# Terna Qatar L.L.C

## FINANCIAL STATEMENTS

### 31 DECEMBER 2008

**INDEPENDENT AUDITORS' REPORT TO THE SHAREHOLDERS OF TERNA QATAR L.L.C**

We have audited the accompanying financial statements of Terna Qatar L.L.C (the "Company") which comprise the balance sheet as at 31 December 2008 and the income statement, statement of changes in equity and cash flow statement for the year then ended, and a summary of significant accounting policies and other explanatory notes.

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

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgement, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate for the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, 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 2008 and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards.

**Report on legal and other requirements**
Furthermore, in our opinion proper books of account have been kept by the Company, and the financial statements comply with the Qatar Commercial Companies' Law No. 5 of 2002 and the Company's Articles of Association. We have obtained all the information and explanations we required for the purpose of our audit, and are not aware of any violations of the above mentioned law or the Articles of Association having occurred during the Year which might have had a material effect on the business of the Company or on its financial position.

T. F. Sexton
of Ernst & Young
Auditor's Registration No. 114

Date: 20 February 2009
Doha

# STATEMENT OF INCOME

Year Ended 31 December 2008

| | Note | ***2008*** | *2007* |
|---|---|---|---|
| | | ***Euro*** | *Euro* |
| Contract revenue | | **2,307,727** | 2,787,804 |
| Other income | | **35,514** | - |
| | | **2,343,241** | 2,787,804 |
| **EXPENSES** | | | |
| Salaries and related expenses | | **1,110,131** | 420,402 |
| Exchange losses | | **239,018** | 44,367 |
| Accommodation and subsistence | | **183,614** | 53,442 |
| Bank Charges & Commissions | | **146,943** | 15,204 |
| Miscellaneous | | **136,565** | 24,028 |
| Subcontract costs | | **109,977** | 1,184,576 |
| Travel and Hotels | | **107,641** | 163,916 |
| Legal and consultants fees | | **77,406** | 11,846 |
| Vehicle hire and costs | | **55,754** | 6,164 |
| Office Rent | | **50,787** | 35,634 |
| Letters of guarantee charges | | **41,080** | 15,204 |
| Communication and courier charges | | **24,555** | 11,326 |
| Depreciation | 3 | **15,220** | 3,075 |
| Printing and stationary | | **13,956** | 5,214 |
| Entertainment and advertising | | **10,286** | 4,374 |
| Advertising and promotion | | **9,405** | - |
| Tender expense | | **8,747** | 241,804 |
| Insurance | | **564** | 1,371 |
| | | **2,341,650** | 2,241,947 |
| **PROFIT FOR THE YEAR BEFORE TAXATION** | | **1,591** | **545,857** |
| **Income tax expense** | | **-** | **(31,839)** |
| **PROFIT FOR THE YEAR** | | **1,591** | **514,018** |

The attached notes 1 to 15 form part of these financial statements.

# BALANCE SHEET
At 31 December 2008

| | Notes | ***2008*** | *2007* |
|---|---|---|---|
| | | ***Euro*** | *Euro* |
| **ASSETS** | | | |
| **Non-current assets** | | | |
| Fixed Assets | 3 | **101,634** | 24,809 |
| **Current assets** | | | |
| Work in Progress | | **1,050,349** | - |
| Accounts receivable and prepayments | 4 | **2,211,680** | 777,549 |
| Related Party Receivable | 11 | **32,478,161** | 1,027,423 |
| Cash and bank balances | 5 | **3,726,906** | 652,951 |
| | | **39,467,096** | 2,457,923 |
| **TOTAL ASSETS** | | **39,568,730** | 2,482,732 |
| **EQUITY AND LIABILITIES** | | | |
| **Equity** | | | |
| Share Capital | 6 | **37,361** | 37,361 |
| Legal reserve | 7 | **18,680** | 18,680 |
| Retained earnings | | **(37,794)** | - |
| | | **18,247** | 56,041 |
| **Non current liabilities** | | | |
| Employees' end of service benefit | 8 | **34,492** | - |
| **Current liabilities** | | | |
| Advances from client | 9 | **37,855,350** | - |
| Accounts payable and accruals | 10 | **884,019** | 418,899 |
| Related party payables | 11 | **327,578** | 1,545,782 |
| Dividend payable | | **449,044** | 430,171 |
| Taxation | | - | 31,839 |
| | | **39,515,991** | 2,426,691 |
| **TOTAL EQUITY AND LIABILITIES** | | **39,568,730** | 2,482,732 |

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for Terna Qatar L.L.C

The attached notes 1 to 15 form part of these financial statements.

