# GRANITOID AD
# FINANCIAL STATEMENTS
# 31 DECEMBER 2005

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# GRANITOID AD
# REPORT OF THE DIRECTORS
# 31 DECEMBER 2005

The Directors of Granitoid AD (the Company) present the annual report and the financial statements of the Company for the year ended 31 December 2005, prepared in accordance with the International Financial Reporting Standards (IFRS), as adopted by the European Union. These financial statements have been audited by PricewaterhouseCoopers Audit OOD.

## BUSINESS DESCRIPTION

The Company Granitoid AD has been registered in Bulgaria. The core activity of the Company after 1 June 2005 is the sale of property, plant and equipment and recultivation of the terrains.

## OPERATING REVIEW

### Current year results

The operating result for 2005 is positive. The net profit amounts to BGN 3,664 thousand, the budgeted result being loss of BGN 385 thousand.

The comparative information for 2004 in the accompanying financial statements has been restated to reflect the effect regarding periods before 2005, resulting from a tax inspection act issued in 2005.

### Dividends and profit distribution

The Annual general meeting of the shareholders was held on 15 April 2005, but no profit distribution for 2004 has been decided, as in 2004 the Company has incurred losses.

The Annual general meeting of the shareholders, at which an operating review for the year 2005 will be performed, will be held in April 2006.

### Share capital structure

| Shareholders | Percentage | Number of shares | Nominal value per share (BGN thousands) |
|---|---|---|---|
| REA Cement Ltd., Cyprus | 91.26% | 550,567 | 550 |
| Zlatna Panega Cement AD | 8.41% | 50,764 | 51 |
| MRRB | 0.06% | 350 | - |
| Individuals | 0.27% | 1,646 | 2 |
| | **100%** | **603,327** | **603** |

## OBJECTIVES OF THE COMPANY FOR 2006

The Directors have set the following objectives for the year 2006:

- Continuing the Company’s operations.
- The company decreases significantly its operations and its future operation as a going concern is dependent on the continuing support from the ultimate shareholder. The ultimate shareholder has provided the Company with a letter of support.

## CORPORATE GOVERNANCE

In accordance with the Commercial legislation in the Republic of Bulgaria, as at 31 December 2005 Granitoid AD is a limited liability company with a one-tier system of corporate management.

The Board of Directors of the Company as at 31 December 2005 consists of:

1. Alexander Nakov Chakmakov
2. Mihail Panayotis Sigalas
3. Christos Teodoros Panagopulos
4. Prokopios Agamemnon Belezinis
5. Ioanis Emanuil Georgakakis

Executive Director of the Company is Alexander Nakov Chakmakov.

### Director's Responsibilities

The Directors are required by Bulgarian law to prepare financial statements each financial year that give a true and fair view of the state of affairs of the Company as at the year end and of the profit or loss and cash flows for the year.

The Directors confirm that suitable accounting policies have been used and applied consistently and reasonable and prudent judgements and estimates have been made in the preparation of the financial statements for the year ended 31 December 2005.

The Directors also confirm that applicable accounting standards have been followed and that the financial statements have been prepared on a going concern basis.

The Directors are responsible for keeping proper accounting records, for safeguarding the assets of the company and for taking reasonable steps for the prevention and detection of fraud and other irregularities.

Alexander Chakmakov
Executive Director
Granitoid AD
Batanovci,
24 January 2006

PRICEWATERHOUSECOOPERS

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**REPORT OF THE AUDITORS**

**To the Shareholders of GRANITOID AD**

We have audited the accompanying balance sheet of Granitoid AD (the Company) as of 31 December 2005 and the related statements of income and cash flows and changes in shareholders' equity for the year then ended. These financial statements set out on pages 4 to 29 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 statements presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the accompanying financial statements present fairly in all material respects the financial position of the Company as of 31 December 2005 and the results of its operations and cash flows and for the year then ended in accordance with International Financial Reporting Standards, as adopted by the European Union.

In addition, in our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Company 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 as issued by International Accounting Standards Board.

Stefan Nenov
Certified auditor

24 January 2006
Sofia, Bulgaria

Специализирано одиторско предприятие
София
Рег. №085
"ПрайсуотърхаусКупърс Одит" ООД

Jean-Pierre Vigroux
PricewaterhouseCoopers Audit OOD

**GRANITOID AD**
**INCOME STATEMENT**
**31 DECEMBER 2005**

| (all amounts in EUR thousands) | Note | Year ended 31 December | |
|---|---|---|---|
| | | 2005 | 2004 (restated) |
| Sale of non-current assets | 13 | 3,778 | 34 |
| Net book value of non-current assets sold | 14 | (1,693) | (5) |
| **Profit on sale of non-current assets** | | **2,085** | **29** |
| Other operating income | 15 | 296 | 753 |
| Other operating expense | 16 | (172) | (18) |
| Administrative expenses | 17 | (234) | (815) |
| **Operating profit/(loss)** | | **1,975** | **(51)** |
| Net finance costs | 19 | (53) | (223) |
| **Profit before income tax** | | **1,922** | **(274)** |
| Income tax expense | 20 | (49) | - |
| **Profit for the year** | | **1,873** | **(274)** |

Signed on behalf of the Board of Directors by:

Alexander Chakmakov
Executive Director
24 January 2006

Miroslava Sedevchova
Chief Accountant
24 January 2006

The accounting policies and notes on pages 8 to 29 are an integral part of these financial statements.

