares of Euro 200 each | **847,742** | 847,742 |

## 12 STATUTORY RESERVE

As required by the Bahrain Commercial Companies Law, 10% of the profit for each financial year must be transferred to the statutory reserve. The Company may resolve to discontinue such annual transfers when the reserve equals 50% of the issued share capital. The reserve cannot be utilised for the purpose of distribution except in such circumstances as stipulated in the Bahrain Commercial Companies Law. No transaction has been made in either the current or prior periods due to losses

## 13 TERM LOAN

This is a loan from the parent company, denominated in US Dollars, which carries interest at a rate of LIBOR plus 1.2% per annum and is repayable before 20 September 2012. The effective interest rate at 31 December 2009 was 1.88% (2008: 4.66%) per annum. Accrued Interest payable on the loan is included within amounts due to related parties. The term loan is unsecured.

## 14 AMOUNTS DUE TO RELATED PARTIES

| | *2009* | *2008* |
|---|---|---|
| | *BD* | *BD* |
| Ultimate parent company | **132,240** | 2,629,399 |
| ***Group Companies:*** | | |
| Terna Qatar | **12,485,258** | 14,938,027 |
| Terna Abu Dhabi | **1,346,656** | 1,346,296 |
| Terna SA Sharjah | **320,952** | 573,855 |
| ***Subsidiary:*** | | |
| Terna Contracting | **3,298,600** | 973,376 |
| | **17,583,706** | 20,460,953 |

The payable to Terna Qatar Company L.L.C. (Terna Qatar) represents amounts received for short term cash facilitation of the Company and is denominated in Bahraini Dinars.

For terms and conditions please refer note 15.

## 15 RELATED PARTY TRANSACTIONS

Related parties represent the parent company, the ultimate parent company, the subsidiaries, the associate, key management personnel of the Company, and entities controlled, jointly controlled or significantly influenced by such parties.

See note 8 for amounts due from related parties.

See note 9 for amounts due from an associate.

See note 13 for long term loan payable to parent company.

See note 14 for amounts due to related parties.

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

| | *Contract revenue* | *Finance charges* | *Staff costs* |
|---|---|---|---|
| | *BD* | *BD* | *BD* |
| ***31 December 2009*** | | | |
| Parent Company | - | **157,890** | - |
| Group companies | - | - | - |
| | - | **157,890** | - |
| *31 December 2008* | | | |
| Parent company | - | 257,837 | - |
| Group companies | 248,623 | - | 183,838 |
| | 248,623 | 257,837 | 183,838 |

**15 RELATED PARTY TRANSACTIONS (continued)**

The sales and purchases from related parties are made on terms agreed by the management of the Company. Outstanding balances at the period end are unsecured, interest free and settlement occurs in cash. There have been no gurantees provided or received for any related party receivables or payables. For the period ended 31 December 2009, the Company has not recorded any impairment of receivables relating to amounts owed by related parties.

**Compensation of key management personnel**
The remuneration paid to a director during the year ended 31 December 2009 was as follows:

| | ***2009*** ***BD*** | *2008* *BD* |
|---|---|---|
| Short term benefits | **32,609** | 30,000 |

**16 FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES**

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

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

**Interest rate risk**
The Company is exposed to interest rate risk on its interest bearing short-term deposits and term loan. The effective interest rates are disclosed in the respective notes above.

The following table demonstrates the net sensitivity to a reasonably possible change in interest rates (income and expense netted), with all other variables held constant, on the Company's profit:

| | *Increase / decrease in basis points* | *Effect on profit BD* |
|---|---|---|
| **2009** | | |
| | **+ 50** | **(21,050)** |
| | **- 50** | **21,050** |
| 2008 | | |
| | + 50 | 4,943 |
| | - 50 | (4,943) |

**Liquidity risk**
Liquidity risk (also referred to as funding risk) is the risk that an enterprise will encounter difficulty in raising commitments associated with financial liabilities.

The Company limits its liquidity risk by ensuring that bank facilities are available. The Company's terms of sale require amounts to be paid within 60-90 days from the date of invoice. Trade accounts payable are normally settled within 60 days of the date of purchase. The table below summarises the maturities of the Company's undiscounted financial liabilities at period-end, based on payment dates and current market interest rates.

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

**Liquidity risk (continued)**

***31 December 2009***

| | *Less than 3 months BD* | *3 to 12 months BD* | *1 to 5 years BD* | *More than 5 years BD* | *Total BD* |
|---|---|---|---|---|---|
| Amounts due to related parties | **17,583,706** | - | - | - | **17,583,706** |
| Trade payables and accruals | **96,728** | - | - | - | **96,728** |
| Term loan | **20,096** | **61,406** | **4,419,935** | - | **4,501,437** |
| Total | **17,700,530** | **61,406** | **4,419,935** | - | **22,181,871** |

*31 December 2008*

| | *Less than 3 months BD* | *3 to 12 months BD* | *1 to 5 years BD* | *More than 5 years BD* | *Total BD* |
|---|---|---|---|---|---|
| Amounts due to related parties | 20,460,953 | - | - | - | 20,460,953 |
| Trade payables and accruals | 48,683 | - | - | - | 48,683 |
| Term loan | 90,535 | 276,635 | 6,712,970 | - | 7,080,140 |
| Total | 20,600,171 | 276,635 | 6,712,970 | - | 27,589,776 |

**Credit risk**

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

The Company is exposed to credit risk on its bank balances including short-term deposits, amounts due from subsidiaries, amounts due from an associate and receivables. The Company places its deposit with banks having a good credit rating.

The company has receivables of BD 11,789,496 (2008: BD 10,133,007) due from related parties. All the receivables are without security which renders them fully exposed to credit risk due to default by the counterparties.

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

**Foreign currency risk**

The Company is exposed to currency risk on its inter company balances with related parties denominated in Euros.

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

**Foreign currency risk**
The net sensitivity to a reasonably possible change in Euro/Bahraini Dinar exchange rate with all other variables held constant, of the Company's profit due to change in the fair value of amounts due to and from related parties is as follows:

| | *Increase/ decrease in Euro rate to the Bahraini Dinar* | *Effect on profit BD* |
|---|---|---|
| 31 December 2009 | **+5%** | **83,197** |
| | **-5%** | **(83,197)** |
| 31 December 2008 | +5% | 74,168 |
| | -5% | (74,168) |

The Company also has balances denominated in United Arab Emirates Dirhams (AED) and United States Dollars (USD). Both the Bahraini Dinar and the AED are pegged to the United States Dollar, thus no significant foreign currency risk exists against these balances.

**Capital management**
The primary objective of the Company's capital management is to ensure that it maintains healthy capital ratios in order to support its business and maximise shareholder value and run its operations with funds generated from operations and minimise borrowings

The Company sets the amount of capital in proportion to risk. The Company manages the capital structure and makes adjustments to it in the light of changes in business conditions. In order to maintain or adjust the capital structure, the Company may adjust the amount of dividends paid to the shareholders.

## 17 FAIR VALUES OF FINANCIAL INSTRUMENTS

Financial instruments comprises of financial assets and financial liabilities.

Financial assets consist of bank balances, short-term deposits and cash, other receivables, amounts due from related parties, amounts from an associate, investment in subsidiaries and investment in an associate. Financial liabilities consist of trade payables, amounts due to related parties and long term loan.

The fair values of financial assets and financial liabilities are not materially different from their carrying values at the statement of financial position date.

## 18 COMPARATIVE FIGURES

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