# CASH FLOW STATEMENT

Year Ended 31 December 2008

| | Note | ***2008*** | *2007* |
|---|---|---|---|
| | | ***Euro*** | *Euro* |
| **OPERATING ACTIVITIES** | | | |
| Profit before taxation for the Year/year | | **1,591** | 545,857 |
| Adjustment for: | | | |
| Depreciation during the Year | 3 | **15,220** | 3,075 |
| Unrealised foreign exchange differences | | **(39,385)** | - |
| Provision for employees' end of service benefits | 8 | **34,492** | - |
| Operating profit before working capital changes: | | **11,917** | 483,765 |
| Work in progress | | **(1,050,348)** | - |
| Accounts receivable and prepayments | | **(1,434,131)** | (777,549) |
| Related Party Receivable | | **(31,450,738)** | (1,027,423) |
| Advances from client | | **37,855,350** | - |
| Related party payables | | **(1,218,204)** | 1,545,782 |
| Accounts payable and accruals | | **483,993** | 418,899 |
| Net cash from operating activities | | **3,197,839** | 643,474 |
| Income tax paid during the Year | | **(31,839)** | - |
| Net cash from operating activities | | **3,166,000** | 643,474 |
| **INVESTING ACTIVITIES** | | | |
| Purchase of fixed assets | 3 | **(92,045)** | (27,884) |
| Net cash used in investing activities | | **(92,045)** | (27,884) |
| **FINANCING ACTIVITIES** | | | |
| Issue of share capital | | **-** | 37,361 |
| Net cash from financing activities | | **-** | 37,631 |
| **INCREASE IN CASH AND BANK BALANCES** | | **3,073,955** | 652,951 |
| Cash and bank balances at beginning of the Year | | **652,951** | **-** |
| **CASH AND BANK BALANCES AT 31 DECEMBER** | 5 | **3,726,906** | 652,951 |

The attached notes 1 to 15 form part of these financial statements.

# STATEMENT OF CHANGES IN EQUITY

Year Ended 31 December 2008

| | *Share Capital Euro* | *Legal Reserve Euro* | *Retained Earnings Euro* | *Foreign Currency Translation Reserve Euro* | *Total Euro* |
|---|---|---|---|---|---|
| Issue of share capital | 37,361 | - | - | - | 37,361 |
| Profit for the year | - | - | 514,018 | - | 514,018 |
| Transfer to legal reserve | - | 18,680 | (18,680) | - | - |
| Proposed dividend | - | - | (430,171) | - | (430,171) |
| Foreign exchange difference due to cash dividends issued | - | - | (65,167) | - | (65,167) |
| **Balance at 31 December 2007** | **37,361** | **18,680** | **-** | **-** | **56,041** |
| Profit for the Year | - | - | 1,591 | - | 1,591 |
| Net movement in foreign currency translation reserve during the Year | - | - | - | (39,385) | (39,385) |
| Balance at 31 December 2008 | **37,361** | **18,680** | **1,591** | **(39,385)** | **18,247** |

The attached notes 1 to 15 form part of these financial statements.

## 1 ACTIVITIES

Terna Qatar L.L.C (the "Company") is registered and incorporated in the State of Qatar as a company with limited liability. The Company was incorporated on 17 December 2007 and is registered in Qatar under commercial registration number 34407. The shareholding of the company is as follows.

| Shareholder | Shareholding | No. of shares | Value of shares Euro |
|---|---|---|---|
| Ali Mohamed Tayab Hasim Mustafavi | Qatari | 13,000 | 24,285 |
| Terna Overseas – Greece | Foreign | 7,000 | 13,076 |
| **Total** | | **20,000** | **37,361** |

## 2 BASIS OF PREPARATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

**Basis of preparation**
The financial statements of Terna Qatar L.L.C have been prepared in accordance with International Financial Reporting standards and applicable requirements of Qatar Commercial Companies' Law No. 5 of 2002.

