

**CEMENTARNICA "USJE" AD SKOPJE  
FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 31 DECEMBER 2005  
With the Report of the Auditors Thereon**

**C o n t e n t s**

	<b>Pages</b>
Report of the auditors	1
Income Statement	2
Balance sheet	3
Statement of changes in equity	4
Cash flows statement	5
Notes to financial statements	6 - 20
Appendix A - Supplementary information concerning the calculation of EBITDA	21

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**Report of the auditors**

**To the Shareholders and Board of Directors of  
Cementarnica "USJE" A.D. - Skopje**

We have audited the accompanying balance sheet of Cementarnica "USJE" A.D. - Skopje as of 31 December 2005 and the related statements of income, cash flows and changes in shareholders' equity for the year then ended. These financial statements set out on pages 2 to 20 are the responsibility of the Company's management. 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 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 management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the accompanying financial statements give a true and fair view of the financial position of Cementarnica "USJE" A.D. - Skopje as of 31 December 2005, and of the results of its operations and cash flows for the year then ended in accordance with International Financial Reporting Standards.

**PricewaterhouseCoopers dooel  
Skopje**



18 January 2006

**Cementarnica "USJE" A.D. – Skopje**  
**Financial statements for the year ended 31 December 2005**

(all amounts in MKD thousands unless otherwise stated)

**Income statement**

	Notes	Year ended 31 December	
		2005	2004
Sales	4	4,169,928	3,477,747
Cost of sales	5	(2,352,818)	(1,957,591)
<b>Gross profit</b>		<b>1,817,110</b>	<b>1,520,156</b>
Other operating income	6	34,657	116,115
Selling and marketing costs	7	(59,070)	(42,585)
Administrative expenses	8	(224,487)	(286,042)
Other operating expenses	9	(22,878)	(13,910)
Provision for bad and doubtful debts		(4,439)	-
<b>Operating profit</b>		<b>1,540,893</b>	<b>1,293,734</b>
Finance income (net)	10	17,964	15,973
Profit before tax		<b>1,558,857</b>	<b>1,309,707</b>
Tax	11	(209,845)	(129,152)
<b>Net profit</b>		<b>1,349,012</b>	<b>1,180,555</b>

**Cementarnica "USJE" A.D. – Skopje**  
**Financial statements for the year ended 31 December 2005**

(all amounts in MKD thousands unless otherwise stated)

**Balance sheet**

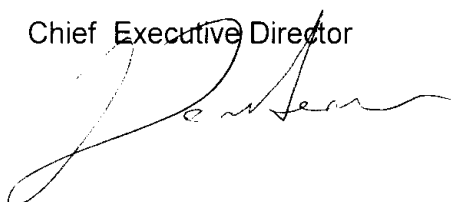
	Notes	As at 31 December	
		2005	2004
<b>ASSETS</b>			
<b>Non-current assets</b>			
Property, plant and equipment	12	1,865,271	1,897,350
Available-for-sale investments	13	250,469	69,390
Deferred income tax asset	14	5,092	5,092
		<b>2,120,832</b>	<b>1,971,832</b>
<b>Current assets</b>			
Inventories	15	721,410	833,900
Trade receivables	16	112,562	100,053
Prepayments	17	40,835	91,421
Trading investments		232	232
Other current assets	18	13,591	8,596
Cash and cash equivalents	19	1,202,227	671,489
		<b>2,090,857</b>	<b>1,705,691</b>
Assets classified as held for sale	20	47,937	-
<b>Total assets</b>		<b>4,259,626</b>	<b>3,677,523</b>
<b>EQUITY AND LIABILITIES</b>			
<b>Capital and reserves</b>			
Share capital	25	1,747,730	1,747,730
Additional paid in capital	25	(14,869)	(14,869)
Legal and other reserves	25	745,420	564,436
Retained earnings	25	1,441,713	1,197,901
		<b>3,919,994</b>	<b>3,495,198</b>
<b>Non – current liabilities</b>			
Long term provision for severance payments	21	15,499	-
		<b>15,499</b>	-
<b>Current liabilities</b>			
Trade payables	22	229,516	111,972
Provision for severance payments	21	10	-
Customers` advances		28,164	27,384
Income tax liabilities		26,590	-
Other current liabilities	23	31,785	37,886
Accrued expenses	24	8,068	5,083
		<b>324,133</b>	<b>182,325</b>
<b>Total liabilities</b>		<b>339,632</b>	<b>182,325</b>
<b>Total equity and liabilities</b>		<b>4,259,626</b>	<b>3,677,523</b>

