

**"CEMENTARA KOSJERIC" A.D.  
FINANCIAL STATEMENTS  
FOR GROUP CONSOLIDATION REPORTING PURPOSES  
FOR THE PERIOD ENDED 31 DECEMBER 2005**

**CEMENTARA "KOSJERIC" A.D.  
FINANCIAL STATEMENTS  
FOR THE PERIOD ENDED 31 DECEMBER 2005  
PREPARED FOR GROUP CONSOLIDATION PURPOSES**

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**Statement of Management's Responsibilities  
to the Shareholders of Cementara "Kosjeric" a.d.**

International conventions require that the management prepares financial statements, which give a true and fair view of the state of affairs of Cementara "Kosjeric" a.d., as at the end of the financial period and of the results for the period. The management is responsible for ensuring Cementara "Kosjeric" a.d. keeps accounting records which disclose with reasonable accuracy the financial position Cementara "Kosjeric" a.d. and which enable them to ensure that the financial statements comply with Cementara "Kosjeric" a.d. accounting and reporting requirements and local laws and regulations. They also have a general responsibility for taking reasonable steps to safeguard the assets of Cementara "Kosjeric" a.d. and to prevent and detect fraud and irregularities.

The management considers that, in preparing the financial statements set out on pages 4 to 22, Cementara "Kosjeric" a.d. has used appropriate accounting policies, consistently applied and supported by reasonable and prudent judgments and estimates, and that appropriate Cementara "Kosjeric" a.d. accounting and reporting requirements have been followed.

For and behalf on the management

Mr Miroslav Gligorijević  
General Director

23 January 2006

**Inter-office report of the independent auditor**

PricewaterhouseCoopers  
268 Kifissias Avenue  
Halandri, Athens  
152 32  
Greece  
Attention: Marios Psaltis

We have audited the accompanying special purposes financial statements of Cementara "Kosjeric" a.d. expressed in CS Dinar as of and for the year ended December 31, 2005 which were prepared in accordance with Titan Cement Group accounting policies as set out in note 2.

**Respective responsibilities of management and auditors**

Management of Cementara "Kosjeric" a.d is responsible for the preparation of these special purpose financial statements. It is our responsibility to form an independent opinion, based on our audit, on these financial statements and to report our opinion to you.

**Basis of opinion**

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

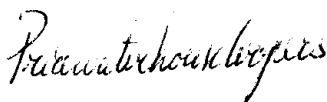
The accompanying Special purposes financial statements have been prepared solely to enable the TITAN CEMENT S.A. GROUP to prepare consolidated financial statements and not to report on the above subsidiary as a separate entity in order to present its financial position as of December 31, 2005 or its results of operations or its cash flow statement.

In our opinion, the accompanying special purposes financial statements of Cementara "Kosjeric" a.d for the year ended December 31, 2005 have been prepared in all material respects in accordance with Titan Cement Group accounting policies.

Without qualifying our opinion we draw your attention to note 2(a) on basis of preparation, which explains certain matters of non compliance with Titan Cement Group accounting policies and of which we believe you are already aware.

**Use of this report**

This report is prepared solely for the use of PricewaterhouseCoopers, Athens in connection with the audit of the consolidated financial statements of TITAN CEMENT S.A. for the year ended December 31, 2005 and should not be used for any other purpose. It should not be included or referred to in any document or publication made available to persons outside PricewaterhouseCoopers, Athens without prior written consent.



PricewaterhouseCoopers d.o.o.  
Belgrade, Serbia and Montenegro

23 January 2006

**CEMENTARA "KOSJERIC" A.D.  
 NOTES TO FINANCIAL STATEMENT  
 FOR THE PERIOD ENDED 31 DECEMBER 2005  
 PREPARED FOR GROUP CONSOLIDATION PURPOSES**

(all amounts are stated in 000' CSD unless otherwise stated)

**Income Statement**

	Notes	For 12 months period ended 31 December 2005	For 12 months period ended 31 December 2004 (restated)
Sales		2,661,053	2,335,910
Cost of sales	3	<u>(1,742,222)</u>	<u>(1,552,781)</u>
<b>Gross profit</b>		<b>918,831</b>	<b>783,129</b>
Other operating income	4	65,367	64,973
Selling expenses	5	(12,593)	(9,440)
Administrative expenses	6	(245,166)	(223,050)
Other operating expenses	4	<u>(120,273)</u>	<u>(101,765)</u>
<b>Profit on ordinary activities before finance income and taxation</b>		<b>606,166</b>	<b>513,847</b>
Finance income/(expenses), net	8	<u>32,735</u>	<u>7,083</u>
<b>Profit before taxation</b>		<b>638,901</b>	<b>520,930</b>
Taxation	9	(35,625)	(30,628)
<b>Profit for the period</b>		<u><b>603,276</b></u>	<u><b>490,302</b></u>

**CEMENTARA "KOSJERIC" A.D.  
 NOTES TO FINANCIAL STATEMENT  
 FOR THE PERIOD ENDED 31 DECEMBER 2005  
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(all amounts are stated in 000' CSD unless otherwise stated)

