Terna Contracting W.L.L.

Financial statements
For the year ended 31 December 2017

Terna Contracting W.L.L.

Financial statements
For the year ended 31 December 2017

Terna Contracting W.L.L.
Information about the Company

Commercial registration number	68262
Directors	Mr. Dimitrios Alexandros Xoudis (Chairman) Mr. Kostantinos Iliadis (Vice Chaiman) Mr. Georgios Stratigos Mr. Dimitrios Salamanos Mr. Sofoklis Saradellis
Registered office	Building 418, Road No 3207 Block 332, Mahooz Kingdom of Bahrain
Bankers	HSBC Bank Middle East Limited Bahrain Al Salam Bank Bank of Bahrain and Kuwait
Auditor	PricewaterhouseCoopers ME Limited 13th Floor, Jeera I Tower P.O. Box 21144 Seef District Kingdom of Bahrain

Terna Contracting W.L.L.
Directors' report for the year ended 31 December 2017

The Board of Directors has pleasure in submitting its report together with the financial statements of Terna Contracting W.L.L. (the "Company") for the year ended 31 December 2017.

Principal activities

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

Financial information

The financial position of the Company as at 31 December 2017 and the results for the year ended are set out in the accompanying financial statements.

Dividend

The directors do not propose a dividend for the year ended 31 December 2017 (2016: Nil).

Directors

The following directors served during the year:

Mr. Dimitrios Alexandros Xoudis (Chairman)
Mr. Kostantinos Iliadis (Vice Chaiman)
Mr. Georgios Stratigos
Mr. Dimitrios Salamanos
Mr. Sofoklis Saradellis

Share capital

On 1 December 2016, the Company's shareholders resolved to increase the share capital of the Company from BHD 1,000,000 to BHD 2,000,000. The shareholders have contributed BHD 350,000 (as an additional capital contribution) towards the increase in share capital up to 31 December 2016 and the balance amount of BHD 650,000 was received on 12 January 2017. The regulatory formalities with respect to changes in the share capital and shareholding structure were completed with the MOICT, Kingdom of Bahrain on 28 May 2017.

On 15 October 2017, the Company's shareholders resolved to further increase the share capital of the Company by BHD 2,500,000. Consequently, the shareholders have contributed BHD 2,500,000 through additional capital contribution which will be transferred to share capital upon the completion of the legal formalities.

Auditors

The auditors, PricewaterhouseCoopers ME Limited, have expressed their willingness to be reappointed as auditors of the Company for the year ending 31 December 2018.

By the order of the Board of Directors

__________________________	_______________________
Mr. Dimitrios Alexandros Xoudis Chairman	Mr.Kostantinos Iliadis Director

__ March 2018

Independent auditor's report to the shareholders of
Terna Contracting W.L.L.

Report on the audit of the financial statements

Our qualified opinion

In our opinion, except for the possible effects of the matters described in the Basis for qualified opinion section of our report, the financial statements present fairly, in all material respects the financial position of Terna Contracting W.L.L. (the "Company") as at 31 December 2017, and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards.

What we have audited

The Company's financial statements comprise:

- the statement of financial position as at 31 December 2017;
- the statement of comprehensive income for the year then ended;
- the statement of changes in shareholders' equity for the year then ended;
- the statement of cash flows for the year then ended; and
- the notes to the financial statements, which include a summary of significant accounting policies.

Basis for qualified opinion

The financial statements include revenue and corresponding receivables amounting to BHD 2.7 millions which have been recognised as a result of a claim the Company has made against a customer for prolongation and variation costs (Note 23). This amount should not have been recorded in accordance with IAS 11 (construction contracts). The Company's records indicate that, had management not recorded the revenue from the above mentioned claim, revenue would have been decreased by BHD 2.7 millions and the results/shareholders' equity would have been reduced by the same amount.

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

Independence

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 the ethical requirements that are relevant to our audit of the financial statements in the Kingdom of Bahrain. We have fulfilled our other ethical responsibilities in accordance with these requirments and the IESBA Code.

Emphasis of a matter

We draw attention to Note 22 to the financial statements, which describes the uncertainty related to the outcome of an ongoing arbitration between a customer and the Company. Legal proceedings related to the arbitration are in progress and the ultimate outcome of the matter cannot be presently determined. Our opinion is not modified in respect of this matter.

Other information

The directors are responsible for the other information. The other information comprises Directors' report (but does not include the financial statements and our auditor's report thereon), which we have obtained prior to the date of this auditor's report.

Our opinion on the financial statements does not cover the other information and we do not and will not express any form of assurance conclusion thereon.

Independent auditor's report to the shareholders of
Terna Contracting W.L.L. (continued)

Report on the audit of the financial statements (continued)

Other information (continued)

In connection with our audit of the financial statements, our responsibility is to read the other information identified above 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. Except for the matter described in the "Basis for qualified opinion", we have nothing to report in this regard.

Responsibilities of the management and those charged with governance for the financial statements

The management is responsible for the preparation and fair presentation of the financial statements in accordance with International Financial Reporting Standards, and for such internal control as the management 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 directors are 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 management either intends to liquidate the Company or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Company's financial reporting process.

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 scepticism 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 qualified 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 management.

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 management's 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 those charged with governance 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 (BCCL), except for the matter described in the "Basis for qualified opinion" section of our report, as we report that:

- we have obtained all the information that we considered necessary for the purpose of our audit;

- the Company has carried out physical verification of inventories at the year-end in accordance with properly established procedures;

- the Company has maintained proper accounting records and the financial statements and the financial information included in the Directors' report are in agreement therewith;

- nothing has come to our attention which causes us to believe that the Company has breached any of the applicable provisions of the Bahrain Commercial Companies Law or of its Memorandum and Articles of Association which would materially affect its activities or its financial position as at 31 December 2017; and

- satisfactory explanations and information have been provided to us by the management in response to all our requests.

