

**TITAN CEMENTARA KOSJERIC A.D.
FINANCIAL STATEMENTS
FOR THE PERIOD ENDED 31 DECEMBER 2006
PREPARED FOR GROUP CONSOLIDATION PURPOSES**

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GENERAL DIRECTOR

Mr Miroslav Gligorijević

Registered office

Cementara "Kosjeric"
Zivojina Misica bb
31260 Kosjeric
Serbia and Montenegro

Auditor

Ernst & Young d.o.o. Beograd
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AUDIT REPORT TO THE BOARD OF DIRECTORS OF TITAN CEMENTARA KOSJERIC A.D. KOSJERIC

We have audited the accompanying balance sheet of Titan Cementara Kosjeric a.d. Kosjeric ("the Company") as of 31 December 2006, and the related statement of income and cash flows statement and statement of changes in equity for the year then ended, prepared for the sole purpose of consolidation into the Titan Cement Company S.A. consolidated financial statements, which are prepared in accordance with IFRS. These condensed annual financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audit.

Except as explained in the following paragraph, we conducted our audit in accordance with the 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.

The scope of our audit procedures was established based on the tolerable error set for group reporting purposes, amounting to EUR 1,700,000.

In our opinion, based on the assigned tolerable error, for the sole purpose of inclusion in the consolidation of Titan Cement Company S.A., the condensed financial statements referred to above gives a true and fair view of the financial position of the Company as of 31 December 2006 and of the results of its operations and its cash flows and changes in shareholders' equity for the year then ended in accordance with International Financial Reporting Standards.

This report is intended solely for the use of the Company and the ultimate Parent company and should not be used for any other purpose.

Belgrade, 7 February 2007


Fotis Demetriou
Partner

Ernst & Young Beograd d.o.o.



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

**Income
Statement**

		For 12 months period ended 31 December 2006	For 12 months period ended 31 December 2005
	Notes		
Sales	3	3.161.800	2.661.053
Cost of sales	4	(2.123.680)	(1.742.222)
Gross profit		1.038.120	918.831
Other operating income	5	57.262	65.367
Selling expenses	6	(23.121)	(12.593)
Administrative expenses	7	(245.494)	(245.166)
Other operating expenses	5	(181.564)	(120.273)
Profit on ordinary activities before finance income and Taxation		645.203	606.166
Finance income/(expenses), net	8	(38.825)	32.735
Profit before taxation		606.378	638.901
Taxation	9	(39.371)	(35.625)
Profit for the period		567.007	603.276

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

Balance Sheet

		As at 31 December	As at 31 December
	Notes	2006	2005
ASSETS			
Non-current assets			
Property, plant and equipment	10	2.460.013	2.596.678
Construction in progress	10	31.754	47.302
Advances to suppliers for fixed assets	10	7.960	9.121
Intangible assets	11	12.269	-
Other long term assets	12	10.247	21.307
		2.522.243	2.674.408
Current assets			
Inventories	13	661.331	685.512
Trade receivables	14	97.195	26.473
Other receivables	15	51.448	54.836
Cash and cash equivalents	16	1.316.368	709.227
		2.126.342	1.476.048
Total assets		4.648.585	4.150.456
EQUITY AND LIABILITIES			
Capital and reserves			
Ordinary shares	17	2.505.209	2.505.209
Reserves		166.474	134.849
Retained earnings/(losses)		1.017.235	475.676
Current period result		567.007	603.276
		4.255.925	3.719.010
Non current liabilities			
Other non current liabilities	18	177.202	95.233
Current liabilities			
Trade and other payables	19	215.458	336.213
Total Liabilities		392.660	431.446
Total equity and liabilities		4.648.585	4.150.456

The financial statements on pages 2 to 21 were signed on its behalf by:

Mr Miroslav Gligorijević

General Director

Slavica Vukosavljević

Finance Director



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Statement of Changes in Equity

	Ordinary shares	Legal reserve	Retained earnings/ (losses)	Current period result	Total
Balance at 31 December 2005	2.505.209	134.849	475.676	603.276	3.719.010
Transfer to retained earnings	-	-	603.276	(603.276)	-
Distribution of 2005 income	-	31.625	(31.625)	-	-
Paid dividends	-	-	(30.044)	-	(30.044)
Current period result	-	-	-	567.007	567.007
Transfer from Retained earnings	-	-	(48)	-	(48)
Balance at 31 December 2006	2.505.209	166.474	1.017.235	567.007	4.255.925