**Balance Sheet**

	Notes	As at 31 December 2005	2004 (restated)
<b>ASSETS</b>			
<b>Non-current assets</b>			
Property, plant and equipment	10	2,596,678	2,182,009
Construction in progress	10	47,302	567,303
Advances to suppliers for fixed assets	10	9,121	21,422
Other long term assets	11	21,307	596
		<b>2,674,408</b>	<b>2,771,330</b>
<b>Current assets</b>			
Inventories	12	685,512	329,753
Trade receivables	13	26,473	12,807
Other receivables	14	54,836	29,905
Cash and cash equivalents	15	709,227	288,713
		<b>1,476,048</b>	<b>661,178</b>
<b>Total assets</b>		<b>4,150,456</b>	<b>3,432,508</b>
<b>EQUITY AND LIABILITIES</b>			
<b>Capital and reserves</b>			
Ordinary shares	16	2,505,209	2,147,322
Legal reserve	17	134,849	88,650
Retained earnings/(losses)		475,676	409,650
Current period result		603,276	490,302
		<b>3,719,010</b>	<b>3,135,924</b>
<b>Non current liabilities</b>			
Non business liabilities		-	4,267
Other non current liabilities	18	95,233	15,586
<b>Current liabilities</b>			
Trade and other payables	19	336,213	276,731
<b>Total Liabilities</b>		<b>431,446</b>	<b>296,584</b>
<b>Total equity and liabilities</b>		<b>4,150,456</b>	<b>3,432,508</b>

The financial statements on pages 4 to 22 were signed on its behalf by:

Mr Miroslav Gligorijević

Slavica Vukosavljević

General Director

Finance Director

**CEMENTARA "KOSJERIC" A.D.**  
**NOTES TO FINANCIAL STATEMENT**  
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(all amounts are stated in 000' CSD unless otherwise stated)

**Statement of Changes in Equity**

	Ordinary shares	Legal reserve	Retained earnings/ (losses)	Current period result	Total
<b>Balance at 31 December 2004 as previously stated</b>	<b>2,147,322</b>	<b>88,650</b>	<b>91,432</b>	<b>531,688</b>	<b>2,859,092</b>
Restatement of PPE in accordance with IAS 29 ( note 2,a)	-	-	379,350	-	<b>379,350</b>
Restatement of inventories in accordance with IAS 29	-	-	983	6	989
Restatement of accumulated depreciation to reflect restated PPE in accordance with IAS 29	-	-	(62,115)	(41,392)	<b>(103,507)</b>
<b>Balance at 31 December 2004 (restated)</b>	<b>2,147,322</b>	<b>88,650</b>	<b>409,650</b>	<b>490,302</b>	<b>3,135,924</b>
Transfer to retained earnings	-	-	494,569	(490,302)	4,267
Distribution of 2004 income	-	25,746	(25,746)	-	-
Paid dividends	-	-	(24,457)	-	(24,457)
Current period result	-	-	-	603,276	603,276
Transfer from Retained earnings	357,887	20,453	(378,340)	-	-
<b>Balance at 31 December 2005</b>	<b>2,505,209</b>	<b>134,849</b>	<b>475,676</b>	<b>603,276</b>	<b>3,719,010</b>

**CEMENTARA "KOSJERIC" A.D.**  
**NOTES TO FINANCIAL STATEMENT**  
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(all amounts are stated in 000' CSD unless otherwise stated)

**Effect on restatement of equity**

**Income Statement**

	For 12 months period ended 31 December 2004	Restatement	For 12 months period ended 31 December 2004 (restated)
Sales	2,335,910	-	2,335,910
Cost of sales	(1,513,667)	(39,114)	(1,552,781)
<b>Gross profit</b>	<b>822,243</b>	<b>(39,114)</b>	<b>783,129</b>
Other operating income	65,017	(44)	64,973
Selling expenses	(9,408)	(32)	(9,440)
Administrative expenses	(222,798)	(252)	(223,050)
Other operating expenses	(99,821)	(1,944)	(101,765)
<b>Profit on ordinary activities before finance income and taxation</b>	<b>555,233</b>	<b>(41,386)</b>	<b>513,847</b>
Finance income/(expenses), net	7,083	-	7,083
<b>Profit before taxation</b>	<b>562,316</b>	<b>(41,386)</b>	<b>520,930</b>
Taxation	(30,628)	-	(30,628)
<b>Profit for the period</b>	<b>531,688</b>	<b>(41,386)</b>	<b>490,302</b>

Income Statement is restated for the depreciation charge for restated Property Plant and Equipment in accordance with IAS 29

**CEMENTARA "KOSJERIC" A.D.**  
**NOTES TO FINANCIAL STATEMENT**  
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(all amounts are stated in 000' CSD unless otherwise stated)

**Cash Flow Statement**

		For 12 months period ended 31 December 2005	For 12 months period ended 31 December 2004
	Notes		
<i>Cash flows from operating activities</i>			
Profit after taxation		603,276	490,302
Adjustments for:			
Tax	9	35,625	30,628
Depreciation expense	10	234,453	239,591
Interest income	8	(28,175)	(10,697)
Interest expense	8	1,791	1,028
Loss on sale of property, plant and equipment		(4,851)	(1,018)
Effects of exchange rate changes	8	(6,351)	2,586
<b>Operating cash flows before working capital changes</b>		<b>835,768</b>	<b>752,400</b>
Changes:			
(Increase)/decrease in trade and other receivables		(38,597)	(10,147)
(Increase)/decrease in inventory		(355,759)	(73,501)
Increase/(decrease) in trade and other payables		139,093	(50,428)
Decrease in other long term assets		(20,711)	215
<b>Cash generated from operations</b>		<b>559,794</b>	<b>618,539</b>
Interest paid	8	(1,791)	(1,028)
Tax paid		(35,625)	(30,628)
<b>Net cash from operating activities</b>		<b>522,378</b>	<b>586,883</b>
<i>Cash flows from investing activities</i>			
Purchase of property, plant and equipment		(118,187)	(564,517)
Interest received		28,175	10,697
Proceeds from sale of property, plant and equipment		6,218	1,317
<b>Net cash used in investing activities</b>		<b>(83,794)</b>	<b>(552,503)</b>
<i>Cash flows from financing activities</i>			
Proceeds from borrowings		640,200	353,840
Repayment of borrowings		(640,200)	(353,840)
Dividends paid		(24,421)	(4,155)
<b>Net cash from financing activities</b>		<b>(24,421)</b>	<b>(4,155)</b>
Effects of exchange rate changes		6,351	(2,586)
<b>Net increase/(decrease) in cash</b>		<b>420,514</b>	<b>27,639</b>
<b>Cash at the beginning of period</b>	15	<b>288,713</b>	<b>261,074</b>
<b>Cash at the end of period</b>	15	<b>709,227</b>	<b>288,713</b>