____ March 2018
Partner's Registration Number: 196
Manama, Kingdom of Bahrain

Terna Contracting W.L.L.
Statement of financial position
(All amounts in Bahraini Dinars unless otherwise stated)

	Note	As at 31 December 2017	2016
Assets			
Non-current assets			
Property and equipment	5	625,604	591,632
Computer software	6	2,000	1,049
Retentions receivable	9	3,461,198	3,458,766
Margin and other deposits		-	245,769
		4,088,802	4,297,216
Current assets			
Inventories	7	256,467	546,838
Due from customers for contract work	8	8,341,135	3,061,455
Contract and other receivables	9	2,315,676	6,180,346
Bank balances and cash	10	1,235,603	584,222
		12,148,881	10,372,861
Total assets		16,237,683	14,670,077
Shareholders' equity and liabilities			
Shareholders' equity			
Share capital	11	2,000,000	1,000,000
Additional capital contribution	11	2,500,000	1,000,000
Statutory reserve	12	450,926	433,367
Retained earnings		1,433,184	1,275,153
Total shareholders' equity		6,384,110	3,708,520
Liabilities			
Non-current liabilities			
Term loan	13	158,339	-
Employees' end of service benefits	14	604,553	660,961
Retentions payable	15	631,879	895,959
		1,394,771	1,556,920
Current liabilities			
Term loans	13	195,203	38,604
Trade and other payables	15	7,574,263	8,824,560
Bank overdrafts	10	689,336	541,473
		8,458,802	9,404,637
Total liabilities		9,853,573	10,961,557
Total shareholders' equity and liabilities		16,237,683	14,670,077

These financial statements have been approved for issue by the Board of Directors on __ March 2018 and signed on its behalf:

Mr. Dimitrios Alexandros Xoudis
Chairman

Mr. Kostantinos Iliadis
Vice Chariman

The notes on pages 11 to 28 form an integral part of these financial statements.

Terna Contracting W.L.L.
Statement of comprehensive income
(All amounts in Bahraini Dinars unless otherwise stated)

	Note	Year ended 31 December 2017	2016
Contract revenue		13,858,486	21,563,231
Direct costs	16	(13,045,912)	(19,813,283)
Gross profit		812,574	1,749,948
Other income	17	1,663,937	535,374
Exchange loss		(30,385)	(9,596)
General and administration expenses	18	(1,813,310)	(1,221,370)
Finance costs	19	(457,226)	(649,104)
Write off of amount due from a related party	9 & 21	-	(128,911)
Write off of contract and other receivables	9	-	(1,500)
Profit for the year	19	175,590	274,841
Other comprehensive income		-	-
Total comprehensive income for the year		175,590	274,841

These financial statements have been approved for issue by the Board of Directors on __ March 2018 and signed on its behalf:

____
Mr. Dimitrios Alexandros Xoudis
Chairman

____
Mr. Kostantinos Iliadis
Vice Chairman

The notes on pages 11 to 28 form an integral part of these financial statements.

Terna Contracting W.L.L.
Statement of changes in shareholders' equity
(All amounts in Bahraini Dinars unless otherwise stated)

	Share capital	Additional capital contribution	Statutory reserve	Retained earnings	Total
At 1 January 2017	1,000,000	1,000,000	433,367	1,275,153	3,708,520
Increase in share capital (Note 11)	1,000,000	(1,000,000)	-	-	-
Contribution made during the year (Note 11)	-	2,500,000	-	-	2,500,000
Total comprehensive income for the year	-	-	-	175,590	175,590
Transfer to statutory reserve (Note 12)	-	-	17,559	(17,559)	-
At 31 December 2017	2,000,000	2,500,000	450,926	1,433,184	6,384,110
At 1 January 2016	1,000,000	-	405,883	1,027,796	2,433,679
Contribution made during the year	-	350,000	-	-	350,000
Amount receivable from the shareholder (Note 11)	-	650,000	-	-	650,000
Total comprehensive income for the year	-	-	-	274,841	274,841
Transfer to statutory reserve (Note 12)	-	-	27,484	(27,484)	-
At 31 December 2016	1,000,000	1,000,000	433,367	1,275,153	3,708,520

The notes on pages 11 to 28 form an integral part of these financial statements.

Terna Contracting W.L.L.
Statement of cash flows
(All amounts in Bahraini Dinars unless otherwise stated)

	Note	Year ended 31 December 2017	2016
Operating activities			
Profit for the year		175,590	274,841
Adjustments for:			
Depreciation	5	377,735	214,593
Amortisation	6	1,975	2,354
Gain on disposals of property and equipment	17	(82,697)	(4,900)
Gain on disposal of software	17	(600)	-
Provision for employees' end of service benefits	14	183,855	190,567
Write off of amount due from related party		-	128,911
Write off of contract and other receivable		-	1,500
Foreign exchange loss		30,385	9,596
Interest expense	19	50,385	88,483
Operating profit before working capital changes		736,628	905,945
Working capital changes:			
Retention receivable		(2,432)	(928,514)
Inventories		290,371	(86,105)
Due from customers for contract work		(5,279,680)	114,928
Contract and other receivables		3,813,193	4,479,272
Retention payable		(264,080)	541,937
Trade and other payables		(2,642945)	(3,128,786)
Cash from used in operations		(3,348,945)	1,898,677
Interest paid on bank overdrafts		(41,357)	(71,103)
Employees' end of service benefits paid	14	(240,263)	(145,103)
Net cash (used in)/generated from operating activities		(3,630,565)	1,682,471
Investing activities			
Purchase of property and equipment	5	(425,005)	(228,595)
Proceeds from disposals of property and equipment		95,995	4,900
Purchase of computer software	6	(2,926)	(2,449)
Proceeds from disposal of software		600	-
Net cash flows used in investing activities		(331,336)	(226,144)
Financing activities			
Additional capital contribution received	11	2,500,000	350,000
Term loan drawn		314,938	-
Term loan repaid		-	(347,614)
Interest paid on term loan		(9,028)	(17,380)
Other payables to related parties		1,413,740	30,040
Margin deposit		245,769	(245,769)
Net cash flows generated from/(used in) financing activities		4,465,419	(230,723)
Net increase in cash and cash equivalents		503,518	1,225,604
Cash and cash equivalents at the beginning of the year		42,749	(1,182,855)
Cash and cash equivalents at the end of the year	10	546,267	42,749

Non-cash item:
As of 31 December 2017, amount of BHD zero receivable from the shareholders towards increase in share capital has been excluded in the above statement of cash flows (2016: BHD 650,000).

