Terna Mechanical and Electrical W.L.L

REPORT OF THE BOARD OF DIRECTORS AND FINANCIAL STATEMENTS

31 DECEMBER 2012

REPORT OF THE BOARD OF DIRECTORS

The Directors have pleasure in submitting their report and the audited financial statements of Terna Mechanical and Electrical W.L.L. ('the Company') for the year ended 31 December 2012.

Principal activities

The company is engaged in construction contracting activities. 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.

Results and (accumulated losses) retained earnings

During the year, the Company generated contract revenue of BD 33,564 (2011: BD 965,962) and reported a loss of BD 811,925 (2011: BD 643,892).

The movements in retained earnings (accumulated losses) are as follows:

	2012 *BD*	*2011* *BD*
Balance as at 1 January	**756,467**	1,400,359
Loss for the year	**(811,925)**	(643,892)
Balance as at 31 December	**(55,458)**	756,467

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 2013, will be submitted at the Annual General Meeting.

Signed on behalf of the Board of Directors

D. Antonakos
Chairman
21 March 2013

ERNST & YOUNG

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

Report on the Financial Statements

We have audited the accompanying financial statements of Terna Mechanical and Electrical W.L.L. ("the Company"), which comprise the statement of financial position as at 31 December 2012 and the statements of comprehensive income, cash flows and changes in equity for the year then ended, and a summary of significant accounting policies and other explanatory information.

Directors' Responsibility for the Financial Statements

The Company's Board of Directors is responsible for the preparation and fair presentation of these financial statements in accordance with International Financial Reporting Standards, 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.

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 in 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 Board of 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 2012, its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards.

Report on Other 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; and

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

We are not aware of any violations of the Bahrain Commercial Companies Law or the terms of the Company's memorandum and articles of association during the year ended 31 December 2012 that might have had a material adverse effect on the business of the Company or on its financial position. Satisfactory explanations and information have been provided to us by the management in response to all our requests.

Ernst & Young

21 March 2013
Manama, Kingdom of Bahrain

Terna Mechanical and Electrical W.L.L.

STATEMENT OF FINANCIAL POSITION

At 31 December 2012

	Note	*2012* *BD*	*2011* *BD*
ASSETS			
Non-current asset			
Equipment	5	-	7,096
Current assets			
Due from customers for contract work	6	**1,547,179**	2,419,684
Contract and other receivables	7	**3,060,067**	2,985,385
Bank balances and cash	8	**8,898**	70,509
		4,616,144	5,475,578
TOTAL ASSETS		**4,616,144**	5,482,674
EQUITY AND LIABILITIES			
Equity			
Share capital	9	**200,000**	200,000
Statutory reserve	10	**155,595**	155,595
(Accumulated losses) retained earnings		**(55,458)**	756,467
Total equity		**300,137**	1,112,062
Non-current liability			
Employees' end of service benefits	11	-	18,624
Other employee benefits		-	16,160
		-	34,784
Current liabilities			
Due to customers for contract work	6	**25,185**	-
Contract and other payables	12	**4,290,822**	4,335,828
		4,316,007	4,335,828
Total liabilities		**4,316,007**	4,370,612
TOTAL EQUITY AND LIABILITIES		**4,616,144**	5,482,674

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 Year Ended 31 December 2012

	Note	2012 BD	2011 BD
Contract revenue		**33,564**	965,962
Reversal of excess revenue recognised in prior years		**(538,653)**	-
Operating costs	13	**(230,362)**	(1,038,664)
Project material and equipment expenses		**(45,535)**	(444,164)
GROSS LOSS		**(780,986)**	(516,866)
Other income		**4,171**	8,698
Foreign exchange loss		**(8,459)**	(3,406)
General and administrative expenses		**(24,291)**	(127,262)
Bank charges		**(326)**	(5,056)
Future projected losses provided for		**(2,034)**	-
LOSS FOR THE YEAR		**(811,925)**	(643,892)
Other comprehensive income		-	-
TOTAL COMPREHENSIVE INCOME FOR THE YEAR		**(811,925)**	(643,892)

