Terna Mechanical and Electrical W.L.L.

REPORT OF THE BOARD OF DIRECTORS AND FINANCIAL STATEMENTS

31 DECEMBER 2013

EY

Building a better working world

Terna Mechanical and Electrical W.L.L

REPORT OF THE BOARD OF DIRECTORS

The Board of Directors has pleasure in submitting its report and the audited financial statements of Terna Mechanical and Electrical W.L.L. ('the Company') for the year ended 31 December 2013.

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

During the year, the Company incurred a loss of BD 2,813,212 (2012: BD 811,925).

The movements in accumulated losses are as follows:

	2013 *BD*	*2012* *BD*
Balance as at 1 January	**(55,458)**	756,467
Loss for the year	**(2,813,212)**	(811,925)
Balance as at 31 December	**(2,868,670)**	(55,458)

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 2014, will be submitted at the Annual General Meeting.

Signed on behalf of the Board of Directors

D. Antonakos
Chairman
9 March 2014

EY
Building a better working world

Ernst & Young
P.O. Box 140
14th Floor, South Tower
Bahrain World Trade Center
Manama
Kingdom of Bahrain

Tel: +973 1753 5455
Fax: +973 1753 5405
manama@bh.ey.com
ey.com/mena
C.R. No. 6700

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 2013 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 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.

Opinion

In our opinion, the financial statements present fairly, in all material respects, the financial position of the Company as of 31 December 2013, its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards.

EY
Building a better working world

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

Emphasis of Matter

Without qualifying our opinion above, we draw attention to note 2 to the financial statements. The Company has incurred a loss of BD 2,813,212 during the year ended 31 December 2013. In addition, as of 31 December 2013, the Company's accumulated losses exceeded its share capital by BD 2,668,670 and the current liabilities of the Company exceeded its current assets by BD 2,513,075. These conditions indicate the existence of a material uncertainty which may cast significant doubt about the Company's ability to continue as a going concern. However, these financial statements have been prepared on a going concern basis as the shareholder of the Parent Company has agreed to provide financial support to the Company to meet its obligations as and when they fall due.

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 2013 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 management in response to all our requests.

Ernst + Young

9 March 2014
Manama, Kingdom of Bahrain

Terna Mechanical and Electrical W.L.L.
STATEMENT OF FINANCIAL POSITION
At 31 December 2013

	Note	2013 BD	2012 BD
ASSETS			
Current assets			
Due from customers for contract work	6	**448,879**	1,547,179
Contract and other receivables	7	**1,414,635**	3,060,067
Bank balances and cash	8	**452**	8,898
		1,863,966	4,616,144
TOTAL ASSETS		**1,863,966**	4,616,144
EQUITY AND LIABILITIES			
Equity			
Share capital	9	**200,000**	200,000
Statutory reserve	10	**155,595**	155,595
Accumulated losses		**(2,868,670)**	(55,458)
Total equity		**(2,513,075)**	300,137
Current liabilities			
Due to customers for contract work	6	-	25,185
Contract and other payables	11	**4,377,041**	4,290,822
		4,377,041	4,316,007
Total liabilities		**4,377,041**	4,316,007
TOTAL EQUITY AND LIABILITIES		**1,863,966**	4,616,144

D. Antonakos
Chairman

E.Natsis
Director

The attached notes 1 to 16 form part of these financial statements.

Terna Mechanical and Electrical W.L.L.

STATEMENT OF COMPREHENSIVE INCOME

For the Year Ended 31 December 2013

	Note	2013 BD	2012 BD
Contract revenue	13	**26,549**	33,564
Reversal of excess revenue recognised in prior years		**-**	(538,653)
Operating costs	12	**(26,513)**	(230,362)
Project material and equipment expenses		**(8,405)**	(45,535)
GROSS LOSS		**(8,369)**	(780,986)
Other income		**2,404**	4,171
Foreign exchange loss		**(11,438)**	(8,459)
General and administrative expenses		**(38,819)**	(24,291)
Impairment loss on due from customers for contract work	6	**(1,099,663)**	-
Impairment loss on contract receivables from related parties	7	**(1,415,153)**	-
Impairment loss on retention receivables from related parties	7	**(242,051)**	-
Bank charges		**(123)**	(326)
Future projected losses provided for		**-**	(2,034)
LOSS FOR THE YEAR		**(2,813,212)**	(811,925)
Other comprehensive income		**-**	-
TOTAL COMPREHENSIVE LOSS FOR THE YEAR		**(2,813,212)**	(811,925)

D. Antonakos
Chairman

E.Natsis
Director

The attached notes 1 to 16 form part of these financial statements.