The notes on pages 11 to 28 form an integral part of these financial statements.

1 General information

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 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. (the '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 through owning or leasing property. As of 31 December 2017, there were no operations in the branch.

2 Summary of significant accounting policies

The principal accounting policies applied in the preparation of these financial statements are set out below. These policies have been consistently applied to all the years presented, unless otherwise stated.

2.1 Basis of preparation

The financial statements of the Company have been prepared in accordance with International Financial Reporting Standards (IFRS). The financial statements have been prepared under the historical cost convention.

The preparation of financial statements in conformity with IFRS requires the use of certain critical accounting estimates. It also requires management to exercise its judgment in the process of applying the Company's accounting policies. Areas involving a higher degree of judgment or complexity, or areas where assumptions and estimates are significant to the financial statements are disclosed in the note 4.

Going concern

The Company's management 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 in business for the foreseeable future. Furthermore, the management is not aware of any material uncertainties that may cast significant doubt upon the Company's ability to continue as a going concern. Therefore, the financial statements continue to be prepared on the going concern basis.

(a) New standards, amendments and interpretations effective from 1 January 2017

Amendment to IAS 7- 'Disclosure initiative' (effective date 1 January 2017). This amendment requires disclosure of changes in liabilities arising from financing activities.

The above amendment does not have a significant effect on the Company's financial statements. There are no other IFRSs or IFRIC interpretations that were effective for the first time for the financial year beginning on 1 January 2017.

2 Summary of significant accounting policies (continued)

2.1 Basis of preparation (continued)

(b) New standards, amendments and interpretations not yet effective

A number of new standards, amendments and interpretations to standards are effective for annual periods beginning after 1 January 2017, and have not been early adopted in preparing these financial statements. Those which are relevant to the Company are set out below. The Company does not plan to early adopt these standards.

- IFRS 15 - 'Revenue from contracts with customers' (effective 1 January 2018). This standard deals with revenue recognition and establishes principles for reporting useful information to users of financial statements about the nature, amount, timing and uncertainty of revenue and cash flows arising from an entity's contracts with customers.

  The Company's management has assessed the impact of IFRS 15 and does not currently expect significant changes as a result of the new standard due to the fact that the Company has only one ongoing contract.

- IFRS 9 - 'Financial instruments' (effective 1 January 2018). IFRS 9 IFRS 9 replaces the multiple classification and measurement models in IAS 39 Financial instruments: Recognition and measurement with a single model that has initially only two classification categories: amortised cost and fair value. IFRS 9 also introduces new rules for hedge accounting and a new impairment model which involves a three-stage approach whereby financial assets move through the three stages as their credit quality changes. The stage dictates how an entity measures impairment losses and applies the effective interest rate method. A simplified approach is permitted for financial assets that do not have a significant financing component.

  The Company has reviewed its financial assets and liabilities and is expecting the following impact from the adoption of the new standard on 1 January 2018:

  - The Company loans and receivables are measured at amortised cost and will continue to meet the amortised cost classification under IFRS 9. In addition, the Company does not hold financial instruments measured at fair value through OCI (FVOCI) or fair value through profit and loss (FVPL). Accordingly, the Company does not expect the new guidance to affect the classification and measurement of these financial assets.
  - There will be no impact on the Company's accounting for financial liabilities, as the new requirements only affect the accounting of financial liabilities that are designated at fair value through profit or loss and the Company does not have any such liabilities. The derecognition rules have been transferred from IAS 39 *Financial instruments: Recognition and Measurement* and have not been changed.
  - The new impairment model required the recognition of impairment provisions based in expected credit losses (ECL) rather than only incurred losses as is the case under IAS 39. It applies to the financial assets classified at amortised cost, debt instruments measured at fair value through OCI (FVOCI), contract assets under IFRS 15 *Revenue from Contracts with Customers,* lease receivables, loan commitments and certain financial guarantee contracts. Based in the assessment undertaken to date, the Company does not expect a significant increase in its allowances for doubtful debts as the outstanding debt is from related parties only. The new standard also introduces expanded disclosure requirements and changes in presentation. These are expected to change the nature and extent of the Company's disclosures about its financial instruments particularly in the year of the adoption of the new standard.

2 Summary of significant accounting policies (continued)

2.1 Basis of preparation (continued)

(b) New standards, amendments and interpretations not yet effective (continued)

- IFRS 16 - 'Leases' (effective 1 January 2019). IFRS 16 supersedes IAS 17 'Lease' and related interpretations. It will result in almost all leases being recognised on the statement of financial position, as the distinction between operating and finance leases is removed. Under the new standard, an asset (the right to use the leased item) and a financial liability to pay rentals are recognised. The only exceptions are short-term and low-value leases. The accounting for lessor will not significantly change.

  The standard will affect primarily the accounting for the Company's operating leases. However, the Company has not yet assessed how this may affect the Company's statement of financial position and statement of comprehensive income.

Management anticipates that these new standards, interpretations and amendments will be adopted in the Company's financial statements as they are applicable and adoption of new standards, interpretations and amendments.

There are no other applicable new standards and amendments to published standards or International Financial Reporting Interpretations Committee (IFRIC) interpretations that have been issued but are not effective for the first time for the Company's financial year beginning on 1 January 2017 and are expected to have a significant impact on the Company's separate financial statements.

2.2 Foreign currency translations

(a) Functional and presentation currency

Items included in the financial statements of the Company are measured using the currency of the primary economic environment in which the Company operates (the functional currency). The financial statements are presented in Bahraini Dinars which is the Company's functional and presentation currency.

(b) Transactions and balances

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transaction. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at the year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in the statement of comprehensive income.