These financial statements have been presented in Euros.

The financial statements are prepared under the historical cost convention.

IASB Standards and Interpretations issued but not adopted

- IAS 1 Presentation of Financial Statements
- IAS 23 Borrowing Cost

IAS 1 Presentation of Financial Statements (Revised)
The Company has not adopted the revised IAS 1 "Presentation of Financial Statements" which will be effective for the year ending 31 December 2009. The application of this standard will result in amendments to the presentation of the financial statements.

**Summary of significant accounting policies**

**Revenue recognition**
*Service Revenue*
Revenue from rendering of services is recognised when the outcome of the transaction can be estimated reliably, by reference to the stage of completion of the transaction at the balance sheet date.

*Interest Income*
Interest revenue is recognised as the interest accrues using the effective interest method, under which the rate used exactly discounts estimated future cash receipts through the expected life of the financial asset to the net carrying amount of the financial asset.

**Income Taxes**
Taxation is provided in accordance with the Qatar Income Tax Law.

**2 BASIS OF PREPARATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

**Property, plant and equipment**
Property, plant and equipment is stated at cost less accumulated depreciation and any impairment in value. Land is not depreciated.

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

| | |
|---|---|
| Buildings | 20 years |
| Electrical equipment | 5 years |
| Furniture and fittings | 6-7 years |
| Telephones | 6-7 years |
| Computer equipment | 3 years |

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

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

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

**Accounts receivable**
Accounts receivable are stated at original invoice amount less a provision for any uncollectible amounts. 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**
Cash and cash equivalents comprise cash on hand, bank balances and short term deposits with an original maturity of three months or less.

**Accounts payable and accruals**
Liabilities are recognised for amounts to be paid in the future for goods or services received, whether billed by the supplier or not.

**Provisions**
Provisions are recognised when the company has an obligation (legal or constructive) arising from a past event, and the costs to settle the obligation are both probable and reliably measured.

**Employees' end of service benefits**
The company provides end of service benefits to its employees. The entitlement to these benefits is based upon the employees' final salary and length of service, subject to the completion of a minimum service period, calculated under the provisions of the Qatar Labour Law and is payable upon resignation or termination of the employee. The expected costs of these benefits are accrued over the period of employment.

**2 BASIS OF PREPARATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

**Foreign currencies and translation of functional currency financial statements**
Transactions in foreign currencies are initially recorded in the functional currency rate of exchange ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are retranslated at the functional currency rate of exchange ruling at the balance sheet date. All differences are taken to the income statement. Non-monetary items measured in terms of historical costs in a foreign currency are translated using the exchange rates as at the dates of the initial transactions.

The financial statement of the company, whose functional currency is Qatari Riyals is translated to financial statement's presentation currency (Euros) as follows:

- assets and liabilities are translated at the year end rate;
- items in the statement of income are translated at the average rate for the year
- the transaction adjustment resulting from the use of these different rates is included as a separate component of shareholders' equity

**Fair values**
The fair value is the estimated amount for which asset could reasonably be exchanged for on the date of valuation between a willing buyer and a willing seller in an arm's length transaction wherein the buyer and seller has each acted knowledgeably, prudently and without compulsion.

**3 FIXED ASSETS**

| | *Furniture & Fittings Euro* | *Buildings Euro* | *Electronic Equipment Euro* | *Computer equipment Euro* | *Telephones Euro* | *Total Euro* |
|---|---|---|---|---|---|---|
| Cost: | | | | | | |
| At 1 January 2008 | 4,631 | 2,957 | 2,902 | 15,110 | 2,284 | 27,884 |
| Additions | 18,572 | - | 9,323 | 61,747 | 2,402 | 92,045 |
| At 31 December 2008 | 23,203 | 2,957 | 12,225 | 76,857 | 4,686 | 119,929 |
| Depreciation: | | | | | | |
| At 1 January 2008 | 252 | 89 | 285 | 2,260 | 189 | 3,075 |
| Provided during the Year | 1,617 | 155 | 1,753 | 11,226 | 469 | 15,220 |
| At 31 December 2008 | 1,869 | 244 | 2,038 | 13,486 | 658 | 18,295 |
| **Net carrying values:** | | | | | | |
| **At 31 December 2008** | **21,334** | **2,713** | **10,186** | **63,371** | **4,029** | **101,634** |
| At 31 December 2007 | 4,379 | 2,868 | 2,617 | 12,850 | 2,095 | 24,809 |

