

GRANITOID AD

FINANCIAL STATEMENTS

31 December 2006

GRANITOID AD

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GRANITOID AD

General Information

Directors

Alexander Chakmakov

Registered office

Batanovtsy, Pernik region

Solicitors

Pencov & Markov

Futecova, Hristova & Tomeshkova

Alexander Sazdov

Bankers

UBB Pernik

Alfabank Sofia

Postbank Pernik

Auditors

Ernst & Young Audit OOD

GRANITOID AD
DIRECTORS' REPORT

For the year ended 31 December 2006

(All amounts in EUR thousand unless otherwise stated)

DIRECTORS' REPORT

The Directors of Granitoid AD (the Company) present the annual report and the financial statements of the Company for the year ended 31 December 2006, prepared in accordance with the International Financial Reporting Standards (IFRS), as adopted by the European Union. These financial statements have been audited by Ernst&Young Audit OOD.

BUSINESS DESCRIPTION

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 2006 is negative. The loss amounts to EUR 297 thousand, the budgeted result being loss of EUR 190 thousand.

Dividends and profit distribution

The Annual general meeting of the shareholders was held on 12 May 2006, but no profit distribution for 2005 has been decided.

The Annual general meeting of the shareholders, at which an operating review for the year 2006 will be performed, will be held in April 2007.

Share capital structure

Shareholders	Percentage	Number of shares	Nominal value per share (EUR thousands)
REA Cement Ltd., Cyprus	91.26%	550,567	281
Zlatna Panega Cement AD	8.41%	50,764	26
MRRB	0.06%	350	-
Individuals	0.27%	1,646	1
	100%	603,327	308

OBJECTIVES OF THE COMPANY FOR 2007

The Directors have set the following objectives for the year 2007:

- 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.

GRANITOID AD
DIRECTORS' REPORT

For the year ended 31 December 2006

(All amounts in EUR thousand unless otherwise stated)

CORPORATE GOVERNANCE

In accordance with the Commercial legislation in Bulgaria, as at 31 December 2006 Granitoid AD is a joint stock company with a one-tier system of corporate management.

The Board of Directors of the Company as at 31 December 2006 consists of:

1. Alexander Nakov Chakmakov
2. Mihail Panayotis Sigalas
3. Georgios Angelos Moskopulos
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 2006.

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
31 January 2007

INDEPENDENT AUDITORS' REPORT TO THE SHAREHOLDERS OF GRANITOID AD

We have audited the accompanying financial statements of Granitoid AD (the Company), which comprise the balance sheet as of 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.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with International Financial Reporting Standards, as endorsed by the European Union (EU). 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.

Auditors' Responsibility

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 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 auditors' 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 management, as well as evaluating the overall presentation of the financial statements.

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 the Company 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 endorsed by the EU.



Ernst & Young Audit OOD
Sofia, Bulgaria

1 February 2007

GRANITOID AD
INCOME STATEMENT

For the year ended 31 December 2006

(All amounts in EUR thousand unless otherwise stated)

	Notes	2006	2005
Sale of non-current assets	3.1	334	3,778
Cost of non-current assets sold	3.2	(44)	(1,693)
Profit from sale of non-current assets		290	2,085
Other income	3.7	53	296
Administrative expenses	3.3	(159)	(234)
Other expenses	3.4	(480)	(172)
Operating (loss) / profit		(296)	1,975
Finance revenue	3.8	2	7
Finance costs	3.9	(3)	(60)
(Loss) / Profit before tax		(297)	1,922
Income tax expense	4	-	(49)
(Loss) / Profit for the year		(297)	1,873

Alexander Chakmakov
Executive Director

The accompanying notes to the financial statements on pages 6 to 30 form an integral part of these financial statements.

GRANITOID AD
BALANCE SHEET
As of 31 December 2006

(All amounts in EUR thousand unless otherwise stated)

	<u>Notes</u>	<u>2006</u>	<u>2005</u>
ASSETS			
Non-current assets			
Property, plant and equipment	5.1	174	235
Intangible assets	7	2	4
		<u>176</u>	<u>239</u>
Current assets			
Trade and other receivables	8	378	311
Receivables from related parties	13	1	1
Deferred expenses		5	4
Non-current assets held for sale	5.2	9	-
Cash and short-term deposits	9	23	287
		<u>416</u>	<u>603</u>
TOTAL ASSETS		<u>592</u>	<u>842</u>
EQUITY AND LIABILITIES			
Equity			
Issued capital	10.1	19,117	19,117
Legal reserve	10.2	62	62
Accumulated loss		(19,037)	(18,740)
Total equity		<u>142</u>	<u>439</u>
Current liabilities			
Trade and other payables	11	369	378
Payables to related parties	13	78	-
Income tax payable		-	23
Provisions	12	3	2
		<u>450</u>	<u>403</u>
Total liabilities		<u>450</u>	<u>403</u>
TOTAL EQUITY AND LIABILITIES		<u>592</u>	<u>842</u>

Alexander Chakmakov
Executive Director

The accompanying notes to the financial statements on pages 6 to 30 form an integral part of these financial statements.