**GRANITOID AD**
**BALANCE SHEET**
**31 DECEMBER 2005**

| (all amounts in EUR thousands) | Note | As at 31 December 2005 | As at 31 December 2004 (restated) |
|---|---|---|---|
| **ASSETS** | | | |
| **Non-current assets** | | | |
| Property, plant and equipment | 3 | 235 | 1,214 |
| Intangible assets | 3 | 4 | 5 |
| Investment property | 4 | - | 689 |
| | | **239** | **1,908** |
| **Current assets** | | | |
| Trade receivables | 5 | 290 | 307 |
| Other receivables | 5 | 22 | 94 |
| Deferred expenses | | 4 | 8 |
| Cash and cash equivalents | 6 | 287 | 165 |
| | | **603** | **574** |
| **Total assets** | | **842** | **2,482** |
| **EQUITY** | | | |
| Ordinary shares | 7 | 308 | 308 |
| Hyperinflationary reserve | 8 | 18,809 | 18,809 |
| Legal reserve | 8 | 62 | 62 |
| Accumulated loss | 8 | (18,740) | (20,613) |
| | | **439** | **(1,434)** |
| **LIABILITIES** | | | |
| **Current liabilities** | | | |
| Trade and other payables | 9 | 378 | 418 |
| Borrowings | 10 | - | 3,477 |
| Current income tax liabilities | | 23 | 21 |
| Provisions for other liabilities and charges | 12 | 2 | - |
| | | **403** | **3,916** |
| **Total liabilities** | | **403** | **3,916** |
| **Total equity and liabilities** | | **842** | **2,482** |

The Board of Directors has approved these financial statements set on pages 4 - 29 on 24 January 2006. The financial statements are signed on behalf of the Board of Directors by:

Alexander Chakmakov
Executive Director
24 January 2006

Miroslava Sedevchova
Chief Accountant
24 January 2006

The accounting policies and notes on pages 8 to 29 are an integral part of these financial statements.

**GRANITOID AD**
**STATEMENT OF CHANGES IN EQUITY**
**31 DECEMBER 2005**

| (all amounts in EUR thousands) | Note | Ordinary shares | Hyper-inflationary reserve | Legal reserve | Accumulated loss | Total |
|---|---|---|---|---|---|---|
| **Balance at 1 January 2004 (restated)** | 7, 8 | **308** | **18,809** | **62** | **(20,339)** | **(1,160)** |
| Loss in 2004 (restated) | 8 | - | - | - | (274) | (274) |
| **Balance at 31 December 2004 (restated)** | 7, 8 | **308** | **18,809** | **62** | **(20,613)** | **(1,434)** |
| **Balance at 1 January 2005 (restated)** | 7, 8 | **308** | **18,809** | **62** | **(20,613)** | **(1,434)** |
| Profit for 2005 | 8 | | | | 1,873 | 1,873 |
| **Balance at 31 December 2005** | 7, 8 | **308** | **18,809** | **62** | **(18,740)** | **439** |

Signed on behalf of the Board of Directors by:

Alexander Chakmakov
Executive Director
24 January 2006

Miroslava Sedevchova
Chief Accountant
24January 2006

**GRANITOID AD**
**CASH FLOW STATEMENT**
**31 DECEMBER 2005**

| (all amounts in EUR thousands) | Note | Year ended 31 December 2005 | 31 December 2004 (restated) |
|---|---|---|---|
| **Operating activities** | | | |
| Cash generated from operations | 21 | 7 | 181 |
| Taxes paid | | (26) | - |
| Interest received | | 5 | 1 |
| Interest paid | | (58) | (160) |
| **Net cash from operating activities** | | **(72)** | **22** |
| **Investing activities** | | | |
| Purchase of property, plant and equipment | | (107) | (1) |
| Proceeds from sale of property, plant and equipment | | 3,778 | 34 |
| **Net cash from investing activities** | | **3,671** | **33** |
| **Financing activities** | | | |
| Loans repaid | | (3,447) | (3,404) |
| Loans received | | - | 3,477 |
| **Net cash used in financing activities** | | **(3,477)** | **73** |
| **Increase in cash and cash equivalents** | | **122** | **128** |
| **At start of year** | 6 | **165** | **100** |
| Foreign exchange (losses) on cash and cash equivalents | 19 | - | (63) |
| **At end of year** | 6 | **287** | **165** |

Signed on behalf of the Board of Directors by:

Alexander Chakmakov
Executive Director
24 January 2006

Miroslava Sedevchova
Chief Accountant
24 January 2006

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

## 1 Basis of preparation

The financial statements have been prepared in accordance with International Financial Reporting Standards, as adopted by the European Union. These financial statements comply also with the International Financial Reporting Standards as issued by International Accounting Standards Board. The financial statements have been prepared under the historical cost convention.

The preparation of financial statements in conformity with IFRS requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the Company's accounting policies. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the financial statements are disclosed in Accounting policy 15.

