# Terna Contracting W.L.L.

## REPORT OF THE BOARD OF DIRECTORS AND FINANCIAL STATEMENTS

**31 DECEMBER 2016**

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# REPORT OF THE BOARD OF DIRECTORS

The Board of Directors has pleasure in submitting its report and the audited financial statements of Terna Contracting W.L.L. ('the Company') for the year ended 31 December 2016.

**Principal activities**

The Company is a subsidiary of Terna Bahrain Holding W.L.L and is engaged in construction contracting activities and its branch is engaged in real estate in the Kingdom of Bahrain.

**Results and retained earnings**

The Company generated contract revenue of BD 21,563,231 and operating profit of BD 405,252 during the year ended 31 December 2016 as compared to contract revenue of BD 12,530,945 and operating profit of BD 267,500 during the year ended 31 December 2015.

Movements in retained earnings during the year are as follows:

| | *BD* |
|---|---|
| Balance at 1 January 2016 | **1,027,796** |
| Profit for the year | **274,841** |
| Transfer to statutory reserve | **(27,484)** |
| Balance at 31 December 2016 | **1,275,153** |

**Share capital**

On 1 December 2016, the Company's shareholders resolved to increase the share capital of the Company to BD 2,000,000 from BD 1,000,000. The shareholders have contributed BD 350,000 towards the increase in share capital up to 31 December 2016 and the balance amount of BD 650,000 was received on 12 January 2017. The Company has recognised BD 1,000,000 as additional contribution and BD 650,000 received from the Company's shareholders on 12 January 2017 is disclosed as a receivable from the shareholders in the Company's financial statements as of 31 December 2016.

Signed on behalf of the Board of Directors

D. Antonakos
Chairman
.....16 March..... 2017

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# INDEPENDENT AUDITOR'S REPORT TO THE SHAREHOLDERS OF TERNA CONTRACTING W.L.L.

## Report on the Audit of the Financial Statements

*Opinion*

We have audited the accompanying financial statements of Terna Contracting W.L.L. ("the Company"), which comprise the statement of financial position as at 31 December 2016, 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 2016, 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 Auditor's 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.

*Other information*

Other information consists of the Report of the Board of Directors, set out on page 1 that was obtained at the date of this auditor's report. The Board of Directors is responsible for the other information. 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, 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.

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**Report on the Audit of the Financial Statements (continued)**

*Responsibilities of the Board of Directors for the financial statements*

The Company's 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.

*Auditor's 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 auditor's 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.

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**INDEPENDENT AUDITOR'S REPORT TO THE SHAREHOLDERS OF TERNA CONTRACTING W.L.L. (continued)**

**Report on the Audit of the Financial Statements (continued)**

*Auditor's responsibilities for the audit of the financial statements (continued)*

- 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 auditor's 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 auditor's 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 are in agreement therewith;

b) the financial information contained in the Report of the Board of Directors is consistent with the financial statements;

c) we are not aware of any violations of the Bahrain Commercial Companies Law or the terms of the Company's memorandum of association during the year ended 31 December 2016 that might have had a material adverse effect on the business of the Company or on its financial position; and

d) satisfactory explanations and information have been provided to us by the Company's management in response to all our requests.

Ernst + Young

Auditor's Registration No. 186
16 March 2017
Manama, Kingdom of Bahrain

Terna Contracting W.L.L.

## STATEMENT OF FINANCIAL POSITION

At 31 December 2016

| | Notes | 2016 BD | 2015 BD |
|---|---|---|---|
| **ASSETS** | | | |
| **Non-current assets** | | | |
| Property, plant and equipment | 4 | **591,632** | 577,630 |
| Computer software | 5 | **1,049** | 954 |
| Retentions receivable | 8 | **3,458,766** | 2,530,252 |
| Margin and other deposits | | **245,769** | - |
| | | **4,297,216** | 3,108,836 |
| **Current assets** | | | |
| Inventories | 6 | **546,838** | 460,733 |
| Due from customers for contract work | 7 | **3,061,455** | 3,176,362 |
| Contract and other receivables | 8 | **6,180,346** | 10,140,029 |
| Bank balances and cash | 9 | **584,222** | 174,670 |
| | | **10,372,861** | 13,951,794 |
| **TOTAL ASSETS** | | **14,670,077** | 17,060,630 |
| **EQUITY AND LIABILITIES** | | | |
| **Equity** | | | |
| Share capital | 10 | **1,000,000** | 1,000,000 |
| Additional capital contribution | 10 | **1,000,000** | - |
| Statutory reserve | 11 | **433,367** | 405,883 |
| Retained earnings | | **1,275,153** | 1,027,796 |
| **Total equity** | | **3,708,520** | 2,433,679 |
| **Non-current liabilities** | | | |
| Term loan | 12 | - | 38,621 |
| Employees' end of service benefits | 13 | **660,961** | 615,497 |
| Retentions payable | 14 | **895,959** | 354,022 |
| | | **1,556,920** | 1,008,140 |
| **Current liabilities** | | | |
| Term loan | 12 | **38,604** | 347,597 |
| Trade and other payables | 14 | **8,824,560** | 11,913,689 |
| Bank overdrafts | 9 | **541,473** | 1,357,525 |
| | | **9,404,637** | 13,618,811 |
| **Total liabilities** | | **10,961,557** | 14,626,951 |
| **TOTAL EQUITY AND LIABILITIES** | | **14,670,077** | 17,060,630 |

D. Antonakos
Chairman

K. Iliadis
Director

The attached notes 1 to 22 form part of these financial statements.

Terna Contracting W.L.L.

# STATEMENT OF COMPREHENSIVE INCOME

For the Year Ended 31 December 2016

| | Notes | *2016* *BD* | *2015* *BD* |
|---|---|---|---|
| Contract revenue | | **21,563,231** | 12,530,945 |
| Direct costs | 15 | **(19,813,283)** | (10,901,875) |
| **GROSS PROFIT** | | **1,749,948** | 1,629,070 |
| Other income | 16 | **535,374** | 61,762 |
| Exchange (loss) gain | | **(9,596)** | 72,530 |
| General and administration expenses | | **(1,221,370)** | (1,156,236) |
| Finance costs | 17 | **(649,104)** | (339,626) |
| Write off of amount due from a related party | 19 | **(128,911)** | - |
| Write off of contract and other receivables | 8 | **(1,500)** | (39,598) |
| Write off of future projected losses on contracts | 7 | **-** | (4,561) |
| **PROFIT FOR THE YEAR** | 17 | **274,841** | 223,341 |
| Other comprehensive income | | **-** | - |
| **TOTAL COMPREHENSIVE INCOME FOR THE YEAR** | | **274,841** | 223,341 |

D. Antonakos
Chairman

K. Iliadis
Director

The attached notes 1 to 22 form part of these financial statements.