Terna Mechanical and Electrical W.L.L.

STATEMENT OF CASH FLOWS

For the Year Ended 31 December 2013

	Note	*2013* *BD*	*2012* *BD*
OPERATING ACTIVITIES			
Loss for the year		**(2,813,212)**	(811,925)
Adjustments for:			
Depreciation		**-**	1,600
Impairment loss on due from customers for contracts	6	**1,099,663**	-
Impairment loss on contract receivables	7	**1,415,153**	-
Impairment loss on retention receivables from related parties	7	**242,051**	-
Operating loss before working capital changes		**(56,345)**	(810,325)
Working capital changes:			
Contract and other receivables		**(11,772)**	(69,186)
Due from customers for contract work		**(1,363)**	872,505
Due to customers for contract work		**(25,185)**	25,185
Contract and other payables		**86,219**	(79,790)
Net cash flows used in operating activities		**(8,446)**	(61,611)
DECREASE IN CASH AND CASH EQUIVALENTS		**(8,446)**	(61,611)
Cash and cash equivalents at 1 January		**8,898**	70,509
CASH AND CASH EQUIVALENTS AT 31 DECEMBER	8	**452**	8,898

Non-cash transactions:

Non-cash transactions in 2012 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 adjusted against contract and other receivables; and

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

The attached notes 1 to 16 form part of these financial statements.

Terna Mechanical and Electrical W.L.L.

STATEMENT OF CHANGES IN EQUITY

For the Year Ended 31 December 2013

	Share capital BD	*Statutory reserve BD*	*Retained earnings / (accumulated losses) BD*	*Total BD*
Balance as at 1 January 2012	200,000	155,595	756,467	1,112,062
Total comprehensive loss for the year	-	-	(811,925)	(811,925)
Balance as at 31 December 2012	200,000	155,595	(55,458)	300,137
Total comprehensive loss for the year	-	-	(2,813,212)	(2,813,212)
Balance as at 31 December 2013	**200,000**	**155,595**	**(2,868,670)**	**(2,513,075)**

The attached notes 1 to 16 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. ("the Parent Company"), a company incorporated in the Kingdom of Bahrain. The ultimate parent company is Terna S.A, a company incorporated in and under the laws of Greece. Its registered office is at 85 Mesogeion Av, T.K. 115-26, Athens, Greece.

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

During the year, the Parent Company resolved to acquire the remaining 30% shareholding from KT Holding Bahrain W.L.L. However, the legal formalities are not yet finalised and the Company expects this to be completed during the next financial year. The Company's shareholders and their respective shareholding in the Company is as follows:

Name of the shareholder	***Percentage of shareholding***	
	31 December 2013	***31 December*** *2012*
Terna Bahrain Holding W.L.L.	**70%**	70%
KT Holding Bahrain W.L.L	**30%**	30%

The financial statements were authorised for issue by the Board of Directors on 9 March 2014.

2 FUNDAMENTAL ACCOUNTING CONCEPT

The Company has incurred a loss of BD 2,813,212 during the year ended 31 December 2013. In addition, as of 31 December 2013, the Company's accumulated losses exceeded its share capital by BD 2,668,670 and the current liabilities of the Company exceeded its current assets by BD 2,513,075. Further, the Company depends on support from the shareholder of the Parent Company ("Terna Overseas Limited"). These conditions indicate the existence of a material uncertainity which may cast significant doubt about the Company's ability to continue as a going concern.

The Bahrain Commercial Companies Law requires that in the case of a company that has lost a substantial portion of its capital, an Extraordinary General Meeting of the shareholders should be convened by the Board of Directors at which the shareholders resolve whether or not to continue the operations of the Company. This meeting was convened on 26 February 2014 and the Company's shareholder resolved to continue with the operations of the Company.

In addition, the shareholder of the Parent Company has agreed to provide financial support to the Company to meet its obligations to third parties as and when they fall due. Accordingly, the financial statements have been prepared on a going concern basis.

3 SIGNIFICANT ACCOUNTING POLICIES

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

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

3 SIGNIFICANT ACCOUNTING POLICIES (continued)

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
The accounting policies adopted are consistent with those of the previous financial year, except for the following new and amended IFRS's and IFRIC interpretations effective as of 1 January 2013:

- *IAS 1 Presentation of Financial Statements;*
- *IFRS 7 Financial Instruments: Disclosures (Amendments) - Offsetting Financial Assets and Financial Liabilities;*
- *IFRS 10 Consolidated Financial Statements;*
- *IFRS 11 Joint Arrangements;*
- *IFRS 12 Disclosures of Interests in Other Entities; and*
- *IFRS 13 Fair Value Measurement.*

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.