*Revisions to published and new standards effective in 2005*

The following revisions to standards are mandatory for the Company's accounting periods beginning on or after 1 January 2005:

- IAS 1 (revised 2003) Presentation of Financial Statements
- IAS 2 (revised 2003) Inventories
- IAS 8 (revised 2003) Accounting Policies, Changes in Accounting Estimates and Errors
- IAS 10 (revised 2003) Events after the Balance Sheet Date
- IAS 16 (revised 2003) Property, Plant and Equipment
- IAS 17 (revised 2003) Leases
- IAS 21 (revised 2003) The Effects of Changes in Foreign Exchange Rates
- IAS 24 (revised 2003) Related Party Disclosures
- IAS 27 (revised 2003) Consolidated and Separate Financial Statements
- IAS 28 (revised 2003) Investment in Associates
- IAS 32 (revised 2003) Financial Instruments: Disclosure and Presentation
- IAS 33 (revised 2003) Earnings per Share
- IAS 39 (revised 2003) Financial Instruments: Recognition and Measurement
- IFRS 1 (revised 2004) First- time Adoption of International Financial Reporting Standards
- IFRS 2 (issued 2004) Share-Based Payments
- IFRS 3(issued 2004) Business Combinations
- IFRS 4 (issued 2004) Insurance Contracts
- IAS 36 (revised 2004) Impairment of Assets
- IAS 38 (revised 2004) Intangible Assets
- IFRS 5 (issued 2005) Non- current Assets Held for Sale and Discontinued Operations

Management assessed the relevance of these amendments and interpretations with respect to the Company's operations and concluded that they are not relevant to the Company.

## 1 Basis of preparation (Continued)

*Standards, interpretations and amendments to published standards that are not yet effective*

Certain new standards, amendments and interpretations to existing standards have been published that are mandatory for the Company's accounting periods beginning on or after 1 January 2006 or later periods but which the Company has not early adopted, as follows:

- **IAS 19 (Amendment), Employee Benefits** (effective from 1 January 2006). This amendment introduces the option of an alternative recognition approach for actuarial gains and losses. It may impose additional recognition requirements for multi-employer plans where insufficient information is available to apply defined benefit accounting. It also adds new disclosure requirements. As the Company does not intend to change the accounting policy adopted for recognition of actuarial gains and looses and does not participate in any multi-employer plans, adoption of this amendment will only impact the format and extent of disclosures presented in the accounts. The Company will apply this amendment from annual periods beginning 1 January 2006.

- **IFRS 1 (Amendment), First-time Adoption of International Financial Reporting Standards and IFRS 6 (Amendment), Exploration for and Evaluation of Mineral Resources (effective from 1 January 2006)** These amendments are not relevant to the Company's operations, as the Company is not a first-time adopter and does not carry out exploration for and evaluation of mineral resources.

- **IFRIC 4, Determining whether an Arrangement contains a Lease (effective from 1 January 2006).** IFRIC 4 requires the determination of whether an arrangement is or contains a lease to be based on the substance of the arrangement. It requires an assessment of whether: (a) fulfilment of the arrangement is dependent on the use of a specific asset or assets (the asset); and (b) the arrangement conveys a right to use the asset. Management is currently assessing the impact of IFRIC 4 on the Company's operations. This amendment is not relevant to the Company's operations, as the Company does not have any arrangements that contain lease.

- **IFRIC 5, Rights to Interests arising from Decommissioning, Restoration and Environmental Rehabilitation Funds** (effective from 1 January 2006). IFRIC 5 is not relevant to the Company's operations.

- **IFRIC 6, Liabilities arising from Participating in a Specific Market – Waste Electrical and Electronic Equipment** (effective from 1 December 2005). IFRIC 6 is not relevant to the Company's operations.

## 2 Going concern

The Company's financial statements have been prepared on a going concern basis, which assumes that the Company will continue in operational existence for the foreseeable future. The Company has been provided with a binding letter of support from the ultimate parent Titan Cement SA, stating that adequate funds and full support would be provided to enable the Company to continue operations at least until 31 December 2006.

The future viability of the Company depends on the business environment, as well as on the continuing support from the existing and potential owners and providers of finance. These factors, as well as other potential risks, show that the Company can operate on a going concern basis only with the continuing support from the parent company, as stated in the letter of support. If the parent company withdraws its support and the operating basis ceases to exist, the assets and liabilities of the Company should be reclassified at their realisable value. This valuation may differ significantly from the value stated in the financial statements under the going concern basis.

## 3 Foreign currency translation

### (a) Functional and presentation currency

Items included in the financial statements are measured using the currency of the primary economic environment in which the entity operates.

The company uses the Bulgarian Lev (BGN) as its functional currency.

In view of the international nature of the operations of the Company's ultimate shareholder, the amounts shown in these financial statements are presented in EURO thousands. The local statutory regulations require the Company to maintain its statutory accounting records in BGN and this is adhered to.

The presentation currency used in these financial statements is EUR and all amounts are stated in thousands of EUR, unless otherwise stated.

### (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.

Monetary items have been converted to EUR at the Bulgarian National Bank exchange rate as of the year-end. The exchange rate as of 31 December 2005 was EUR 1 = BGN 1.95583 (31 December 2004 EUR 1 = BGN 1.95583). BGN is pegged to the EUR at exchange rate 1.95583 as from 1 January 2002 (BGN was pegged to the DEM as from 1 July 1997).