D. Antonakos
Chairman

K. Tappuni
Director

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

STATEMENT OF CASH FLOWS

For the Year Ended 31 December 2012

	Note	*2012 BD*	*2011 BD*
OPERATING ACTIVITIES			
Loss for the year		**(811,925)**	(643,892)
Adjustments for:			
Depreciation	5	**1,600**	10,656
Provision for employees' end of service benefits	11	**-**	8,233
Operating loss before working capital changes		**(810,325)**	(625,003)
Working capital changes:			
Contract and other receivables		**(69,186)**	947,422
Due from customers for contract work		**872,505**	(192,538)
Due to customers for contract work		**25,185**	-
Contract and other payables		**(79,790)**	(173,623)
Cash used in operations		**(61,611)**	(43,742)
Employees' end of service benefits paid	11	**-**	(28,186)
Net cash flows used in operating activities		**(61,611)**	(71,928)
DECREASE IN CASH AND CASH EQUIVALENTS		**(61,611)**	(71,928)
Cash and cash equivalents at 1 January		**70,509**	142,437
CASH AND CASH EQUIVALENTS AT 31 DECEMBER	8	**8,898**	70,509

Non-cash transactions:

Non-cash transactions not included in the above statement of cash flows include:

a) Transfer of equipment having a net book value of BD 5,496 to related parties (2011: BD 11,698) adjusted against contract and other receivables above.

b) Transfer of employees' end of service benefits amounting to BD 18,624 (2011: BD 65,994) and other employee benefits amounting to BD 16,160 to a related party adjusted against contract and other payables above.

STATEMENT OF CHANGES IN EQUITY

For the Year Ended 31 December 2012

	Share capital BD	*Statutory reserve BD*	*Retained earnings / (accumulated losses) BD*	*Total BD*
Balance as at 1 January 2011	200,000	155,595	1,400,359	1,755,954
Total comprehensive income for the year	-	-	(643,892)	(643,892)
Balance as at 31 December 2011	200,000	155,595	756,467	1,112,062
Total comprehensive income for the year	-	-	(811,925)	(811,925)
Balance as at 31 December 2012	**200,000**	**155,595**	**(55,458)**	**300,137**

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

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

The shares of the Company are owned as follows;

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

The financial statements were authorised for issue by the Board of Directors on 21 March 2013.

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 (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 and interpretations effective as of 1 January 2012
The accounting policies adopted are consistent with those of the previous financial year. There are certain standards, amendment to standards and International Financial Reporting Interpretation Committe (IFRIC) interpretations issued as of 1 January 2012, which do not have an impact on the Company's financial statements.

Foreign currencies
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. Non-monetary items measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value is determined.

2 SIGNIFICANT ACCOUNTING POLICIES (continued)

Equipment
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
Computer and office equipment	5 years

Expenditure incurred to replace a component of an item of 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 equipment. All other expenditure is recognised in the statement of comprehensive income as the expense is incurred.

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

Due from / due to customers for contract work
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 contract work. 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 contract work.

Financial assets
The Company's financial assets include contract and other receivables and bank balances and cash.

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

Contract and other receivables
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, net of outstanding overdrafts, if any.

2 SIGNIFICANT ACCOUNTING POLICIES (continued)

Impairment and uncollectibility of financial assets
The Company assesses at each reporting date whether there is any objective evidence that a financial asset or a group of financial assets is impaired. A financial asset or a group of financial assets is deemed to be impaired if, and only if, there is objective evidence of impairment as a result of one or more events that has occurred after the initial recognition of the asset (an incurred 'loss event') and that 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 where observable data indicate that there is a measurable decrease in the estimated future cash flows, such as changes in arrears or economic conditions that correlate with defaults.

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

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

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

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

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.

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.

Derecognition of financial instruments
A financial asset (or, where applicable a part of a financial asset or part of a group of similar financial assets) is derecognised when:
- the rights to receive cash flows from the asset have expired; or
- the Company has transferred its rights to receive cash flows from the asset or has assumed an obligation to pay the received cash flows in full without material delay to a third party under a 'pass-through' arrangement; and either
  (a) the Company has transferred substantially all the risks and rewards of the asset, or
  (b) the Company has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

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

2 SIGNIFICANT ACCOUNTING POLICIES (continued)

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) 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 for end of service benefits to its expatriate employees. The entitlement to these benefits is based upon the employees' final salaries and length of service. The expected costs of these benefits are accrued over the period of employment.

Revenue recognition
Revenue is recognised to the extent that it is probable that the economic benefits will flow to the Company and the revenue can be reliably measured. Revenue is measured at the fair value of the consideration received or receivable, excluding discounts and rebates. The following specific recognition criteria must also be met before revenue is recognised:

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.

