

Balkan Cement Enterprises Limited

Report and financial statements 31 December 2005

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Balkan Cement Enterprises Limited

Board of Directors and other officers

Directors

Stelios Triantafyllides
Arta Antoniou
Spyroulla Papaeracleous

Company Secretary

A.T.S. Services Limited
2-4 Arch. Makarios III Avenue
Capital Center, 9th Floor
CY-1065 Nicosia
Cyprus

Registered office

2-4 Arch. Makarios III Avenue
Capital Center, 9th Floor
CY-1065 Nicosia
Cyprus

Balkan Cement Enterprises Limited

Report of the Board of Directors

1 The Board of Directors presents its report together with the audited financial statements of the Company for the year ended 31 December 2005.

Principal activities

2 The principal activities of the Company, which are unchanged from last year, are that of an investment holding company and the investing and trading in shares including but not limited to any other form of dividend and interest earning shares, bonds, deposit and loans.

Review of developments, position and performance of the Company's business

3 The Company made a profit of €2,090,958 for the year compared to the loss of €14,521,290 in 2004 mainly because of part reversal of provision for non-recovery of option costs of €2,104,574 during the year, in comparison to the provision for non-recovery of option costs of €14,508,322 made in 2004. The financial statements have been prepared on a going concern basis which presumes that payables to related party of €12,100,174 (2004: €23,460,174) (Note 15(a)) will not be called for repayment by the party concerned in the next 12 months from the date of this report. The Board of Directors does not expect any significant changes in the activities of the Company for the foreseeable future.

Principal risks and uncertainties

4 The Company's principal risk or uncertainties are stated in Note 3.

Results

5 The Company's results for the year are set out on page 6. The Board of Directors does not recommend the payment of a dividend and the net profit for the year is retained.

Share capital

6 There were no changes in the share capital of the Company.

Board of Directors

7 The members of the Board of Directors at 31 December 2005 and at the date of this report are shown on page 1. All of them were members of the Board throughout the year 2005.

8 In accordance with the Company's Articles of Association all Directors will continue in office.

Balkan Cement Enterprises Limited

Report of the Board of Directors (continued)

Board of Directors (continued)

9 There were no significant changes in the assignment of responsibilities and remuneration of the Board of Directors.

Events after the balance sheet date

10 There were no material events which occurred after the end of the financial year.

Branches

11 The Company did not operate through any branches during the year.

Auditors

12 The auditors, PricewaterhouseCoopers Limited, have expressed their willingness to continue in office. A resolution giving authority to the Board of Directors to fix their remuneration will be proposed at the Annual General Meeting.

By order of the Board

Stelios Triantafyllides
Director

Nicosia
.....2006

Report of the auditors to the members of Balkan Cement Enterprises Limited

Report on the financial statements

1 We have audited the financial statements of Balkan Cement Enterprises Limited on pages 6 to 18, which comprise the balance sheet as at 31 December 2005 and the income statement, statement of changes in deficit and cash flow statement for the year then ended and the related notes. These financial statements are the responsibility of the Board of Directors. Our responsibility is to express an opinion on these financial statements based on our audit. This report is made solely to the Company's members, as a body, in accordance with Section 156 of the Companies Law, Cap. 113. Our audit work has been undertaken so that we might state to the Company's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Company and the Company's members as a body, for our audit work, for this report, or for the opinions we have formed.

2 We conducted our audit in accordance with International Standards on Auditing. Those Standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by the Board of Directors, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

3 In our opinion, the financial statements give a true and fair view of the financial position of Balkan Cement Enterprises Limited as of 31 December 2005 and of its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards and the requirements of the Companies Law, Cap. 113.