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Cash Flow Statement

		For 12 months period ended 31 December 2006	For 12 months period ended 31 December 2005
	Notes		
<i>Cash flows from operating activities</i>			
Profit after taxation		567.007	603.276
Adjustments for:			
Tax	9	39.371	35.625
Depreciation expense	10	270.243	234.453
Interest income	8	(42.662)	(28.175)
Interest expense	8	287	1.791
Loss on sale of property, plant and equipment		(3.224)	(4.851)
Loss on disposals of fixed assets	10	4.331	-
Effects of exchange rate changes	8	81.200	(6.351)
Operating cash flows before working capital changes		916.553	835.768
Changes:			
(Increase)/decrease in trade and other receivables		(67.334)	(38.597)
(Increase)/decrease in inventory		24.181	(355.759)
Increase/(decrease) in trade and other payables		(38.786)	139.093
Trading Investments	6	-	-
Decrease in other long term assets		11.060	(20.711)
Cash generated from operations		845.674	559.794
Interest paid	8	(287)	(1.791)
Tax paid		(39.371)	(35.625)
Net cash from operating activities		806.016	522.378
<i>Cash flows from investing activities</i>			
Purchase of property, plant and equipment	10	(133.469)	(118.187)
Interest received		42.662	28.175
Proceeds from sale of property, plant and equipment		3.224	6.218
Net cash used in investing activities		(87.583)	(83.794)
<i>Cash flows from financing activities</i>			
Proceeds from borrowings		0	640.200
Repayment of borrowings		0	(640.200)
Dividends paid		(30.092)	(24.421)
Net cash from financing activities		(30.092)	(24.421)
Effects of exchange rate changes		(81.200)	6.351
Net increase/(decrease) in cash		607.141	420.514
Cash at the beginning of period	16	709.227	288.713
Cash at the end of period	16	1.316.368	709.227

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NOTES TO FINANCIAL STATEMENT
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(all amounts are stated in 000' RSD unless otherwise stated)

1 General information

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

Živojina Mišića bb
31 260 Kosjerić

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

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

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

The Company employed 380 people as at 31 December 2006.

2 Accounting policies

The principal accounting policies adopted in the preparation of the financial statements are in accordance with Titan Group accounting and reporting requirements and are set out below. Titan Group is preparing its financial statements according to the International Financial Reporting Standards.

(a) Basis of preparation

The financial statements have been prepared on a historical cost basis. The presentation currency is Dinar (RSD) being also the functional currency and all values are rounded to the nearest thousand (000 RSD) except when otherwise indicated.

The financial statements have been prepared in accordance to the Group accounting policies which are based on the International Financial Reporting Standards.

The purpose of the financial statements is to be used in connection and preparation of consolidated financial statements of Titan Cement Company S.A.

(b) Property, plant and equipment

Property plant and equipment are carried at cost, less accumulated depreciation and impairment in value if any. Land is shown at cost less impairment if any.

Cost includes all costs directly attributable to bringing the assets to working condition for their intended use.

Depreciation is calculated on the straight-line method intended to write off the cost of each asset to their residual values over the estimated useful life.

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2 Accounting policies, continued

Depreciation rates are set as follows:

	%
Buildings (including raw mill and electricity transmission and pipelines)	2-5
Marl crusher	16.5
Plant machinery	10
Rotary kiln	7
Vehicles	15
Furniture	10-12.5

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

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

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

At each reporting date the management assess whether there is any indication of impairment of property plant and equipment. If any such indication exists the management estimate the recoverable amount, which is determined as the higher of an asset's net selling price and its value in use. The carrying amount is reduced to the recoverable amount and the difference is recognized as an expense (impairment loss) in the Income Statement. An impairment loss recognised for an asset in prior years is reversed if there has been the circumstances that led to the impairment.

(c) Inventories

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

Appropriate allowance is made for damaged, obsolete and slow-moving items. Write-downs to net realizable value and inventory losses are expensed in the period in which they occur.

(d) Trade receivables

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

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2 Accounting policies, continued

(e) Cash and cash equivalents

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

(f) Provisions

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

(g) Revenue recognition

Revenue, which excludes value added tax (V.A.T.) and discounts, represents the invoiced value of goods and services supplied and is recognized usually when significant risks and rewards and ownership of the goods are transferred to the buyer at the date on which the goods are shipped to customers.