3 PROSPECTIVE CHANGES IN ACCOUNTING POLICIES

Standards issued but not yet effective up to the date of issuance of the Company's financial statements are listed below. This listing is of standards and interpretations issued, which the Company reasonably expects to be applicable at a future date. The Company intends to adopt those standards (where applicable) when they become effective:

- *IAS 1 Financial Statement Presentation – Presentation of Items of Other Comprehensive Income effective for annual periods beginning on or after 1 July 2012;*
- *IAS 19 Employee Benefits (Amendment) effective for annual periods beginning on or after 1 January 2013;*
- *IAS 27 Separate Financial Statements (as revised in 2012) effective for annual periods beginning on or after 1 January 2013;*
- *IAS 28 Investments in Associates and Joint Ventures (as revised in 2012) effective for annual periods beginning on or after 1 January 2013;*
- *IFRS 9 Financial Instruments: Classification and Measurement effective for annual periods beginning on or after 1 January 2015;*
- *IFRS 10 Consolidated Financial Statements: This standard becomes effective for annual periods beginning on or after 1 January 2013;*
- *IFRS 11 Joint Arrangements: effective for annual periods beginning on or after 1 January 2013;*
- *IFRS 12 Disclosure of Involvement with Other Entities: effective for annual periods beginning on or after 1 January 2013; and*
- *IFRS 13 Fair Value Measurement: effective for annual periods beginning on or after 1 January 2013.*

Other standards and interpretations that have been issued but are not yet effective are not likely to have any significant impact on the financial statements of the Company in the period of their initial application.

Annual Improvements May 2012
These improvements will not have an impact on the Company, but include:

- *IFRS 1First-time Adoption of IFRS;*
- *IAS 1 Presentation of Financial Statements;*
- *IAS 16 Property Plant and Equipment;*
- *IAS 32 Financial Instruments, Presentation; and*
- *IAS 34 Interim Financial Reporting.*

These improvements are effective for annual periods beginning on or after 1 January 2013.

4 SIGNIFICANT ACCOUNTING JUDGEMENTS 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.

4 SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES (continued)

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 2012, the management considered that all costs to complete and revenue can be reliably measured.

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 2,374,999 (2011: BD 2,147,763) and there was no provision for doubtful debts (2011: Nil). 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 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 equipment as at the statement of financial position date.

Useful lives of equipment
The Company's management determines the estimated useful lives of its 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.

5 EQUIPMENT

	Equipment *BD*	*Motor vehicles* *BD*	*Computer and office equipment* *BD*	*Total* *BD*
Cost:				
At 1 January 2012	12,030	13,537	7,077	32,644
Transfer to related parties (note 14)	(2,960)	(13,537)	(1,840)	(18,337)
At 31 December 2012	9,070	-	5,237	14,307
Depreciation:				
At 1 January 2012	10,910	7,606	7,032	25,548
Charge for the year	1,120	435	45	1,600
Relating to transfer to related parties (note 14)	(2,960)	(8,041)	(1,840)	(12,841)
At 31 December 2012	9,070	-	5,237	14,307
Net book value:				
At 31 December 2012	-	-	-	-

	Equipment *BD*	*Motor vehicles* *BD*	*Computer and office equipment* *BD*	*Total* *BD*
Cost:				
At 1 January 2011	12,030	36,095	7,077	55,202
Transfer to related parties (note 14)	-	(22,558)	-	(22,558)
At 31 December 2011	12,030	13,537	7,077	32,644
Depreciation:				
At 1 January 2011	7,033	12,930	5,789	25,752
Charge for the year	3,877	5,536	1,243	10,656
Transfer to related parties (note 14)	-	(10,860)	-	(10,860)
At 31 December 2011	10,910	7,606	7,032	25,548
Net book value:				
At 31 December 2011	1,120	5,931	45	7,096

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

6 DUE FROM CUSTOMERS FOR CONTRACT WORK

	2012	*2011*
	BD	*BD*
Contract cost incurred till date	**10,916,863**	10,612,061
Recognised profit	**30,170**	840,061
Future projected losses provided for	**(2,034)**	-
Total value of work executed till date including profit	**10,944,999**	11,452,122
Progress billings	**(9,423,005)**	(9,032,438)
	1,521,994	2,419,684
Due from customers for contract work	**1,547,179**	2,419,684
Due to customers for contract work	**(25,185)**	-
	1,521,994	2,419,684

7 CONTRACT AND OTHER RECEIVABLES

	2012	*2011*
	BD	*BD*
Contract receivables from related parties (note 14)	**2,374,999**	2,147,763
Retentions receivable from related parties (note 14)	**399,299**	442,765
Advances to contractors and suppliers	**284,895**	377,614
Other receivable	**874**	564
Advances to employees	**-**	11,967
Prepayments	**-**	4,712
	3,060,067	2,985,385

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

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

For further terms and conditions of related parties, please refer to note 14.