## 4 Property, plant and equipment and intangible assets

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

Land is not depreciated, as it is deemed to have an indefinite life.
Depreciation is calculated on the straight-line method to allocate the cost of the assets to their residual values over their estimated useful lives, as follows:

| | |
|---|---|
| Buildings | 4 - 25 years |
| Plant and machinery | 2 – 25 years |
| Motor vehicles | 5 – 15 years |
| Fixtures and fittings | 5 - 7 years |
| Software | 5 years |

The assets residual values and useful lives are reviewed, and adjusted if appropriate, at each balance sheet date.

Gains and losses on disposal are determined by comparing proceeds with carrying amount. These are included in the income statement.

## 5 Investment property

Investment property includes land and buildings, held for long-term rental yields and not occupied by Granitoid AD, as well as machinery and equipment representing an inseparable part of the buildings. Investment property is treated as a long-term investment and is carried at cost less accumulated depreciation.

## 6 Impairment of non- financial assets

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

## 7 Financial assets

*Receivables*

Receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They are included in current assets, except for maturities greater than 12 months after the balance sheet date. These are classified as non-current assets. Receivables are classified as 'trade and other receivables' in the balance sheet.

## 8 Trade receivables

Trade receivables are recognised initially at fair value and subsequently measured at amortised cost using effective interest method, less provision for impairment. 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. Bad debts are written off during the year in which they are identified. Significant financial difficulties of the debtor, probability that the debtor will enter bankruptcy or financial reorganisation and default or delinquency in payments are considered indicators that the trade receivable is impaired. The amount of the provision is the difference between the asset's carrying amount and the present value of the estimated future cash flows, discounted at the effective interest rate. The amount of the provision is recognised in the income statement within "administrative expenses".

## 9 Cash and cash equivalents

Cash and cash equivalents includes cash in hand, deposits held at call with banks, other short-term highly liquid investments with original maturities of three months or less, and bank overdrafts. Bank overdrafts are shown within borrowings in current liabilities on the balance sheet.

## 10 Deferred income tax

Deferred income tax is provided, 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 income tax is determined using tax rates that have been enacted or substantially enacted by the balance sheet date and are expected to apply when the related deferred income tax asset is realised or the deferred income tax liability is settled. Deferred income tax assets are recognised to the extent that it is probable that future taxable profits will be available, against which the temporary differences can be utilised.

## 11 Provisions

Provisions for environmental restoration, restructuring costs and legal claims are recognised when: the Company has a present legal or constructive obligation as a result of past events; it is more likely than not that an outflow of resources will be required to settle the obligation; and the amount has been reliably estimated. Restructuring provisions comprise lease termination penalties and employee termination payments. Provisions are not recognised for future operating losses.

Where there are a number of similar obligations, the likelihood that an outflow will be required in settlement is determined by considering the class of obligations as a whole. A provision is recognised even if the likelihood of an outflow with respect to any one item included in the same class of obligations may be small.

Provisions are measured at the present value of the expenditures expected to be required to settle the obligation using a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the obligation. The increase in the provision due to passage of time is recognised as interest expense.

## 12 Revenue recognition

Revenue is measured by the fair value of the consideration received or receivable for the sale of goods and services net of value-added tax, rebates and discounts. Revenue from the sale of goods is recognised when significant risks and rewards of ownership of the goods are transferred to the buyer. Sales of services are recognised in the accounting period in which the services are rendered, by reference to completion of the specific transaction assessed on the basis of the actual service provided as a proportion of the total services to be provided.

## 13 Financial risk management

### Financial risk factors

The Company’s activities expose it to a variety of financial risks, including the effects of foreign currency exchange rates and interest rates. The Company’s overall risk management programme seeks to minimise potential adverse effects on the Company’s performance.

(1) Foreign exchange risk

The Company operates in Bulgaria and is currently exposed to foreign exchange risk arising from sales, purchases and borrowings in EURO and USD.

(2) Interest rate risk

The Company has no significant interest bearing assets. The Company usually borrows at variable rates.

## 13 Financial risk management (Continued)

(3) Credit risk

The Company has no significant concentrations of credit risk. The Company has policies in place to ensure that sales of products and services are made to customers with an appropriate credit history.

(4) Liquidity risk

Prudent liquidity risk management implies maintaining sufficient cash, availability of funding through an adequate amount of committed credit facilities. Due to the dynamic nature of the underlying businesses, the Company aims at maintaining flexibility in funding by keeping committed credit lines available.

## 14 Critical accounting estimates and assumptions

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.

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.

*Income taxes*

The Company is subject to income taxes in numerous jurisdictions. Significant judgement is required in determining the worldwide provision for income taxes. There are many 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.

## 15 Comparative information

The comparative information, used in the balance sheet, the income statement, the cash flow statement and the statement of changes in equity and the notes to the financial statements are for the year ended on 31 December 2004.

The comparative information for some of the items in the financial statements for 2004 has been restated in accordance with IAS 8 *Accounting Policies, Changes in Accounting Estimates and Errors* in order to retrospectively reflect the effect of the restatement made as a result of the tax inspection completed in December 2005 and regarding 2003 and 2004. The restatement regarding 2003 and 2004 has been made retrospectively in the financial statements for 2004. Note 2 to the financial statements discloses the effect of the above restatement in accordance with IAS 8.