GRANITOID AD
STATEMENT OF CHANGES IN EQUITY
For the year ended 31 December 2006

(All amounts in EUR thousand unless otherwise stated)

	Issued capital	Legal reserve	Accumulated loss	Total
	<u> </u>	<u> </u>	<u> </u>	<u> </u>
At 1 January 2005	19,117	62	(20,613)	(1,434)
Profit for the year	-	-	1,873	1,873
At 31 December 2005	19,117	62	(18,740)	439
At 1 January 2006	19,117	62	(18,740)	439
Loss for the year	-	-	(297)	(297)
At 31 December 2006	19,117	62	(19,037)	142

Alexander Chakmakov
Executive Director

The accompanying notes to the financial statements on pages 6 to 30 form an integral part of these financial statements.

GRANITOID AD
CASH FLOW STATEMENT
For the year ended 31 December 2006

(All amounts in EUR thousand unless otherwise stated)

	<u>Notes</u>	<u>2006</u>	<u>2005</u>
OPERATING ACTIVITIES			
Profit before tax			
Adjustments to reconcile profit before tax to net cash flows		(297)	1,
Non-cash:			
Depreciation and impairment of property, plant and equipment	5	8	66
Depreciation and impairment of investment properties	6	-	16
Amortisation of intangible assets	7	2	1
Profit on disposal of property, plant and equipment		(290)	(415)
Profit on disposal of investment properties		-	(1,
Movement in provision for other liabilities and charges		1	2
Interest income	3.8	(2)	(7)
Interest expense	3.9	1	58
Working capital adjustments:			
(Increase) / Decrease in trade and other receivables		(68)	94
Decrease in trade and other payables		(8)	(60)
Interest received		2	5
Interest paid		(1)	(58)
Income tax paid		(23)	(26)
Net cash flows used in operating activities		<u>(675)</u>	<u>(72)</u>
INVESTING ACTIVITIES			
Proceeds from sale of property, plant and equipment		334	1,
Proceeds from sale of investment properties		-	2,
Purchase of property, plant and equipment		-	(107)
Net cash flows from investing activities		<u>334</u>	<u>3,</u>
FINANCING ACTIVITIES			
Proceeds from borrowings		77	-
Repayment of borrowings		-	(3,
Net cash flows (used in) / from financing activities		<u>77</u>	<u>(3,</u>
Net increase / (decrease) in cash and cash equivalents		(264)	122
Cash and cash equivalents at 1 January		<u>287</u>	<u>165</u>
Cash and cash equivalents at 31 December	9	<u><u>23</u></u>	<u><u>287</u></u>

Alexander Chakmakov
Executive Director

The accompanying notes to the financial statements on pages 6 to 30 form an integral part of these financial statements.

GRANITOID AD
NOTES TO THE FINANCIAL STATEMENTS
As of 31 December 2006

(All amounts in EUR thousand unless otherwise stated)

1. Corporate information

The financial statements of Granitoid AD (the Company) for the year ended 31 December 2006 were authorized for issue in accordance with a resolution of the Board of Directors on 31 January 2007.

Granitoid AD is a joint stock company. The Company is incorporated and domiciled in Batanovci, Bulgaria with resolution of Pernik District Court 979/21 July 1993 and its fiscal year ends 31 December.

The principal activities of Granitoid AD include sale of real estate and movable property, and recultivation of terrains.

As of 31 December 2006 the Company is owned as follows:

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

The ultimate parent company is Titan Cement S.A., Greece.

2.1 Basis of preparation

The financial statements have been prepared on a historical cost basis. They are presented in euros (EUR) and all values are rounded to the nearest thousand (EUR thousand) except when otherwise indicated.

Statement of compliance

The financial statements of Granitoid AD have been prepared in accordance with International Financial Reporting Standards, as endorsed by the European Union (IFRS, as endorsed by the EU).

Going concern

The Company's financial statements have been prepared on a going concern basis.

The operations of the Company resulted in a significant loss for the period which may cast doubts as regards its ability to continue its activities as a going concern. The future viability of the Company depends upon the business environment as well as upon the continuing support of the existing and potential shareholders and providers of finance. The directors have analyzed the ability of Granitoid AD to continue operations in the future and have taken measures to strengthen its position by obtaining continuous financial support from the parent company and the ultimate parent company, Titan Cement S.A. Greece. The Company has been provided with a binding letter of support from the parent company REA Cement Limited, stating that adequate funds and full support would be provided to enable the Company to continue operations during the next twelve month period from the date the present financial statements were authorized for issue.