# Terna Contracting W.L.L.

## STATEMENT OF CHANGES IN EQUITY

For the Year Ended 31 December 2016

| | *Share capital BD* | *Additional capital contribution BD* | *Statutory reserve BD* | *Retained earnings BD* | *Total BD* |
|---|---|---|---|---|---|
| As at 1 January 2016 | 1,000,000 | - | 405,883 | 1,027,796 | 2,433,679 |
| Advance received during the year (note 10) | - | 350,000 | - | - | 350,000 |
| Amount receivable from the shareholder (note 10) | - | 650,000 | - | - | 650,000 |
| Total comprehensive income for the year | - | - | - | 274,841 | 274,841 |
| Transfer to statutory reserve (note 11) | - | - | 27,484 | (27,484) | - |
| **As at 31 December 2016** | **1,000,000** | **1,000,000** | **433,367** | **1,275,153** | **3,708,520** |

| | *Share capital BD* | *Additional capital contribution BD* | *Statutory reserve BD* | *Retained earnings BD* | *Total BD* |
|---|---|---|---|---|---|
| As at 1 January 2015 | 1,000,000 | - | 383,549 | 826,789 | 2,210,338 |
| Total comprehensive income for the year | - | - | - | 223,341 | 223,341 |
| Transfer to statutory reserve (note 11) | - | - | 22,334 | (22,334) | - |
| As at 31 December 2015 | 1,000,000 | - | 405,883 | 1,027,796 | 2,433,679 |

The attached notes 1 to 22 form part of these financial statements.

## STATEMENT OF CASH FLOWS
For the Year Ended 31 December 2016

| | Notes | *2016* *BD* | *2015* *BD* |
|---|---|---|---|
| **OPERATING ACTIVITIES** | | | |
| Profit for the year | | **274,841** | 223,341 |
| Adjustments for: | | | |
| Depreciation | 4 | **214,593** | 151,663 |
| Amortisation | 5 | **2,354** | 1,801 |
| Gain on disposals of property, plant and equipment | | **(4,900)** | - |
| Provision for employees' end of service benefits | 13 | **190,567** | 112,247 |
| Interest expense | 17 | **88,483** | 100,890 |
| Operating profit before working capital changes | | **765,938** | 589,942 |
| Working capital changes: | | | |
| Inventories | | **(86,105)** | (177,930) |
| Due from customers for contract work | | **114,907** | (458,362) |
| Contract and other receivables | | **3,680,419** | (5,149,621) |
| Trade and other payables | | **(2,572,250)** | 5,127,306 |
| Cash from (used in) operations | | **1,902,909** | (68,665) |
| Interest paid on bank overdrafts | 17 | **(71,103)** | (94,989) |
| Employees' end of service benefits paid | 13 | **(145,103)** | (59,188) |
| Net cash flows from (used in) operating activities | | **1,686,703** | (222,842) |
| **INVESTING ACTIVITIES** | | | |
| Purchase of property, plant and equipment | 4 | **(228,595)** | (204,680) |
| Proceeds from disposals of property, plant and equipment | | **4,900** | - |
| Purchase of computer software | 5 | **(2,449)** | - |
| Net cash flows used in investing activities | | **(226,144)** | (204,680) |
| **FINANCING ACTIVITIES** | | | |
| Additional capital contribution received | 10 | **350,000** | - |
| Term loan repaid | | **(347,614)** | - |
| Interest paid on term loan | 17 | **(17,380)** | (5,901) |
| Other payables to related parties | | **25,058** | (21,164) |
| Margin deposit | | **(245,019)** | - |
| Short term loan repaid | | **-** | (200,000) |
| Net cash flows used in financing activities | | **(234,955)** | (227,065) |
| **INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS** | | **1,225,604** | (654,587) |
| Cash and cash equivalents at 1 January | | **(1,182,855)** | (528,268) |
| **CASH AND CASH EQUIVALENTS AT 31 DECEMBER** | 9 | **42,749** | (1,182,855) |

**Non-cash item:**
As of 31 December 2016, amount of BD 650,000 receivable from the shareholders towards increase in share capital has been excluded in the above statement of cash flows (2015: no non-cash items)

## 1 ACTIVITIES

Terna Contracting W.L.L. ("the Company") is a limited liability company incorporated in the Kingdom of Bahrain on 2 April 2008 and registered with the Ministry of Industry, Commerce and Tourism under commercial registration (CR) number 68262. The Company's registered office is at Villa 418, Road 3207, Block 332, Zinj Area, Kingdom of Bahrain. The Company is engaged in construction contracting activities.

The Company is a subsidiary of Terna Bahrain Holding W.L.L. ('Parent Company'), a company incorporated in the Kingdom of Bahrain. The ultimate parent company is GEK TERNA Holdings Real Estate Construction SA, a company incorporated in and under the laws of Greece.

The Company also has a branch, Terna Real Estate W.L.L. ('the branch') in the Kingdom of Bahrain which is registered under commercial registration number 68262-2. The branch was formed to engage in real estate activities with own or leased property. As of 31 December 2016, there were no operations in the branch.

The financial statements were authorised for issue by the Board of Directors on 16 March 2017.

## 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 Bahraini Dinars (BD), 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.