## 1 General information

Granitoid AD ("the Company") is a limited liability company.

The principal activity of the company until the end of May 2005 is renting of investment property. In May 2005 the investment property is sold. The principal activity of the company after 1 June 2005 is selling real estates and movable property and recultivation of terrains.

The company is located in the town of Batanovtsi.

The Company is incorporated and domiciled in Batanovtsi, Bulgaria, with resolution of Pernik District Court No. 979/21.7.1993 and its fiscal year ends on 31 December.

The average number of people employed in the Company during the period was 4 people.

As at 31 December 2005 the Company is owned by, as follows:

| | |
|---|---|
| • REA Cement Limited, Cyprus | 91.26% |
| • Zlatna Panega Cement AD | 8.41% |
| • MRRB | 0.06% |
| • Individuals | 0.27% |

Zlatna Panega Cement AD is a subsidiary of REA Cement Ltd, which is a subsidiary of Titan Cement SA, Greece (the ultimate shareholder).

Zlatna Panega Cement AD is incorporated and domiciled in Zlatna Panega, Bulgaria.

REA Cement is incorporated and domiciled in Cyprus. The address of its registered office is as follows:

2-4 Arch. Makarios Avenue
Capital Center
9$^{th}$ floor
CY- 1505 Nicosia
Cyprus

Titan Cement S.A. (the ultimate parent company) is incorporated and domiciled in Greece. The address of its registered office is as follows:

22A Halkidos Str.
111 43 Athens Greece

(all amounts in the notes to the financial statements are in euro thousands, unless otherwise stated)

## 2 Restatement of prior periods financial statements in accordance with IAS 8

In 2005 the tax authorities conducted a tax inspection of the Company. The tax inspection has been completed in December 2005 and was focused on the determining the following tax liabilities by periods:

- income tax for the period from 1 January 2003 - 31 December 2004;
- value-added tax (VAT) for the period 1 February 2004 - 30 June 2005.

As a result of the tax inspection the tax authorities issued a Tax inspection act № 1089/09.12.2005 imposing additional tax liabilities to the Company for the years 2003, 2004 and 2005, as well as interest on them.

The Company has retrospectively restated its financial statements for 2003 and 2004 with the amounts of the imposed additional tax due for these periods and the interest thereon. The effect of the restatement on the financial statements for 2004 is, as follows:

**Effect of the restatement over the income statement for the year ended 31 December 2004 (in euro thousands):**

| | |
|---|---|
| (Increase) in administrative expenses – VAT payable and interest for 2004 | (6) |
| (Increase) in loss for the year | (6) |

**Effect of the restatement over the balance sheet as at 31 December 2004 (in euro thousands):**

| | |
|---|---|
| Increase in the opening balance of accumulated loss as at 1 January 2004 – income tax payable for 2003 | 21 |
| Increase in tax payables – VAT payable and the respective interest for 2004 and additional income tax payable for 2003 | (27) |
| (Increase) in loss for the year | (6) |

The imposed tax liabilities for 2005 and the respective interest have been recognised in the financial statements for 2005 and no corrections are needed related to them.

(all amounts in the notes to the financial statements are in euro thousands, unless otherwise stated)

## 3 Property, plant and equipment and intangible assets

| | Land & buildings | Plant & machinery | Vehicles & Equipment | Intangible assets - Software | Assets under construction | Total |
|---|---|---|---|---|---|---|
| **At 1 January 2004** | | | | | | |
| Cost or valuation | 1,185 | 2,028 | 1,320 | 8 | 3 | 4,544 |
| Accumulated depreciation | (533) | (1,566) | (351) | (1) | (3) | (2,454) |
| Net book amount | **652** | **462** | **969** | **7** | **-** | **2,090** |
| **Year ended 31 December 2004** | | | | | | |
| Opening net book amount | 652 | 462 | 969 | 7 | - | 2,090 |
| Additions | - | 1 | - | - | - | 1 |
| Disposals | (3) | - | (1) | - | - | (4) |
| Transfers | - | (212) | 212 | - | - | - |
| Transfers to investment property | (503) | (186) | - | - | - | (689) |
| Depreciation charge | (21) | (45) | (111) | (2) | - | (179) |
| Closing net book amount | **125** | **20** | **1,069** | **5** | **-** | **1,219** |
| **At 31 December 2004** | | | | | | |
| Cost or valuation | 273 | 554 | 1,649 | 8 | 3 | 2,487 |
| Accumulated depreciation | (148) | (534) | (580) | (3) | (3) | (1,268) |
| Net book amount | **125** | **20** | **1,069** | **5** | **-** | **1,219** |
| **Year ended 31 December 2005** | | | | | | |
| Opening net book amount | 125 | 20 | 1,069 | 5 | - | 1,219 |
| Additions | 92 | 15 | - | - | - | 107 |
| Disposals | (5) | (5) | (1,010) | - | - | (1,020) |
| Depreciation charge | (5) | (3) | (58) | (1) | - | (67) |
| Closing net book amount | **207** | **27** | **1** | **4** | **-** | **239** |
| **At 31 December 2005** | | | | | | |
| Cost or valuation | 358 | 535 | 9 | 8 | - | 910 |
| Accumulated depreciation | (151) | (508) | (8) | (4) | - | (671) |
| Net book amount | **207** | **27** | **1** | **4** | **-** | **239** |