Konstantinos Derdemezis

Olivera Vasilkovska

Chief Executive Director

Finance Manager




**Cementarnica "USJE" A.D. – Skopje**  
**Financial statements for the year ended 31 December 2005**

(all amounts in MKD thousands unless otherwise stated)

**Statement of changes in equity**

	Note	Share capital	Additional paid in capital	Fair value and other reserves	Legal reserves	Retained earnings	Total
<b>Balance at 1 January 2004</b>	<b>25</b>	<b>1,747,730</b>	<b>(14,869)</b>	<b>10,344</b>	<b>522,297</b>	<b>1,141,925</b>	<b>3,407,427</b>
Correction of net profit previous years		-	-	-	-	421	421
Dividends		-	-	-	-	(1,125,000)	(1,125,000)
Fair value gain - available for sale investments		-	-	30,608	-	-	30,608
Deferred tax assets		-	-	1,187	-	-	1,187
Net profit for 2004		-	-	-	-	1,180,555	1,180,555
<b>Balance at 31 December 2004</b>	<b>25</b>	<b>1,747,730</b>	<b>(14,869)</b>	<b>42,139</b>	<b>522,297</b>	<b>1,197,901</b>	<b>3,495,198</b>
Dividends		-	-	-	-	(1,105,200)	(1,105,200)
Fair value gain - available for sale investments		-	-	180,984	-	-	180,984
Net profit for 2005		-	-	-	-	1,349,012	1,349,012
<b>Balance at 31 December 2005</b>		<b>1,747,730</b>	<b>(14,869)</b>	<b>223,123</b>	<b>522,297</b>	<b>1,441,713</b>	<b>3,919,994</b>

**Cementarnica "USJE" A.D. – Skopje**  
**Financial statements for the year ended 31 December 2005**

(all amounts in MKD thousands unless otherwise stated)

**Cash flow statement**

	Note	Year ended 31 December	
		2005	2004
<b>Net profit after tax</b>		1,349,012	1,180,555
Adjustments for:			
Tax	11	209,845	129,152
Depreciation	12	192,546	182,574
Profit/ loss of Sale of PPE		(527)	-
Provision for retirement benefit obligations		17,848	-
Provision for asbestos		-	(15,206)
Interest income	10	(15,046)	(12,619)
Dividend income	10	(6,821)	(5,109)
Interest expense and bank charges	8,10	4,909	7,300
<b>Operating cash flows before changes in working capital</b>		<b>1,751,766</b>	<b>1,466,647</b>
<b>Changes:</b>			
(Increase)decrease in inventories		112,490	(196,899)
(Increase)decrease in trade and other receivables		43,012	(55,500)
(Increase)decrease in trading investments		-	(232)
Increase/(decrease) in trade and other payables		139,434	62,338
<b>Cash Generated from operations</b>		<b>2,046,702</b>	<b>1,276,354</b>
Interest paid	8,10	(4,909)	(7,300)
Tax paid	11	(209,845)	(129,152)
<b>Net cash from operating activities</b>		<b>1,831,948</b>	<b>1,139,902</b>
Purchase of PPE	12	(209,723)	(539,801)
Placements in Banks	18	(10,000)	-
Disposal of PPE	12	1,319	-
Profit/ loss of Sale of PPE		527	
Interest received	10	15,046	12,619
Dividend received	10	6,821	5,109
<b>Net cash from investing activities</b>		<b>(196,010)</b>	<b>(522,073)</b>
Dividends paid to group shareholders		(1,048,172)	(1,048,958)
Dividends paid to minority interest		(57,028)	(44,802)
<b>Net cash from financing activities</b>		<b>(1,105,200)</b>	<b>(1,093,760)</b>
<b>Net increase / (decrease) in cash</b>		<b>530,738</b>	<b>(475,931)</b>
<b>Cash at the beginning of the year</b>		<b>671,489</b>	<b>1,147,420</b>
<b>Cash at the end of the year</b>	19	<b>1,202,227</b>	<b>671,489</b>

**Cementarnica "USJE" A.D. – Skopje**  
**Notes to the financial statements for the year ended 31 December 2005**

(all amounts in MKD thousands unless otherwise stated)

**1 General information**

Cementarnica "USJE" A.D. – Skopje (the Company) is incorporated in Macedonia. The Company is engaged in the production and trade with cement, masonry cement, ready mix concrete, clinker and other related products.

The Company has 551 employees as at 31 December 2005.