**New and amended standards effective as of 1 January 2016**
The accounting policies adopted are consistent with those of the previous financial year, except for the following IASB's new and amended standards which are effective as of 1 January 2016. The adoption of these standards and interpretations did not have any effect on the Company's financial position, financial performance or disclosures.

| | |
|---|---|
| *IFRS 14* | *Regulatory Deferral Accounts: Guidance on presentation and disclosures;* |
| *IFRS 11* | *Joint Arrangements (Amendments): Accounting for Acquisition of Interests - Guidance on acquisition of an interest in a joint operation;* |
| *IAS 16 and IAS 38* | *Property, Plant and Equipment and Intangible Assets (Amendments): Clarification of acceptable methods of depreciation and amortisation;* |
| *IAS 16 and IAS 41* | *Property, Plant and Equipment and Agriculture (Amendments): Guidance on the accounting requirements of plant-based bearer biological assets;* |
| *IAS 27* | *Separate Financial Statements (Amendments): Guidance on equity method for investments in subsidiaries, joint ventures and associates;* |
| *IAS 1* | *Disclosure Initiative: Presentation of Financial Statements (Amendments): Clarification on materiality requirements and presentation and disclosures; and* |
| *IFRS 10, IFRS 12 and IAS 28* | *Consolidated Financial Statements, Disclosure of Interest in other Entities and Investments in Associates and Joint Ventures (Amendments): The amendments address issues that have arisen in applying the investment entities exception under IFRS 10.* |

## 2 SIGNIFICANT ACCOUNTING POLICIES (continued)

**New and amended standards effective as of 1 January 2016 (continued)**

*Annual Improvements 2012-2014 Cycle*

| | |
|---|---|
| *IFRS 5* | *Non-current Assets Held for Sale and Discontinued Operations: Guidance on changing the disposal methods;* |
| *IFRS 7* | *Financial Instruments: Disclosures (Amendment): Guidance on servicing contracts and applicability of the offsetting disclosures to condensed interim financial statements;* |
| *IAS 19* | *Employee Benefits (Amendment): Clarification on the market depth of high quality corporate bonds; and* |
| *IAS 34* | *Interim Financial Reporting (Amendment): Guidance on interim disclosures and other information.* |

**Standards issued but not yet effective**

IASB's Standards and interpretations issued but not yet effective up to the date of issuance of the Company's financial statements are disclosed below. The Company reasonably expects these standards issued to be applicable at a future date. The Company intends to adopt these standards, if applicable, when they become effective:

| | |
|---|---|
| *IFRS 9* | *Financial Instruments: Guidance on classification and measurement, impairment and hedge accounting (effective for annual periods beginning on or after 1 January 2018);* |
| *IFRS 15* | *Revenue from Contracts with Customers: Guidance on performance obligations, variable consideration, warranty obligations, loyalty points program, rendering of services and equipment received from customers (effective for annual periods beginning on or after 1 January 2018);* |
| *IFRS 10 and IAS 28* | *Consolidated Financial Statements and Investment in Associates and Joint Ventures (Amendments): Sale or Contribution of Assets between an Investor and its Associate or Joint Venture (the IASB has deferred the effective date of these amendments indefinitely);* |
| *IAS 7* | *Statement of Cash Flows (Amendments): The amendments require an entity to provide disclosures that enable users of financial statements to evaluate changes in liabilities arising from financing activities, including both changes arising from cash flows and non-cash changes (effective for annual periods beginning on or after 1 January 2017). Earlier application is permitted;* |
| *IAS 12* | *Income Taxes (Amendments): The amendments, Recognition of Deferred Tax Assets for Unrealised Losses (Amendments to IAS 12), clarify how to account for deferred tax assets related to debt instruments measured at fair value (effective for annual periods beginning on or after 1 January 2017). Earlier application is permitted;* |
| *IFRS 2* | *Share-based Payment Transactions: Classification and Measurement of Share-based Payment (Amendments) (effective for annual periods beginning on or after 1 January 2018). Early application is permitted; and* |
| *IFRS 16* | *Leases - Revised guidance on single model accounting for leases (effective for annual periods beginning on or after 1 January 2019, with earlier adoption permitted if IFRS 15 'Revenue from Contracts with Customers' has also been applied).* |

The Company is currently assessing the impact of the above standards on its financial statements.

## 2 SIGNIFICANT ACCOUNTING POLICIES (continued)

**Current versus non-current classification**

The Company presents assets and liabilities in the statement of financial position based on a current/ non-current classification.

An asset is classified as current when it is:

- Expected to be realised or intended to sold or consumed in a normal operating cycle;
- Held primarily for the purpose of trading;
- Expected to be realised within twelve months after the reporting period; or
- Cash or cash equivalent unless restricted from being exchanged or used to settle a liability for at least twelve months after the reporting period.

All other assets are classified as non-current.

A liability is current when:

- It is expected to be settled in a normal operating cycle;
- It is held primarily for the purpose of trading;
- It is due to be settled within twelve months after the reporting period; or
- There is no unconditional right to defer the settlement of the liability for at least twelve months after the reporting period

The Company classifies all other liabilities as non-current.

**Joint operation**

A joint operation is a type of joint arrangement whereby the parties that have joint control of the arrangement have rights to the assets and obligations for the liabilities, relating to the arrangement. In relation to its interests in joint operations, the Company recognises its:

- assets, including its share of any assets held jointly;
- liabilities, including its share of any liabilities incurred jointly;
- revenue from the sale of its share of the output arising from the joint operation;
- share of the revenue from the sale of the output by the joint operation; and
- expenses, including its share of any expenses incurred jointly.

In addition, gains and losses resulting from sale or contribution of assets, income from rendering of services and recharge of expenses are recognised in the statement of comprehensive income only to the extent of the other party's interest in the joint operation.

**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:

| | |
|---|---|
| Portacabins | 5 years |
| Plant and equipment | 3 to 5 years |
| Furniture, fixtures and office equipment | 3 to 5 years |
| Motor vehicles | 5 years |

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

## 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.

**Intangible assets**
Intangible assets with finite lives are amortised over the useful economic life and assessed for impairment whenever there is an indication that the intangible asset may be impaired. The amortisation period and the amortisation method for an intangible asset with a finite useful life is reviewed at least at the end of each reporting period. Changes in the expected useful life or the expected pattern of consumption of future economic benefits embodied in the asset is accounted for by changing the amortisation period or method, as appropriate, and are treated as changes in accounting estimates. The amortisation expense on intangible assets with finite lives is recognised in the statement of comprehensive income in the expense category consistent with the function of the intangible assets.

**Inventories**
Inventories comprise of site materials and consumables required for construction purposes land are stated at the lower of cost and net realisable value. Costs are those expenses incurred in bringing each product to its present location and condition and are stated on a weighted average basis.

Net realisable value is the estimated selling price in the ordinary course of business, less estimated costs of completion and the estimated costs necessary to make the sale.

**Due from / to customers for contract work**
The aggregate of the costs incurred and the profits/losses recognised on contracts is compared against the progress billings up to the year-end. Where the sum of the costs incurred and recognised profits or losses exceed the progress billings, the balance is shown as due from customers for contract work. Where the progress billings exceed the sum of costs incurred and recognised profits or losses, the balance is shown as due to customers for contract work.

**Financial assets**
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.

The Company's financial assets include contract and retention receivables, bank balances and cash, amounts due from related parties and other receivables.

