

Balkan Cement Enterprises Limited

Report and financial statements 31 December 2006

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Balkan Cement Enterprises Limited

Board of Directors and other officers

Directors

Stelios Triantafyllides
Arta Antoniou
Spyroulla Papaeracleous

Company Secretary

A.T.S. Services Limited
2-4 Arch. Makarios III Avenue
Capital Center, 9th Floor
CY-1505 Nicosia
Cyprus

Registered office

2-4 Arch. Makarios III Avenue
Capital Center, 9th Floor
CY-1505 Nicosia
Cyprus

Balkan Cement Enterprises Limited

Report of the Board of Directors

1 The Board of Directors presents its report together with the audited financial statements of the Company for the year ended 31 December 2006.

Principal activities

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

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

3 The Company made a profit of €7,991,345 for the year compared to the profit of €2,090,958 in 2005 mainly because of option revaluation of €8,000,000 during the year, in comparison to €2,104,574 in 2005. The financial statements have been prepared on a going concern basis as the immediate parent has undertaken not to call for payment the amount owed to them of €4,100,174 (2005: €12,100,174) (Note 14(a)) in the next 12 months from the date of this report. The Board of Directors does not expect any significant changes in the activities of the Company for the foreseeable future.

Principal risks and uncertainties

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

Results

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

Share capital

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

Board of Directors

7 The members of the Board of Directors at 31 December 2006 and at the date of this report are shown on page 1. All of them were members of the Board throughout the year 2006.

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

Balkan Cement Enterprises Limited

Report of the Board of Directors (continued)

Board of Directors (continued)

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

Events after the balance sheet date

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

Branches

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

Auditors

12 The auditors of the Company, Messrs Ernst & Young were appointed during the year 2006 in replacement of PricewaterhouseCoopers Limited. Messrs, Ernst & Young, have signified their willingness to continue in office. A resolution for reappointing them and authorising the Directors to set their remuneration will be proposed at the Annual General Meeting of the Company.

By order of the Board

Stelios Triantafyllides
Director

Nicosia
28 February 2007

Independent Auditor's Report to the Members of Balkan Cement Enterprises Limited

Report on the Financial Statements

We have audited the financial statements of Balkan Cement Enterprises Limited (the "Company") on pages 6 to 19, which comprise the balance sheet as at 31 December 2006, and the income statement, statement of changes in equity and cash flow statement for the year then ended, and a summary of significant accounting policies and other explanatory notes.

Board of Directors' Responsibility for the Financial Statements

The Company's Board of Directors is responsible for the preparation and fair presentation of these financial statements in accordance with International Financial Reporting Standards as adopted by the European Union (EU) and International Financial Reporting Standards as issued by the International Accounting Standards Board (IASB) and the requirements of the Cyprus Companies Law, Cap 113. This responsibility includes: designing, implementing and maintaining internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. This report is made solely to the Company's members, as a body, in accordance with Section 156 of the Companies Law, Cap. 113. Our audit work has been undertaken so that we might state to the Company's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Company and the Company's members as a body, for our audit work, for this report, or for the opinions we have formed. We conducted our audit in accordance with International Standards on Auditing. Those Standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the Board of Directors, as well as evaluating the overall presentation of the financial statements.

Without qualifying our opinion, we draw attention to Note 2 to the financial statements which indicates that as of 31 December 2006, the Company's current liabilities exceeded its total assets by €4.087.966. The financial statements have been prepared on a going concern basis since the immediate parent of the company has undertaken to provide financial support to enable the company to meet its obligation for a period extending to at least 12 months from the date of this report.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements give a true and fair view of the financial position of Balkan Cement Enterprises Limited as of 31 December 2006, and of its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted by the EU and International Financial Reporting Standards as issued by the IASB and the requirements of the Cyprus Companies Law, Cap 113.

Report on Other Legal Requirements

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

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

Ernst & Young
Chartered Accountants

Nicosia
28 February 2007

Balkan Cement Enterprises Limited

Income statement for the year ended 31 December 2006

	Note	2006 €	2005 €
Option revaluation	9(2)	8,000,000	2,104,574
Interest income	5	11,791	4,458
Administrative expenses	8	(19,218)	(17,391)
Operating profit		7,992,573	2,091,641
Finance costs	6	(48)	(128)
Profit before tax		7,992,525	2,091,513
Tax	7	(1,180)	(555)
Profit for the year		7,991,345	2,090,958

The notes on pages 10 to 19 are an integral part of these financial statements.