**CEMENTARA "KOSJERIC" A.D.  
NOTES TO FINANCIAL STATEMENT  
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PREPARED FOR GROUP CONSOLIDATION PURPOSES**

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(all amounts are stated in 000' CSD unless otherwise stated)

**1 General information**

Cementara "Kosjerić" a.d. (the Company) is a private company, domiciled in Kosjerić, Republic of Serbia and Montenegro. The address of its registered office is as follows:

Živojina Mišića bb  
31 260 Kosjerić

The Company was founded in 1975. 70% of the shares of the Company were acquired by Titan Group (the Group) domiciled in Greece, Athens and represented by Tithys Ltd, Cyprus. The purchase agreement was signed on 31 January 2002 with the Serbian Privatisation Agency and followed by a transfer of control on 2 April 2002.

In December 2004, the Company's owner purchased additional 4.28% of remaining shares in ownership of employees for which it was entitled by the SPA. After this action taken place, the Company's current ownership structure is as follows: Tithys Ltd. owns 74.28% of total shares, Privatisation register owns 22.07% of total shares and employees own 3.65% of total shares.

The principal activity of the Company is the production of cement. In addition, the Company provides cement transportation services, owns one hotel, two grocery stores and one bakery.

The Company employed 391 people as at 31 December 2005.

**2 Accounting policies**

The principal accounting policies adopted in the preparation of the financial statements are in accordance with Titan Group accounting and reporting requirements and are set out below:

**(a) Basis of preparation**

The Company maintains its books of accounts and prepares its statutory financial statements in CS Dinars (CSD) in accordance with the regulations of the Serbian Accounting Law.

The accompanying financial statement are based on the statutory books of accounts of the Company which are maintained on a going concern basis and which are prepared in accordance with Serbian Accounting Law. The accounts are kept under the historical cost convention, as adjusted for statutory revaluation of non-current intangible and tangible assets, non-current investments and equity, using the official consumer price index. Starting from 1 January 2004 International Financial Reporting Standards were applied for statutory purposes so no revaluation has been calculated and recorded by the Company for the twelve months period ended 31 December 2005. The local statutory records have been adjusted (Note 21) in order to comply with Titan Cement Group accounting policies. Where specific guidance was not provided, the Group accounting procedure is normally to adopt International Financial Reporting Standards (IFRS).

At 31 December 2004 the Company has not complied with IFRS as follows:

- As Serbia was considered to be a hyperinflationary economy till 1 January 2004, it would normally apply IAS 29, covering Financial Reporting in Hyperinflationary Economies; and
- Following the acquisition the new management did not have all available evidence to be able to identify and to estimate reliably the fair values of the property, plant and equipment acquired to comply with the requirements of IAS 22 (SIC 22) Business Combinations for Titan Cement Group reporting purposes.

At December 2005 the management decided to apply IAS 29 and the corresponding figures for the year ended 31 December 2004 has been restated accordingly. The management believes that the restated carrying values of property, plant and equipment are not materially different than their fair value.

**CEMENTARA "KOSJERIC" A.D.  
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(all amounts are stated in 000' CSD unless otherwise stated)

**2 Accounting policies (continued)**

**(b) Property, plant and equipment**

Tangible assets are carried at cost, less accumulated depreciation, as adjusted for indexation, using indexation rates set by the Serbian Government and based on the retail price index.

Revaluation coefficients applied for years 2003 and 2004 and for the 12 months period of 2005 were as follows. No revaluation has been calculated and recorded by the Company for the year ended 31 December 2005, because Serbia has being considered as non hyperinflationary economy since 1 January 2004.

Month	2003	2004	12 months of 2005
Total for year/period	1.078	1.137	1.177

Cost includes all costs directly attributable to bringing the assets to working condition for their intended use. Depreciation is calculated on the straight-line method intended to write off the revalued cost or cost of each asset to their residual values over prescribed periods specified by Serbian law.

Depreciation rates are set as follows:

	%
Buildings (including raw mill and electricity transmission and pipelines)	1.3-5
Marl crusher	16.5
Kiln feeding system	10
Rotary kiln	7
Vehicles	15
Furniture	10-12.5

Management determines depreciation rates based on estimated useful life of the fixed assets.

Subsequent expenditure relating to property, plant and equipment that has already been recognized is added to the carrying amount of the asset when it is probable that future economic benefits, in excess of the originally assessed standard of performance of the existing asset, will flow to the Company.