(h) Taxation

Current income tax is calculated at the rate of 10% on taxable profit reported in tax returns.

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

(i) Foreign currency transactions

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

At 31 December 2005, the official rate of exchange, as determined by the Central Bank of Serbia, was EURO 1=RSD 85.5 and as at 31 December 2006 EURO 1= RSD 79.0. Exchange restrictions and controls exist relating to converting the RSD into other currencies.

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3 Sales

	For 12 months period ended 31 December 2006	For 12 months period ended 31 December 2005
Sales revenue cement	2.924.146	2.589.022
Sales revenue clinker	237.654	72.031
Total	3.161.800	2.661.053

Revenue clinker is coming from the sale of clinker to the Titan's subsidiary Zlatna Panega (Note 20).

4 Cost of Sales

	For 12 months Period ended 31 December 2006	For 12 months period ended 31 December 2005
Kiln fuel	569.696	648.172
Raw material	197.771	149.622
Electricity power	144.790	110.367
Bags	69.515	66.231
Fuel and oil	40.892	47.162
Refractory	21.096	20.664
Grinding media	9.795	8.765
Pallets and folio	29.759	21.943
Concession fees	10.425	11.538
Explosives	5.490	7.777
Cost of trading goods	1.995	4.031
Other variable costs	2.224	2.596
Decrease/(increase) in inventory	35.731	(118.729)
Total variable cost	1.139.179	980.139
Salaries	342.139	304.586
Depreciation	233.183	219.401
Maintenance spare parts	57.869	77.320
Third parties services – maintenance	21.953	20.111
Third parties services- transportation	244.875	51.853
Lining	1.917	1.004
Insurance and taxes	19.559	37.420
Other fixed costs	63.006	50.388
Total fixed cost	984.501	762.083
	2.123.680	1.742.222

Cost of traded goods refers to the resale of white cement purchased from Titan Cement Company S.A. Third parties services- transportation relate to transportation services for goods sold.

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5 Other operating income and expenses

	For 12 months period ended 31 December 2006	For 12 months period ended 31 December 2005
Income from hotel, restaurant and bakery	31.689	29.065
Revenue from sales of disposal material	10.939	10.107
Collection of the receivables for which provision was made	1.576	5.226
Revenue from other operating activities	1.533	2.082
Surplus on inventory	-	12
Profit on sales of fixed assets	3.224	4.852
Reversed provisions from passed years (other provisions)	1.609	2.008
Other income	6.692	12.015
Total other operating income	57.262	65.367
Expenses from hotel, restaurant and bakery	26.198	23.615
Salaries	28.907	24.863
Employee redundancy expenses	14.404	2.157
Depreciation	29.333	8.985
Impairment of accounts receivable	4.068	6.910
Shortage of inventory	5	75
Other expenses	78.649	53.668
Total other operating expenses	181.564	120.273

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6 Selling expenses

	For 12 months period ended 31 December 2006	For 12 months period ended 31 December 2005
Salaries	15.920	9.733
Material	801	368
Depreciation	961	700
Other	5.439	1.792
	23.121	12.593

7 Administrative expenses

	For 12 months period ended 31 December 2006	For 12 months period ended 31 December 2005
Administrative and technical assistance fees – see Note 20	50.807	70.701
Salaries	61.788	53.210
Donation to Municipality – see Note 18	57.538	50.643
Donations	8.197	10.678
Depreciation	6.766	5.367
Communication	1.512	1.555
Consulting services	6.278	4.239
Legal and court fees	9.777	8.019
Representation	2.449	4.782
Car expenses	3.227	2.248
Business trip	3.077	3.292
Training and education	4.752	2.791
Other costs	29.326	27.641
	245.494	245.166

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

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8 Finance income and expenses

	For 12 months period ended 31 December 2006	For 12 months period ended 31 December 2005
Bank interest and similar income	42.662	28.175
Foreign exchange gain	16.934	17.747
Bank interest and similar expenses	(287)	(1.791)
Foreign exchange loss	(98.134)	(11.396)
	<u>(38.825)</u>	<u>32.735</u>

9 Taxation

	For 12 months period ended 31 December 2006	For 12 months period ended 31 December 2005
Current tax	39.371	35,625
Change in deferred tax (asset)/liability	-	-
	<u>39.371</u>	<u>35,625</u>