Balkan Cement Enterprises Limited

Balance sheet at 31 December 2006

	Note	2006 €	2006 €	2005 €	2005 €
Assets					
Current assets					
Option	9	6,983,748		14,983,748	
Less: Provision for non-recovery of option	9	(6,983,748)	-	(14,983,748)	-
Other receivables	10		2,609		2,927
Cash and cash equivalents	11		17,826		25,076
Total assets			20,435		28,003
Equity and liabilities					
Capital and reserves					
Share capital	12		294,000		294,000
Share premium	12		2,716,000		2,716,000
Accumulated losses			(7,097,966)		(15,089,311)
			(4,087,966)		(12,079,311)
Current liabilities					
Other payables	13		4,108,401		12,107,314
Total equity and liabilities			20,435		28,003

On 28 February 2007 the Board of Directors of Balkan Cement Enterprises Limited authorised these financial statements for issue.

Stelios Triantafyllides, Director

Arta Antoniou, Director

The notes on pages 10 to 19 are an integral part of these financial statements.

Balkan Cement Enterprises Limited

Statement of changes in equity for the year ended 31 December 2006

	Share capital €	Share Premium (1) €	Accumulated Losses (2) €	Total €
Balance at 1 January 2005	294,000	2,716,000	(17,180,269)	(14,170,269)
Profit for the year	-	-	2,090,958	2,090,958
Balance at 31 December 2005 / 1 January 2006	294,000	2,716,000	(15,089,311)	(12,079,311)
Profit for the year	-	-	7,991,345	7,991,345
Balance at 31 December 2006	294,000	2,716,000	(7,097,966)	(4,087,966)

- (1) The share premium is not distributable by way of dividend. It can be used mainly for the issue of bonus shares to the shareholders.
- (2) As from 1 January 2003, companies which do not distribute 70% of their profits after tax, as defined by the Special Contribution for the Defence of the Republic Law, during the two years after the end of the year of assessment to which the profits refer, will be deemed to have distributed this amount as dividend. Special contribution for defence at 15% will be payable on such deemed dividend to the extent that the shareholders (individuals and companies) at the end of the period of two years from the end of the year of assessment to which the profits refer are Cyprus tax residents. The amount of this deemed dividend distribution is reduced by any actual dividend paid out of the profits of the relevant year at any time. This special contribution for defence is paid by the Company for the account of the shareholders. For the year 2004, there is no special contribution for the defence on deemed distribution.

The notes on pages 10 to 19 are an integral part of these financial statements.

Balkan Cement Enterprises Limited

Cash flow statement for the year ended 31 December 2006

	Note	2006 €	2005 €
Cash flows from operating activities			
Profit before tax		7,992,525	2,091,513
Adjustment for:			
Option revaluation	9(2)	(8,000,000)	(2,104,574)
		<u>(7,475)</u>	<u>(13,061)</u>
Changes in working capital:			
Other receivables		318	(321)
Option	9(2)	8,000,000	11,360,000
Other payables		(7,998,913)	(11,358,225)
		<u>(6,070)</u>	<u>(11,607)</u>
Cash used in operations		(6,070)	(11,607)
Tax paid	7	(1,180)	(555)
		<u>(7,250)</u>	<u>(12,162)</u>
Net cash used in operating activities		(7,250)	(12,162)
		<u>(7,250)</u>	<u>(12,162)</u>
Net decrease in cash and bank balances		(7,250)	(12,162)
Cash and bank balances at beginning of year		25,076	37,238
		<u>25,076</u>	<u>37,238</u>
Cash and bank balances at end of year	11	17,826	25,076
		<u>17,826</u>	<u>25,076</u>

The notes on pages 10 to 19 are an integral part of these financial statements.

Balkan Cement Enterprises Limited

Notes to the financial statements

1 General Information

Country of incorporation

The Company is incorporated in Cyprus as a private limited liability company in accordance with the provisions of the Companies Law, Cap.113. Its registered office is at 2-4 Arch. Makarios III Avenue, Capital Center, 9th floor, CY-1505 Nicosia, Cyprus.