The parent company of Cementarnica "USJE" A.D. - Skopje is Balkcem Limited incorporated in Cyprus.

**2 Significant accounting policies**

The principal accounting policies applied in the preparation of these financial statements are set out below.

**2.1 Basis of preparation**

The financial statements have been prepared in accordance with International Financial Reporting Standards. The financial statements have been prepared under the historical cost convention, as modified by the revaluation of land and buildings and available-for-sale financial assets

The preparation of financial statements in conformity with IFRS requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the Company's accounting policies. 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.

**2.2 Foreign currency translation**

Transactions denominated in foreign currencies are recorded, on initial recognition in the reporting currency, by applying to the foreign currency amount the exchange rate between the reporting currency and the foreign currency at the date of the transaction. Outstanding foreign currency monetary items at the balance sheet date are reported at the closing rate. Exchange differences arising on the settlement of monetary items at rates different from those at which they were initially recorded in the period, are recognised as income or expenses for the period in which they arise.

The exchange rate for one EUR as at 31 December 2005 is MKD 61.18 and as at 31 December 2004 MKD 61.31

**2.3 Property, plant and equipment**

Property, plant and equipment are stated at historical cost less depreciation. Historical cost includes expenditure that is directly attributable to the acquisition of the items.

Additions are recorded at cost. Cost represents the prices by suppliers together with all costs incurred in bringing new property, plant and equipment into use.



**2 Significant accounting policies (continued)**

Items of property, plant and equipment that are retired or otherwise disposed of are eliminated from the balance sheet, along with the corresponding accumulated depreciation. Gains and losses on disposals are determined by comparing proceeds with carrying amount. These are included in the income statement.

Depreciation of property, plant and equipment is designed to write off the cost or valuation of property, plant and equipment on the straight-line basis over their estimated useful lives. The principal depreciation rates in use are:

	<b>2005</b>	<b>2004</b>
Buildings	2.5 - 10%	2.5 - 10%
Equipment	5 - 25%	5 - 25%

Land is stated in the balance sheet at cost and is not depreciated as it is deemed to have an infinite life.

**2.4 Financial Assets***a) Available-for-sale financial assets*

Available-for-sale financial assets are non-derivatives that are either designated in this category or not classified in any of the other categories. They are included in non-current assets unless management intends to dispose of the investment within 12 months of the balance sheet date.

The available for sale financial assets comprise amounts invested in share capital in banks. Dividends on an available-for-sale equity instruments are recognised in profit or loss when the entity's right to receive payment is established.

The available for sale financial assets are carried at fair value.

A gain or loss arising from a change in the fair value of a financial assets were recognised directly in equity, through the statement of changes in equity, except for impairment losses until the financial assets is derecognised, at which time the cumulative gain or loss previously recognised in equity are recognised in profit or loss.

**2.5 Inventories**

Inventories are stated at the lower of cost and net realisable value. Cost is determined by the weighted average method. The cost of finished goods and work in progress comprises raw materials, direct labour, other direct costs and related production overheads, excluding distribution costs and administrative expenses. Net realisable value is the estimated selling price in the ordinary course of business, less applicable variable selling expenses.

Tools and consumable stores are written-off 100% when consumed.

## **2. Significant accounting policies (continued)**

### **2.6 Trade receivables**

Trade receivables are carried at original invoice amount less provision made for impairment of these receivables. A provision for impairment of trade receivables is established when there is objective evidence that the Company will not be able to collect all amounts due according to the original terms of receivables. Significant financial difficulties of the debtor, probability that the debtor will enter bankruptcy or financial reorganisation, and default in payments are considered indicators that the trade receivable is impaired.

### **2.7 Cash and cash equivalents**

Cash and cash equivalents include cash in hand, the giro account and deposits held at call with banks with original maturities of three months or less.

### **2.8 Non-current assets held for sale**

Non-current assets are classified as assets held for sale and stated at the lower of carrying amount and fair value less costs to sell if their carrying amount is recovered principally through a sale transaction rather than through a continuing use.

### **2.9 Share capital**

Ordinary shares are classified as equity.

### **2.10 Deferred income taxes**

The computation and payment of the income tax is in accordance with the Income tax Law. The payment of the monthly tax is in advance. The final tax with tax rate of 15% is calculated on the profit from the income statement, corrected for certain positions in accordance with the legislation.

Deferred income 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 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.