(4)

Board Members: Phidias K. Filides (CEO), Dinos N. Papadopoulos (Deputy CEO), Tassos I. Tselentisides, Panikos N. Tsialis, Chrimkis Sertis, Stephanos D. Stephanides, Costas I. Hadjiconstantinou, George Faradaris, Costas M. Nicolaides, Angelos M. Louzou, Vasilis Hadjivrasilios, Savvas C. Michail, Costas I. Mavrocordatos, Ciriacos M. Themistocleous, Panicos Kouris, Nicos A. Neophytou, George M. Loizou, Androulla S. Pitsas, Andreas T. Constantinides, Timothy D. Osborne, Pappas G. Pvangello, Litzos M. Theodorou, Stefanos Constantinos, Tassos Procopiou, Theo Parperis, Constantinos Constantinou, Petros C. Petrakis, Philippos C. Sotelloz, Evgenios C. Evgeniou, Christos Tsolakis, Nicos A. Theodorou, Nikos T. Nikolaidis, Cleo A. Papadopoulos, Marlos S. Andreou, Nicos P. Chaniarides, Aram Tavizian, Constantinos Taliotis, Stavros A. Karamis
Directors of Operations: Adrian Ioannou, Androulla Aristeidou, Achilleas Chrysanthou, George Skapoulianos, Bambos A. Charalambous, Chris Odysseos, Demetris V. Psalios, Constantinos L. Kepsalis

4 Without qualifying our opinion, we draw attention to the fact that the financial statements have been prepared on a going concern basis which presumes that payables to related party of €12,100,174 (2004: €23,460,174) (Note 15(a)) will not be called for repayment by the party concerned in the next 12 months from the date of this report.

5 Without further qualifying our opinion we draw attention to the fact that at 31 December 2005 and during the year 2005 the Company had balances and entered into transactions with related parties in the normal course of business. Related parties may enter into transactions which unrelated parties would not and transactions between related parties may not be effected on the same terms, conditions and amounts as transactions between unrelated parties.

Report on other legal requirements

6 Pursuant to the requirements of the Companies Law, Cap. 113, we report the following:

- We have obtained all the information and explanations we considered necessary for the purposes of our audit.
- In our opinion, proper books of account have been kept by the Company.
- The Company's financial statements are in agreement with the books of account.
- In our opinion and to the best of our information and according to the explanations given to us, the financial statements give the information required by the Companies Law, Cap. 113, in the manner so required.
- In our opinion, the information given in the report of the Board of Directors on page 2 and 3 is consistent with the financial statements.


PricewaterhouseCoopers Limited
Chartered Accountants

Nicosia, 13 February 2006

Balkan Cement Enterprises Limited

Income statement for the year ended 31 December 2005

	Note	2005 €	2004 €
Part reversal of provision for non-recovery of option costs	10(2)	2,104,574	-
Provision for non-recovery of option costs	10(2)	-	(14,508,322)
Other gains	5	4,458	294
Administrative expenses		(17,391)	(13,056)
Operating profit/(loss)		2,091,641	(14,521,084)
Finance costs	6	(128)	(206)
Profit/(loss) before tax		2,091,513	(14,521,290)
Tax	7	(555)	-
Profit/(loss) for the year		2,090,958	(14,521,290)

The notes on pages 10 to 18 are an integral part of these financial statements.

Balkan Cement Enterprises Limited

Balance sheet at 31 December 2005

	Note	2005 €	2005 €	2004 €	2004 €
Assets					
Current assets					
Option costs	10	14,983,748		26,343,748	
Less: Provision for non-recovery of option costs	10	<u>(14,983,748)</u>	-	<u>(17,088,322)</u>	9,255,426
Other receivables	11		2,927		2,606
Cash and cash equivalents	12		25,076		37,238
Total assets			<u>28,003</u>		<u>9,295,270</u>
Deficit and liabilities					
Capital and reserves (deficit)					
Share capital	13		294,000		294,000
Share premium	13		2,716,000		2,716,000
Accumulated losses			<u>(15,089,311)</u>		<u>(17,180,269)</u>
			<u>(12,079,311)</u>		<u>(14,170,269)</u>
Current liabilities					
Other payables	14		12,107,314		23,465,539
Total deficit and liabilities			<u>28,003</u>		<u>9,295,270</u>

On 13 February 2006 the Board of Directors of Balkan Cement Enterprises Limited authorised these financial statements for issue.