(all amounts in the notes to the financial statements are in euro thousands, unless otherwise stated)

## 4 Investment property

| | |
|---|---|
| **At 1 January 2004** | |
| Cost or valuation | - |
| Accumulated depreciation | - |
| Net book amount | - |
| **Year ended 31 December 2004** | |
| Opening net book amount | - |
| Transfers from property, plant and equipment | 689 |
| Disposals | - |
| Depreciation charge | - |
| **Closing net book amount** | **689** |
| **At 31 December 2004** | |
| Cost or valuation | 872 |
| Accumulated depreciation | (183) |
| Net book amount | **689** |
| **Year ended 31 December 2005** | |
| Opening net book amount | 689 |
| Additions | - |
| Disposals | (673) |
| Depreciation charge | (16) |
| **Closing net book amount** | - |
| | - |
| **At 31 December 2005** | |
| Cost or valuation | - |
| Accumulated depreciation | - |
| Net book amount | **-** |

The Company has sold all of its investment property to related parties in May 2005 (Note 23).

(all amounts in the notes to the financial statements are in euro thousands, unless otherwise stated)

## 5 Receivables and prepayments

| | **2005** | **2004** |
|---|---|---|
| Trade receivables: | 315 | 332 |
| Less: Provision for impairment of receivables | (25) | (25) |
| Trade receivables, net | **290** | **307** |
| | | |
| Other receivables: | | |
| VAT receivable | 17 | - |
| Others | 4 | 11 |
| Receivables from related parties (Note 23) | 1 | 43 |
| Receivables on income tax prepaid | - | 40 |
| | **22** | **94** |
| | | |
| | **312** | **401** |

The carrying amount of receivables approximates their fair value.

## 6 Cash and cash equivalents

| | **2005** | **2004** |
|---|---|---|
| Short term bank deposits | 230 | 77 |
| Cash at bank | 56 | 83 |
| Cash in hand | 1 | 5 |
| | | |
| | **287** | **165** |

The Company has no bank overdrafts at each date of the balance sheets.

As at 31 December 2005 the deposits held at banks have the following characteristics:

| | **Amount of the deposit** | **Interest rate** | **Days till maturity** |
|---|---|---|---|
| Three-month deposit in Alpha Bank | 179 | 4.3% | 60 days |
| One-month deposit in Alpha bank | 51 | 3.5% | 1 day |
| | | | |
| | **230** | | |

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

| | **2005** | **2004** |
|---|---|---|
| Cash and cash equivalents | 287 | 165 |
| | | |
| | **287** | **165** |

(all amounts in the notes to the financial statements are in euro thousands, unless otherwise stated)

## 7 Share capital

| | Number of shares (thousands) | Value in EUR thousands |
|---|---|---|
| As at 31 December 2004 | 603 | 308 |
| **As at 31 December 2005** | **603** | **308** |

The number of ordinary shares is 603 thousands (2004: 603 thousands), each with a par value of BGN 1 (EUR 0.51 per share). All issued shares have been fully paid.

In the period 1990-1997 the Bulgarian economy has experienced hyperinflation. According to IAS 29 “Financial Reporting in Hyperinflationary Economies” in such circumstances the Company has to hyper-inflate the amounts in its financial statements and to use them as a basis for the carrying amounts in its subsequent financial statements. The amount of EUR 18,809 thousand (See Note 8) represents the effect of hyperinflation of the share capital from its nominal and legally registered value of EUR 308 thousand to EUR 19,117 thousand. The hyperinflation is performed using the movement in the exchange rate between Bulgarian Lev and German Mark (DEM) as the most representative and reasonable measure of inflation in that period.

## 8 Legal reserves and accumulated loss

| | Hyperinflationary reserves | Legal reserves | Accumulated loss | Total |
|---|---|---|---|---|
| **Balance at 1 January 2004 (restated)** | **18,809** | **62** | **(20,339)** | **(1,468)** |
| Loss for 2004 (restated) | - | - | (274) | (274) |
| **Balance at 31 December 2004 (restated)** | **18,809** | **62** | **(20,613)** | **(1,742)** |
| Profit for 2005 | | | 1,873 | 1,873 |
| **Balance as at 31 December 2005** | **18,809** | **62** | **(18,740)** | **131** |

(all amounts in the notes to the financial statements are in euro thousands, unless otherwise stated)

## 9 Trade and other payables

| | 2005 | 2004 |
|---|---|---|
| Trade payables | 301 | 308 |
| Accrued expenses and liabilities | 65 | 81 |
| Unused paid leave accrual | 4 | 3 |
| Payables to personnel | 3 | 9 |
| Deferred income | 3 | - |
| Payables for taxes other than income tax | 1 | 17 |
| Social and health security payables | 1 | - |
| Other payables | - | - |
| | **378** | **418** |

## 10 Borrowings

| | 2005 | 2004 |
|---|---|---|
| **Short-term loans** | | |
| Loan from Alpha Bank AD | - | 3,477 |
| Total borrowings | **-** | **3,477** |

As at 31 December 2004 the Company has an outstanding loan from Alpha Bank, secured with guarantees from Titan Cement SA. The interest rate is BIR + 2.5% (calculated on a 365/360 days basis). In May 2005 the Company has fully repaid the loan.