Principal activities

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

2 Summary of significant accounting policies

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

Basis of preparation

The financial statements have been prepared in accordance with International Financial Reporting Standards (IFRSs) as adopted by the European Union (EU) and International Financial Reporting Standards (IFRSs) as issued by the International Accounting Standards Board (IASB). The financial statements comply with both these reporting frameworks because at the time of their preparation all applicable IFRSs issued by the IASB have been adopted by the EU through the endorsement procedure established by the European Commission. In addition, the financial statements have been prepared in accordance with the requirements of the Cyprus Companies Law, Cap.113.

The Company's current liabilities exceed its total assets by €4,087,966. The financial statements have been prepared on a going concern basis since the immediate parent of the Company has undertaken to provide financial support to enable the Company to meet its obligations for a period extending to at least 12 months from the date of approval of the financial statements of the Company.

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

Certain new standards, interpretations and amendments to existing standards have been published that are not yet effective for the current reporting period and which the Company has not early adopted, as follows:

Balkan Cement Enterprises Limited

2 Summary of significant accounting policies (continued)

Basis of preparation (continued)

Issued by the IASB and adopted by the EU

IFRS 7, Financial Instruments: Disclosures, and a complementary amendment to IAS 1, Presentation of Financial Statements – Capital Disclosures

IFRIC 7, Applying the Restatement Approach under IAS 29 Financial Reporting in Hyperinflationary Economies

IFRIC 8, Scope of IFRS 2

IFRIC 9, Reassessment of Embedded Derivatives

Issued by the IASB but not yet adopted by the EU

IFRS 8, Operating Segments

IFRIC 10, Interim Financial Reporting and Impairment

IFRIC 11, IFRS 2-Group and Treasury Share Transactions

IFRIC 12, Service Concession Arrangements

The above are expected to have no impact on the Company's financial statements, other than the presentation of additional disclosures concerning financial instruments under IFRS7 and management of capital under the amendment to IAS1 in the 2007 financial statements.

Revenue recognition

Revenue is recognised to the extent that it is probable that the economic benefits will flow to the Company and the revenue can be reliably measured. The following specific recognition criteria must also be met before revenue is recognised

(a) Interest income

Interest income is recognised as the interest accrues (taking into account the effective yield on the asset).

Foreign currency translation

(a) Functional and presentation currency

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

- The majority of assets and liabilities and majority of transaction of the Company were, and in the future are expected to be, denominated, executed and settled in €
- Due to the nature of the Company's business, key economic and operational

Balkan Cement Enterprises Limited

2 Summary of significant accounting policies (continued)

decisions are based in €

- The functional currency of the ultimate parent company, Titan Cement S.A. which significantly influences the Company's key economic and operational decisions is the €

(b) Transactions and balances

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

Tax

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

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

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

Provisions

Provisions are recognised when the Company has a present obligation (legal or constructive) as a result of a past event, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation. Where the Company expects some or all of a provision to be reimbursed, for example under an insurance contract, the reimbursement is recognised as a separate asset but only when the reimbursement is virtually certain. The expense relating to any provision is presented in the income statement net of any reimbursement. If the effect of the time value of money is material, provisions are discounted using a current pre tax rate that reflects, where appropriate, the risks specific to the liability. Where discounting is used, the increase in the provision due to the passage of time is recognised as a finance cost.

Share capital

The share capital is recognised at its nominal value. The difference between the fair value received by the Company and the nominal value of the issued share capital is transferred to the share premium reserve.

Balkan Cement Enterprises Limited

2 Summary of significant accounting policies (continued)

Payables to related parties

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

Cash and cash equivalents

Cash and short term deposits in the balance sheet comprise cash at banks and at hand and short term deposits with an original maturity of three months or less.

For the purposes of the cash flow statement, cash and cash equivalents consist of cash and cash equivalents as defined above, net of outstanding bank overdrafts.

Comparatives

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

3 Financial risk management

(a) Financial risk factors

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

(ii) Credit risk

Credit risk arises when a failure by counterparties to discharge their obligations could reduce the amount of future cash inflows from financial assets on hand at the balance sheet date. At balance sheet date, the Company's option prepayment (Note 9) is exposed to such risk. Management of the Company monitors on a continuous basis the level of the credit risk in respect of the option prepayment and makes accordingly the necessary provision for non-recovery.

(ii) Liquidity risk

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

Balkan Cement Enterprises Limited

3 Financial risk management (continued)

(a) Financial risk factors (continued)

(ii) Currency risk

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

The foreign exchange difference charged to the income statement amounts to €48 (2005: €128) and relates to financing activities (Note 6).

(b) Fair value estimation

The fair values of financial assets and liabilities are not materially different from their carrying values at the balance sheet date.