Current versus non-current classification
The Company presents assets and liabilities in statement of financial position based on current/non-current classification. An asset is classified as current when it is:

- Expected to be realised or intended to sold or consumed in 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 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.

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 and at bank.

3 SIGNIFICANT ACCOUNTING POLICIES (continued)

Impairment 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.

If such evidence exists, any impairment loss is recognised in the statement of comprehensive income. Impairment is determined as follows:

(a) For assets carried at fair value, impairment is the difference between cost and fair value;
(b) For assets carried at cost, impairment is the difference between cost and the present value of future cash flows discounted at the current market rate of return for a similar financial asset.
(c) For assets carried at amortised cost, impairment is the difference between 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 and other payables.

Contract and other payables

Liabilities for contract and other payables 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.

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.

3 SIGNIFICANT ACCOUNTING POLICIES (continued)

Derecognition of financial instruments (continued)
A financial liability is derecognised when the obligation under the liability is discharged or cancelled or expired.

Fair value measurement
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.

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.

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, regardless of when the payment is being made. Revenue is measured at the fair value of the consideration received or receivable, taking into account contractually defined terms of payment and excluding taxes or duty. The Company assesses its revenue arrangements against specific criteria in order to determine if it is acting as principal or agent. The Company has concluded that it is acting as a principal in all of its revenue arrangements. 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.

4 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:

- *IFRS 9 Financial Instruments;*
- *Investment Entities (Amendments to IFRS 10, IFRS 12 and IAS 27);*
- *IAS 32 Offsetting Financial Assets and Financial Liabilities - Amendments to IAS 32;*
- *IFRIC Interpretation 21 Levies (IFRIC 21); and*
- *IAS 39 Novation of Derivatives and Continuation of Hedge Accounting – Amendments to IAS 39.*

Other standards and interpretations that have been issued but 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.

5 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:

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 2013, the management considered that all costs to complete and revenue can be reliably measured.

Impairment of contract receivables and due from customers for contract works
An estimate of the collectible amount of contract receivables and due from customers for contract works 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 were BD 966,591 (2012: BD 2,374,999) and there was no provision for doubtful debts (2012: nil).

During the year, the Company has written off contract receivables, retention receivables from related parties and due from customers for contract works amounting to BD 1,415,153, BD 242,051 and BD 1,099,663 respectively (2012: nil).

Any difference between the amounts actually collected in future periods and the amounts expected will be recognised in the statement of comprehensive income.

6 DUE FROM (TO) CUSTOMERS FOR CONTRACT WORK

	2013 *BD*	*2012* *BD*
Contract cost incurred to 31 December 2013	**10,980,251**	10,916,863
Recognised (losses) profit for the year	**(1,108,367)**	30,170
Future projected losses provided for	**-**	(2,034)
Total value of work executed to 31 December 2013	**9,871,884**	10,944,999
Progress billings	**(9,423,005)**	(9,423,005)
	448,879	1,521,994
Due from customers for contract work	**448,879**	1,547,179
Due to customers for contract work	**-**	(25,185)
	448,879	1,521,994

During the current year, due from customers for contract work of BD 1,099,663 pertaining to the Al Rayan project and guaranteed by Terna S.A (Sharjah branch) was written off, as the amount was impaired and Terna S.A. (Sharjah branch) revoked the guarantee provided by them in prior years (2012: nil).

7 CONTRACT AND OTHER RECEIVABLES

	2013 *BD*	*2012* *BD*
Contract receivables from related parties (note 13)	**966,591**	2,374,999
Retentions receivable from related parties (note 13)	**162,999**	399,299
Advances to contractors and suppliers	**284,895**	284,895
Advances to employees	**150**	-
Other receivable	**-**	874
	1,414,635	3,060,067

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 13.

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

			Past due but not impaired			
	Total *BD*	*Neither past due nor impaired* *BD*	*Up to 60 days* *BD*	*61 – 90 days* *BD*	*91 – 120 days* *BD*	*>120 days* *BD*
2013	**966,591**	**-**	**-**	**-**	**-**	**966,591**
2012	2,374,999	41,096	37,426	-	-	2,296,477

7 CONTRACT AND OTHER RECEIVABLES (continued)

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.

During the current year, the Company has written off contract receivables amounting to BD 1,415,153 and retention receivable amounting to BD 242,051 pertaining to Madinat Al Zaid project which was guaranteed by Terna S.A. (Abu Dhabi branch) in prior years. However, during the current year, Terna S.A (Abu Dhabi branch) revoked the guarantee resulting in the write off (2012: nil).

