Terna Mechanical and Electrical W.L.L

REPORT OF THE BOARD OF DIRECTORS AND FINANCIAL STATEMENTS

FROM 15 OCTOBER 2008 (DATE OF INCORPORATION)
TO 31 DECEMBER 2009

Terna Mechanical and Electrical W.L.L
REPORT OF THE BOARD OF DIRECTORS

The Directors have pleasure in submitting their first report and the audited financial statements of Terna Mechanical and Electrical W.L.L. ("the Company") for the period from incorporation on 15 October 2008 to 31 December 2009.

Principal activities and results for the period

The Company is a subsidiary of Terna Bahrain Holding W.L.L. ("the Parent Company") incorporated in the Kingdom of Bahrain. The ultimate parent company is Terna S.A, a company incorporated in and under the laws of Greece. Its registered office is at 85 Mesogeion Av, T.K. 115-26, Athens, Greece. The ultimate parent company together with its subsidiaries are referred to as the 'Group'.

Results and appropriation of comprehensive income

During the period, the Company generated contract revenue of BD 5,817,872 and reported a comprehensive income of BD 1,444,099

The movements in retained earnings are as follows:

	BD
Balance at 1 January 2009	-
Profit for the period	1,444,099
Transfer to statutory reserve	(144,410)
Balance at 31 December 2009	1,299,689

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

.... 2010

23 March 2010

TERNA MECHANICAL & ELECTRICAL W.L.L
شركة تيرنا الميكانيكية والكهربائية ذ.م.م
C.R. 70100
P.O. Box: 54368
Kingdom of Bahrain

ERNST & YOUNG

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

INDEPENDENT AUDITORS' REPORT TO THE SHAREHOLDERS OF TERNA MECHANICAL AND ELECTRICAL W.L.L.

We have audited the accompanying financial statements of Terna Mechanical and Electrical W.L.L ("the Company"), comprising of the statement of financial position as at 31 December 2009 and the related statements of comprehensive income, cash flows and changes in equity for the period from 15 October 2008, the date of incorporation to 31 December 2009, and a summary of significant accounting policies and other explanatory notes.

Directors' Responsibility for the Financial Statements

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

Auditors' Responsibility

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

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

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

ERNST & YOUNG

INDEPENDENT AUDITORS' REPORT TO THE SHAREHOLDERS OF
TERNA MECHANICAL AND ELECTRICAL 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 period from 15 October 2008, the date of incorporation to 31 December 2009 in accordance with International Financial Reporting Standards.

Other Matters

We confirm that, in our opinion, proper accounting records have been kept by the Company and the financial statements, and the contents of the report of the Board of Directors relating to these financial statements, are in agreement therewith. We further report, to the best of our knowledge and belief, that no violations of the Bahrain Commercial Companies Law, nor of the memorandum or articles of association of the Company have occurred during the period from 15 October 2008, the date of incorporation to 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 Mechanical and Electrical W.L.L.

STATEMENT OF FINANCIAL POSITION

At 31 December 2009

	Note	2009 BD
ASSETS		
Non-current asset		
Property, plant and equipment	5	37,910
Current assets		
Contract and other receivables	6	6,158,255
Bank balances and cash	7	301,538
		6,459,793
TOTAL ASSETS		6,497,703
EQUITY AND LIABILITIES		
Equity		
Share capital	8	200,000
Statutory reserve	9	144,410
Retained earnings		1,299,689
Total equity		1,644,099
Non-current liabilities		
Employees' end of service benefits	10	59,765
Other employee benefits		122,452
		182,217
Current liabilities		
Due to customers for construction contracts	11	322,693
Trade and other payables	12	4,348,694
		4,671,387
Total liabilities		4,853,604
TOTAL EQUITY AND LIABILITIES		6,497,703

D. Antonakos
Chairman

K.Tappuni
Director

The attached notes 1 to 17 form part of these financial statements.

Terna Mechanical and Electrical W.L.L.

STATEMENT OF COMPREHENSIVE INCOME

For the period from 15 October 2008 (date of incorporation) to 31 December 2009

	Note	*BD*
Contract revenue		**5,817,872**
Operating costs	15	**(2,140,843)**
Project material and equipment expenses		**(2,000,606)**
General and administrative expenses		**(206,195)**
Foreign exchange gains and losses		**(17,722)**
Bank charges		**(8,407)**
PROFIT FOR THE PERIOD		**1,444,099**
Other comprehensive income		-
COMPREHENSIVE INCOME FOR THE PERIOD		**1,444,099**

The attached notes 1 to 17 form part of these financial statements.