## 11 Deferred income tax

Deferred income tax is formed by using the liability method applying the effective tax rate (ETR) of 15% (2004: 15%).

Deferred income tax assets are recognized for tax loss carry forwards and other tax credits to the extent that realisation of the related tax benefit through the future taxable profits is probable.

As at 31 December 2004 the Company has unrecognised deferred tax assets of EUR 1,249 thousand arising from the taxable losses carried forward incurred in the period 2000 – 2004, as well as interest to the amount of EUR 335 thousand carried forward during the period 2000 – 2004 in accordance with art. 26 of the Corporate Tax Act. The Company has fully utilised this deferred tax asset against the profit realised in 2005.

The Company has not recognised deferred tax asset in these financial statements, due to uncertainty as to the future tax deductibility of this amount, as there is currently no certainty of probability that future taxable profit would be available against which the temporary differences can be utilized.

(all amounts in the notes to the financial statements are in euro thousands, unless otherwise stated)

## 11 Deferred income tax (continued)

The unrecognized deferred tax asset as at 31 December 2005 consists of the following items:

| | Temporary difference | Tax At 15% |
|---|---|---|
| Impairment of receivables | 30 | 5 |
| Unused paid leave accrual | 4 | 1 |
| Impairment of inventory | 3 | - |
| Total deferred tax asset | **37** | **6** |

## 12 Provisions for other liabilities and charges

| | |
|---|---|
| **At 1 January 2005** | **-** |
| Charged to income statement for the year: Provision for court claim | 2 |
| Used during the year | - |
| **At 31 December 2005** | **2** |

Analysis of provisions:

| | 2005 | 2004 |
|---|---|---|
| Non-current provisions | - | - |
| Current provisions | 2 | - |
| | **2** | **-** |

The provision made in 2005 comprises a court payable to a former employee of the Company as a result of a lawsuit for professional illness. The court ruling is in the process of being appealed against by the Company. The charge for the provision has been recognised in the income statement as administrative expense. After consulting with the lawyers of the Company, the management believes that the outcome of the case will not lead to significant losses exceeding the amount of the provision made as at 31 December 2005.

(all amounts in the notes to the financial statements are in euro thousands, unless otherwise stated)

## 13 Sale of non-current assets

| | **2005** | **2004** |
|---|---|---|
| Sale of property, plant and equipment | 1,435 | 34 |
| Sale of investment property | 2,343 | - |
| | **3,778** | **34** |

## 14 Net book value (NBV) of non-current assets sold

| | **2005** | **2004** |
|---|---|---|
| NBV of property, plant and equipment sold | 1,020 | 5 |
| NBV of investment property sold | 673 | - |
| | **1,693** | **5** |

## 15 Other operating income

| | **2005** | **2004** |
|---|---|---|
| Revenue from rented assets | 217 | 341 |
| Revenue from sale of inventory to related parties (Note 23) | 49 | 40 |
| Revenue from sale of scrap | 23 | 81 |
| Insurance | - | 9 |
| Revenue from commissions | - | 19 |
| Revenue from transportation services | - | 223 |
| Revenue from laboratory testing | - | 29 |
| Other revenue | 7 | 11 |
| | **296** | **753** |

## 16 Other operating expense

| | **2005** | **2004** |
|---|---|---|
| Expenses for recultivation of terrains | (143) | - |
| Expenses for extraction and transportation of slag and clinker | (29) | (18) |
| | **(172)** | **(18)** |

(all amounts in the notes to the financial statements are in euro thousands, unless otherwise stated)

## 17 Administrative expenses

| | 2005 | 2004 (restated) |
|---|---|---|
| Depreciation | (83) | (179) |
| Wages and salaries and related expenses | (51) | (191) |
| Security | (29) | (22) |
| VAT, local and alternative taxes | (14) | (33) |
| Other expenses | (12) | (138) |
| Fuel, spare parts and other materials | (10) | (158) |
| Electricity | (10) | (17) |
| Telephone and courier | (10) | (14) |
| Insurance | (8) | (21) |
| Professional services | (5) | (38) |
| Audit | (2) | (4) |
| | **(234)** | **(815)** |

## 18 Expenses by nature

| | 2005 | 2004 (restated) |
|---|---|---|
| Expenses for hired services | (229) | (117) |
| Depreciation expenses | (83) | (179) |
| Wages and salaries | (43) | (160) |
| Materials expenses | (19) | (175) |
| VAT, local and alternative taxes | (14) | (33) |
| Other expenses | (10) | (138) |
| Social security | (8) | (31) |
| | **(406)** | **(833)** |

## 19 Financial income/ (expense), net

| | 2005 | 2004 |
|---|---|---|
| Interest expense, net | (51) | (156) |
| Bank commissions | (2) | (4) |
| Exchange gains/(losses) on cash and cash equivalents | - | (63) |
| | **(53)** | **(223)** |

(all amounts in the notes to the financial statements are in euro thousands, unless otherwise stated)

## 20 Income tax expense

| | 2005 | 2004 |
|---|---|---|
| Current tax | (49) | - |
| Deferred tax | - | - |
| | **(49)** | **-** |