8 CASH AND CASH EQUIVALENTS

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

	2013 BD	*2012 BD*
Bank balances :		
- Bahraini Dinars	**342**	5,702
- UAE Dirhams	**55**	1,434
Cash in hand	**55**	1,762
	452	8,898

9 SHARE CAPITAL

	2013 BD	*2012 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 CONTRACT AND OTHER PAYABLES

	2013 BD	*2012 BD*
Contract payables - related parties (note 13)	**4,062,541**	3,816,022
Contract payables - others	**194,468**	257,436
Sub-contractors	**70,241**	132,655
Retention payable	**49,791**	79,510
Accrued expenses	**-**	5,199
	4,377,041	4,290,822

Contract payables and accrued expenses are non-interest bearing and are normally settled on 60 days term.

11 CONTRACT AND OTHER PAYABLES (continued)

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 13.

12 OPERATING COSTS

	2013	*2012*
	BD	*BD*
Sub-contractors work	**25,250**	182,715
Consultants fees and technician charges	**1,263**	-
Staff costs	-	32,257
Travel	-	13,528
Communication	-	1,029
Motor vehicle hire and expenses	-	503
Consumables	-	330
Other expenses	-	-
	26,513	230,362

Staff costs comprise the following expenses:

	2013	*2012*
	BD	*BD*
Salaries and wages	-	25,924
Other staff benefits	-	6,333
	-	32,257

13 RELATED PARTY TRANSACTIONS

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

	Contract revenue	
	2013	*2012*
	BD	*BD*
Ultimate parent companies		
Terna SA (Sharjah branch)	**1,363**	15,996
Terna S.A. (Abu Dhabi branch)	**25,186**	-
Fellow subsidiary		
Terna Contracting W.L.L	-	17,568
	26,549	33,564

13 RELATED PARTY TRANSACTIONS (continued)

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

	2013		*2012*	
	Contract receivables BD	***Contract payables BD***	*Contract receivables BD*	*Contract payables BD*
Terna S.A (Abu Dhabi branch)	**-**	**253,332**	1,419,915	234,837
Terna S.A (Sharjah branch)	**920,612**	**3,458,392**	909,105	3,289,628
Terna S.A. - Head office	**-**	**34,252**	-	33,159
Terna Contracting W.L.L.	**-**	**217,619**	-	163,383
Terna Qatar L.L.C	**45,979**	**176**	45,979	176
Terna Bahrain Holding Company W.L.L	**-**	**98,770**	-	94,839
	966,591	**4,062,541**	2,374,999	3,816,022

Retention receivables from related parties are as follows:

	2013 BD	*2012 BD*
Terna S.A (Abu Dhabi branch)	**-**	238,338
Terna S.A (Sharjah branch)	**162,999**	160,961
	162,999	399,299

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 2013, the Company has written off certain amounts owed by related parties (note 6 and note 7).

During 2012, certain employees from the Company were transferred to Terna Contracting W.L.L. and end of service benefits of BD 18,624 and other employee benefits of BD 16,160 relating to these employees were also transferred. Further, during 2012, equipment with a net book value of BD 5,496 was transferred to related parties. There were no such transfers during 2013.

Compensation of key management personnel
No remuneration was paid to key management personnel during the year ended 31 December 2013 (2012: nil).

14 CONTINGENCIES

Bank guarantees
At 31 December 2013, the Company had contingent liability in the form of bank guarantee issued amounting to BD 511,550 (2012: BD 511,550) from which it is anticipated that no material liability will arise.

15 FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

Introduction
The Company's principal financial liability comprises of contract and other payables. 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 market risk, credit risk and liquidity risk.

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 changes in market interest rates. The Company is not exposed to interest rate risk as there are no interest bearing financial assets or financial liabilities as of the date of 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.

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. At 31 December 2013, one related party customer accounts for 95% of the outstanding contract receivables (2012: 60%).

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.

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 2013	*Less than 3 months BD*	*3 to 12 months BD*	*Total BD*
Contract payables - related parties	4,062,541	-	4,062,541
Contract payables - others	194,468	-	194,468
Subcontractors	-	70,241	70,241
Retentions	-	49,791	49,791
	4,257,009	120,032	4,377,041

15 FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

Liquidity risk (continued)

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
	4,078,657	212,165	4,290,822

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 2013 and 31 December 2012. Capital represents equity of the Company and is measured at negative of BD 2,513,075 as at 31 December 2013 (2012: positive of BD 300,137).

16 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 contract 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 largely due to the short term maturities of these instruments.