2.3 Property and equipment

Property and equipment are stated at historical cost less accumulated depreciation. Historical cost includes expenditure that is directly attributable to the acquisition of these items. Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Company and the cost of the item can be measured reliably. Repairs and maintenance are charged to the statement of comprehensive income during the financial period in which they are incurred

Depreciation on assets is calculated using the straight-line method to allocate their cost to their residual values over their estimated useful lives as follows:

	Years
Portacabins	2-5
Equipment	2-10
Furniture, fixtures and office equipment	2-5
Motor vehicles	2-5

2 Summary of significant accounting policies (continued)

2.3 Property and equipment (continued)

The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at each statement of financial position date. An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount.

Gains and losses on the disposal of property and equipment are determined by comparing the proceeds with the carrying amount and are recognised in the statement of comprehensive income.

2.4 Intangible assets

Intangible assets comprise of IT software and licenses. Acquired computer software licences are capitalised on the basis of the costs incurred to acquire and bring to use the specific software.

Costs associated with developing or maintaining computer software programmes are recognised as an expense as incurred. Costs are directly associated with the development of identifiable and unique software products controlled by the Company, and that will generate economic benefits exceeding costs beyond one year, are recognised as intangible assets. Costs include the software development employee costs, if any. These costs are amortised over their estimated useful life of 3 years.

2.5 Inventories

Inventories are carried at the lower of cost and net realisable value. Cost is determined using the weighted average method. Net realisable value is the estimated selling price in the ordinary course of business, less related cost to complete and sell in the ordinary course of business. Consumable spares and expendables are classified as inventories and expensed at the time of their use.

2.6 Investment in joint operation

The Company recognises its direct right to the assets, liabilities, revenues and expenses of joint operations and its share of any jointly held or incurred assets, liabilities, revenues and expenses. These have been incorporated in the financial statements under the appropriate headings.

2.7 Impairment of non-financial assets

Intangible assets that have an indefinite useful life or intangible assets not ready to use are not subject to amortisation and are tested annually for impairment. Assets that are subject to amortisation are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash inflows (cash-generating units). Prior impairments of non-financial assets are reviewed for possible reversal at each reporting date.

2.8 Financial assets

The Company's financial assets consist of loans and receivables. Management determines the classification of its financial assets at initial recognition. Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They are included in current assets, except for maturities greater than 12 months after the date of statement of financial position. These are classified as non-current assets. The Company's loans and receivables comprise 'retentions receivable', 'margin and other deposits', 'due from cutomers for contract work', 'contract and other receivables' and 'bank balances and cash' on the statement of financial position.

Regular way purchases and sales of financial assets are recognised on the trade date; the date on which the Company commits to purchase or sell the asset. Loans and receivables are initially recognised at fair value and subsequently carried at amortised cost using the effective interest rate method less any provision for impairment. Financial assets are derecognised when the rights to receive cash flows from the financial assets have expired or have been transferred and the Company has transferred substantially all risks and rewards of ownership.

2 Summary of significant accounting policies (continued)

2.9 Contract and other receivables

Contract and other receivables are amounts due from customers for goods sold or services rendered in the ordinary course of business. If collection is expected in one year or less (or in the normal operating cycle of the business if longer), they are classified as current assets. If not, they are presented as non-current assets.

Contract and other receivables are initially recognised at fair value and subsequently measured at their anticipated realisable values. A provision for impairment of receivables is established when there is objective evidence that the Company will not be able to collect all amounts due according to the original terms of receivables.

The carrying amount of the asset is reduced through the use of an allowance account, and the amount of the loss is recognised in the statement of comprehensive income as impairment loss. When a receivable is uncollectible, it is written off against the allowance account. Subsequent recoveries of amount previously written off are credited against bad debt expense in the statement of comprehensive income.

2.10 Cash and cash equivalents

Cash and cash equivalents include cash on hand, deposits held at call with banks, other short-term highly liquid investments with original maturities of three months less bank overdrafts.

2.11 Impairment of financial assets

The Company assesses at the end of each reporting period whether there is objective evidence that a financial asset or a group of financial assets is impaired. A financial asset or a group of financial assets is impaired and impairment losses are incurred only if there is objective evidence of impairment as a result of one or more events that occurred after the initial recognition of the asset (a 'loss event') and that loss event (or events) has an impact on the estimated future cash flows of the financial asset or group of financial assets that can be reliably estimated.

Evidence of impairment may include indications that the debtor or a group of debtors is experiencing significant financial difficulty, default or delinquency in 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.

For loans and receivables category, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows discounted at the financial asset's original effective interest rate. The asset's carrying amount is reduced and the amount of the loss is recognised in the statement of comprehensive income.

2.12 Employees benefits

(a) Bahraini employees

Pension rights (and other social benefits) for Bahraini employees are covered by the Social Insurance Organisation's scheme to which employees and employers contribute monthly on a fixed-percentage-of-salaries basis. The Company's contributions to this funded scheme, which is a defined contribution scheme under International Accounting Standard 19 - "Employee Benefits", is recognised as an expense in the statement of comprehensive income.

(b) Expatriate employees

Expatriate employees are entitled to leaving indemnities payable under the Bahraini Labour Law for the Private Sector, based on length of service and final remuneration. Provision for this unfunded commitment which represents a defined benefit plan under International Accounting Standard 19 - "Employee Benefits", has been made by calculating the notional liability had all employees left at the reporting date. The liability recognised in the statement of financial position in respect of the employees' end of service benefits approximates the present value of the obligation at the reporting date.

2 Summary of significant accounting policies (continued)

2.13 Financial liabilities

A financial liability is any liability that is a contractual obligation to deliver cash or another financial asset to another entity or to exchange financial assets or financial liabilities with another entity under conditions that are potentially unfavourable to the Company. All financial liabilities are initially recognised at fair value less directly attributable transaction costs. After initial recognition the financial liabilities are subsequently measured at amortised cost using the effective interest method. Financial liabilities are derecognised when the Company delivers its contractual obligation. The Company's financial liabilities comprise of ‘term loan’, ‘retentions payable’, ‘trade and other payables’, and ‘bank overdrafts’.