Stelios Triantafyllides, Director



Arta Antoniou, Director

The notes on pages 10 to 18 are an integral part of these financial statements.

Balkan Cement Enterprises Limited

Statement of changes in deficit for the year ended 31 December 2005

	Share capital €	Share premium €	Accumulated losses €	Total €
Balance at 1 January 2004	294,000	2,716,000	(2,658,979)	351,021
Loss for the year	-	-	(14,521,290)	(14,521,290)
Balance at 31 December 2004 / 1 January 2005	<u>294,000</u>	<u>2,716,000</u>	<u>(17,180,269)</u>	<u>(14,170,269)</u>
Profit for the year	-	-	2,090,958	2,090,958
Balance at 31 December 2005	<u>294,000</u>	<u>2,716,000</u>	<u>(15,089,311)</u>	<u>(12,079,311)</u>

The notes on pages 10 to 18 are an integral part of these financial statements.

Balkan Cement Enterprises Limited

Cash flow statement for the year ended 31 December 2005

	Note	2005 €	2004 €
Cash flows from operating activities			
Profit/(loss) before tax		2,091,513	(14,521,290)
Adjustment for:			
Provision for non-recovery of option costs	10(2)	-	14,508,322
Part reversal of provision for non recovery of option costs	10(2)	(2,104,574)	-
Interest expense	6	128	172
		<u>12,933</u>	<u>(12,796)</u>
Changes in working capital:			
Other receivables		11,359,679	395
Other payables		(11,358,225)	(298,217)
		<u>(11,479)</u>	<u>(310,618)</u>
Tax paid		(555)	-
		<u>(12,034)</u>	<u>(310,618)</u>
Net cash used in operating activities			
Cash flows from investing activities			
Loan granted to related party	9	-	337,628
		<u>-</u>	<u>337,628</u>
Net cash from investing activities			
Cash flows from financing activities			
Interest paid		(128)	(172)
		<u>(128)</u>	<u>(172)</u>
Net cash from financing activities			
Net (decrease)/increase in cash and bank balances		(12,162)	26,838
Cash and bank balances at beginning of year		37,238	10,400
		<u>25,076</u>	<u>37,238</u>
Cash and bank balances at end of year	12	<u>25,076</u>	<u>37,238</u>

The notes on pages 10 to 18 are an integral part of these financial statements.

Balkan Cement Enterprises Limited

Notes to the financial statements

1 General

Country of incorporation

The Company is incorporated in Cyprus as a private limited liability company in accordance with the provisions of the Companies Law, Cap.113. Its registered office is at 2-4 Arch. Makarios III Avenue, Capital Center, 9th floor, CY-1065 Nicosia, Cyprus.

Principal activities

The principal activities of the Company, which are unchanged from last year, are that of an investment holding company and the investing and trading in shares including but not limited to any other form of dividend and interest earning shares, bonds, deposit and loans.

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 years presented in these financial statements unless otherwise stated.

Basis of preparation

The financial statements of Balkan Cement Enterprises Limited have been prepared in accordance with International Financial Reporting Standards (IFRS) and the provisions of the Companies Law, Cap. 113. 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 and requires management to exercise its judgement in the process of applying the Company's accounting policies. The areas involving a higher degree of judgement of complexity, or areas where assumptions and estimates are significant to the financial statements are disclosed in Note 4.

Adoption of new and revised IFRS

In the current year the Company adopted all new and revised IFRS that are relevant to its operations and are effective for accounting periods beginning on 1 January 2005.

This adoption did not result in substantial changes to the Company's accounting policies.