Repairs and renewals are charged directly to the income statement when the expenditure is incurred

Gains and losses on disposal of property, plant and equipment are determined by reference to their carrying amount and are taken into account in determining operating profit.

**(c) Inventories**

Inventories are stated at the lower of cost and net realizable value. Cost is determined by the weighted average method. The cost of finished goods comprises raw materials, direct labor, other direct costs and related production overheads. Net realizable value is the estimate of the selling price in the ordinary course of business, less the costs of completion and selling expenses.

**(d) Trade receivables**

Trade receivables are carried at original invoice amount less provision made for impairment of these receivables. Such provision for impairment of trade receivables is established if there is objective evidence that the Company will not be able to collect all amounts due according to the original term of receivables. The amount of the provision is the difference between the carrying amount and the recoverable amount, being the present value of expected cash flows, discounted at the market rate of interest for similar borrowers.

**CEMENTARA "KOSJERIC" A.D.**  
**NOTES TO FINANCIAL STATEMENT**  
**FOR THE PERIOD ENDED 31 DECEMBER 2005**  
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(all amounts are stated in 000' CSD unless otherwise stated)

**2 Accounting policies (continued)**

**(e) Cash and cash equivalents**

Cash and cash equivalents consist of cash on hand and balances with bank and deposits held at call with banks.

**(f) Provisions**

Provisions are recognized when the Company has a present legal or constructive obligation as a result of past events, if it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and if a reliable estimate of the amount of the obligation can be made.

**(g) Revenue recognition**

Revenue, which excludes sales tax and discounts, represents the invoiced value of goods and services supplied and is recognized generally at the date on which the goods are shipped and services are provided to customers.

**(h) Taxation**

Income tax is calculated at the rate of 10% (2004 - 12.33%) on taxable profit determined in accordance with the statement of taxes.

Deferred tax assets and liabilities are calculated in respect of temporary differences using the balance sheet liability method. Deferred income taxes are provided for all temporary differences arising between the tax basis of assets and liabilities and their carrying values for financial reporting purposes. A deferred tax asset is recorded only to the extent that it is probable that taxable profit will be available against which the deductible temporary differences can be utilised. Deferred tax assets and liabilities are measured at tax rates that are expected to apply to the period when the asset is realised or the liability is settled, based on tax rates that have been enacted or substantively enacted at the balance sheet date.

**(i) Foreign currency transactions**

The Company's functional currency is the CSD. Transactions denominated in a currency other than the CSD are recorded at the exchange rate ruling on the transaction date. Monetary assets and liabilities denominated in foreign currency are translated into CSD at the official exchange rate of the National Bank of Serbia at the balance sheet date. Foreign currency exchange differences arising from the translation of assets and liabilities and from the settlement of transactions are reflected in the income statement as foreign exchange gain/(loss).

At 31 December 2004, the official rate of exchange, as determined by the Central Bank of Serbia, was EURO 1=CSD 78.885 and as at 31 December 2005 EURO 1= CSD 85.5. Exchange restrictions and controls exist relating to converting the CSD into other currencies.

**CEMENTARA "KOSJERIC" A.D.**  
**NOTES TO FINANCIAL STATEMENT**  
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(all amounts are stated in 000' CSD unless otherwise stated)

**3 Cost of sales**

	For 12 months period ended 31 December 2005	For 12 months period ended 31 December 2004
Kiln fuel	648,172	432,398
Raw material	149,622	145,971
Electricity power	110,367	92,473
Bags	66,231	58,341
Fuel and oil	47,162	52,830
Refractory	20,664	24,715
Grinding media	8,765	13,314
Pallets and folio	21,943	16,797
Concession fees	11,538	11,133
Explosives	7,777	7,118
Cost of trading goods inter-company	4,031	4,840
Other variable costs	8,240	8,452
Decrease/(increase) in inventory	(118,729)	13,792
<b>Total variable cost</b>	<b>985,783</b>	<b>882,174</b>
Salaries	304,586	259,452
Depreciation	219,401	226,133
Maintenance spare parts	77,320	51,963
Third parties services	71,964	54,511
Lining	1,004	8,892
Insurance and taxes	37,420	41,883
Other fixed costs	44,744	27,773
<b>Total fixed cost</b>	<b>756,439</b>	<b>670,607</b>
	<b>1,742,222</b>	<b>1,552,781</b>

**4 Other operating income and expenses**

	For 12 months period ended 31 December 2005	For 12 months period ended 31 December 2004
Income from hotel, restaurant and bakery	29,065	38,680
Revenue from sales of disposal material	10,107	12,867
Collection of the receivables for which provision was made	5,226	4,400
Revenue from other operating activities	2,082	4,069
Surplus on inventory	12	118
Profit on sales of fixed assets	4,852	1,018
Other income	14,023	3,821
<b>Total other operating income</b>	<b>65,367</b>	<b>64,973</b>
Expenses from hotel, restaurant and bakery	23,615	27,603
Salaries	24,863	22,332
Employee redundancy expenses	2,157	14,792
Depreciation	8,985	10,095
Impairment of accounts receivable	6,910	5,163
Shortage of inventory	75	143
Other expenses	53,668	21,637
<b>Total other operating expenses</b>	<b>120,273</b>	<b>101,765</b>

**CEMENTARA "KOSJERIC" A.D.**  
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(all amounts are stated in 000' CSD unless otherwise stated)