2.14 Trade payables

Trade payables are obligations to pay for goods or services that have been acquired in the ordinary course of business from suppliers. Trade payables are classified as current liabilities if payment is due within one year or less. If not, they are presented as non-current liabilities.

Liabilities are recognised for amounts to be paid for goods and services received, whether or not billed to the Company.

2.15 Provisions

The Company recognises provisions when it has a present legal or constructive obligation as a result of past event, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reasonable estimate of the obligation can be made. Provisions are not recognised for future operating losses. Provisions are measured at the present value of the expenditures expected to be required to settle the obligation.

2.16 Borrowings

Borrowings are recognised at the proceeds received net of transaction cost incurred, if any. Borrowings are subsequently carried at amortised cost. Any differences between the proceeds (net of transaction costs) and the redemption value is recognised in the income statement over the period using effective interest method. Borrowing costs that are directly attributable to the acquisition, construction or production of qualifying assets are capitalised as part of those assets until such time as the assets are ready for their intended use. Other borrowing costs are charged to the income statement.

2.17 Offsetting financial instruments

Financial assets and liabilities are offset and the net amount reported in the statement of financial position when there is a legally enforceable right to offset the recognised amounts and there is an intention to settle on a net basis or realise the asset and settle the liability simultaneously. The legally enforceable right must not be contingent on future events and must be enforceable in the normal course of business and in the event of default, insolvency or bankruptcy of the Company or the counterparty.

2.18 Leases

Leases in which a significant portion of the risks and rewards of the ownership are retained by the lessor are classified as operating leases. Payments made under the operating leases are charged to the statement of comprehensive income on a straight-line basis over the period of the lease.

2 Summary of significant accounting policies (continued)

2.19 Revenue recognition

The Company principally undertakes fixed price contracts. If the coutcome of such a contract can be measured reliably, 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 the construction contract can be measured reliably when: (i) the total contract revenue can be measured reliably; (ii) it is probable that 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) 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 construction cannot be estimated reliably (principally during early stages of a contract), contract revenue is recognised obly to the extent of costs incurred that are expected to be recoverable.

3 Financial risk management

The Company's activities expose it to a variety of financial risks: market risk (including foreign exchange risk, interest rate risk and price risk), credit risk and liquidity risk. The Company's overall risk management programme focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on the Company's financial performance. The Company's aim is, therefore, to achieve an appropriate balance between risk and return and minimise potential adverse effects on its financial performance.

The Company's risk management is based on a simplified framework with non-complex transactions to identify and analyse these risks, to set appropriate risk limits and controls, and to monitor the risks and adherence to limits by means of realisable and up-to-date information systems.

Risk management is carried out by the senior management with the approval of the Board of Directors. Management regularly reviews its risk management programme and systems to reflect changes in markets, products and emerging best practices.

3.1 Credit risk

The Company is exposed to credit risk, which is the risk that the counterparty will cause a financial loss to the Company by failing to discharge an obligation. Financial assets which potentially subject the Company to concentrations of credit risk consist principally retentions receivable, margin and other deposits, due from customers for contract work, contract and other receivables and bank balances and cash.

The Company manages, limits and controls concentrations of risk wherever they are identified. For cash and bank balances, parties only with good credit ratings are accepted. Due from customers for contract work represent amounts due from customers in respect of services provided to them. Risk is minimised by providing services to creditworthy customers. Management believes that the Company is not exposed to any significant credit risk in respect of retentions receivable, margin and other deposits, due from customers for contract work, contract and other receivables and bank balances and cash.

The table below shows the maximum exposure to credit risk by individual component of the statement of financial position. The maximum exposure is shown gross.

		Gross maximum exposure	
		As at 31 December	
	Note	2017	2016
Retentions receivable		3,461,198	3,458,766
Margin and other deposits		-	245,769
Due from customers for contarct work	8	8,341,135	3,061,455
Contract and other receivables	9	2,055,901	4,906,694
Bank balances	10	1,229,510	582,067
		15,087,744	12,254,751

3 Financial risk management (continued)

3.1 Credit risk (continued)

Credit quality of financial instruments

It is not the practice of the Company to obtain collateral over loans and receivables. Credit exposures classified as 'rated' quality are those where the ultimate risk of financial loss from the obligor's failure to discharge its obligation is assessed to be low. These include facilities to corporate entities with financial condition, risk indicators and capacity to repay which are considered to be good. Credit exposures defined as "not rated" and classified under 'standard' quality comprise all other facilities whose payment performance is fully compliant with contractual conditions and which are not 'impaired'. The ultimate risk of possible financial loss on "not rated" or "standard' quality is assessed to be higher than that for the exposures classified within the 'rated' quality range.

Not rated assets are classified according to internal credit ratings of the counterparties since there is no independent rating for customers. Management of the Company assesses the credit quality of the customer, taking into account its financial position, past experience and other factors. Individual risk limits are set based on internal or external ratings in accordance with limits set by management. The table below shows the credit risk exposure by credit quality of financial assets that are neither past due nor impaired by class, grade and status.

	Neither past due nor impaired		
	Rated	Standard grade	Total
31 December 2017			
Retentions receivable	-	4,027,886	4,027,886
Due from customers for contract work	-	8,341,135	8,341,135
Contract and other receivables	-	1,489,213	1,489,213
Bank balances	1,229,510	-	1,231,451
	1,229,510	13,858,234	15,089,685

	Neither past due nor impaired		
	Rated	Standard grade	Total
31 December 2016			
Retentions receivable	-	4,615,539	4,615,539
Margin and other deposits	-	245,769	245,769
Due from customers for contract work	-	3,061,455	3,061,455
Contract and other receivables	-	3,749,921	3,749,921
Bank balances	582,067	-	582,067
	582,067	11,672,684	12,254,751

As at 31 December 2017 and 2016, none of the retentions receivable, contract receivables, due from cutomers for contract work or margin and other deposists were impaired. The aging of unimpaired contract and other receivables and retentions is as follows:

			Past due but not impaired			
	Total (Note 9)	Neither past due nor impaired	Under 30 days	30 — 90 days	90 — 120 days	over 120 days
At 31 December						
2017	5,517,099	4,431,232	-	-	-	1,085,867
2016	8,365,460	2,918,719	799,449	3,450	-	4,643,842

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 10 and Note 13). The non-current retentions receivable are carried at their undiscounted value.