**2. Significant accounting policies (continued)****2.11 Employees Benefits****a) Pension**

The Company, in the normal course of business, makes payments on behalf of its employees for pensions, health care, employment and personnel tax which are calculated according to the statutory rates in force during the year, based on gross salaries and wages. Food allowances travel expenses and holiday allowances are also calculated according to the local legislation. The Company makes these contributions to the Government's health and retirement funds. The cost of these payments is charged to the income statement in the same period as the related salary cost.

The Company does not operate any other pension scheme or post retirement benefits plan and consequently, has no obligation in respect of pensions.

**b) Termination and retirement benefits**

Termination benefits are payable whenever an employee's employment is terminated before the normal retirement date or whenever an employee accepts voluntary redundancy in exchange for these benefits. The Company recognises termination benefits when it is demonstrably committed to either terminate the employment of current employees according to a detailed formal plan without possibility of withdrawal or to provide termination benefits as a result of an offer made to encourage voluntary redundancy.

Pursuant to the Company's signed collective bargaining agreements the Company is obligated to pay retirement benefits in an amount equal to six average republic salaries and between one and three average republic salaries to be paid out as a jubilee anniversary award. The number of average republic salaries for jubilee anniversary awards corresponds to the total number of years of service of the employee as presented in the table below:

<b>Total number of Service Years</b>	<b>Number of Wages</b>
10	1
20	3
30	3
35 (women)	3
40 (men)	3

Long-term liabilities arising on severance pay and jubilee employment anniversary awards are stated at the present value of expected future cash payments towards the qualifying employees.

**2.12 Provisions**

Provisions are recognised and calculated when the Company has a present legal or contractual obligation as a result of a past event, and when it is probable that an outflow of resources will be required to settle the obligation, and when a reliable estimate of the amount can be made. The Company, applied IAS 19, "Employee Benefits," and has made provisions for retirement benefits and employee jubilee anniversary awards as of 31 December 2005.

## **2. Significant accounting policies (continued)**

### **2.13 Revenue recognition**

Revenue comprises the invoiced value for the sale of goods and services net of value-added tax and after eliminating sales within the Company.

#### **a) Sales of goods**

Revenue from the sale of goods is recognised when significant risks and rewards of ownership of the goods are transferred to the buyer.

#### **b) Interest income**

The interest relates to trade receivables from construction and other firms are accounted for at the moment when the receivables are collected.

#### **c) Dividend income**

Dividend income is recognised when the right to receive payment is established.

### **2.14 Dividend distribution**

Dividend distribution to the Company's shareholders is recognised as a liability in the financial statements in the period in which the dividends are approved by the Company's shareholders.

## **3 Financial risk management**

The Company's activities expose it to a variety of financial risks. The company's risk management approach is focused on unpredictability of the financial market and seeks to minimise potential adverse effects. Risk management is carried out under policies approved by the Board of Directors.

#### **a) Credit risk**

The Company has no significant concentrations of credit risk. The Company has policies in place to ensure that sales of products are made to customers with an appropriate credit history. The Company has policies that limit the amount of credit exposure to any one customer. In addition, to reduce this risk the Company has required as collateral: bank guaranties and deposits.

Recognisable risks are accounted for by adequate provisions on receivables.

### **3.1 Fair value estimation**

The fair value of publicly available-for-sale investments is based on quoted market price at the balance sheet date and annual movements of the equity prices on the Macedonian Stock Exchange, as well as the local macro economic trends and political stability in the country. For valuation of unquoted equity investments purposes the reference to current market price of another security has been applied.

The nominal value less impairment provision of trade receivables and payables are assumed to approximate their fair value.

**Cementarnica "USJE" A.D. – Skopje**
**Notes to the financial statements for the year ended 31 December 2005**

(all amounts in MKD thousands unless otherwise stated)

**4 Analysis of sales**

	<b>2005</b>	<b>2004</b>
Domestic market	2,945,601	2,661,223
Foreign market	1,224,327	816,524
	<b>4,169,928</b>	<b>3,477,747</b>

Domestic market	<b>2005</b>	<b>2004</b>
Income from cement	2,770,377	2,488,979
Income from usjepor	50,662	37,706
Income from RMC	65,906	76,931
Income from services	10,568	13,935
Income from palletising	30,782	27,745
Income from goods for resale	11,403	12,204
Income from sand	3,149	2,655
Other	2,754	1,068
	<b>2,945,601</b>	<b>2,661,223</b>

Foreign market	<b>2005</b>	<b>2004</b>
Income from clinker	351,085	49,550
Income from cement	732,665	656,562
Income from goods for resale	5,390	6,224
Income from usjepor	12,559	23,846
Income from petrol koks	122,380	80,084
Income from services	258	258
	<b>1,224,337</b>	<b>816,524</b>