***Subsequent measurement***
Subsequent measurement of financial assets depends on their classification as described below:

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

## 2 SIGNIFICANT ACCOUNTING POLICIES (continued)

**Financial assets (continued)**
***Subsequent measurement (continued)***

*Cash and cash equivalents*
For the purpose of statement of cash flows, cash and cash equivalents consist of cash in hand and at bank, net of outstanding bank overdrafts.

**Impairment and uncollectibility of financial assets**
The Company assesses, at each reporting date, whether there is objective evidence that a financial asset or a group of financial assets is impaired. An impairment exists if one or more events that has occurred since the initial recognition of the asset (an incurred 'loss event'), has an impact on the estimated future cash flows of the financial asset or the group of financial assets that can be reliably estimated. Evidence of impairment may include indications that the debtors or a group of debtors is experiencing significant financial difficulty, default or delinquency in interest or principal payments, the probability that they will enter bankruptcy or other financial reorganisation and observable data indicating that there is a measurable decrease in the estimated future cash flows, such as changes in arrears or economic conditions that correlate with defaults.

Impairment of financial assets is determined as follows:

- For assets carried at fair value, impairment is the difference between cost and fair value, less any impairment loss previously 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; and
- For assets carried at amortised cost, impairment is the difference between the carrying amount and the present value of future cash flows discounted at the original effective interest rate.

**Financial liabilities**
Financial liabilities are recognised initially at fair value and in the case of loans and borrowings net of directly attributable transaction costs.

The Company's financial liabilities includes contract payables, retentions payable, term loan, bank overdrafts and other payables.

*Subsequent measurement*
Subsequent measurement of financial liabilities depends on their classification as follows:

*Term loan*
After initial recognition, interest bearing loans and borrowings are subsequently measured at amortised cost using the effective interest rate method ("EIR"). Gains and losses are recognised in the statement of comprehensive income when the liabilities are derecognised as well as through the EIR amortisation process.

*Contract and retention payables*
Liabilities for contract and retention 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.

## 2 SIGNIFICANT ACCOUNTING POLICIES (continued)

**Amortised cost of financial instruments**
Amortised cost is computed using the effective interest rate 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.

**Fair value measurement**
Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The fair value measurement is based on the presumption that the transaction to sell the asset or transfer the liability takes place either:

a) In the principal market for the asset or liability; or
b) In the absence of a principal market, in the most advantageous market for the asset or liability.

The principal or the most advantageous market must be accessible by the Company.

The fair value of an asset or a liability is measured using the assumptions that market participants would use when pricing the asset or liability, assuming that market participants act in their economic best interest.

A fair value measurement of a non-financial asset takes into account a market participant's ability to generate economic benefits by using the asset in its highest and best use or by selling it to another market participant that would use the asset in its highest and best use.

The Company uses valuation techniques that are appropriate in the circumstances and for which sufficient data are available to measure fair value, maximizing the use of relevant observable inputs and minimizing the use of unobservable inputs.

All assets and liabilities for which fair value is measured or disclosed in the financial statements are categorised within the fair value hierarchy, described as follows, based on the lowest level input that is significant to the fair value measurement as a whole:

a) Level 1 - Quoted (unadjusted) market prices in active markets for identical assets or liabilities;
b) Level 2 - Valuation techniques for which the lowest level input that is significant to the fair value measurement is directly or indirectly observable; and
c) Level 3 - Valuation techniques for which the lowest level input that is significant to the fair value measurement is unobservable.

For assets and liabilities that are recognised in the financial statements on a recurring basis, the Company determines whether transfers have occurred between Levels in the hierarchy by re-assessing categorisation (based on the lowest level input that is significant to the fair value measurement as a whole) at the end of each reporting period.

For the purpose of fair value disclosures, the Company has determined classes of assets and liabilities on the basis of the nature, characteristics and risks of the asset or liability and the level of fair value hierarchy as explained above.

## 2 SIGNIFICANT ACCOUNTING POLICIES (continued)

**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 expired.

**Provisions**

Provisions are recognised when the Company has a present obligation (legal or constructive) as a result of a past event, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation. Where the Company expects some or all of a provision to be reimbursed, for example, under an insurance contract, the reimbursement is recognised as a separate asset, but only when the reimbursement is virtually certain. The expense relating to any provision is presented in the statement of comprehensive income net of any reimbursement.

**Employees' end of service benefits**

The Company makes contributions to the Social Insurance Organisation (SIO) for its employees calculated as a percentage of the employees' salaries. The Company's obligations are limited to these contributions, which are expensed when due.

The Company also provides end of service benefits to its expatriate employees. The entitlement to these benefits is based upon the employees' final salary and length of service. The expected costs of these benefits are accrued over the period of employment.

**Revenue recognition**

*Construction contracts*

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

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

Other income is recognised on an accrual basis when income is earned, provided that the amounts can be measured reliably.

## 2 SIGNIFICANT ACCOUNTING POLICIES (continued)

**Leases**
Leases where the lessor retains substantially all the risks and benefits of ownership of the asset are classified as operating leases. Operating lease payments are recognised as an expense in the statement of comprehensive income on a straight-line basis over the lease term.

**Foreign currencies**
Transactions in foreign currencies are recorded at the rate ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are retranslated at the rate of exchange ruling at the reporting 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 rate as at the dates of the initial transactions. Non-monetary items measured at fair value in a foreign currency are translated using exchange rates at the date when the fair value is determined.

## 3 SIGNIFICANT JUDGEMENTS, ESTIMATES AND ASSUMPTIONS

The preparation of the Company's financial statements requires Board of Directors 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.

**Judgements**
In the process of applying the Company's accounting policies, the Board of Directors has made the following judgements which have the most significant effect on the amounts recognised in the financial statements:

*Going concern*
The Company's Board of Directors has made an assessment of the Company's ability to continue as a going concern and is satisfied that the Company has the resources to continue the business for the foreseeable future. Furthermore, the Board of Directors is not aware of any material uncertainties that may cast a significant doubt about the Company's ability to continue as a going concern. Therefore, the financial statements continue to be prepared on a going concern basis.

*Joint arrangements*
Under IFRS 11, investment in a joint arrangement is classified either as a joint operation or a joint venture depending on the contractual rights and obligations each investor has in the joint arrangement rather than the legal structure of the joint arrangement. The Company has assessed the nature of its joint arrangements and determined the Company's joint arrangements qualify as joint operations on account of the following:

- the Joint arrangement does not have a separate legal structure; and
- the Joint Operators have the rights to the assets and income, obligations for the liabilities and expenses of the joint arrangements.