**5 Selling expenses**

	<b>For 12 months period ended 31 December 2005</b>	<b>For 12 months period ended 31 December 2004</b>
Salaries	9,733	7,663
Material	368	474
Depreciation	700	279
Other	1,792	1,024
	<b>12,593</b>	<b>9,440</b>

**6 Administrative expenses**

	<b>For 12 months period ended 31 December 2005</b>	<b>For 12 months period ended 31 December 2004</b>
Administrative and technical assistance fees – Note 18	70,701	112,369
Salaries	53,210	37,478
Donation to Municipality –Note 18	50,643	24,937
Donations	10,678	5,316
Depreciation	5,367	3,084
Communication	1,555	2,442
Consulting services	4,239	3,877
Legal and court fees	8,019	1,759
Representation	4,782	1,709
Car expenses	2,248	1,852
Business trip	3,292	1,679
Training and education	2,791	2,005
Other costs	27,641	24,543
	<b>245,166</b>	<b>223,050</b>

Administrative and technical assistance fees relates to the contract signed on 15 December 2003 between Tithys Limited, Cyprus, and the Company for the period of five years starting on 2 April 2002. According to the contract Tithys Limited, Cyprus will provide to the Company administrative and general technical assistance (commercial, human resources, financial, training etc), as well as provide the Company with technical expertise of the Titan Group.

**7 Profit on ordinary activities before finance income and taxation**

The following items have been included in arriving at the profit on ordinary activities before finance income and taxation:

	<b>For 12 months period ended 31 December 2005</b>	<b>For 12 months period ended 31 December 2004</b>
<b>Employee benefit expenses:</b>		
Wages and salaries	257,840	217,218
Pension costs – defined contribution plans	40,634	33,550
Social security costs	63,871	51,707
Profit to be distributed to employees as bonuses	30,047	24,451
Termination benefits	2,157	14,792
	<b>394,549</b>	<b>341,718</b>

**CEMENTARA "KOSJERIC" A.D.**  
**NOTES TO FINANCIAL STATEMENT**  
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(all amounts are stated in 000' CSD unless otherwise stated)

**8 Finance income and expenses**

	<b>For 12 months period ended 31 December 2005</b>	<b>For 12 months period ended 31 December 2004</b>
Bank interest and similar income	28,175	10,697
Foreign exchange gain	17,747	21,006
Bank interest and similar expenses	(1,791)	(1,028)
Foreign exchange loss	(11,396)	(23,592)
	<b><u>32,735</u></b>	<b><u>7,083</u></b>

**9 Taxation**

	<b>For 12 months period ended 31 December 2005</b>
Current tax	35,625
Change in deferred tax (asset)/liability	-
	<b><u>35,625</u></b>

The tax on the Company's profit before tax differs from theoretical amounts that would arise using the basic tax rate of 10% as follows:

	<b>For 12 months period ended 31 December 2005</b>
Profit on ordinary activities before taxation under financial statements prepared for Group reporting purposes	638,901
Provision for employees bonuses	30,047
Other	(764)
<b>Taxable profit for the 12 months period ended 31 December 2005</b>	<b><u>668,184</u></b>
Add back:	
Depreciation	234,453
Provisions	27,639
Non business expenses	502
Penalties and capital loss	13,066
	12,474
Less:	
Capital allowances	(243,818)
<b>Taxable profit for the year ended 31 December 2005</b>	<b><u>712,500</u></b>
<b>Tax at 10%</b>	<b><u>71,250</u></b>
<b>50% tax relief for investments</b>	<b><u>35,625</u></b>
<b>Tax payable</b>	<b><u>35,625</u></b>

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**9 Taxation (continued)**

Under Serbian tax legislation tax losses may be carried forward up to five years if incurred before 31 December 2002 and up to ten years if incurred thereafter, to offset the tax charge on future taxable profits. The Company used CSD 56,491,518 to offset taxable profit in the year 2001 and CSD 41,673,062 in 2003. Remaining tax losses in the amount of CSD 121,967,966 was claimed against taxable profit in 2004.

The deferred tax assets are calculated based on the figures of temporary differences shown in the table below and application of a 10% tax rate according to local legislation.

	Gross temporary differences		Deferred tax asset/liability		Change for the period from 31 Dec 2004 to 31 Dec 2005	
	31 Dec 2005	31 Dec 2004	30 Dec 2005	31 Dec 2004	Change of gross temporary differences	Change in deferred tax
Temporary differences						
Tax revaluation effect on non-current assets	41,594	38,569	4,159	3,857	3,025	302
	<b>41,594</b>	<b>38,569</b>	<b>4,159</b>	<b>3,857</b>	<b>3,025</b>	<b>302</b>

As at 31 December 2005 a deferred tax asset of CSD 302 thousand has not been recognized for the deductible temporary differences. In addition the Company has available tax credit of CSD 213,783 thousands from which deferred tax asset may arise. Tax credits incurred in 2001 and 2002 can be carried forward for five years and tax credits incurred in 2003 and 2004 can be carried forward for ten years. However the company decided not to recognize deferred tax assets from unused tax credit in these financial statements due to the uncertainty of its utilization.