## 4 ACCOUNTS RECEIVABLE AND PREPAYMENTS

| | 2008<br>Euro | 2007<br>Euro |
|---|---|---|
| Trade accounts receivable | **1,328,925** | 678,263 |
| Deposits & Prepayments | **855,992** | 79,499 |
| Other receivables | **26,763** | 19,787 |
| | **2,211,680** | 777,549 |

## 5 CASH AND BANK BALANCES

| | 2008<br>Euro | 2007<br>Euro |
|---|---|---|
| Cash at Bank | **3,720,770** | 630,408 |
| Cash on Hand | **6,136** | 22,543 |
| | **3,726,906** | 652,951 |

## 6 SHARE CAPITAL

| | 2008<br>Euro | 2007<br>Euro |
|---|---|---|
| Authorised, issued and fully paid | **43,571** | 43,571 |
| 200 ordinary shares of QR 1,000 each | **(6,210)** | (6,210) |
| | **37,361** | 37,361 |

## 7 LEGAL RESERVE

As required by the Company's Articles of Association and Qatar Commercial company law No 5 of 2002, 10% of the net profit for the Year should be transferred to legal reserve until the reserve totals 50% of the issued share capital. The reserve is not normally available for distribution except in the circumstances stipulated in the above mentioned law.

## 8 EMPLOYEES' END OF SERVICE BENEFITS

| | ***2008*** ***Euro*** | *2007* *Euro* |
|---|---|---|
| Balance at the beginning of the year | - | - |
| Provided during the Year | **34,492** | - |
| Paid during the Year | - | - |
| | **34,492** | - |

## 9 ADVANCES FROM CLIENT

The company has received an advance amounting to Euro 37,855,350 (QR. 194,130,000) in terms of the contract entered into with Al Merqab Real Estate LLC for construction of commercial development. It accounts for 27% of the contract value which is QR 719 Mn.

The company is unconditionally bound to Al Merqab Real Estate LLC for outstanding guarantee facility at year end under an advance payment guarantee bond issued by HSBC amounted to QR. 194,130,000 which is the outstanding amount as of the Balance Sheet date.

## 10 ACCOUNTS PAYABLE AND ACCRUALS

| | ***2008*** ***Euro*** | *2007* *Euro* |
|---|---|---|
| Other payables | **854,988** | 80,000 |
| Trade payables | **29,030** | 3,296 |
| Accrual expense | **-** | 335,603 |
| | **884,018** | 418,899 |

## 11 TRANSACTIONS WITH RELATED PARTIES

Related parties represent associated companies, major shareholders, 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 management.

Transactions with significant related parties during the Year are summarised as follows:

(i) Transactions with related parties included in the income statement are as follows:

| | ***2008*** | | *2007* | |
|---|---|---|---|---|
| | ***Sales*** ***Euro*** | ***Purchases*** ***Euro*** | *Sales* *Euro* | *Purchases* *Euro* |
| QBC Terna Joint Venture | **731,125** | **-** | - | - |
| Terna Overseas Limited | - | **249,211** | - | 212,955 |
| Terna SA | - | **73,538** | - | 151,879 |
| Terna SA Sharjah | - | **2,157** | - | 28,935 |
| Terna Bahrain Holding W.L.L | - | **471,563** | - | 1,192,992 |
| | **731,125** | **796,469** | - | 1,586,761 |