*Operating lease - the Company as lessee*
The Company has entered into a commercial property lease on its office premises. The Company has determined, based on an evaluation of the terms and conditions of the arrangements that the lessor retains all the significant risks and rewards of ownership of these assets and so accounts for the contract as an operating lease.

## 3 SIGNIFICANT JUDGEMENTS, ESTIMATES AND ASSUMPTIONS (continued)

**Estimates and assumptions**

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 retentions and contract receivables*

An estimate of the collectible amount of contract and retention 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 reporting date, gross contract and retention receivables were BD 6,933,736 (2015: BD 8,329,821) and there was no doubtful contract or retention receivables as of 31 December 2016 and as of 31 December 2015.

*Contract revenue and costs-to-complete*

The contract revenue for the year is determined by reference to the percentage of completion method. Percentage of completion is measured by reference to costs incurred to date as a percentage of total estimated costs for each contract. In particular, significant judgement by the Board of Directors is required in the estimation of the amount of future costs and revenues when determining the percentage of completion and the amount of revenue to be recognised on contracts in progress at the year-end.

*Provision for expected losses*

The Company's Board of Directors reviews contracts in progress periodically to determine whether the cost estimates are accurate. Significant judgement is required for determining the future costs and any loss expected is recognised immediately in the statement of comprehensive income. The Board of Directors' review of outstanding contracts as of 31 December 2016 has not identified any expected losses (2015: BD 4,561 was written off).

*Impairment of property, plant and equipment and computer software*

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 the 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. The Board of Directors does not believe there is any indication of impairment of property, plant and equipment and computer software as at the reporting date.

*Useful lives of property, plant and equipment and computer software*

The Company's Board of Directors determines the estimated useful lives of its property, plant and equipment and intangible assets for calculating depreciation and amortisation. This estimate is determined after considering the expected usage of the asset or physical wear and tear. The residual values and useful lives are reviewed annually and future depreciation charges/amortisation would be adjusted where the Board of Directors believes the useful lives differ from previous estimates.

## 3 SIGNIFICANT JUDGEMENTS, ESTIMATES AND ASSUMPTIONS (continued)

**Estimates and assumptions (continued)**
*Impairment of inventories*
Inventories are held at the lower of cost and net realisable value. When inventories become old or obsolete these are written off. For slow-moving inventories, estimation is made on a collective basis based on the type of inventories and their expected usage and a provision is recognised.

At the reporting date, gross inventories were BD 546,838 (2015: BD 460,733) and the Board of Directors' assessment indicated that no provision for slow moving inventories is required as of 31 December 2016 and as of 31 December 2015.

## 4 PROPERTY, PLANT AND EQUIPMENT

| *2016* | *Portacabins BD* | *Plant and equipment BD* | *Furniture, fixtures and office equipment BD* | *Motor vehicles BD* | *Total BD* |
|---|---|---|---|---|---|
| Cost: | | | | | |
| At 1 January 2016 | 444,475 | 2,213,297 | 216,203 | 454,723 | 3,328,698 |
| Additions | 55,168 | 75,991 | 43,029 | 54,407 | 228,595 |
| Disposals | (7,845) | - | (2,023) | - | (9,868) |
| At 31 December 2016 | 491,798 | 2,289,288 | 257,209 | 509,130 | 3,547,425 |
| Depreciation: | | | | | |
| At 1 January 2016 | 360,224 | 1,804,177 | 197,113 | 389,554 | 2,751,068 |
| Charge for the year | 34,926 | 127,012 | 21,592 | 31,063 | 214,593 |
| Relating to disposals | (7,845) | - | (2,023) | - | (9,868) |
| At 31 December 2016 | 387,305 | 1,931,189 | 216,682 | 420,617 | 2,955,793 |
| Net book values: | | | | | |
| **At 31 December 2016** | **104,493** | **358,099** | **40,527** | **88,513** | **591,632** |

| 2015 | *Portacabins BD* | *Plant and equipment BD* | *Furniture, fixtures and office equipment BD* | *Motor vehicles BD* | *Total BD* |
|---|---|---|---|---|---|
| Cost: | | | | | |
| At 1 January 2015 | 444,475 | 2,025,157 | 206,638 | 453,071 | 3,129,341 |
| Additions | - | 188,140 | 9,565 | 6,975 | 204,680 |
| Disposals | - | - | - | (5,323) | (5,323) |
| At 31 December 2015 | 444,475 | 2,213,297 | 216,203 | 454,723 | 3,328,698 |
| Depreciation: | | | | | |
| At 1 January 2015 | 335,991 | 1,720,217 | 177,111 | 371,409 | 2,604,728 |
| Charge for the year | 24,233 | 83,960 | 20,002 | 23,468 | 151,663 |
| Relating to disposals | - | - | - | (5,323) | (5,323) |
| At 31 December 2015 | 360,224 | 1,804,177 | 197,113 | 389,554 | 2,751,068 |
| Net book values: | | | | | |
| At 31 December 2015 | 84,251 | 409,120 | 19,090 | 65,169 | 577,630 |

## 4 PROPERTY, PLANT AND EQUIPMENT (continued)

The depreciation charge for the year has been included in the statement of comprehensive income as follows:

| | *2016* *BD* | *2015* *BD* |
|---|---|---|
| Direct costs (note 15) | **194,668** | 128,897 |
| General and administration expenses | **19,925** | 22,766 |
| | **214,593** | 151,663 |

## 5 COMPUTER SOFTWARE

| | *2016* *BD* | *2015* *BD* |
|---|---|---|
| Cost: | | |
| At 1 January | **13,470** | 13,470 |
| Additions | **2,449** | - |
| At 31 December | **15,919** | 13,470 |
| Amortisation: | | |
| At 1 January | **12,516** | 10,715 |
| Charge for the year | **2,354** | 1,801 |
| At 31 December | **14,870** | 12,516 |
| Net carrying values: | | |
| At 31 December | **1,049** | 954 |

Computer software is amortised over its expected useful life of three years and the amortisation is included under direct costs.

## 6 INVENTORIES

Inventories comprise site materials and consumables required for construction purposes. As of 31 December 2016 and as of 31 December 2015, there were no slow moving inventories.