STATEMENT OF CASH FLOWS

For the period from 15 October 2008 (date of incorporation) to 31 December 2009

	Note	BD
OPERATING ACTIVITIES		
Profit for the period		1,444,099
Adjustments for:		
Depreciation	5	10,286
Provision for employees' end of service benefits	10	61,144
Provision for other employee benefits		122,452
Operating profit before working capital changes		1,637,981
Working capital changes:		
Increase in contract and other receivables		(6,158,255)
Increase in due to customers for construction contracts		322,693
Increase in trade and other payables		4,348,694
		151,113
Employees' end of service benefits paid		(1,379)
Net cash flows from operating activities		149,734
INVESTING ACTIVITY		
Purchase of property, plant and equipment	5	(48,196)
FINANCING ACTIVITY		
Issue of share capital	8	200,000
INCREASE IN CASH AND CASH EQUIVALENTS, AND AT 31 DECEMBER	7	301,538

The attached notes 1 to 17 form part of these financial statements.

STATEMENT OF CHANGES IN EQUITY

For the period from 15 October 2008 (date of incorporation) to 31 December 2009

	Share capital BD	Statutory reserve BD	Retained earnings BD	Total BD
Incorporated 15 October 2008				
Issue of share capital	200,000	-	-	200,000
Comprehensive income for the period	-	-	1,444,099	1,444,099
Transfer to statutory reserve	-	144,410	(144,410)	-
Balance at 31 December 2009	**200,000**	**144,410**	**1,299,689**	**1,644,099**

1 ACTIVITIES

Terna Mechanical and Electrical W.L.L. ("the Company") is a limited liability company incorporated in the Kingdom of Bahrain on 15 October 2008 and registered with the Ministry of Industry and Commerce under commercial registration (CR) number 70100. The company is engaged in construction contracting activities.

The Company is a subsidiary of Terna Bahrain Holding W.L.L., a company incorporated in the Kingdom of Bahrain. The ultimate parent company is Terna SA, a company incorporated in and under the laws of Greece. Its registered office is at 85 Mesogeion Av, T.K. 115-26, Athens, Greece. The ultimate parent company together with its subsidiaries are referred to as the 'Group'.

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

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

The Company was incorporated on 15 October 2008. No comparative information has been presented as this is the first period since the Company's incorporation.

The shares of the Company are owned as follows;

Name of the shareholder	*Percentage of shareholding*
Terna Bahrain Holding W.L.L.	70%
KT Engineering Ltd W.L.L	30%

2 SIGNIFICANT ACCOUNTING POLICIES

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

The financial statements have been presented in Bahrain Dinars, 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.

Adoption of accounting policies and disclosures
The company has adopted all IFRS and IFRIC interpretations effective as at period ended 31 December 2009. The Company has also early adopted the following 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*
- *IFRS 2 Share-based Payment: Group Cash-settled Share-based Payment Transactions effective 1 January 2010*
- *Improvements to IFRSs*

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

2 SIGNIFICANT ACCOUNTING POLICIES (continued)

Improvements to IFRSs

In May 2008 and 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 Company has adopted all amendments including early adoption of those amendments not yet in effect. The adoption of the amendments did not have any impact on the financial position or performance of the Company in comparison to if the amendments had not been adopted.

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 and cash and contract and other receivables .

Initial recognition

Financial assets are recognised initially at fair value plus, in the case of investments not at fair value through profit or loss, directly attributable transaction costs and include bank balances, cash, contract and other receivables and due from customers for construction contracts.

Contract and other receivables

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

Cash and cash equivalents

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

Impairment and uncollectibility of financial assets

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

Financial liabilities

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

Trade and other payables

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

2 SIGNIFICANT ACCOUNTING POLICIES (continued)

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. For financial instruments where there is no active market, fair value is determined using valuation techniques. Such techniques may include using recent arm's length market transactions; reference to the current fair value of another instrument that is substantially the same; discounted cash flow analysis or other valuation models.

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

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

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

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

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

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

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

Equipment	5 years
Motor vehicles	5 years

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

2 SIGNIFICANT ACCOUNTING POLICIES (continued)

Property, plant and equipment (continued)

The carrying values of property, plant and equipment are reviewed for impairment when events or changes in circumstances indicate the carrying value may not be recoverable. If any such indication exists and where the carrying values exceed the estimated recoverable amount, the assets are written down to their recoverable amount, being the higher of their fair value less costs to sell and their value in use.

An item of property, plant and equipment is derecognised upon disposal or when no future economic benefits are expected from its use or disposal. Any gain or loss arising on derecognition of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the asset) is included in the statement of comprehensive income in the year the asset is derecognised.