**5 Cost of sales**

	<b>2005</b>	<b>2004</b>
Cost of energy	643,437	595,757
Gross salaries and wages	308,004	318,147
Cost of materials	329,023	383,011
Depreciation	179,383	164,484
Consumption of tools and consumable stores	138,034	130,337
Staff leaving indemnities	5,452	11,723
Spare parts	86,957	82,321
Compensation to employees	55,422	63,257
Cost of merchandise sold	131,285	91,354
Transport services	221,404	63,771
Maintenance	70,538	118,439
Other services	82,306	54,862
Insurance premium	10,257	17,788
Other personnel receipts	4,432	2,135
Provision - inventories	3,200	2,826
Income resulting from use of own products and palletising	(47,023)	(53,808)
Inventories (net)	123,008	(95,391)
Services as material costs	4,204	2,731
Other	3,495	3,847
	<b>2,352,818</b>	<b>1,957,591</b>

**Cementarnica "USJE" A.D. – Skopje**  
**Notes to the financial statements for the year ended 31 December 2005**

(all amounts in MKD thousands unless otherwise stated)

**6 Other operating income**

	<b>2005</b>	<b>2004</b>
Collected written - off receivables	21,280	14,625
Collected damages from insurance companies	6,327	10,493
Rent income	636	1,519
Canteen	3,978	4,125
Other finance income	454	65,678
Reversal of unused provision	-	15,186
Income from previous years	1,200	2,126
Other	782	2,363
	<b>34,657</b>	<b>116,115</b>

**7 Selling and marketing costs**

	<b>2005</b>	<b>2004</b>
Gross salaries and wages	15,665	17,019
Entertainment and advertising	7,007	15,383
Compensation to employees	3,563	3,866
Staff leaving indemnities	4,873	-
Depreciation	4,169	4,285
Other services	18,023	-
Cost of materials	1,126	-
Fair costs	557	635
Other	4,087	1,397
	<b>59,070</b>	<b>42,585</b>

**8 Administrative expenses**

	<b>2005</b>	<b>2004</b>
Technical fee	120,211	100,712
Other services	20,470	75,803
Gross salaries and wages	43,046	45,413
Other personnel receipts	4,705	9,120
Bank services	4,880	7,242
Depreciation	8,994	13,805
Compensation to employees	11,163	13,233
Transport services	1,664	7,377
Cost of materials	2,159	3,936
Maintenance	450	1,243
Other taxes and contributions	1,863	2,174
Insurance premium	1,803	2,711
Cost of energy	2,654	2,246
Consumption of tools and consumable stores	220	389
Other	205	638
	<b>224,487</b>	<b>286,042</b>

**Cementarnica "USJE" A.D. – Skopje**  
**Notes to the financial statements for the year ended 31 December 2005**

(all amounts in MKD thousands unless otherwise stated)

**9 Other operating expenses**

	<b>2005</b>	<b>2004</b>
Net book value of fixed assets sold	1,318	2,043
Provision for severance payments and jubilee rewards	17,848	-
Shortage of fixed assets	-	668
Penalties	18	7,003
Expenses from previous years	1,295	1,684
Other	2,399	2,512
	<b>22,878</b>	<b>13,910</b>

	<b>2005</b>	<b>2004</b>
Staff costs		
Gross wages and salaries	366,715	380,579
Other benefits	66,784	77,015
	<b>433,499</b>	<b>457,594</b>

Average monthly number employees during the year:		
Full time	560	577

**10 Finance income (net)**

	<b>2005</b>	<b>2004</b>
Interest income	15,046	12,619
Dividend income	6,821	5,109
	<b>21,867</b>	<b>17,728</b>
Net foreign exchange gains (losses)	(3,875)	(1,697)
Interest expense	(28)	(58)
	<b>17,964</b>	<b>15,973</b>

**11 Income tax and contributions**

	<b>2005</b>	<b>2004</b>
Current income tax	209,845	133,057
Deferred income tax (Note 14)	-	(3,905)
	<b>209,845</b>	<b>129,152</b>

The income tax differs from the amount that would arise using the base tax rate of the home country of the Company as follows:

<b>Profit before tax</b>	<b>1,558,857</b>	<b>1,309,707</b>
Income tax calculated at a tax rate of 15%	233,829	196,456
Income not subject to tax	(6,028)	(5,077)
Reinvested income	(27,240)	(59,937)
Expenses not deductible for tax purposes	9,284	6,265
Tax prepayment based on previous tax periods	-	(4,650)
Tax assets	-	(3,905)
<b>Tax charge</b>	<b>209,845</b>	<b>129,152</b>