3 Financial risk management (continued)

3.2 Market risk

The Company is exposed to market risk, which is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices. Market risks arise from open positions in interest rate and currency, all of which are exposed to general and specific market movements and changes in the level of volatility of market rates or prices such as interest rates and foreign exchange rates.

(a) Foreign exchange 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 is exposed to currency risk on its balances with related parties denominated in Euros.

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

	Increase/decrease in Euro rate to the Bahraini Dinar	**Results for the year and equity**
31 December 2017	+5%	425,517
	-5%	(425,517)
31 December 2016	+5%	(470,232)
	-5%	470,232

The Company also has balances denominated in United Arab Emirates Dirhams (AED), Qatari Riyals (QR) and United States Dollars (USD). As the AED, QR and the BHD are pegged to USD, no significant foreign currency risk against balances in AED and USD.

(b) Interest rate risk

Interest rate risk is the risk that the fair value or future cash flows of financial instruments will fluctuate because of changes in market interest rates. The Company's interest rate risk arises from term loans and bank overdrafts.

The Company analyses its interest rate exposure on a dynamic basis. Various scenarios are simulated taking into consideration refinancing, renewal of existing positions and alternative financing. Based on these scenarios, the Company calculates the impact on statement of comprehensive income of a defined interest rate shift. For each simulation, the same interest rate shift is used for all currencies. The scenarios are run for liabilities that represent the only interest-bearing positions.

(b) Interest rate risk (continued)

The following table illustrates the sensitivity of the profit for the year and equity to a reasonably possible change in interest rates by 100 basis points (2016: 100 basis points) with effect from the beginning of the year. These changes are considered to be reasonably possible based on observation of current market conditions.

		Effect on profit for the year and equity	
	Change in interest rate	**2017**	**2016**
BHD	**100 basis points**	1,952	386

The decrease in interest rates will have the opposite effect on profit for the year and equity.

3 Financial risk management (continued)

3.2 Market risk (continued)

3.2.1 Price risk

The Company has no exposure to price risk as there is no price sensitive financial instruments.

3.3 Liquidity risk

Liquidity risk is the risk that the Company is unable to meet its payment obligations associated with its financial liabilities when they fall due. The Company monitors future cash flows and liquidity on a regular basis.

Liquidity of the Company is managed at group level through a largely centralised system to ensure a continuous supply of cash for the Company and other entities of the Terna group.

The table below analyses the Company's non-derivative financial liabilities into relevant maturity groupings based on the remaining period at the financial position date to the contractual maturity date. Balances due within 12 months from financial position date equal their carrying balances, as the impact of discounting is not significant. The amounts disclosed in the below tables are the contractual undiscounted cash flows.

At 31 December 2017	**Less than 1 year**	**More than 1 year**	**Total**
Liabilities			
Term loans	195,203	166,253	361,456
Trade and other payables	4,225,118	-	4,225,118
Retentions payable	537,490	631,879	1,169,369
Bank overdrafts	689,336	-	689,336
Total liabilities	5,647,147	798,135	6,445,279
Lease commitments	340,728	352,694	693,422

At 31 December 2016	**Less than 1 year**	**More than 1 year**	**Total**
Liabilities			
Term loans	38,604	-	38,604
Trade and other payables	4,977,777	-	4,977,777
Retentions payable	342,835	895,959	1,238,794
Bank overdrafts	541,473	-	541,473
Total liabilities	5,900,689	895,959	6,796,648
Lease commitments	188,376	453,017	641,393

3.4 Capital risk management

The Company's objective when managing its capital, which comprises shareholders' equity, is to safeguard the Company's ability to continue as a going concern in order to provide return for shareholders and benefits for other stakeholders and to maintain an optimal capital structure to reduce the cost of capital. In order to maintain or adjust the capital structure, the Company may adjust the amount of dividends paid to shareholders. In terms of the Bahrain Commercial Companies Law, the Company maintains a statutory reserve that is not available for distribution.

No changes were made in the objectives, policies or processes during the years ended 31 December 2017 and 31 December 2016. During the year ended 2017, the Company's shareholders have resolved to increase the share capital of the Company through additional capital contribution and subsequently to share capital (after obtaining the necessary legal approvals) (Note 11).

3 Financial risk management (continued)

3.5 Fair value estimation

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. In the view of the Company's management the fair values of the Company's financial assets and financial liabilities are not materially different from their carrying amounts.

3.6 Financial instruments by category

As at 31 December 2017 and 2016, all the Company's financial assets were loans and receivables and financial liabilities measured at amortised cost.

4 Critical accounting estimated and judgements

Estimates and judgments are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. The Company makes estimates and judgments concerning the future. The resulting accounting estimates will, by definition, seldom equal the related actual results. The estimates and assumptions that have significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial period are discussed below:

4.1 Impairment of retentions, contract receivables and due from customers for contract work

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.

4.2 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.

4.3 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.

4.4 Useful life and residual value of property and equipment

The Company reviews the useful life and residual value of the propert and equipment at each reporting date to determine whether an adjustment to the useful life and residual value is required. The Company uses the straight line method to compute depreciation, depletion and amortisation to reduce the cost of assets to their estimated residual values over their expected useful lives. The useful life and residual value is estimated based on the similar assets of the industry, and future economic benefit expectations of the management. At the reporting date, the company's management assesses, whether there is any indication that assets with definite lives may be impaired.