Balkan Cement Enterprises Limited

2 Summary of significant accounting policies (continued)

Revenue recognition

Revenue earned by the Company is recognized on the following bases:

(a) Interest income

Interest income is recognised on a time proportion basis using the effective interest method.

Foreign currency translation

(a) Functional and presentation currency

Items included in the Company's financial statements are measured and presented in Euro (€) for the following reasons:

- The majority of assets and liabilities and majority of transaction of the Company were, and in the future are expected to be, denominated, executed and settled in €.
- Due to the nature of the Company's business, key economic and operational decisions are based in €.
- The functional currency of the ultimate parent company, Titan Cement S.A. which significantly influences the Company's key economic and operational decisions is the €.

(b) Transactions and balances

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

Tax

Current tax liabilities and assets for the current and prior periods are measured at the amount expected to be paid to or recovered from the taxation authorities using the tax rates and laws that have been enacted or substantively enacted by the balance sheet date.

Deferred tax is provided in full, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the financial statements. Deferred tax is determined using tax rates and laws that have been enacted or substantively enacted by the balance sheet date and are expected to apply when the related deferred tax asset is realised or the deferred tax liability is settled.

Deferred tax assets are recognised to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilised.

Balkan Cement Enterprises Limited

2 Summary of significant accounting policies (continued)

Share capital

Ordinary shares are classified as equity.

Receivables from/payables to related parties

Receivables from/payables to related parties are stated at their transacted values as they are on demand. Management believes that their fair value is not materially different from their transacted value.

Cash and cash equivalents

Cash and cash equivalents include, deposits held at call with banks.

Comparatives

Where necessary, comparative figures have been adjusted to conform with changes in presentation in the current year.

3 Financial risk management

(a) Financial risk factors

The Company's activities expose it to credit risk, liquidity risk and currency risk from the financial instruments it holds. The risk management policies employed by the Company to manage these risks are discussed below:

(ii) Credit risk

Credit risk arises when a failure by counterparties to discharge their obligations could reduce the amount of future cash inflows from financial assets on hand at the balance sheet date. At balance sheet date, the Company's option prepayment (Note 10) is exposed to such risk. Management of the Company monitors on a continuous basis the level of the credit risk in respect of the option prepayment and makes accordingly the necessary provision for non-recovery.

(ii) Liquidity risk

Liquidity risk is the risk that arises when the maturity of assets and liabilities does not match. An unmatched position potentially enhances profitability, but can also increase the risk of losses. The Company has procedures with the object of minimising such losses such as maintaining sufficient cash and other highly liquid current assets and by having available an adequate amount of committed credit facilities.

Balkan Cement Enterprises Limited

3 Financial risk management (continued)

(ii) Currency risk

Currency risk is the risk that the value of financial instruments will fluctuate due to changes in foreign exchange rates. Currency risk arises when future commercial transactions and recognized assets and liabilities are denominated in a currency that is not the Company's functional currency. At the year end the Company had no significant balances in foreign currencies.

The foreign exchange difference charged to the income statement amounts to €128 (2004: €34) and relates to financing activities (Note 6).

(b) Fair value estimation

The nominal value less any estimated credit adjustments for financial assets and liabilities with a maturity of less than one year are assumed to approximate their fair values. The fair value of financial liabilities for disclosure purposes is estimated by discounting the future contractual cash flows at the current market interest rate available to the Company for similar financial instruments.

4 Critical accounting estimates and judgements

Estimates and judgements 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.

(a) Critical accounting estimates and assumptions

The Company makes estimates and assumptions concerning the future. The resulting accounting estimates will, by definition, seldom equal the related actual results. The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are discussed below:

(i) Income taxes

The Company operates in Cypriot tax jurisdiction. The Company must interpret and apply existing legislation to transactions with third parties and its own activities. Significant judgment is required in determining the provision for income taxes. There are transactions and calculations for which the ultimate tax determination is uncertain during the ordinary course of business. The Company recognises liabilities for anticipated tax audit issues based on estimates of whether additional taxes will be due. Where the final tax outcome of these matters is different from the amounts that were initially recorded, such differences will impact the income tax and deferred tax provisions in the period in which such determination is made.