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**10 Property, plant and equipment**

	Land	Buildings	Machinery and equipment	Vehicles	Sub total	Construction in progress	Advances for fixed assets	Total
<b>Cost</b>								
<b>At 31 December 2004</b>	111,535	1,865,412	2,128,922	337,245	4,443,114	553,991	21,950	5,019,055
Restatement of PPE in accordance with IAS 29	19,988	320,370	409,290	75,767	825,415	13,312	(528)	838,199
<b>At 31 December 2004 (restated)</b>	131,523	2,185,782	2,538,212	413,012	5,268,529	567,303	21,422	5,857,254
Additions during the period	11,651	261,389	388,129	2,227	663,396	(520,001)	(12,301)	131,094
Sales / write off during period	-	-	(114,544)	(81,716)	(196,260)	-	-	(196,260)
<b>At 31 December 2005</b>	143,174	2,447,171	2,811,797	333,523	5,735,665	47,302	9,121	5,792,088

**Accumulated depreciation**

<b>At 31 December 2004</b>	-	801,741	1,416,306	306,124	2,524,171	-	-	2,524,171
Restatement of Accumulated depreciation in accordance with IAS 29	-	171,597	320,628	70,124	562,349	-	-	562,349
<b>At 31 December 2004 (restated)</b>	-	973,338	1,736,934	376,248	3,086,520	-	-	3,086,520
Charge for the period	-	53,636	165,300	15,517	234,453	-	-	234,453
Sales during period	-	-	(101,637)	(80,349)	(181,986)	-	-	(181,986)
<b>At 31 December 2005</b>	-	1,026,974	1,800,597	311,416	3,138,987	-	-	3,138,987

**Net book value**

<b>At 31 December 2005</b>	143,174	1,420,197	1,011,200	22,107	2,596,678	47,302	9,121	2,653,101
<b>At 31 December 2004</b>	111,535	1,063,673	712,616	31,121	1,918,945	553,991	21,950	2,494,884
<b>Net Restatement</b>	19,988	148,771	88,662	5,643	263,064	13,312	(528)	275,850
<b>At 31 December 2004 (restated)</b>	131,523	1,212,444	801,278	36,764	2,182,009	567,303	21,422	2,770,734

Total additions during the 12 months period ended on 31. December 2005 amounted in CSD 663,396 thousand out of which CSD 542,888 relate to the activation of investment for preparation of Petrol coke mill.

The Company owns mineral reserves – quarries which are recorded as land at cost of CSD 76,559 thousand as at 31 December 2005.



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**11 Other long term financial investments**

	<b>As at 31 December</b>	
	<b>2005</b>	<b>2004</b>
Long term borrowing to employees	21,307	596
	<b>21,307</b>	<b>596</b>

Long term borrowings to employees mainly relate to funds borrowed to each employee in amount of CSD 86 thousand (EUR 1 thousand) in December 2005, with maturity of three years starting from January 2006. Total amount borrowed to employees was in CSD 31,317 thousand out of which CSD 20,878 thousand is reclassified as long term.

**12 Inventories**

	<b>As at 31 December</b>	
	<b>2005</b>	<b>2004</b>
Material and fuel	201,863	106,279
Spare parts and other inventory	319,870	178,540
Work in progress	109,957	14,607
Finished products	53,514	30,133
Goods for resale	308	194
	<b>685,512</b>	<b>329,753</b>

Material and fuel in the amount of CSD 108,150 thousand, as at 31 December 2005, relates to petrol coke, that was purchased due to the Company's plans to activate petrol coke kiln at the beginning of 2005 (Note 10). Also, the amount of CSD 66,327 thousand of raw materials relate to crude oil which was used as a fuel in production process prior to inducement of petrol coke.

**13 Trade receivables**

	<b>As at 31 December</b>	
	<b>2005</b>	<b>2004</b>
Trade receivables	12,797	17,491
Trade receivables to related parties (Note 20)	19,834	-
Provision for impairment of receivables	(6,158)	(4,684)
	<b>26,473</b>	<b>12,807</b>

**14 Other receivables**

	<b>As at 31 December</b>	
	<b>2005</b>	<b>2004</b>
Prepayments for inventory	13,095	19,987
Provision for impairment of prepayments for inventory	(2,163)	(2,163)
Receivables from employees	20,384	7,456
Accrued expenses	11,538	2,667
Receivables for funds lent to firms	1,596	1,732
Provision for impairment of receivables for funds lent to firms	(1,596)	(1,732)
Receivables for fixed assets	720	896
Other receivables	11,262	1,193
Provision for impairment of other receivables	-	(131)
	<b>54,836</b>	<b>29,905</b>

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**14 Other receivables (continued)**

Receivables to employee in amount of CSD 10,439 thousand represent current portion of long term borrowings (Note 11). The remaining of receivables to employees of CSD 9,945 thousand relate to borrowings for period of six months, which are usual part of the Company's course of business. These borrowings have been given to employees twice a year, in December and June.

**15 Cash and cash equivalents**

	<b>As at 31 December</b>	
	<b>2005</b>	<b>2004</b>
Cash at bank	9,423	5,440
Cash at hand	73	141
Other short-term bank deposits	699,731	283,132
	<b>709,227</b>	<b>288,713</b>

Other short-term bank deposits relate to time deposits up to six months, both in local currency and EUR.

As at 31 December 2005 deposits are placed with National Bank of Greece (CSD 137,736 thousand, CSD 153,007 thousand with EUR translation clause and EUR 438 thousand) and Alpha Bank (CSD 265,000 thousand). EFG Bank (EUR 1,247 thousand)

Interest rates for short-term deposits placed with National Bank of Greece were in the range from 8.5% to 9% per annum for deposits in CSD and from 1.54% to 1.6% per annum for foreign currency deposits. Interest rates for short-term deposits placed with Alpha Bank were in the range from 8% to 11% per annum for deposits in CSD and from 1.78% to 1.82% per annum for foreign currency deposits.