**Cementarnica "USJE" A.D. – Skopje**  
**Notes to the financial statements for the year ended 31 December 2005**  
(all amounts in MKD thousands unless otherwise stated)

**12 Property, plant and equipment**

	<b>Land and buildings</b>	<b>Equipment</b>	<b>Construction in progress</b>	<b>Total</b>
<b>Cost</b>				
Cost at 1 January 2004	2,512,622	3,138,538	67,238	5,718,398
Additions in the year	234,554	-	281,734	516,288
Transfer from construction in progress	9,098	229,936	(239,034)	-
Disposal in the year	-	(12,338)	-	(12,338)
<b>At 31 December 2004</b>	<b>2,756,274</b>	<b>3,356,136</b>	<b>109,938</b>	<b>6,222,348</b>
<b>Depreciation</b>				
At 1 January 2004	1,846,432	2,305,619	-	4,152,051
Charge for the year	34,226	148,348	-	182,574
Disposal in the year	-	(9,627)	-	(9,627)
<b>At 31 December 2004</b>	<b>1,880,658</b>	<b>2,444,340</b>	<b>-</b>	<b>4,324,998</b>
<b>Net book value at 31 December 2004</b>	<b>875,616</b>	<b>911,796</b>	<b>109,938</b>	<b>1,897,350</b>
<b>Cost</b>				
Cost at 1 January 2005	2,756,274	3,356,136	109,938	6,222,348
Additions in the year	8,431	-	201,292	209,723
Transfer from construction in progress	7,495	289,793	(297,288)	-
Disposal in the year	(121,920)	(39,051)	-	(160,971)
<b>At 31 December 2005</b>	<b>2,650,280</b>	<b>3,606,878</b>	<b>13,942</b>	<b>6,271,100</b>
<b>Depreciation</b>				
At 1 January 2005	1,880,658	2,444,340	-	4,324,998
Charge for the year	30,860	161,686	-	192,546
Disposal in the year	(73,983)	(37,733)	-	(111,716)
<b>At 31 December 2005</b>	<b>1,837,535</b>	<b>2,568,293</b>	<b>-</b>	<b>4,405,828</b>
<b>Net book value at 31 December 2005</b>	<b>812,745</b>	<b>1,038,585</b>	<b>13,942</b>	<b>1,865,272</b>

**13 Available-for-sale financial assets**

Investments in banks are presented as follows:

	<b>2005</b>	<b>2004</b>
Komercijalna Banka -ordinary shares	248,328	64,633
Komercijalna Banka - preferential shares	11	3
Izvozno Kreditna Banka	1,994	4,735
Ohridska Banka	55	19
Makedonska Banka	81	-
	<b>250,469</b>	<b>69,390</b>

Available-for-sale financial assets are representing marketable equity securities. For investments traded in active markets, fair value is determined by reference to Stock Exchange quoted bid prices.



**Cementarnica "USJE" A.D. – Skopje**  
**Notes to the financial statements for the year ended 31 December 2005**

(all amounts in MKD thousands unless otherwise stated)

**14 Deferred taxes**

	<b>2005</b>	<b>2004</b>
<b>Deferred tax asset</b>	<u>(5,092)</u>	<u>(5,092)</u>
	<b>(5,092)</b>	<b>(5,092)</b>
Deferred taxes are calculated according to current tax rate of 15%.		
At 1 January	(5,092)	-
Income tax in Income statement	-	(3,905)
Income tax in Equity	-	(1,187)
At 31 December	<u>(5,092)</u>	<u>(5,092)</u>
Deferred tax credited to equity represents:		
Investments	-	(1,187)
At 31 December	<u>-</u>	<u>(1,187)</u>

**15 Inventories**

	<b>2005</b>	<b>2004</b>
Raw materials	269,440	246,209
Spare parts	240,374	253,869
Bags and pallets	34,224	33,432
Work in progress	92,873	205,854
Finished goods	83,044	93,071
Goods for resale	1,396	1,406
Tools and consumables stores	59	59
	<u><b>721,410</b></u>	<u><b>833,900</b></u>

**16 Trade receivables**

	<b>2005</b>	<b>2004</b>
Domestic customers	32,500	73,986
Foreign customers	79,703	45,412
Bad and doubtful receivables	7,244	754
Receivables for services	200	738
Interest on trade receivables	159	5,946
Provision for impairment of receivables	(7,244)	(26,783)
	<u><b>112,562</b></u>	<u><b>100,053</b></u>