5 Property and equipment

	Portacabins	Equipment	Furniture, fixtures and office equipment	Motor vehicles	Total
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
Additions	15,051	176,900	77,280	155,774	425,005
Disposals	(90,275)	(60,091)	(15,574)	(42,162)	(208,102)
At 31 December 2017	416,574	2,406,097	318,915	622,742	3,764,328
Accumulated 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
Charge for the year	36,560	200,985	49,182	91,008	377,735
Relating to disposals	(77,884)	(60,000)	(14,758)	(42,162)	(194,804)
At 31 December 2017	345,981	2,072,175	251,106	469,463	3,138,724
Net book values:					
At 31 December 2017	70,593	333,923	67,809	153,279	625,604
At 31 December 2016	104,493	358,099	40,527	88,513	591,632

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

	2017	2016
Direct costs (Note 16)	358,610	194,668
General and administration expenses (Note 18)	19,125	19,925
	377,735	214,593

6 Computer software

	2017	2016
Cost:		
At 1 January	15,919	13,470
Additions	2,926	2,449
Disposal	(2,180)	-
At 31 December	16,665	15,919
Accumulated amortisation:		
At 1 January	14,870	12,516
Charge for the year (note 16)	1,975	2,354
Relating to disposal	(2,180)	-
At 31 December	14,665	14,870
Net carrying values:		
At 31 December	2,000	1,049

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

7 Inventories

Inventories comprise site materials and consumables required for construction purposes. As of 31 December 2017 and 2016, there were no slow moving inventories.

8 Due from customers for contract work

	2017	**2016**
Contract costs incurred to date (Note 23)	64,751,961	50,581,369
Recognised profits	101,799	413,905
Total value of work executed to date	64,853,760	50,995,274
Progress billings	(56,512,625)	(47,933,819)
	8,341,135	3,061,455

Included in the above is an amount of BHD 6.5m which is subject to a legal case (Note 23).

9 Contract and other receivables

	2017	**2016**
Contract receivables	980,925	2,318,197
Retentions receivable (Note 23)	4,027,886	4,615,539
	5,008,811	6,933,736
Due from related parties (Note 20)	213,113	1,103,333
Advances to suppliers	190,639	1,107,098
Prepayments	120,669	166,554
Other receivables	243,642	328,391
	5,776,874	9,639,112
Less: Non-current retentions receivable	(3,461,198)	(3,458,766)
	2,315,676	6,180,346

Contract receivables are non-interest bearing and are due to be generally settled within 30 days of approval of work completion certificate by the customer.Terms and conditions relating to amounts due from related parties are disclosed in note 20. During the year ended 31 December 2017, no other receivables were written off (2016: BHD 1,500). Additionally, MEP receivables amounting to BHD 227,799 were written off in 2016.

10 Cash and cash equivalents

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

	2017	**2016**
Bank balances	1,229,510	582,067
Cash on hand	6,093	2,155
Bank balances and cash	1,235,603	584,222
Bank overdrafts	(689,336)	(541,473)
Cash and cash equivalents	546,267	42,749

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 5.5% per annum (2016: BIBOR plus 5.6% per annum). The effective interest rate as of 31 December 2017 was 7.45 % (2016: 7.4% per annum) The facility is secured by assignment of contract receivables and retentions (note 9) and subcontractors' bonds, guarantees to the bank and guarantee of the parent company.

At 31 December 2017, the Company had BHD 210,674 (2016: BHD 1,008,527) of undrawn portion of bank overdrafts.

11 Share capital

	2017	2016
Issued and paid up		
40,000 shares (2016: 20,000 shares) of BHD 50 each fully paid	2,000,000	1,000,000

The shareholders and their shareholding percentages are as follows:

	2017	2016
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 from BHD 1,000,000 to BHD 2,000,000. The shareholders have contributed BHD 350,000 towards the increase in share capital up to 31 December 2016 and the balance amount of BHD 650,000 was received on 12 January 2017. The regulatory formalities with respect to changes in the share capital and shareholding structure were completed with the MOICT, Kingdom of Bahrain on 28 May 2017.

On 15 October 2017, the Company's shareholders resolved to further increase the share capital of the Company by BHD 2,500,000. The shareholders have contributed BHD 2,500,000 towards the increase in share capital up to 31 December 2017 through additional shareholder contribution which will be transferred to share capital after the completion of the legal formalities.

12 Statutory reserve

As required by the Bahrain Commercial Companies Law, an amount equivalent to 10% of the Company's net profit for the year is required to be transferred to a non-distributable reserve account until such reserve equals a minimum of 50% of the issued share capital of the Company. During the year 2017, transfer of BHD 17,559 has been made to the statutory reserve (2016: BHD 27,484).

13 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 % per annum (2016: 5.5% per annum). The loan including the interest is repayable in 36 monthly instalments. The effective interest rate of the loan as of 31 December 2017 was 7.45% (2016: 6.9% per annum).

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

	2017	2016
Non-current portion of term loan	158,339	-
Short term loans		
Current portion of long term loan	99,996	38,604
Other short term loans	95,207	-
	195,203	38,604

Term loan is secured by assignment of collections from contract receivables and retentions (Note 9) and the assignment of subcontractors bonds / guarantees to the bank.

14 Employees' end of service benefits

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

	2017	2016
At 1 January	660,961	615,497
Provided during the year (note 18)	183,855	190,567
Paid during the year	(240,263)	(145,103)
At 31 December	604,553	660,961

During the year ended 31 December 2017, end of service benefits of BHD 60,270 (2016: BHD 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 BHD 30,135 (2016: BHD 11,189).

15 Trade and other payables

	2017	2016
Contract payables	1,712,691	4,203,192
Contract advances	2,231,309	2,607,989
Accrued expenses	543,173	508,188
Retentions payable	1,169,369	1,238,794
Employees' related accruals	457,779	591,004
Other payables	505,601	372,345
Other payables - related parties (note 20)	1,586,220	199,007
	8,206,142	9,720,519
Less: Non-current retentions payable	(631,879)	(895,959)
	7,574,263	8,824,560

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

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 20.