The directors, in light of their assessment of expected future cash flows and continued financial support from the parent entity believe that the Company will continue its operations and settle its obligations in the ordinary course of business, without substantial dispositions of assets, externally forced revisions of its operations or similar actions.

(All amounts in EUR thousand unless otherwise stated)

2.2 Changes in accounting policies

The accounting policies adopted are consistent with those of the previous financial year except as follows:

The Company has adopted the following new and amended IFRS and IFRIC interpretations during the year. Adoption of these revised standards and interpretations did not have any effect on the financial statements of the Company. They did however give rise to additional disclosures.

- IFRS 6 Exploration for and Evaluation of Mineral Resources
- IAS 19 Amendment—Employee Benefits
- IAS 21 Amendment—The Effects of Changes in Foreign Exchange Rates
- IAS 39 Amendments—Financial Instruments: Recognition and Measurement
- IFRIC 4 Determining whether an Arrangement contains a Lease
- IFRIC 5 Rights to Interests Arising from Decommissioning, Restoration and Environmental Rehabilitation Funds
- IFRIC 6 Liabilities arising from Participating in a Specific Market—Waste Electrical and Electronic Equipment

The principal effects of these changes are as follows:

IFRS 6 Exploration for and Evaluation of Mineral Resources

The Company adopted IFRS 6 as of 1 January 2006, which provides guidance for accounting for expenditures incurred in the exploration and evaluation of mineral resources. It is limited to considering the nature of such costs that may be capitalized as assets and the facts and circumstances which indicate when such assets may be impaired and the level at which impairment is assessed. This standard did not have an effect on the financial statements.

IAS 19 Employee Benefits

As of 1 January 2006, the Company adopted the amendments to IAS 19. As a result, additional disclosures are made providing information about trends in the liabilities in the defined benefit plan and the assumptions underlying the components of the defined benefit cost. As the Company does not report any defined benefit plans, this amendment has no impact on the financial statements.

IAS 21 The Effects of Changes in Foreign Exchange Rates

The Company adopted the amendment of IAS 21 as of 1 January 2006, which requires all exchange differences arising from a monetary item that forms part of the Company's net investment in a foreign operation are recognised in a separate component of equity in the consolidated financial statements regardless of the currency in which the monetary item is denominated. As the Company does not have any foreign subsidiaries, this amendment has had no impact on the financial statements.

IAS 39 Financial Instruments: Recognition and Measurement

Amendment for financial guarantee contracts (issued August 2005) – amended the scope of IAS 39 to require financial guarantee contracts that are not considered to be insurance contracts to be recognised initially at fair value and to be remeasured at the higher of the amount determined in accordance with IAS 37 Provisions, Contingent Liabilities and Contingent Assets and the amount initially recognised less, when appropriate, cumulative amortisation recognised in accordance with IAS 18 Revenue. This amendment did not have an effect on the financial statements.

Amendment for hedges of forecast intragroup transactions (issued April 2005) – amended IAS 39 to permit the foreign currency risk of a highly probable intragroup forecast transaction to qualify as the hedged item in a cash flow hedge, provided that the transaction is denominated in a currency other than the functional currency of the entity entering into that transaction and that the foreign currency risk will affect the consolidated income statement. As the Company currently has no such transactions, the amendment did not have an effect on the financial statements.

(All amounts in EUR thousand unless otherwise stated)

2.2 Changes in accounting policies (continued)

IAS 39 Financial Instruments: Recognition and Measurement (continued)

Amendment for the fair value option (issued June 2005) – amended IAS 39 to restrict the use of the option to designate any financial asset or any financial liability to be measured at fair value through the income statement. The Company had not previously used this option, hence the amendment did not have an effect on the financial statements.

IFRIC 4 Determining Whether an Arrangement contains a Lease

The Company adopted IFRIC Interpretation 4 as of 1 January 2006, which provides guidance in determining whether arrangements contain a lease to which lease accounting must be applied. This change in accounting policy has not had a significant impact on the Company as of 31 December 2006 or 31 December 2005.

IFRIC 5 Rights to Interests Arising from Decommissioning, Restoration and Environmental Rehabilitation Funds

The Company adopted IFRIC Interpretation 5 as of 1 January 2006, which establishes the accounting treatment for funds established to help finance decommissioning for a companies assets. As the Company does not currently operate in a country where such funds exist, this interpretation has had no impact on the financial statements.

IFRIC 6 Liabilities arising from Participating in a Specific Market – Waste Electrical and Electronic Equipment

The Company adopted IFRIC Interpretation 6 as of 1 January 2006, which established the recognition date for liabilities arising from the EU Directive relating to the disposal of Waste Electrical and Electronic Equipment. As the Company does not currently participate in such market, this interpretation has had no impact on the financial statements.