**17 Prepayments**

	<b>2005</b>	<b>2004</b>
Payment in advance	18,480	39,203
VAT	16,130	-
Prepaid profit tax	-	45,280
Other	6,225	6,938
	<u><b>40,835</b></u>	<u><b>91,421</b></u>

**Cementarnica "USJE" A.D. – Skopje**  
**Notes to the financial statements for the year ended 31 December 2005**

(all amounts in MKD thousands unless otherwise stated)

**18 Other current assets**

	<b>2005</b>	<b>2004</b>
Placements in banks	10,000	-
Other receivables	2,702	7,517
Bad and doubtful loans given to companies	37,470	43,344
Provision for impairment of loans given to companies	(37,470)	(43,344)
Interest	889	1,079
Bad and doubtful receivables	7,993	6,431
Provision for impairment of other receivables	(7,993)	(6,431)
	<b><u>13,591</u></b>	<b><u>8,596</u></b>

**19 Cash and cash equivalents**

	<b>2005</b>	<b>2004</b>
Short-term bank deposits	1,123,716	625,393
Foreign currency accounts	31,912	13,146
Cash at bank	46,561	29,328
Letters of credit in foreign currency	-	3,594
Cash at hand	38	28
	<b><u>1,202,227</u></b>	<b><u>671,489</u></b>

Short-term bank deposits relate to time deposits up to one month in foreign currency.

Deposits in foreign currency are placed in Stopanska banka, Komercijalna banka and Alfa Banka with one month maturity and interest rate of 1.9% per year.

**20 Non-current assets held for sale**

	<b>2005</b>	<b>2004</b>
Property, plant and equipment (business premises)	47,937	-
	<b><u>47,937</u></b>	<b><u>-</u></b>

Non current assets held for sale in amount of MKD 47,937,000 include property, plant and equipment (business premises) which are unusable within the company. Management intentions are to sell these assets within one year. These assets are valued at their carrying amount.

**21 Long term provision for severance payments**

	<b>2005</b>	<b>2004</b>
Employee benefits		
- Severance payments	15,509	-
	<b><u>15,509</u></b>	<b><u>-</u></b>

**Cementarnica "USJE" A.D. – Skopje**  
**Notes to the financial statements for the year ended 31 December 2005**

(all amounts in MKD thousands unless otherwise stated)

**21 Long term provision for severance payments (continued)**

Analysis of total provisions:

	<b>2005</b>	<b>2004</b>
Non - current	15,499	-
Current	10	-
	<u><b>15,509</b></u>	<u><b>-</b></u>

Provision for employee benefits is stated at the present value of expected future payments to employees with respect to employment retirement pay.

**22 Trade payables**

	<b>2005</b>	<b>2004</b>
Foreign suppliers	99,022	33,243
Domestic suppliers	97,782	60,378
Suppliers for uninvoiced goods and services	32,712	18,351
	<u><b>229,516</b></u>	<u><b>111,972</b></u>

**23 Other current liabilities**

	<b>2005</b>	<b>2004</b>
Liabilities on behalf of employees	17,051	17,551
Net salaries and wages	6,942	7,684
Contributions from salaries and wages	5,921	6,441
Taxes from salaries and wages	1,778	1,932
VAT	-	4,178
Other	93	100
	<u><b>31,785</b></u>	<u><b>37,886</b></u>

**24 Accrued expenses**

	<b>2005</b>	<b>2004</b>
Accruals-income from palettes	3,734	2,970
Accruals – jubilee rewards	2,339	-
Other accruals	1,995	2,113
	<u><b>8,068</b></u>	<u><b>5,083</b></u>

**Cementarnica "USJE" A.D. – Skopje**

**Notes to the financial statements for the year ended 31 December 2005**

(all amounts in MKD thousands unless otherwise stated)

**25 Capital and reserves**

**a) Ordinary shares, additional paid in capital and treasury shares**

	Number of shares	Ordinary shares MKD' 000	Additional paid in capital MKD' 000	Total MKD' 000
At 1 January 2005	563,784	1,747,730	(14,869)	1,732,861
<b>At 31 December 2005</b>	<b>563,784</b>	<b>1,747,730</b>	<b>(14,869)</b>	<b>1,732,861</b>

The total number of ordinary shares is 563,784 with a par value of MKD 3,100 per share.