Balkan Cement Enterprises Limited

4 Critical accounting estimates and judgements (continued)

(a) Critical accounting estimates and assumptions (continued)

(i) Income taxes (continued)

In Management's opinion, the Company is in substantial compliance with the tax laws governing its operations. However the risk remains that the relevant authorities could take differing positions with regard to interpretative issues and the effect could be significant.

The Company met the tax filing in Cyprus. To the best of Management's knowledge, no breaches of tax law have occurred. Thus, the Company has not recorded any provision for potential impact of any such breaches as at 31 December 2005 or as at 31 December 2004.

(ii) Recovery if option costs

The company provides in full for the non-recovery of option costs (Note 10). In making this judgement, the Company evaluated prevailing condition (Note 10) as at the report date. Were the prevailing condition to stop to exist in 2006 then option costs will be fully recoverable and the provision for non-recovery of €14,983,748 would be written back to the income statement for the year 2006 – a favourable impact in the results of the Company.

5 Other gains

	2005 €	2004 €
Interest income:		
Bank balances	<u>4,458</u>	<u>294</u>

6 Finance costs

	2005 €	2004 €
Interest expense:		
Overdue taxation	-	172
Net foreign exchange transaction losses on financing activities	<u>128</u>	<u>34</u>
	<u>128</u>	<u>206</u>

Balkan Cement Enterprises Limited

7 Tax

	2005 €	2004 €
Current tax:		
Defence contribution	<u>555</u>	<u>-</u>

The Company had no income tax for the year, due to tax losses suffered. At 31 December 2005 the Company had tax losses carried forward C£26,509 (2004: C£17,886). Tax losses may be utilised against future taxable profits with no time limitation.

From the tax year commencing 1 January 2003 onwards the Company is subject to corporation tax on its taxable profits at the rate of 10%. For the years 2003 and 2004 any profits in excess of C£1.000.000 are subject to an additional corporation tax at the rate of 5%.

Under certain conditions interest may be subject to defence contribution at the rate of 10%. In such cases 50% of the same interest will be exempt from corporation tax thus having an effective tax burden of approximately 15%. In certain cases dividends received from abroad may be subject to defence contribution at the rate of 15%.

8 Expenses by nature

	2005 €	2004 €
Audit fees	6,107	4,561
Legal fees	2,606	3,001
Accountancy and administrative	7,509	4,757
Sundry expenses	1,169	737
Provision for non-recovery of option costs	-	14,508,322
Part reversal of provision for non-recovery of option costs	(2,104,574)	-
Total administrative expenses provision for non-recovery of option costs and part reversal of provision for non-recovery of option costs	<u>(2,087,183)</u>	<u>14,521,378</u>

9 Loan receivable

	2005 €	2004 €
At 1 January	-	337,628
Payments made	-	(337,628)
At 31 December	<u>-</u>	<u>-</u>

Balkan Cement Enterprises Limited

10 Option payments and provision for non-recovery of option costs

	2005 €	2004 €
BAB – Option prepayment (1)	14,983,748	26,343,748
Provision against option cost (2)	(14,983,748)	(17,088,322)
	<u> </u>	<u> </u>
	-	9,255,426
	<u> </u>	<u> </u>

(1) On 9 January 2003, the Company entered into an agreement to sell the investment acquired in 2002 and 98% of the loan receivable from Sharr Beiteiligungs GmbH for the carrying amounts of €2,940,000 and €16,543,748 respectively. On the same date the Company entered into an option agreement to acquire back the 98% of the share capital and the loan receivable from Sharr Beiteiligungs GmbH. The Company in 2003 transferred additional funds of €6,860,000 to Sharr Beiteiligungs GmbH. According to the option agreement any additional funds should be considered as increase in the option price. At 31 December 2003, the total consideration paid for the option was €26,343,748 and was unsecured though guaranteed to be returned in the event that the option is not exercised by the Company.