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

	For 12 months period ended 31 December 2006
Profit on ordinary activities before taxation under financial statements prepared for Group reporting purposes	606.378
Provision for employees' profit share	29.842
Accounting profit for the year ended 31 December 2006	<u>636.220</u>
Add back:	
Accounting depreciation	270.243
Provisions	60.494
Non business expenses	2.786
Penalties and capital loss	5.279
Impact of transfer pricing	43.437
Less:	
Depreciation for tax purposes	(231.048)
Tax basis profit for the year ended 31 December 2006	<u>787.411</u>
Tax at 10%	<u>78.741</u>
50% tax relief for investments	<u>39.370</u>
Current income tax	<u>39.371</u>

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9 Taxation, continued

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

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

	Gross temporary differences		Deferred tax asset/liability		Change for the period from 31 Dec 2005 to 31 December 2006	
	31 Dec 2006	31 Dec 2005	31 Dec 2006	31 Dec 2005	Change of gross temporary differences	Change in deferred Tax
Temporary differences						
Differences in net carrying value of fixed assets between tax and accounting purposes	61.184	36.843	6.118	3.684	24.341	2.434
	61.184	36.843	6.118	3.684	24.341	2.434

As at 31 December 2006 a deferred tax asset of RSD 6,118 thousand has not been recognized for the deductible temporary differences arising from differences in depreciation rates and depreciation methods between tax and accounting purposes.

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10	Property, plant and equipment							
	Land	Buildings	Machiner y and equipment	Vehicles	Sub total	Construction in progress	Advance s for fixed assets	Total
Cost								
At 31 December 2005	143.174	2.447.171	2.811.798	333.523	5.735.666	47.302	9.121	5.792.089
Additions during the period	15.882	18.124	45.197	24.391	103.594	18.042	(436)	121.200
Reclassification of assets from/to another category		30.194	3.396			(33.590)		
Sales / write off during period	-	-	(22.398)	(27.245)	(49.643)	-	(725)	(50.368)
At 31 December 2006	159.056	2.495.489	2.837.993	330.669	5.823.207	31.754	7.960	5.862.921
Accumulated depreciation								
At 31 December 2005	-	1.026.974	1.800.598	311.416	3.138.988	-	-	3.138.988
Charge for the period	-	82.887	174.612	12.744	270.243			270.243
Reclassification of assets from/to another category								
Sales / write off during period	-	-	(18.792)	(27.245)	(46.037)	-	-	(46.037)
At 31 December 2006	-	1.109.861	1.956.418	296.915	3.363.194	-	-	3.363.194
Net book value								
At 31 December 2006	159.056	1.385.628	881.575	33.754	2.460.013	31.754	7.960	2.499.727
At 31 December 2005	143.174	1.420.197	1.011.200	22.107	2.596.678	47.302	9.121	2.653.101

Land as at 31 December includes the land located around the quarries.

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11 Intangible Assets

	Computer Software	Total
Cost		
At 31 December 2005	-	-
Additions during the period	12.269	12.269
At 31 December 2006	12.269	12.269
Accumulated amortization		
At 31 December 2005	-	-
Charge for the period	-	-
At 31 December 2006	-	-
Net book value		
At 31 December 2006	12,269	12,269-
At 31 December 2005	-	-

Computer software is related to licenses for the SAP ERP Package that the Company is expecting to apply from January 2008.

12 Other long term financial investments

	As at 31 December 2006	As at 31 December 2005
Borrowing to employees- long term portion	10.247	21.307
	10.247	21.307

Long term borrowings to employees mainly relate to funds borrowed to each employee in amount of RSD 86 thousand (EUR 1 thousand) in December 2005, with maturity of three years starting from January 2006. Total amount borrowed to employees was in RSD 31,317 thousand.

13 Inventories

	As at 31 December 2006	As at 31 December 2005
Material and fuel	209.831	201.863
Spare parts and other inventory	314.168	310.080
Packing materials	8.497	9.790
Work in progress	61.486	109.957
Finished products	66.253	53.514
Goods for resale	1.096	308
	661.331	685.512

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13 Inventories, continued

Material and fuel in the amount of RSD 102,042 thousand, as at 31 December 2006, relates to petrol coke, and, the amount of RSD 54,095 thousand of raw materials relate to crude oil.