16 Direct costs

	2017	2016
Sub-contractors' costs	4,501,562	7,358,472
Staff costs (note 18)	3,212,256	5,557,946
Materials	2,126,950	5,208,311
Consultants' fees and technician charges	569,053	474,494
Travel	60,663	184,561
Consumables	74,296	241,053
Motor vehicle hire and expenses	626,039	398,427
Depreciation (note 5)	358,610	194,668
Repairs and maintenance	46,309	125,281
Communication	9,966	34,381
Other expenses	1,458,233	33,335
Amortisation	1,975	2,354
	13,045,912	19,813,283

Other expenses includes an amount of BHD 1,260,659 representing the call of the guarantee in relation to the project that is subject to a legal case (Note 23).

17 Other income

	2017	2016
Income from recharge of expenses to the Joint Operator	1,575,017	504,837
Gain on disposals of property and equipment	82,697	4,900
Ancillary works not related to contracts	3,758	3,159
Sale of scrap	10	22,474
Other	2,455	4
	1,663,937	535,374

18 General and administration expenses

	2017	2016
Materials	57,800	-
Staff cost	937,970	740,150
Legal fees	219,177	59,900
Travel	20,519	10,234
Government fees	6,767	18,218
Motor vehicle hire and expenses	40,881	7,197
Professional fee	12,550	49,301
Repairs and maintenance	24,321	-
Communication	19,627	29,581
Partnership and other third parties fees	313,101	134,046
Rentals	70,800	72,000
Depreciation (Note 5)	19,125	19,925
Other expenses	70,672	80,818
	1,813,310	1,221,370

19 Profit for the year

Profit for the year is stated after charging:

(i) Staff costs

Staff costs have been included in the statement of comprehensive income as follows:

	2017	2016
Direct costs (note 16)	3,212,256	5,557,946
General and administration expenses (note 18)	937,970	740,150
	4,150,226	6,298,096

	2017	2016
Staff costs comprise of the following:		
Salaries and wages	2,593,905	3,934,025
Other staff benefits and expenses	798,280	1,976,195
Contributions to Social Insurance Organisation	203,999	203,837
Employees' end of service benefits (note 14)	183,855	190,567
Hire of labour	10,187	35,290
	3,790,226	6,339,914

19 **Profit for the year** (continued)

(ii) Finance costs

	2017	2016
Interest on bank overdrafts	41,357	71,103
Interest on term loans	9,028	17,380
Interest expense	50,385	88,483
Commissions on letters of guarantee	389,075	555,372
Bank charges	17,766	5,249
	457,226	649,104

(iii) Rentals-operating leases	2017	2016
Rentals-operating leases	70,800	72,000

20 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 21.

21 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.

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

	2017		2016	
	Expenses	Other income	Expenses	Other income
Shareholder				
Terna Bahrain Holding W.L.L.	-	-	-	3,159
Group companies				
Terna S.A.	31,367	-	30,777	-
Terna S.A. Saudi Branch	-	-	41	-
	31,367	-	30,818	3,159

21 Related party transactions (continued)

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

	2017		2016	
	Receivables	**Payables**	**Receivables**	**Payables**
Shareholders				
Terna Bahrain Holding W.L.L.	-	1,384,934	906,358	-
Terna Overseas Ltd.	-	-	-	148,376
Group companies				
Terna S.A. (Abu Dhabi branch)	175,638	-	175,638	-
Terna S.A.	-	202,134	20,837	-
Terna Sharjah	-	50,685	-	50,631
Terna S.A suadi branch	36,975	-	-	-
Terna Qatar Company L.L.O	-	-	-	-
Fellow subsidiaries				
Terna Ventures W.L.L.	500	-	500	-
	213,113	1,637,753	1,103,333	199,007

21.1 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 year ended 31 December 2017, the Company has not recorded any impairment or written off any of receivables relating to amounts owed by related parties (2016: writen off BHD 128,911).

21.2 Compensation of key management personnel

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

	2017	**2016**
Short-term benefits	118,272	121,243
Employees' end of service benefits	7,730	5,600
	126,002	126,843

22 Contingencies and commitments

(a) Guarantees

The Company's bankers have given performance and advance payment guarantees amounting to BHD 4,589,315 (2016: BHD 5,787,974) 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 BHD 7,217,008 (2016: BHD 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 BHD 3,608,504 (2016: BHD 4,588,578). As at 31 December 2017, there was no non-interest earning security deposit (2016: BHD 490,037) which was deposited by the Joint Operation and the Company's share was (2016: BHD 245,019).

(b) Lease commitments

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

	2017	**2016**
Less than one year	340,728	188,376
More than one year and less than five years	352,694	453,017
	693,422	641,393

22 Contingencies and commitments (continued)

(b) Lease commitments (continued)

Lease commitments include BHD 145,007 (2016: BHD 154,853) relating to the Joint Operations, of which the Company's share is BHD 72,504 (2016: BHD 77,427).

23 Legal case

The Company has currently the following significant pending legal case for which the outcome is dependent on the arbitration process and results.

On 16 April 2014, the Company entered into an agreement with Sharaka for Housing Projects BSC ("Sharaka") to provide all work and services required for the construction of social housing units and additional private property in Al-Luwzi and Islands 13 and 14, North Bahrain New Town ("Bahrain Affordable Housing Project" or "the project").

On 13 August 2017, the Company commenced arbitration proceedings against Sharaka under the Rules of Arbitration of the International Chamber of Commerce (ICC) claiming, among other items, extension of the time for completion of the works due to delays attributable to Sharaka and associated prolongation costs and other sums for amounts certified but withheld by Sharaka.

Just after this event, the Company has ringfenced the project in terms of revenue and expenses to 30 September 2017. At that time, uncertified revenue amounting to BHD 6.5 millions were recorded by the management, out of which BHD 3.8 millions were quantified by the counterparty, subject to appropriate substantiation by the Company (as confirmed by the legal counsel). Based on the above, the financial statements include revenue and corresponding receivables amounting to BHD 2.7 millions which were not approved by the counterparty. As at 31 December 2017, the total claims of the Company from Sharaka are quantified to be at BHD 14 millions out of which BHD 6.5 millions are included within due from customers for contract work in addition to retentions balances of BHD 3.1 millions.

The arbitration is still ongoing and a final award is expected within twelve months. The Company's management and legal counsel are of the opinion that the Company's claims have a significant chance of success.