**16 Ordinary shares**

	<b>Number of shares</b>	<b>% of ownership</b>	<b>Value</b>
Tithys Limited, Cyprus	2.658.369	74.28	1,860,858
Employees	130.732	3.65	91,512
Privatisation register	789.769	22.07	552,839
	<b>3.578.870</b>	<b>100%</b>	<b>2,505,209</b>

Tithys Limited purchased 153.160 shares from employees in 2004 increasing its share from 70.00% in 2003 to 74.28% in 2004. As at 31 December 2005 the registered share capital of the Company is CSD 2,505,209 comprising 3.578.870 ordinary shares of CSD 700 each. All shares are fully paid.

In accordance with the Company's Shareholders Assembly decision dated 12 April 2005 statutory revaluation reserves from 2003 will be allocated to share capital (CSD 357,887 thousand) and legal reserves (CSD 20,453 thousand). The Company has increased nominal value of shares applying and registering this decision from CSD 600 to CSD 700 per share.

**17 Legal reserve**

A legal reserve is a compulsory reserve under Serbian legislation. Annual transfers of not less than 5% of distributable profit calculated in accordance with the Serbian legislation are compulsory until the reserve reaches 10% of the share capital.

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**18 Other non current liabilities**

	<b>As at 31 December</b>	
	<b>2005</b>	<b>2004</b>
Non current portion of liabilities for donation to Municipality	61,883	-
Retirement reward	20,912	-
Provision for legal cases	12,438	15,586
	<b>95,233</b>	<b>15,586</b>

**Donation to Municipality**

According to the Sales and Purchase Agreement the investor committed to pay a contribution of Euro 511,292 in cash over the next ten years to the Municipality of Kosjeric. Furthermore, the investor has committed to contribute to the local community, health and education facilities by offering up to 5.000 tons of cement per year at a 70% discount. Also, the Company has been obliged by law to pay to local municipality for Environmental Tax amount of CSD 200 for each tone of cement sold.

As the Company had been refusing to pay to municipality such amount for Environmental Tax claiming that it is against State Law, both parties signed the Agreement on reprogram of obligations for social program stipulated by Sales and Purchase Agreement and Environmental Tax.

Under this Agreement the Company is obliged to pay amount of CSD 92,824 thousand less payment of 18,565 thousand till the year ended 2005 in the period of six years. Total outstanding obligation after the Agreement was signed is in CSD 74,259 thousand out of which CSD 61,883 thousand was reclassified as long term liability, as it can be seen in table below:

	<b>As at 31 December</b>	
	<b>2005</b>	<b>2004</b>
1 to 2 years	12,377	
2 to 3 years	12,377	
3 to 4 years	12,377	
4 to 5 years	12,376	
Over 5 years	12,376	
	<b>61,883</b>	<b>-</b>

**Provisions for retirement reward**

The Company is obliged under Labor Law to pay each employee: 1.5 average salary higher of the Company's average salary and employee's average salary plus 50% of average salary in Republic of Serbia as retirement reward. The Company estimation based on the employees' working life till the end of December 2005 amounted in CSD 20,912 thousand.

**Provision for legal cases**

	<b>For 12 months period ended 31 December 2005</b>	<b>For 12 months period ended 31 December 2004</b>
<b>As at 1 January</b>	<b>15,586</b>	<b>7,123</b>
Used during the year	(9,874)	(6,310)
Additional provision	6,726	14,773
<b>Closing balance</b>	<b>12,438</b>	<b>15,586</b>

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**18 Other non current liabilities (continued)**

There are about 40 ongoing pieces of litigation against the Company. In most cases the Company is sued for claims for damages to crops and damage to property caused by explosions in quarries and damages caused by cement dust. There are also litigation brought against the Company by employees and suppliers. In the opinion of the management, after taking appropriate legal advice, the outcome of these legal claims will not give rise to any significant loss beyond the amounts provided as at 31 December 2005.

**19 Trade and other payables**

	<b>As at 31 December</b>	
	<b>2005</b>	<b>2004</b>
Trade payables	155,103	100,897
Liabilities for donation to Municipality (Note 18)	12,732	39,517
Advances received	55,452	19,664
Other taxes payable	2,088	3,282
Concession fee	23,893	27,237
Payables for salaries	9,812	7,817
Social Insurance, contributions on salaries	5,030	4,052
Income tax payable	16,550	27,805
Discounts to customers	-	-
Payables to related parties (Note 20)	5,546	14,111
Dividend payable	55	19
Provision for profit related bonuses	30,047	24,451
Provision for rewards for working experience	5,992	-
Provision for unused vacation for 2005.	4,427	-
Employees redundancy provision	-	3,809
Environmental tax	997	1,485
Income tax on redundancy payables	-	725
Other payables	8,489	1,860
	<b>336,213</b>	<b>276,731</b>

**Trade payables**

Trade payables in amount of 5,546 thousand relate to outstanding payables to parent company, namely Tithys Ltd for technical services rendered in 2005 (Note 20).

The remaining of trade payables mostly relates to outstanding payables to Lukoil and EPS in amount of CSD 66,218 for crude oil delivery in December 2005 and in CSD 11,247 for electric energy respectively.

**Provision for profit related bonuses**

The Company is obliged by Sales and Purchase Agreement to pay to employees 5% out of profit after tax. For the year ended 2005 the Company provide for amount of CSD 30,047 thousand for this purposes.