As at 31 December, none of the contract receivables were impaired and the ageing of unimpaired contract receivable is as follows;

			Past due but not impaired			
	Total	*Neither past due nor impaired*	*Up to 60 days*	*60 – 90 days*	*90 – 120 days*	*>120 days*
	BD	*BD*	*BD*	*BD*	*BD*	*BD*
2012	**2,374,999**	**41,096**	**37,426**	**-**	**-**	**2,296,477**
2011	2,147,763	37,164	33,845	-	-	2,076,754

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.

8 CASH AND CASH EQUIVALENTS

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

	2012	*2011*
	BD	*BD*
Bank balances :		
- Bahraini Dinars	**5,702**	11,168
- UAE Dirhams	**1,434**	40,476
- US Dollars	**-**	18,246
Cash in hand	**1,762**	619
	8,898	70,509

9 SHARE CAPITAL

	2012	*2011*
	BD	*BD*
Authorised, issued and fully paid:		
2,000 ordinary shares of BD 100 each	**200,000**	200,000

10 STATUTORY RESERVE

The Bahrain Commercial Companies Law and the Company's memorandum and articles of association requires that 10% of the Company's profit be transferred to the statutory reserve. The Company has resolved to discontinue such annual transfers as the reserve has exceeded 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.

11 EMPLOYEES' END OF SERVICE BENEFITS

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

	2012	*2011*
	BD	*BD*
At 1 January	**18,624**	104,571
Charge for the year (note 13)	-	8,233
Paid during the year	-	(28,186)
Transferred to a group company (note 14)	**(18,624)**	(65,994)
At 31 December	-	18,624

12 CONTRACT AND OTHER PAYABLES

	2012	*2011*
	BD	*BD*
Contract payables - related parties (note 14)	**3,816,022**	3,756,071
Contract payables - others	**257,436**	300,330
Subcontractors	**132,655**	168,167
Retention payable	**79,510**	97,010
Accrued expenses	**5,199**	14,250
	4,290,822	4,335,828

12 CONTRACT AND OTHER PAYABLES (continued)

Contract payables and accrued expenses (including amounts due to related parties) are non-interest bearing and are normally settled on 60 days term.

Retention payable is non interest bearing and payable in accordance with the terms of contracts.

For terms and conditions for amounts due to related parties see note 14.

13 OPERATING COSTS

	2012	*2011*
	BD	*BD*
Sub-contractors work	**182,715**	362,472
Staff costs	**32,257**	554,493
Travel	**13,528**	44,781
Communication	**1,029**	7,329
Motor vehicle hire and expenses	**503**	29,145
Consumables	**330**	5,849
Consultants fees and technician charges	**-**	19,172
Other expenses	**-**	15,423
	230,362	1,038,664

Staff costs comprise the following expenses:

	2012	*2011*
	BD	*BD*
Salaries and wages	**25,924**	517,889
Other staff benefits	**6,333**	98,308
Employees end of service benefits (note 11)	**-**	8,233
Contribution to Social Insurance Organisation	**-**	1,865
	32,257	626,295

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

	2012	*2011*
	BD	*BD*
Operating costs	**32,257**	554,493
General and administrative expenses	**-**	71,802
	32,257	626,295

14 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. The pricing policies and terms of these transactions are approved by the Company's management.

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

14 RELATED PARTY TRANSACTIONS (continued)

	Contract revenue	
	2012	*2011*
	BD	*BD*
Ultimate parent companies		
Terna SA (Sharjah branch)	**15,996**	380,058
Terna S.A. (Abu Dhabi branch)	**-**	428,026
Group company		
Terna Qatar L.L.C.	**-**	(144,712)
Fellow subsidiary		
Terna Contracting W.L.L	**17,568**	302,590
	33,564	965,962

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

	2012		*2011*	
	Contract receivables BD	***Contract payables BD***	*Contract receivables BD*	*Contract payables BD*
Terna S.A (Abu Dhabi branch)	**1,419,915**	**234,837**	1,511,269	268,767
Terna S.A (Sharjah branch)	**909,105**	**3,289,628**	590,514	3,168,267
Terna S.A. - Head office	**-**	**33,160**	-	8,058
Terna Contracting W.L.L.	**-**	**163,384**	-	160,391
Terna Qatar L.L.C	**45,979**	**174**	45,980	174
Terna Bahrain Holding Company W.L.L	**-**	**94,839**	-	150,414
	2,374,999	**3,816,022**	2,147,763	3,756,071