## 7 DUE FROM CUSTOMERS FOR CONTRACT WORK

| | *2016* *BD* | *2015* *BD* |
|---|---|---|
| Contract costs incurred to date | **50,581,369** | 29,190,316 |
| Recognised profits | **413,905** | 246,290 |
| Write off of future projected losses | - | (4,561) |
| Total value of work executed to date | **50,995,274** | 29,432,045 |
| Progress billings | **(47,933,819)** | (26,255,683) |
| | **3,061,455** | 3,176,362 |

## 8 CONTRACT AND OTHER RECEIVABLES

| | *2016* *BD* | *2015* *BD* |
|---|---|---|
| Contract receivables | **2,318,197** | 5,702,127 |
| Retentions receivable | **4,615,539** | 2,627,694 |
| | **6,933,736** | 8,329,821 |
| Due from related parties (note 19) | **1,103,333** | 1,359,332 |
| Advances to suppliers | **1,107,098** | 2,683,862 |
| Prepayments | **166,554** | 215,459 |
| Other receivables | **328,391** | 81,807 |
| | **9,639,112** | 12,670,281 |
| Less: Non-current retentions receivable | **(3,458,766)** | (2,530,252) |
| | **6,180,346** | 10,140,029 |

Contract receivables are non-interest bearing and are due to be generally settled within 15 days of approval of work completion certificate by the customer.

Terms and conditions relating to amounts due from related parties are disclosed in note 19.

During the year ended 31 December 2016, the Company wrote off other receivables amounting to BD 1,500 (2015: BD 39,598) as the management assessed that these were no longer collectible.

As at 31 December 2016 and as of 31 December 2015, none of the contract receivables and retentions were impaired and the aging of unimpaired contract receivables and retentions is as follows:

| | | | *Past due but not impaired* | | | |
|---|---|---|---|---|---|---|
| | *Total* *BD* | *Neither past due nor impaired* *BD* | *Under 30 days* *BD* | *30 – 90 days* *BD* | *90 – 120 days* *BD* | *over 120 days* *BD* |
| ***31 December 2016*** | **6,933,736** | **1,486,995** | **799,449** | **3,450** | **-** | **4,643,842** |
| *31 December 2015* | 8,329,821 | 919,452 | 1,296,894 | 158,978 | 96,742 | 5,857,755 |

Unimpaired contract receivables and retentions 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 retentions and the majority are, therefore, unsecured. Collections from contract receivables and retentions have been assigned as security for bank overdraft facilities and a term loan availed by the Company (note 9 and note 12).

## 9 CASH AND CASH EQUIVALENTS

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

| | *2016* *BD* | *2015* *BD* |
|---|---|---|
| Bank balances | **582,067** | 172,996 |
| Cash in hand | **2,155** | 1,674 |
| Bank balances and cash | **584,222** | 174,670 |
| Bank overdrafts | **(541,473)** | (1,357,525) |
| Cash and cash equivalents | **42,749** | (1,182,855) |

Bank balances are non interest bearing, denominated in Bahraini Dinars and Euros and are held with commercial banks in the Kingdom of Bahrain. Bank overdrafts are denominated in Bahraini Dinars and carry interest at one month Bahrain Interbank Offer Rate (BIBOR) plus 5.6% per annum (2015: BIBOR plus 5.5% per annum). The effective interest rate as of 31 December 2016 was 7.4% (2015: 7.2%) The facility is secured by assignment of contract receivables and retentions (note 8) and subcontractors' bonds, guarantees to the bank and guarantee of the parent company.

At 31 December 2016, the Company had BD 1,008,527 (2015: BD 192,475) of undrawn portion of bank overdrafts.

## 10 SHARE CAPITAL

| | *2016* *BD* | *2015* *BD* |
|---|---|---|
| Issued and paid up | | |
| 20,000 shares of BD 50 each fully paid | **1,000,000** | 1,000,000 |

The shareholders and their shareholding percentages are as follows:

| | *2016* | *2015* |
|---|---|---|
| Terna Bahrain Holding W.L.L. | **99.99%** | 99.99% |
| Terna Overseas Limited | **0.01%** | 0.01% |
| | **100.00%** | 100.00% |

On 1 December 2016, the Company's shareholders resolved to increase the share capital of the Company to BD 2,000,000. The shareholders have contributed BD 350,000 towards the increase in share capital up to 31 December 2016 and the balance amount of BD 650,000 was received on 12 January 2017. The Company has recognised BD 1,000,000 as additional contribution and BD 650,000 received from the Company's shareholders on 12 January 2017 is disclosed as a receivable from the shareholders in the Company's financial statements as of 31 December 2016.

## 11 STATUTORY RESERVE

The Bahrain Commercial Companies Law and the Company's memorandum of association, require the Company to transfer 10% of the profit for the year to the statutory reserve. The Company may resolve to discontinue such annual transfers when the reserve equals 50% of the paid-up share capital. The reserve cannot be utilised for the purpose of distribution except in such circumstances as stipulated in the Bahrain Commercial Companies Law.

## 12 TERM LOAN

The loan, denominated in Bahraini Dinars, was obtained from a commercial bank in the Kingdom of Bahrain to finance the purchase of assets for the construction of a project. The loan carries interest at one month Bahrain Interbank Offer Rate (BIBOR) plus 5.5% per annum (2015: 5.6%). The loan including the interest is payable in 10 equal monthly instalments. The first instalment was payable after 18 months from the date of the first drawdown which was 30 September 2014. The effective interest rate of the loan as of 31 December 2016 was 6.9% (2015: 6.55%).

The loan is disclosed in the statement of financial position as follows:

| | ***2016*** ***BD*** | *2015* *BD* |
|---|---|---|
| Current | **38,604** | 347,597 |
| Non-current | **-** | 38,621 |
| | **38,604** | 386,218 |

Term loan is secured by assignment of collections from contract receivables and retentions (note 8) and the assignment of subcontractor's bonds / guarantees to the bank.

## 13 EMPLOYEES' END OF SERVICE BENEFITS

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

| | ***2016*** ***BD*** | *2015* *BD* |
|---|---|---|
| At 1 January | **615,497** | 562,438 |
| Provided during the year (note 17) | **190,567** | 112,247 |
| Paid during the year | **(145,103)** | (59,188) |
| At 31 December | **660,961** | 615,497 |

During the year ended 31 December 2016, end of service benefits of BD 22,378 relating to the Company's employees recruited for the Joint Operations have been recharged to the Joint Operations and the Company's share is BD 11,189 (2015: nil).