## 11 TRANSACTIONS WITH RELATED PARTIES (Continued)

(ii) Balances with related parties included in the balance sheet are as follows:

| | ***2008*** | | *2007* | |
|---|---|---|---|---|
| | ***Receivables Euro*** | ***Payables Euro*** | *Receivables Euro* | *Payables Euro* |
| Terna Bahrain Holding W.L.L | **28,332,957** | - | 1,027,423 | - |
| QBC Terna Joint Venture | **4,145,204** | - | - | 27,334 |
| Terna Overseas Limited | **-** | **277,746** | - | 578,534 |
| Terna S.A | **-** | **19,322** | - | 143,480 |
| Terna SA Sharjah Company | **-** | **30,510** | - | 796,434 |
| | **32,478,161** | **327,578** | 1,027,423 | 1,545,782 |

## 12 CONTINGENCIES

At 31 December 2008 the Company has contingent liabilities in respect of bank guarantee and performance bond in relation to the construction contract amounting to Euro. 51,875,850. (2007: Euro. Nil).

## 13 FINANCIAL RISK MANAGEMENT

***Objectives and policies***
The Company's principal financial liabilities comprise trade payables, amounts due to related parties and advance from customers. The main purpose of these financial liabilities is to raise finance for the Company's operations. The Company has various financial assets such as trade receivables and cash and bank balances, which arise directly from its operations.

The main risks arising from the Company's financial instruments are credit risk, liquidity risk, and foreign currency risk. The management reviews and agrees policies for managing each of these risks which are summarised below.

**Credit risk**
The Company seeks to limit its credit risk with respect to the customer by setting credit periods and monitoring outstanding receivables.

The Company's main customer is the Joint venture with Qatar Building Company and this account for substantial portion of accounts receivable at 31 December 2008.

With respect to credit risk arising from the other financial assets of the Company, including cash and cash equivalents the Company's exposure to credit risk arises from default of the counterparty, with a maximum exposure equal to the carrying amount of these instruments. The company financials assets are as follows:

| | ***2008 Euro*** |
|---|---|
| Bank balances | **3,726,906** |
| Trade receivable | **1,328,925** |
| Deposits & Prepayments | **855,992** |
| Other receivables | **26,763** |
| Amount due from related parties | **32,478,161** |
| | **38,416,747** |

## 13 FINANCIAL RISK MANAGEMENT (Continued)

**Liquidity risk**
The company limits its liquidity risk by complying with the terms of any supplier agreements and by utilising the excess funds with banks to settle the project obligation as they fall due. Accounts payable are normally settled within 30 days.

The table below summarises the maturities of the Company's undiscounted financial liabilities at 31 December 2008, based on contractual payment dates and current market interest rates.

| 31 December 2008 | Less than 3 months Euro | 3 to 12 months Euro | 1 to 5 years Euro | > 5 years Euro | Total Euro |
|---|---|---|---|---|---|
| **Trade payables** | **29,030** | **-** | **-** | **-** | **29,030** |
| **Other payables** | **854,989** | **-** | **-** | **-** | **854,989** |
| **Related party payables** | **327,578** | **-** | **-** | **-** | **327,578** |
| **Total** | **1,211,597** | **-** | **-** | **-** | **1,211,597** |

**Currency risk**
The company is exposed to currency risk in respect of trade payables due in foreign currencies. As the Qatari Riyals is pegged to the US Dollar, balances in US Dollars are not considered to represent significant currency risk. Accordingly, management does not consider currency risk for the Company to be significant.

**Capital Management**
The primary objective of the Company's capital management is to ensure that it maintains healthy capital ratios in order to support its business and maximise shareholder value.

The Company manages its capital structure and makes adjustments to it in light of changes in business conditions. No changes were made in the objectives, policies or processes during the years ended 31 December 2008. Capital comprises share capital, statutory reserve and retained earnings, and is measured at Euro 60,150 as at 31 December 2008.

## 14 SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES

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

**Impairment of accounts receivable**
An estimate of the collectible amount of trade accounts receivable 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 balance sheet date, gross trade accounts receivable were Euro 1,328,925 with no provision for doubtful debts. Any difference between the amounts actually collected in future periods and amounts expected will be recognised in the income statement.

**15 FAIR VALUES OF FINANCIAL INSTRUMENTS**

Financial instruments comprise of financial assets and financial liabilities.

Financial assets consist of cash and bank balances and receivables. Financial liabilities consist of payables, and accrued expenses.

The fair values of financial instruments are not materially different from their carrying values.