14 Trade receivables

	As at 31 December 2006	As at 31 December 2005
Trade receivables	69.980	12.797
Trade receivables to related parties (Note 20)	35.559	19.834
Provision for impairment of receivables	(8.344)	(6.158)
	<u>97.195</u>	<u>26.473</u>

15 Other receivables

	As at 31 December 2006	As at 31 December 2005
Prepayments for inventory	12.011	13.095
Provision for impairment of prepayments for inventory	(2.163)	(2.163)
Receivables from employees	21.873	20.384
Accrued expenses	5.518	11.538
Receivables for funds lent to firms	1.566	1.596
Provision for impairment of receivables for funds lent to firms	(1.566)	(1.596)
Receivables for fixed assets	2	720
Other receivables	14.207	11.262
	<u>51.448</u>	<u>54.836</u>

Receivables for employees in amount of RSD 11,120 thousand represent current portion of long term borrowings (Note 12). The remaining RSD 9,945 thousand relate to borrowings for six months, given to employees in December 2006.

16 Cash and cash equivalents

	As at 31 December 2006	As at 31 December 2005
Cash at bank	10.622	9.423
Cash at hand	40	73
Other short-term bank deposits	1.305.706	699.731
	<u>1.316.368</u>	<u>709.227</u>

Other short-term bank deposits relate to time deposits up to one year both in local currency and EUR.

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16 Cash and cash equivalents, continued

As at 31 December 2006 the deposits that are placed with National Bank of Greece are RSD 25,500 thousand and EUR 1,311 thousand, with Alpha Bank RSD 47,000 thousand and EUR 4,147 thousand and with EFG Bank EUR 10,152 thousand.

Interest rates for short-term deposits placed with National Bank of Greece are 10% to 14% per annum for deposits in RSD and from 2.5% to 3.5% per annum for Euro deposits. Nominal Interest rate for short-term deposits placed with Alpha Bank is 12.0% -13.1% per annum for deposits in RSD and 3.3% to 4.0% for Euro deposits. For EFG the interest rate for time deposits is in the range of 2.75% to 4.1% per annum. The interest accrued for the period is recorded as interest income in the Income Statement.

17 Ordinary shares

	Number of shares	% of ownership	Value
Tithys Limited, Cyprus	2.658.369	74.28	1.860.858
Small shareholders	130.732	3.65	91.512
Privatisation register	789.769	22.07	552.839
	3.578.870	100%	2.505.209

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

18 Other non-current liabilities	As at 31 December 2006	As at 31 December 2005
Non current portion of liabilities for donation to Municipality	95.569	61.883
Retirement reward	23.804	20.912
Provision for legal cases	14.495	12.438
Provisions for jubilee awards	43.334	-
	177.202	95.233

Donation to Municipality

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

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

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18. Other non-current liabilities, continued

Donation to Municipality, continued

Under this Agreement the Company is obliged to pay amount of RSD 92,824 thousand less payment of 18,565 thousand till the year ended 2005 in the period of six years. Additionally, and after the adoption from the Municipality of Kosjeric of the detailed regulation plan and until 2012, the Company will pay the Municipality the monetary equivalent of 3,500 tons of Cement at 61 Euros per ton plus the amount 50 th Euros per year. The balance of the long term portion as at 31 December 2006 was RSD 95,569 thousand and will be granted to Municipality as follows:

	As at 31 December 2006	As at 31 December 2005
1 to 2 years	14.192	12.377
2 to 3 years	13.738	12.377
3 to 4 years	13.360	12.377
4 to 5 years	52.509	12.376
Over 5 years	1.770	12.376
	95.569	61.883

Provisions for retirement reward

The Company is obliged under the collective agreement to pay each employee: 1.5 average salary higher of the Company's average salary and employee's average salary plus 50% of average salary in Republic of Serbia as retirement reward if the calculated amount is not lower than the Company's obligation per Labor Law. In that case the Company is obliged to pay a minimum staff leaving indemnity equal to three average monthly gross salaries applicable in the country on the date of retirement. The Company estimation based on the employees' working life till the end of December 2006 amounted in RSD 23,804 thousand.

	For 12 months period ended 31 December 2006	For 12 months period ended 31 December 2005
As at 1 January	20.912	-
Unused amounts reversed	(903)	-
Additional provision	3.795	20.912
Closing balance	23.804	20.912

Provision for legal cases

There are about 31 ongoing pieces of litigation against the Company. In most cases the Company is sued for claims for damages to crops and damage to property caused by explosions in quarries and damages caused by cement dust. There are also litigation brought against the Company by employees and suppliers. In the opinion of the management, after taking appropriate legal advice, the outcome of these legal claims will not give rise to any significant loss beyond the amounts provided as at 31 December 2006.