Contract revenue

Contract revenue is recognised under the percentage of completion method.

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

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

Interest income

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

3 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.

4 SIGNIFICANT ACCOUNTING JUDGMENTS AND ESTIMATES

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

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

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

At the date of statement of financial position date, gross contract receivables was BD 4,194,454 and there was no provision for doubtful debts. Any difference between the amounts actually collected in future periods and the amounts expected will be recognised in the statement of comprehensive income.

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

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

Construction contracts
Revenue and profit recognition on an uncompleted project is dependent on estimating the total outcome of the construction contract, as well as the work done to date. Based on the management team's experience and the nature of the construction activity undertaken, the management makes estimates of the point at which it considers the work is sufficiently advanced such that the cost to complete, rectification costs and revenue can be reliably estimated. In addition, actual outcomes in terms of total cost or revenue may be higher or lower than estimated at the statement of financial position date, which would affect the revenue and the profit recognised in the future years as an adjustment to the amounts recorded to date. As at 31 December 2009, the management considered that all costs to complete and revenue can be reliably measured.

5 PROPERTY, PLANT AND EQUIPMENT

	Equipment BD	*Motor vehicles BD*	*Total BD*
Cost:			
Additions during the period	12,101	36,095	48,196
At 31 December 2009	12,101	36,095	48,196
Depreciation:			
Depreciation charge for the year	(4,774)	(5,512)	(10,286)
	(4,774)	(5,512)	(10,286)
Net book value:			
At 31 December 2009	**7,327**	**30,583**	**37,910**

Depreciation expense for the period has been included in project material and equipment expenses in the statement of comprehensive income.

6 CONTRACT AND OTHER RECEIVABLES

	2009 BD
Contract receivables from related parties	**4,194,454**
Contractual advances receivable	**1,460,057**
Advances to suppliers	**29,488**
Retentions receivable by related parties	**269,834**
Retentions	**5,083**
Prepayments	**199,133**
Other receivable	**206**
	6,158,255

Contractual advances receivable represent advances to be paid by Terna SA Sharjah (under common control) in accordance with sales contracts with this company. The advances have been included in note 12.

Contract receivables from related parties relate to the following entities:

	2009 BD
Fellow subsidiaries	
Terna Contracting Company W.L.L.	**348,702**
Under common control	
Terna S.A Abu Dhabi (Branch of Terna S.A)	**2,972,079**
Terna S.A Sharjah (Branch of Terna S.A)	**2,333,730**
	5,654,511

Retention receivables from related parties:

	2009 BD
Under common control	
Terna S.A Abu Dhabi (Branch of Terna S.A)	**159,798**
Terna S.A Sharjah (Branch of Terna S.A)	**110,036**
	269,834

6 CONTRACT AND OTHER RECEIVABLES (continued)

Contract receivables are normally settled in 90 to 120 days from the date of invoice.

Retentions are normally recovered within 12 months from conclusion of a project.

For further terms and conditions of related parties, please refer to note 13.

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

			Past due but not impaired				
	Total BD	*Neither past due nor impaired BD*	*< 30 days BD*	*30 – 60 days BD*	*60 – 90 days BD*	*90 – 120 days BD*	*>120 days BD*
2009	**4,194,454**	**3,561,789**	**-**	**-**	**-**	**632,665**	**-**

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

7 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
Bank balances	**290,982**
Cash in hand	**10,556**
	301,538

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

	2009 BD
UAE Dirhams	**45,771**

8 SHARE CAPITAL

	2009 BD
Authorised, issued and fully paid: 2,000 ordinary shares of BD 100 each	**200,000**

9 STATUTORY RESERVE

Bahrain Commercial Companies Law requires that 10% of the Company's profit be transferred to the statutory reserve. The Company may resolve to discontinue such annual transfers when the reserve totals 50% of the issued share capital. The reserve cannot be utilised for the purpose of distribution except in such circumstances as stipulated in the Bahrain Commercial Companies Law.

10 EMPLOYEES' END OF SERVICE BENEFITS

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

	2009 *BD*
Provision made	61,144
Paid during the period	(1,379)
Provision at the end of the period	59,765

11 DUE TO CUSTOMERS FOR CONSTRUCTION CONTRACTS

	2009 *BD*
Contract cost incurred till date	3,078,612
Recognized profit	943,211
Total value of work executed till date including profit	4,021,823
Less: Progress billings	(4,344,516)
	(322,693)

12 TRADE AND OTHER PAYABLES

	2009 *BD*
Contract payables - related parties	1,579,321
Contract payables	518,632
Contract advances from Terna S.A Sharjah (Branch of Terna S.A)	1,953,865
Contract advances	15,489
Project material accrual	202,213
Subcontractors	47,056
Retentions	22,507
Other payables	9,611
	4,348,694

Contract advances comprise of sums received from the customer as per contractual agreement. They are adjusted according to the contractual provisions at the time of issuance of each invoice. Contract advances from Terna S.A Sharjah (under common control) represents advances required according to the sale contracts with Terna SA Sharjah, of which BD 1,460,057 is still receivable and has been included as a contract advance receivable in note 6.