**Concession fee**

The Company is obliged by the Law to pay tax for usage of mineral resources based on consumption of limestone, marl, clay and limestone for correction which are the basic ores for production of cement. Total outstanding liability as of 31 December 2005 amounted in CSD 23,893 thousand out of which CSD 11,533 was incurred in 2005.

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**20 Related parties transactions**

The following transactions were carried out with related parties:

	<b>Period ended 31 December</b>	
	<b>2005</b>	<b>2004</b>
<b>Sales and services provided to related parties</b>		
USJE Cementarnica A.D., FYROM	1,823	-
Zlatna Panega-Bulgaria- clinker	32,876	-
Zlatna Panega-Bulgaria – transportation and related expenses	39,155	-
	<b>73,854</b>	<b>--</b>
<b>Purchase of goods and services from related parties</b>		
USJE Cementarnica A.D., FYROM	-	84
TITAN, Athens	4,121	4,445
TITHYS Ltd, Cyprus- see Note 6	70,700	95,767
	<b>74,821</b>	<b>100,296</b>

The Company sold one car Audi A4, purchased in 2002 for CSD 1,398 thousand (EUR 16,300) to USJE Cementarnica in December 2005. Selling price exceeds car's net book value for CSD 161 thousand referring to Group fixed assets register of CSD 31 thousand for statutory fixed assets register.

The Company has been selling clinker to its related party Zlatna Panega. Total clinker sold in 2005 is in MT 17,741 for a price of CSD 1,853. Selling price of clinker sold to Bulgaria is lower than the cost of clinker on inventory as at 31. December 2005. However, the Company has calculated impact of transfer pricing in CSD 12,475 thousand and included it in tax balance sheet.

	<b>Period ended 31 December</b>	
	<b>2005</b>	<b>2004</b>
<b>Trade and other receivables</b>		
USJE Cementarnica A.D., FYROM	1,815	-
Zlatna Panega-Bulgaria	18,019	-
	<b>19,834</b>	<b>-</b>
<b>Trade and other payables</b>		
TITAN, Athens	-	-
TITHYS Ltd, Cyprus	5,546	14,111
	<b>5,546</b>	<b>14,111</b>

**21 Reconciliation of the statutory reserves to the Company's financial statements prepared for group consolidation purposes**

In accordance with the accounting regulations of the countries in which the Company operates, it is required to distribute all profit as dividends or make a transfer to retained earnings (losses)/reserves on the basis of the financial statements prepared under those countries accounting regulations. Amounts transferred to reserves must be used for the purposes designated when the transfer is made.

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**21 Reconciliation of the statutory reserves to the Company's financial statements prepared for group consolidation purposes (continued)**

A reconciliation of the net statutory profit of the Company to the net profit per these financial statements is given below:

	<b>Income statement for the 12 months period ended 31 December 2005</b>	<b>Shareholders equity</b>
<b>Statutory equity/result of operations for the 12 months period to 31 December 2005</b>	<b>632,559</b>	<b>3,749,057</b>
Provision for legal cases	764	-
Provision for employees bonus	(30,047)	-
Differences on liabilities	-	(30,047)
<b>Result per Group financial statements as at 31 December 2005</b>	<b>603,276</b>	<b>3,719,010</b>

**22 C contingencies, financial and operating risks**

**Market risk**

The Serbian economy is at an early stage of market development and there is a considerable degree of uncertainty surrounding its future direction.

**Currency risk**

The Company operates in a developing economy with high rates of inflation and significant historic currency devaluation. There is a consequent risk of loss in value in respect of net monetary assets held in CS Dinar.

**Taxation risk**

Serbian tax legislation is subject to varying interpretations and changes occur frequently. The interpretation of tax legislation by tax authorities as applied to the transactions and activity of the Company may not coincide with that of management. As a result, transactions may be challenged by tax authorities and the Company may be assessed additional taxes, penalties and interest, which can be significant. The periods remain open to review by the tax and customs authorities with respect to tax liabilities for five years.

**Environmental matters**

The enforcement of environmental regulation in Republic of Serbia and Montenegro is evolving and the enforcement posture of government authorities is continually being reconsidered. The Titan Group periodically evaluates its obligations under environmental regulations. As obligations are determined, they are recognised immediately. Potential liabilities which might arise as a result of changes in existing regulations, civil litigation or legislation cannot be estimated but could be material. In the current enforcement climate under existing legislation, management believes that there are no significant liabilities for environmental damage.

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**22 Contingencies, financial and operating risks (continued)**

*Environmental tax*

As of December 2004, Local Government (Municipality of Kosjeric) increased the environmental tax from CSD 25 to CSD 200 per tone of sold cement. The Company continues to provide for environmental tax of CSD 25 per tone of sold cement. The Company has lodged an appeal against this decision.

On 14 December 2005 the Company signed the Agreement with Municipality of Kosjeric and Ministry for Ecology on solving aforementioned issue. According to the Agreement the Company is obliged to pay amount of CSD 92,824 thousand less payment of 18,565 thousand till the year ended 2005 in the period of six years (Note 18).

**Operating environment of the Company**

The economy of Serbia and Montenegro continues to display the characteristics of an emerging market. These characteristics include, but are not limited to, the existence of:

- currency controls;
- a low level of liquidity in the public and private debt and equity markets; and
- high inflation.

The prospects for future economic stability in Serbia and Montenegro are largely dependent upon the effectiveness of economic measures undertaken by the government, together with legal, regulatory, and political developments