The tax on the Company's profit before tax differs from the theoretical amount that would arise using the tax rate applicable for the Company as follows:

| | 2005 | 2004 (restated) |
|---|---|---|
| Profit/(loss) before tax | **1,922** | **(274)** |
| Tax at tax rate 15% (2004: 19.5%) | 288 | 53 |
| Income not subject to tax | (15) | - |
| Expense not deductible for tax purposes | 14 | - |
| Utilisation of previously unrecognised tax losses and interest carried forward according to art. 26 of the Corporate Tax Act. | (238) | - |
| Tax losses for which no deferred income tax asset was recognised | - | (53) |
| Tax charge | **49** | **-** |

As at 31 December 2005 the Company has utilized all its tax losses carried forward, as well as all interest carried forward in accordance with the Corporate Tax Act, art. 26 (see Note 11).

Bulgarian tax legislation is subject to varying interpretations and constant changes. Furthermore, the interpretations of tax legislation by tax authorities as applied to the transactions and activity of the Company may not coincide with that of the management. As a result, tax authorities may challenge the way of calculating tax losses carried forward, as well as assess additional taxes, including value added tax (VAT), penalties and interest, which can be significant. Management is of the view that there will be no additional tax liabilities as at 31 December 2004 and thus no further provision is considered necessary. The last inspections performed by tax authorities were as follows:

VAT – as at 30 June 2005
Income tax – as at 31 December 2004
Social security – as at 31 December 2000
Local taxes – as at 31 December 2002
Other taxes – as at 31 December 2004

(all amounts in the notes to the financial statements are in euro thousands, unless otherwise stated)

## 21 Cash generated from operations

Reconciliation of profit/(loss) for the period to cash generated from operations:

| | 2005 | 2004 (restated) |
|---|---|---|
| Profit/ (Loss) for the period | 1,873 | (274) |
| Tax charge (Note 20) | 49 | - |
| Adjustments for: | | |
| (Profit)/loss on non-current assets sale | (2,085) | (29) |
| Depreciation (Note 17) | 83 | 179 |
| Interest expense (Note 19) | 58 | 158 |
| Movement in provisions | 2 | - |
| Receivables impairment | - | 25 |
| Interest income (Note 19) | (7) | (2) |
| Foreign exchange (gains)/ losses on bank account balances | - | 63 |
| Changes in working capital: | | |
| – trade and other receivables | 94 | 43 |
| – inventories | - | 3 |
| – payables | (60) | 15 |
| **Cash generated from operations** | **7** | **181** |

The non-cash transactions of the Company in 2005 are as follows (in EUR thousands):

| | |
|---|---|
| Compensation of the tax payables according to tax inspection act from 2005 and overpaid taxes from previous years | 41 |
| Exchange for the construction of a new electricity station against granting of used equipment to the suppliers. | 13 |
| | **54** |

## 22 Contingencies

As at 31 December 2005 there is a bank guarantee issued by Alpha Bank in favour of the Territorial Tax Authorities in Pernik to the amount of EUR 77 thousand (2004: EUR 77 thousand). The purpose of the bank guarantee is to suspend the execution of the tax inspection act issued in 2004 imposing VAT liabilities to the Company.

(all amounts in the notes to the financial statements are in euro thousands, unless otherwise stated)

## 23 Related party transactions

The Company is controlled by REA Cement Limited, Cyprus holding 91.26% of the Company's shares. The remaining 8.74% of the shares are held by Zlatna Panega Cement AD (8.41%) and individuals (0.33%). The ultimate parent of the Company is Titan Cement Company SA (incorporated in Greece).

**Period end balances arising from sales/purchases of goods/services:**

| **i) Receivables from related parties** | **2005** | **2004** |
|---|---|---|
| Zlatna Panega Beton EOOD | 1 | - |
| Zlatna Panega Cement AD | - | 43 |
| | **1** | **43** |

**ii) Sales to related parties:**

| | **2005** | **2004** |
|---|---|---|
| *Zlatna Panega Cement AD:* | | |
| Non-current assets | 3,050 | 1 |
| Services | 137 | 245 |
| Materials | 50 | 39 |
| | 3,237 | 285 |
| *Zlatna Panega Beton EOOD:* | | |
| Non-current assets | 675 | 0 |
| Services | 57 | 123 |
| | 732 | 123 |
| | **3,969** | **408** |

**iii) Purchases from related parties:**

| | **2005** | **2004** |
|---|---|---|
| *Zlatna Panega Cement AD:* | | |
| Services | - | - |
| *Zlatna Panega Beton EOOD:* | | |
| Services | - | 5 |
| | **-** | **5** |

(all amounts in the notes to the financial statements are in euro thousands, unless otherwise stated)

## 23 Related party transactions (Continued)

### iv) Directors' remunerations

| | **2005** | **2004** |
|---|---|---|
| Salaries and other benefits – gross | 15 | 8 |
| Social and other expenses on the account of the employer | 3 | 2 |
| | **18** | **10** |

The Company has been provided with a binding letter of support from the ultimate parent Titan Cement SA, stating that adequate funds and full support would be provided to enable the Company to continue operations at least until 31 December 2006.

## 24 Post balance sheet events

There are no significant post balance sheet events with effect on the financial statements.