4 Critical accounting estimates and judgments

Estimates and judgments are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

(a) Critical accounting estimates and assumptions

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

(i) Income taxes

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

Balkan Cement Enterprises Limited

4 Critical accounting estimates and judgments (continued)

(i) Income taxes (continued)

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

The Company met the tax filing in Cyprus. To the best of Management's knowledge, no breaches of tax law have occurred. Thus, the Company has not recorded any provision for potential impact of any such breaches as at 31 December 2006 or as at 31 December 2005.

(ii) Recovery of option

The company provided in full for the non-recovery of option costs (Note 9). In making this judgement, the Company evaluated prevailing conditions (Note 9) as at the report date. Should the prevailing condition cease to exist in 2007 then option costs may be partly or fully recoverable.

5 Interest income

	2006 €	2005 €
Interest income:		
Bank balances	<u>11,791</u>	<u>4,458</u>

6 Finance costs

	2006 €	2005 €
Net foreign exchange transaction losses	<u>48</u>	<u>128</u>
	<u>48</u>	<u>128</u>

Balkan Cement Enterprises Limited

7 Tax

	2006 €	2005 €
Current tax:		
Defence contribution	<u>1,180</u>	<u>555</u>

The Company is subject to Corporation tax on taxable profits at the rate of 10%. The Company had no income tax for the year, due to the option revaluation being non-taxable that resulted in tax losses. At 31 December 2006 the Company had tax losses carried forward CY£34,208 (2005: CY£26,509). Tax losses may be utilised against future taxable profits with no time limitation.

No deferred tax asset has been recognised in the financial statements of the Company, in respect of the tax losses carried forward.

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

8 Expenses by nature

	2006 €	2005 €
Audit fees	6,391	6,107
Legal fees	2,927	2,606
Accountancy and administrative	8,440	7,509
Sundry expenses	1,460	1,169
	<u>19,218</u>	<u>17,391</u>

9 Option and provision for non-recovery

	2006 €	2005 €
BAB – Option (1)	6,983,748	14,983,748
Provision for non-recovery (2)	(6,983,748)	(14,983,748)
	<u>-</u>	<u>-</u>

Balkan Cement Enterprises Limited

9 Option and provision for non-recovery (continued)

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

(2) The Board of Directors of the Company formed the view that a provision was necessary against non-recovery of the option attributed to risks associated with the operations of Sharr Beiteiligungs GmbH. In this respect, the Board of Directors up to 2004 provided for non-recovery of option a total of €17,088,322 of which €14,508,322 was made in the year 2004 and €2,580,000 in the year 2003. During the year 2005, Sharr Beiteiligungs GmbH returned to the Company funds of €1,360,000 and the option was revalued to €14,983,748. During the year 2006, Sharr Beiteiligungs GmbH returned to the Company funds of €8,000,000 reducing the option value to €6,983,748.

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

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

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

10 Other receivables

	2006 €	2005 €
Prepayments	<u>2,609</u>	<u>2,927</u>

Balkan Cement Enterprises Limited

11 Cash and cash equivalents

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

	2006 €	2005 €
Cash at bank	<u>17,826</u>	<u>25,076</u>

12 Share capital and share premium

	Number of shares	Issued Share capital €	Share premium €	Total €
At 1 January 2005/2006 and at 31 December 2005/2006	<u>294 000</u>	<u>294,000</u>	<u>2,716,000</u>	<u>3,010,000</u>

The total authorized number of ordinary shares is 590 000 shares (2005: 590 000 shares) with a par value of €1 per share. All issued shares are fully paid.

13 Other payables

	Note	2006 €	2005 €
Payables to related party	14 (a)	4,100,174	12,100,174
Other payables		3,851	2,528
Accrued expenses		4,376	4,612
		<u>4,108,401</u>	<u>12,107,314</u>

14 Related party transactions

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

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

Balkan Cement Enterprises Limited

14 Related party transactions (continued)

The following transactions were carried out with related parties:

(a) Year-end balance arising from financing

	Nature of transaction	2006 €	2005 €
Payable to holding company (i)	Financing	<u>4,100,174</u>	<u>12,100,174</u>

(i) This amount represents advances of a financing nature by the Company's holding company with no set date of repayment or interest accruing.

15 Events after the balance sheet date

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

16 Commitments and Contingencies

There were no significant commitments and contingent liabilities at the balance sheet date.