## 14 TRADE AND OTHER PAYABLES

| | ***2016*** ***BD*** | *2015* *BD* |
|---|---|---|
| Contract payables | **4,203,192** | 5,518,737 |
| Contract advances | **2,607,989** | 4,393,772 |
| Accrued expenses | **508,188** | 743,051 |
| Retentions payable | **1,238,794** | 688,111 |
| Employee related accruals | **591,004** | 486,692 |
| Other payables | **372,345** | 263,399 |
| Other payables - related parties (note 19) | **199,007** | 173,949 |
| | **9,720,519** | 12,267,711 |
| Less: Non-current retentions payable | **(895,959)** | (354,022) |
| | **8,824,560** | 11,913,689 |

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

## 14 TRADE AND OTHER PAYABLES (continued)

Contract advances comprise of advances received from customers as per contractual agreements. They are adjusted according to the contractual provisions at the time of issuance of each invoice.

Retentions are non interest bearing and payable in accordance with the terms of contracts.

For terms and conditions for other payables to related parties see note 19.

## 15 DIRECT COSTS

| | *2016* *BD* | *2015* *BD* |
|---|---|---|
| Sub-contractors' costs | **7,358,472** | 1,549,692 |
| Staff costs (note 17) | **5,557,946** | 4,139,317 |
| Materials | **5,208,311** | 3,986,937 |
| Consultants' fees and technician charges | **474,494** | 432,319 |
| Travel | **184,561** | 198,770 |
| Consumables | **241,053** | 159,022 |
| Motor vehicle hire and expenses | **398,427** | 150,373 |
| Depreciation (note 4) | **194,668** | 128,897 |
| Repairs and maintenance | **125,281** | 90,896 |
| Communication | **34,381** | 37,266 |
| Other expenses | **35,689** | 28,386 |
| | **19,813,283** | 10,901,875 |

## 16 OTHER INCOME

| | *2016* *BD* | *2015* *BD* |
|---|---|---|
| Income from recharge of expenses to the Joint Operator | **504,837** | - |
| Ancillary works not related to contracts | **3,159** | 11,626 |
| Sale of scrap | **22,474** | 43,732 |
| Miscellaneous | **4,904** | 6,404 |
| | **535,374** | 61,762 |

## 17 PROFIT FOR THE YEAR

Profit for the year is stated after charging:
a) Staff costs
Staff costs have been included in the statement of comprehensive income as follows:

| | *2016* *BD* | *2015* *BD* |
|---|---|---|
| Direct costs (note 15) | **5,557,946** | 4,139,317 |
| General and administration expenses | **781,968** | 840,631 |
| | **6,339,914** | 4,979,948 |

## 17 PROFIT FOR THE YEAR (continued)

a) Staff costs (continued)

| | *2016* *BD* | *2015* *BD* |
|---|---|---|
| Staff costs comprise of the following: | | |
| Salaries and wages | **3,934,025** | 3,150,130 |
| Other staff benefits and expenses | **1,976,195** | 1,550,837 |
| Contributions to Social Insurance Organisation | **203,837** | 158,308 |
| Employees' end of service benefits (note 13) | **190,567** | 112,247 |
| Hire of labour | **35,290** | 8,426 |
| | **6,339,914** | 4,979,948 |

| | *2016* *BD* | *2015* *BD* |
|---|---|---|
| b) Finance costs: | | |
| Interest on bank overdrafts | **71,103** | 94,989 |
| Interest on term loan | **17,380** | 5,901 |
| Interest expense | **88,483** | 100,890 |
| Commissions on letters of guarantee | **555,372** | 231,450 |
| Bank charges | **5,249** | 7,286 |
| | **649,104** | 339,626 |
| c) Rentals-operating leases | **72,000** | 72,000 |

## 18 INVESTMENTS IN JOINT OPERATIONS

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

**a) TERNA-CGCE JV (AMAS - 1)**
The Joint Operation was formed on 19 August 2015 and is involved in the construction, testing and commissioning of the Primary Sewer Testing and TSE networks of the Al Madina Al Shamaliya Project, Northern Governorate, Kingdom of Bahrain for the Ministry of Housing, Kingdom of Bahrain.

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

The Company's share of commitments of the Joint Operations is disclosed in note 20.

## 19 RELATED PARTY TRANSACTIONS

Related parties represent the ultimate parent company, the parent company, the Joint Operations, directors and key management personnel of the Company, and entities controlled, jointly controlled or significantly influenced by such parties. Pricing policies and terms of these transactions are approved by the Company's Board of Directors.

## 19 RELATED PARTY TRANSACTIONS (continued)

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

| | **2016** | | 2015 | |
|---|---|---|---|---|
| | ***Expenses BD*** | ***Other income BD*** | *Expenses BD* | *Other income BD* |
| ***Shareholder*** | | | | |
| Terna Bahrain Holding W.L.L. | - | **3,159** | - | 7,881 |
| ***Group companies*** | | | | |
| Terna S.A. | **30,777** | - | 28,778 | - |
| Terna S.A. Saudi Branch | **41** | - | - | - |
| | **30,818** | **3,159** | 28,778 | 7,881 |

Balances with related parties included in the statement of financial position as at 31 December are as follows:

| | **2016** | | 2015 | |
|---|---|---|---|---|
| | ***Receivables BD*** | ***Payables BD*** | *Receivables BD* | *Payables BD* |
| ***Shareholders*** | | | | |
| Terna Bahrain Holding W.L.L. | **906,358** | - | 751,739 | - |
| Terna Overseas Ltd. | - | **148,376** | - | - |
| ***Group companies*** | | | | |
| Terna S.A. (Abu Dhabi branch) | **175,638** | - | 175,638 | - |
| Terna S.A. | **20,837** | - | - | 123,264 |
| Terna Sharjah | - | **50,631** | - | 50,685 |
| Terna Qatar Company L.L.C | - | - | 207,691 | - |
| ***Fellow subsidiaries*** | | | | |
| Terna Ventures W.L.L. | **500** | - | - | - |
| Terna Mechanical and Electrical W.L.L. | - | - | 224,264 | - |
| | **1,103,333** | **199,007** | 1,359,332 | 173,949 |

During the year ended 31 December 2016, Terna Mechanical and Electrical W.L.L. has filed for liquidation and the amount of BD 128,911 due from this related party has been written off (2015: nil).

**Terms and conditions of transactions with related parties:**
Outstanding balances at the year end are unsecured, interest free and payable on demand. There have been no guarantees provided or received for any related party receivables or payables. For the years ended 31 December 2016 and 31 December 2015, the Company has not recorded any impairment of receivables relating to amounts owed by related parties (2015: nil).