Shareholding structure is as follows:

	2005	%
Balkcem Limited	534,667	94.84
Other shareholders	29,117	5.16
	<b>563,784</b>	<b>100</b>

**b) Statutory reserves**

Under local statutory legislation, the Group is required to set aside 15 percent of its net statutory profit for the year in a statutory reserve until the level of the reserve reaches 1/5 of the share capital. These reserves are used to cover losses and are not distributed to shareholders except in the case of bankruptcy of the Company. Statutory reserves can be distributed at the approval of the shareholders meeting.

**c) Dividends**

Based on the decision dated 18 June 2005 regarding the appropriation of profit for 2004, during 2005 MKD 1,105,200,000 was paid to the shareholders. During 2004 the amount of paid dividends was MKD 1,125,000,000.

**26 Related party transactions**

The Company is controlled by Balkcem Limited (incorporated in Cyprus), which owns 94.84% of the Company's shares.

The following transactions were carried out with the related parties:

**a) Sales of goods and services**

	2005	2004
Titan Cement Company - clinker	3,052	2,167
Titan Cement Zlatna Panega - clinker	328,411	47,383
Titan Cement Kosjeric - services	-	74
	<b>331,463</b>	<b>49,624</b>

**Cementarnica "USJE" A.D. – Skopje**  
**Notes to the financial statements for the year ended 31 December 2005**

(all amounts in MKD thousands unless otherwise stated)

**26 Related party transactions (continued)**

Outstanding balances arising from the transactions mentioned above are presented below:

<b>Receivables from related parties</b>	<b>2005</b>	<b>2004</b>
Titan Cement Company	-	2,167
Titan Cement Zlatna Panega - clinker	34,335	14,292
Titan Cement Kosjeric - services	-	-
	<b>34,335</b>	<b>16,459</b>

**b) Purchase of goods and services**

	<b>2005</b>	<b>2004</b>
Titan Cement Company – white cement and petrol coke	427,154	343,377
Titan Cement Company - services	-	13
Titan Cement Kosjeric - fixed assets and additives for cement	1,299	-
Titan Cement Zlatna Panega - services	447	-
Balkcem Limited – technical fee	120,212	104,693
	<b>549,112</b>	<b>448,083</b>

The amount of MKD 120,211,000 (2004 - MKD 104,693,000) represents an annual fee of 3% from sales.

Outstanding balances arising from the transactions mentioned above are presented below:

<b>Payables to related parties</b>	<b>2005</b>	<b>2004</b>
Titan Cement Company - white cement and petrol coke	88,930	8,805
Titan Cement Kosjeric - clinker	1,299	-
Titan Cement Zlatna Panega - services	372	-
Balkcem Limited – technical fee	3,854	10,862
	<b>94,455</b>	<b>19,667</b>

The transactions with related parties were carried out on commercial terms and conditions.

**27 Contingencies and operating risks**

**a) Litigation**

There is a pending lawsuit regarding the claim from 10 former or present employees of Cementarnica "USJE" AD - Skopje concerning the participation of the employees in the Company's profit which was based on the provisions of the Collective Agreement and previous Labour Relation Law of the Republic of Macedonia. The total value of this dispute (estimated by the prosecutors) is MKD 15,000,000.

**27 Contingencies and operating risks (continued)**

On 26.09.2005 the Primary court Skopje 2 in Skopje pronounces a verdict with which it rejects the lawsuit of the plaintiffs as groundless (after almost two years of submitting the lawsuit). Not satisfied with the verdict, on 24.10.2005 the plaintiffs through their proxy made a complaint against this verdict and currently this case is pending at the Appellation court in Skopje.

The representative lawyer of the company estimates that the chances of the plaintiffs to win this dispute are minimal and even in case of their success in this court case, the verdict will not considerably affect the financial position of the company.

**b) Taxation risk**

Macedonian tax legislation is subject to varying interpretations and changes occur frequently. 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.

**28 Subsequent events**

**a) Changes in the Corporate Taxation as at 1 January 2006**

Withholding tax on income paid to foreign legal entities was introduced on 1 January 2006. According to this, the Company will be obliged to withhold and pay tax on income paid to foreign legal entities in Macedonia or abroad. Withholding tax is applied to following forms of income: dividends; interest; royalties; income from management, consulting, finance, technical, administrative and other services; income from the rent of real estate; income from insurance premiums etc. Withholding tax at the rate of 15% is applied to gross income, except for income from interest and from the rent of real estate, for which the tax rate is 10%. If a double tax treaty is in place, the withholding tax rate will be reduced to the treaty rate.