Retention receivables from related parties are as follows:

	2012 BD	*2011 BD*
Terna S.A (Abu Dhabi branch)	**238,338**	237,504
Terna S.A (Sharjah branch)	**160,961**	205,261
	399,299	442,765

During the year, certain employees from the Company were transferred to Terna Contracting W.L.L. As a result end of service benefits amounting to BD 18,624 (note 11) and other employee benefits amounting to BD 16,160 relating to these employees were also transferred. (2011: transfer of end of service benefits amounting to BD 65,994 (note 11) and other employee benefits of BD 69,248 to related parties)

Equipment with a net book value of BD 5,496 (2011: BD 11,698) was transferred to related parties.

14 RELATED PARTY TRANSACTIONS (continued)

The sales to and purchases from related parties are made on terms agreed by the management of the Company. Outstanding balances at the year end are unsecured, interest free and payable on demand. There have been no guarantees provided to or received from any related party receivables or payables. For the year ended 31 December 2012, the Company has not recorded any impairment relating to amounts owed by related parties (2011: nil).

Compensation of key management personnel

The remuneration of key management personnel during the year was as follows:

	2012	*2011*
	BD	*BD*
Short-term benefits	-	71,802
Employees' end of service benefits	-	-
	-	71,802

15 CONTINGENCIES

Bank guarantees

At 31 December 2012, the Company had contingent liability in the form of bank guarantee issued amounting to BD 511,550 (31 December 2011: BD 511,550) from which it is anticipated that no material liability will arise.

16 FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

Introduction

The Company's principal financial liabilities comprise retentions payable and contract payable. The Company has contract and other receivables and cash and bank balances that arise directly from its operations. The Company manages risk through a process of ongoing identification and monitoring of risks it faces. The Company is exposed to liquidity risk, credit risk and foreign currency risk.

Liquidity risk

Liquidity risk is the risk that an entity will have difficulties in meeting its commitments. The Company limits its liquidity risk by ensuring that adequate funds are available from the parent company. Trade payables are normally settled within 60 days of the date of purchase.

The table below summarises the maturities of the Company's undiscounted financial liabilities at the reporting date, based on contractual payment dates and current market interest rate.

31 December 2012	***Less than 3 months BD***	***3 to 12 months BD***	***Total BD***
Contract payables - related parties	**-**	**3,816,022**	**3,816,022**
Contract payables - others	**257,436**	**-**	**257,436**
Subcontractors	**-**	**132,655**	**132,655**
Retentions	**-**	**79,510**	**79,510**
Accrued expenses	**5,199**	**-**	**5,199**
	262,635	**4,028,187**	**4,290,822**

16 FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

31 December 2011	*Less than 3 months BD*	*3 to 12 months BD*	*Total BD*
Contract payables - related parties	-	3,756,071	3,756,071
Contract payables - others	300,330	-	300,330
Subcontractors	-	168,167	168,167
Retentions	-	97,010	97,010
Accrued expenses	14,250	-	14,250
	314,580	4,021,248	4,335,828

Credit risk
Credit risk is the risk that a counterparty will not meet its obligations under a financial instrument or customer contract, leading to a financial loss. The Company is exposed to credit risk on its contract receivables and bank balances.

The Company seeks to limit its credit risk by requesting advance payments, raising progress billings and monitoring outstanding receivables on an ongoing basis. The Company does not perceive any risk with respect to related party receivables. Its three largest customers account for 60% outstanding accounts receivables at 31 December 2012 (2011: 71%).

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 and bank balances is limited to their carrying amounts as disclosed in the statement of financial position.

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

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

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 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.

No changes were made in the objectives, policies or processes during the years ended 31 December 2012 and 31 December 2011. Capital represents equity of the Company and is measured at BD 300,137 as at 31 December 2012 (2011: BD 1,112,062).

17 FAIR VALUES OF FINANCIAL INSTRUMENTS

Financial instruments comprise of financial assets and financial liabilities.

Financial assets consist of bank balances and cash and contract and other receivables. Financial liabilities consist of trade and other payables.

The fair values of the Company's financial assets and liabilities are not materially different from their carrying values as of the statements of financial position dates.