**Compensation of key management personnel**
The remuneration of key management personnel during the year was as follows;

| | ***2016 BD*** | *2015 BD* |
|---|---|---|
| Short-term benefits | **121,243** | 151,559 |
| Employees' end of service benefits | **5,600** | 11,817 |
| | **126,843** | 163,376 |

## 20 CONTINGENCIES AND COMMITMENTS

### a) Guarantees

The Company's bankers have given performance and advance payment guarantees amounting to BD 5,787,974 (2015: BD 7,098,137) in respect of various contracts undertaken for execution. These are secured by joint and several guarantees from the Company's shareholders.

During the year performance bonds and advance payment guarantee of BD 9,177,156 were issued by banks on behalf the Joint Operations and any contingencies in this regard will be borne equally by the Joint Operators in the ratio of their interest in the Joint Operations and the Company's share is BD 4,588,578. A non-interest earning security deposit of BD 490,037 was deposited by the Joint Operation and the Company's share is BD 245,019 (2015: nil).

### b) Lease commitments

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

| | *2016* BD | *2015* BD |
|---|---|---|
| Less than one year | **188,376** | 71,227 |
| More than one year and less than five years | **453,017** | 63,389 |
| | **641,393** | 134,616 |

Lease commitments include BD 154,853 relating to the Joint Operations, of which the Company's share is BD 77,427 (2015: nil).

## 21 FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

### Introduction

The Company manages risk through a process of ongoing identification and monitoring of the risks it faces. The Company is exposed to market risk, credit risk and liquidity risk.

The Company's senior management oversees the management of these risks. The Board of Directors reviews and agrees policies for managing each of these risks, which are summarised below:

### Market risk

Market risk is a risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices. Market risk includes interest rate risk and foreign currency risk.

*Interest rate risk*

Interest rate risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of the changes in market interest rates. The Company is exposed to interest rate risk on bank overdrafts and term loan.

The sensitivity of the statement of comprehensive income is the effect of the assumed changes in interest rates on the Company's results for one year for floating rate financial instruments held at 31 December 2016 and at 31 December 2015.

An increase or decrease in the interest rate by 100 basis points with other variables remaining constant, would have an insignificant effect on the Company's results for the years ended 31 December 2016 and 31 December 2015.

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

**Market risk (continued)**

*Foreign currency risk*

Foreign currency risk is that the fair value or future cash flows of a financial instrument will fluctuate due to change in foreign exchange rates.

The Company's exposure to foreign currency risk is limited to its bank balances, other payables and balances with related parties that are denominated in Euro.

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 related parties is as follows:

| | *Increase/ decrease in Euro to the Bahraini Dinar* | *Results for the year BD* |
|---|---|---|
| ***31 December 2016*** | **+5%** | **7,673** |
| | **-5%** | **(7,673)** |
| *31 December 2015* | +5% | 6,163 |
| | -5% | (6,163) |

The Company also has balances denominated in United Arab Emirates Dirhams (AED) and United States Dollars (USD) and no significant foreign currency risk exists on balances in AED and USD as the AED and BD are pegged to the USD.

**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.

Credit risk related to receivables is managed according to the Company's policy, procedures and control relating to customer credit risk management. Credit quality of the customer is assessed by the management. Outstanding customer receivables are regularly monitored. The Company does not perceive any risk with respect to related party receivables. Its two largest customers account for 99% of outstanding contract receivables (2015: 99%)

Credit risk related to balances with banks is managed by ensuring that the balances are kept with reputed banks. The Company's maximum exposure to credit risk with respect to contract and other receivables, retentions receivable and bank balances is limited to their carrying amounts as disclosed in the statement of financial position.

**Liquidity risk**

Liquidity risk (also referred to as funding risk) is the risk that an entity will encounter difficulties in meeting its commitments associated with financial liabilities.

The Company limits its liquidity risk by ensuring that bank facilities are available. The Company's terms of payment require amounts to be paid within 15 days of approval of work completion certificate. Trade payables are normally settled within 60 days of the date of invoice.

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

**Liquidity risk (continued)**

The table below summarises the maturities of the Company's undiscounted financial liabilities, based on the payment dates:

| ***31 December 2016*** | ***Less than 3 months BD*** | ***3 to 12 months BD*** | ***1 to 5 years BD*** | ***Total BD*** |
|---|---|---|---|---|
| Term loan | **38,780** | - | - | **38,780** |
| Contract payables | **4,203,192** | - | - | **4,203,192** |
| Other payables - related parties | **199,007** | - | - | **199,007** |
| Retentions payable | - | **342,835** | **895,959** | **1,238,794** |
| Other payables | **372,345** | - | - | **372,345** |
| Bank overdrafts | **548,918** | - | - | **548,918** |
| | **5,362,242** | **342,835** | **895,959** | **6,601,036** |

| *31 December 2015* | *Less than 3 months BD* | *3 to 12 months BD* | *1 to 5 years BD* | *Total BD* |
|---|---|---|---|---|
| Term loan | - | 364,976 | 38,798 | 403,774 |
| Contract payables | 3,716,125 | 1,802,612 | - | 5,518,737 |
| Other payables - related parties | 173,949 | - | - | 173,949 |
| Retentions payable | - | 334,089 | 354,022 | 688,111 |
| Other payables | 263,399 | - | - | 263,399 |
| Bank overdrafts | 1,376,190 | - | - | 1,376,190 |
| | 5,529,663 | 2,501,677 | 392,820 | 8,424,160 |

**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 shareholders' 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 its capital structure and makes adjustments to it in light of changes in economic conditions.

No changes were made in the objectives, policies or processes during the years ended 31 December 2016 and 31 December 2015. Equity comprises share capital, additional capital contribution, statutory reserve and retained earnings and is measured at BD 3,058,520 as at 31 December 2016 (2015: BD 2,433,679).

## 22 FAIR VALUES OF FINANCIAL INSTRUMENTS

Financial instruments comprise of financial assets and financial liabilities.

Financial assets consist of bank balances and cash, contract and retention receivables and other receivables. Financial liabilities consist of term loan, bank overdrafts, contract payables, other payables and retention payable.

The fair values of the Company's financial assets and liabilities are not materially different from their carrying values as of the reporting date largely due to the short term maturities of these instruments.

As at 31 December 2016 and as at 31 December 2015, the Company did not hold any financial instrument, remeasured at fair value, therefore, disclosure related to fair value hierarchy is not relevant.