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18. Other non-current liabilities, continued

Provision for legal cases, continued

	For 12 months period ended	For 12 months period ended
	31 December 2006	31 December 2005
As at 1 January	12.438	15.586
Utilized during the year	(9.700)	(7.866)
Unused amounts reversed	(1.609)	(2.008)
Additional provision	13.366	6.726
Closing balance	14.495	12.438

Provisions for Jubilee awards

The Company is obliged under the collective agreement to pay each employee Jubilee awards when the employee completes 10, 15, 20, 25, 30, 35, and 40 years of continuous employment in the Company. The rewards have as follow: 1 average salary of the Company to the employee that completes the 10th and the 15th year of continuous employment, 1.5 average salary of the Company to the employee that completes the 20th and the 25th year of continuous employment, 2 average salaries of the Company to the employee that completes the 30th and the 35th year of continuous employment and 2.5 average salaries of the Company to the employee that completes the 40th of continuous employment. The Company's estimation based on the employees' working life till the end of December 2006 amounted in RSD 48,935 thousands out of which RSD 43,334 thousand represents the long-term portion.

19 Trade and other payables

	As at 31 December	As at 31 December
	2006	2005
Trade payables	85.851	155.103
Liabilities for donation to Municipality- current portion (Note 18)	16.851	12.732
Advances received	18.594	55.452
Other taxes payable	1.980	2.088
Concession fee	22.710	23.893
Payables for salaries	12.935	9.812
Social Insurance, contributions on salaries	5.878	5.030
Income tax payable	6.670	16.550
Payables to related parties (Note 20)	1.867	5.546
Dividend payable	107	55
Provision for employees' profit share	29.842	30.047
Provision for Jubilee awards – current portion (Note 19)	5.601	5.992
Environmental tax	87	997
Other payables	6.485	12.916
	215.458	336.213

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19 Trade and other payables, continued

Provision for employees' profit share

The Company is obliged by Sales and Purchase Agreement to pay to employees 5% out of profit after tax. For the year ended 2006 the Company provided for amount of RSD 29,842 thousand for these purposes.

Concession fee

The Company is obliged by the Law to pay tax for usage of mineral resources based on consumption of limestone, marl, clay and limestone for correction which are the basic ores for production of cement. Total outstanding liability as of 31 December 2006 amounted in RSD 22,710 thousand.

Liabilities to related parties

Payables in amount of 1,980 thousand relate to outstanding payables to parent company, namely Tithys Ltd for technical services rendered in 2006 (Note 20).

20 Related parties transactions

The following transactions were carried out with related parties:

	Period ended 31 December 2006	Period ended 31 December 2005
Sales and services provided to related parties		
USJE Cementarnica A.D. FYROM	-	1.823
Zlatna Panega-Bulgaria	112.664	32.876
Zlatna Panega-Bulgaria	124.990	39.155
	237.654	73.854
Purchase of goods and services from related parties		
TITAN, Athens	1.351	2.771
TITHYS Ltd, Cyprus- see Note 6	50.807	70.701
	52.158	73.472

Company has been selling clinker to its related party Zlatna Panega. Total clinker sold in 2006 is in MT 57,561 for a price of RSD 1,957. Selling price of clinker sold to Bulgaria is lower than the cost of clinker on inventory as at 31 December 2006. However, the Company has calculated impact of transfer pricing in RSD 43,437 thousand and included it in tax balance sheet.

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20. Related parties transactions, continued

	As at 31 December 2006	As at 31 December 2005
Trade and other receivables		
USJE Cementarnica A.D. FYROM	-	1.815
Zlatna Panega-Bulgaria	35.559	18.019
	35.559	19.834
Trade and other payables		
TITHYS Ltd, Cyprus	1.867	5.546
	1.867	5.546

Contingencies, financial and operating risks

Market risk

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

Currency risk

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

Credit risk

The extent of the Company's credit exposure is represented by the aggregate balance of trade and other receivables (as they appear on the balance sheet). The Company's accounts receivable are reasonably diversified among its customers.

Taxation

The periods that remain open to review by the tax and customs authorities with respect to tax liabilities is for the last five years.

Environmental matters

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

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20. Related parties transactions, continued

Environmental tax

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

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

Operating environment of the Company

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

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

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