(2) The Board of Directors of the Company formed the view that a provision was necessary against non-recovery of the option costs attributed to risks associated with the operations of Sharr Beiteiligungs GmbH. In this respect, the Board of Directors in 2004 provided for non-recovery of option costs a total of €17,088,322 of which €14,508,322 was made in 2004. During the year Sharr Beiteiligungs GmbH returned to the Company funds of €11,360,000 reducing option costs to €14,938,748.

The Board of Directors decided to have the remaining option costs fully provided in view of the fact that Sharr Beiteiligungs GmbH continues conduct its operations in regions which are subject to risks such as:

- exchange controls
- fluctuations in national currencies
- social and political risk
- national and regional labour disputes
- the difficulty of enforcing legal claims and agreements through some foreign legal systems.

The Board of Directors will continue to monitor the impact of the risks associated with the operations of Sharr Beiteiligungs GmbH and accordingly increase or decrease the level of the provision against non-recovery of the option premium.

Balkan Cement Enterprises Limited

11 Other receivables

	2005 €	2004 €
Prepayments	<u>2,927</u>	<u>2,606</u>

12 Cash and cash equivalents

For the purposes of the cash flow statement the cash and cash equivalents comprise the following:

	2005 €	2004 €
Cash at bank	<u>25,076</u>	<u>37,238</u>

13 Share capital and share premium

	Number of shares	Share capital €	Share premium €	Total €
At 1 January 2004/2005 and at 31 December 2004/2005	<u>294 000</u>	<u>294,000</u>	<u>2,716,000</u>	<u>3,010,000</u>

The total authorized number of ordinary shares is 590 000 shares (2004: 590 000 shares) with a par value of €1 per share. All issued shares are fully paid.

14 Other payables

	2005 €	2004 €
Payables to related party (Note 15)	12,100,174	23,460,174
Other payables	2,528	1,102
Accrued expenses	4,612	4,263
	<u>12,107,314</u>	<u>23,465,539</u>

Balkan Cement Enterprises Limited

15 Related party transactions

As of 16 January 2004, the immediate parent of the Company changed from Balkcem Limited to Themis Holdings Limited, a company incorporated in Cyprus, which owns 100% of the Company's shares. The Company's ultimate controlling party is Titan Cement S.A, in Greece, which owns 51% of Themis Holdings Limited.

For the purposes of these financial statements parties are considered to be related if one party has the ability to control the other party or exercise significant influence over the other party in making financial or operating decisions and as such include all companies which are ultimately controlled by a common management.

The following transactions were carried out with related parties:

(a) Year-end balances arising from financing

	Nature of transaction	2005 €	2004 €
Option prepayment (Note 10)	Financing	-	9,255,426
Payables to holding company (Note 12) (1)	Financing	<u>12,100,174</u>	<u>23,460,174</u>

- (1) These amounts represent advances of a financing nature by the Company's holding company with no set date of repayment or interest accruing. These amounts were originally advanced by Balkcem Limited, but were assigned to Themis Holding Limited during 2004.

16 Events after the balance sheet date

There were no material post balance sheet events, which have a bearing on the understanding of the financial statements.

Report of the auditors on page 4 and 5.

Balkan Cement Enterprises Limited

Analysis of expenses for the year ended 31 December 2005

	2005	2004
	€	€
Administrative expenses		
Photocopies, printing and stationery	25	21
Postages, telephones and telexes	21	16
Audit fees	6,015	4,561
Audit fees – prior year	92	-
Legal fees	2,606	3,001
Accountancy and administrative	7,509	4,757
Sundry expenses	94	115
Bank charges	1,029	441
Unrecoverable V.A.T.	-	144
	<u>17,391</u>	<u>13,056</u>