Contract payables to related parties comprise the following balances.

	2009 *BD*
Due to related parties	
Parent company	
Terna Bahrain Holding Company W.L.L	120,242
Fellow subsidiaries	
Terna Contracting Company W.L.L	3,030
PCC Terna Contracting W.L.L	7,011
Under common control	
Terna S.A Abu Dhabi (Branch of Terna S.A)	340,235
Terna S.A Sharjah (Branch of Terna S.A)	1,108,803
	1,579,321

12 TRADE AND OTHER PAYABLES (continued)

Contract payables and accrued expenses are normally settled in 60-days.

Retentions payable have average term of one year.

For further terms and conditions of transactions with related parties please refer note 13.

13 RELATED PARTY TRANSACTIONS

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

For amounts due from related parties, see note 6.

For amounts due to related parties, see note 12.

Transaction with related parties included in the statement of comprehensive income during the period from 15 October 2008 to 31 December 2009 are as follows:

	From 15 October 2008 to 31 December 2009	
	Contract revenue	*Expenses*
31 December 2009	*BD*	*BD*
Parent Company		
Terna Bahrain Holding W.L.L	-	120,242
Fellow subsidiaries		
PCC Teran Contracting W.L.L	-	3,030
Terna Contracting Company W.L.L	1,796,050	7,011
Under common control		
Terna SA Sharjah (Branch of Terna S.A)	1,118,264	1,108,803
Terna S.A Abu Dhabi (Branch of Terna S.A)	3,226,251	340,235
	6,140,565	1,579,321

Terms and conditions of transaction with related parties:

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

The expenses charged by the related parties mainly relate to project materials, supplier payments, communication expenses, salaries, wages and labor hire.

13 RELATED PARTY TRANSACTIONS (continued)

Compensation of key management personnel

The remuneration of key management personnel during the period was as follows;

	From 15 October 2008 to 31 December 2009 BD
Short-term benefits	96,702
Employees' end of service benefits	12,779
	109,481

14 STAFF COSTS

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

	From 15 October 2008 to 31 December 2009 BD
Operating costs (note 15)	1,090,330
General and administrative expenses	109,481
	1,199,811

Staff costs comprise of the following expenses:

	From 15 October 2008 to 31 December 2009 BD
Salaries and wages	841,729
Other staff benefits	265,342
Employees end of service benefits	59,517
Hire of labour	32,376
Contribution to General Organization for Social Income	847
	1,199,811

15 OPERATING COSTS

	From 15 October 2008 to 31 December 2009 *BD*
Staff costs	1,090,330
Sub-contractors work	872,866
Consultants fees and technician charges	73,699
Travel	50,720
Communication	28,165
Motor vehicle hire and expenses	15,546
Consumables	4,560
Other expenses	4,957
	2,140,843

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 liquidity, currency, interest rate and credit risks.

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

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

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

31 December 2009	*Less than 3 months BD*	*3 to 12 months BD*	*1 to 5 years BD*	*More than 5 years BD*	*Total BD*
Contract payables - related parties	1,579,321	-	-	-	1,579,321
Contract payables	518,632	-	-	-	518,632
Subcontractors	47,056	-		-	47,056
Retentions	-	22,507	-	-	22,507
	2,145,009	**22,507**	-	-	**2,167,516**

Credit risk
The company has a contract receivable which is 71% concentrated to a single party. The net credit risk (netted with unadjusted advances from the customer) exposure of the company is 80% of the total net contract receivable which is BD 3.7 million.

The company has receivables of BD 5,924,345 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, 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.

16 FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

Foreign currency risk

The Company mainly transacts its business in Bahraini dinars and other GCC currencies which are all pegged to the United States Dollar. Hence there is no significant currency risk for the Company.

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

Capital management

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

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

17 FAIR VALUES OF FINANCIAL INSTRUMENTS

Financial instruments comprise of financial assets and financial liabilities.

Financial assets consist of bank balances and cash, contract and other receivables. Financial liabilities consist of due to customers for construction contracts and trade and other payables.