2.3 Significant accounting judgements, estimates and assumptions

In preparing the financial statements, management is required to make estimates and assumptions that affect reported income, expenses, assets, liabilities and disclosure of contingent assets and liabilities. Use of available information and application of judgment are inherent in the formation of estimates. Actual results in the future could differ from such estimates and the differences may be material to the financial statements. These estimates are reviewed on a regular basis and if a change is needed, it is accounted in the period the changes become known.

2.4 Summary of significant accounting policies

Foreign currency translation

The financial statements are presented in euros while the functional currency of the Company is Bulgarian Lev (BGN). The Company uses Euro as a presentation currency due to the requirement of the ultimate parent company which is the main user of the financial statements.

As at the reporting date, the assets, liabilities, equity, revenue and expenses of the Company are translated into the presentation currency at the fixed rate of BGN/EUR of 1.95583 (or EUR/BGN of 0.51129) quoted by the Bulgarian National Bank. BGN is pegged to the EUR at the exchange rate of 1.95583 as from 1 January 2002 (BGN was pegged to the DEM as from 1 July 1997, with the introduction of the Currency Board in Bulgaria).

Transactions in foreign currencies are initially recorded in the functional currency rate ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are retranslated on a monthly basis by applying the exchange rate published by the Bulgarian National Bank for the last working day of the respective month. All differences are taken to profit or loss. Non monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rate as at the dates of initial transactions.

(All amounts in EUR thousand unless otherwise stated)

2.4 Summary of significant accounting policies (continued)

Property, plant and equipment

Property, plant and equipment are stated at cost, excluding the costs of day to day servicing, less accumulated depreciation and accumulated impairment in value. Such cost includes the cost of replacing part of the property, plant and equipment when that cost is incurred, if the recognition criteria are met.

Depreciation is calculated on a straight line basis over the useful life of the assets.

When each major inspection is performed, its cost is recognised in the carrying amount of the property, plant and equipment as a replacement if the recognition criteria are satisfied.

An item of property, plant and equipment is derecognised upon disposal or when no future economic benefits are expected from its use or disposal. Any gain or loss arising on derecognition of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the asset) is included in the income statement in the year the asset is derecognised.

The asset's residual values, useful lives and methods of depreciation are reviewed, and adjusted if appropriate, at each financial year end.

Borrowing costs

Borrowing costs are recognised as an expense when incurred.

Investment properties

Investment properties are measured initially at cost, including transaction costs. The carrying amount includes the cost of replacing part of an existing investment property at the time that cost is incurred if the recognition criteria are met; and excludes the costs of day to day servicing of an investment property. Subsequent to initial recognition, investment properties are stated at cost, less accumulated depreciation and accumulated impairment in value.

Depreciation is calculated on a straight line basis over the useful life of the assets.

Investment properties are derecognised when either they have been disposed of or when the investment property is permanently withdrawn from use and no future economic benefit is expected from its disposal. Any gains or losses on the retirement or disposal of an investment property are recognised in the income statement in the year of retirement or disposal.

Transfers are made to investment property when, and only when, there is a change in use, evidenced by the end of owner occupation, commencement of an operating lease to another party or completion of construction or development. Transfers are made from investment property when, and only when, there is a change in use, evidenced by commencement of owner occupation or commencement of development with a view to sale.

(All amounts in EUR thousand unless otherwise stated)

2.4 Summary of significant accounting policies (continued)

Intangible assets

Intangible assets are measured on initial recognition at cost. Following initial recognition, intangible assets are carried at cost less any accumulated amortisation and any accumulated impairment losses.

The useful lives of intangible assets are assessed to be finite.

Intangible assets with finite lives are amortised over the useful economic life and assessed for impairment whenever there is an indication that the intangible asset may be impaired. The amortisation period and the amortisation method for an intangible asset with a finite useful life is reviewed at least at each financial year end. Changes in the expected useful life or the expected pattern of consumption of future economic benefits embodied in the asset is accounted for by changing the amortisation period or method, as appropriate, and treated as changes in accounting estimates. The amortisation expense on intangible assets with finite lives is recognised in the income statement in the expense category consistent with the function of the intangible asset.

Gains or losses arising from derecognition of an intangible asset are measured as the difference between the net disposal proceeds and the carrying amount of the asset and are recognised in the income statement when the asset is derecognised.

Impairment of non-financial assets

The Company assesses at each reporting date whether there is an indication that an asset may be impaired. If any such indication exists, or when annual impairment testing for an asset is required, the Company makes an estimate of the asset's recoverable amount. An asset's recoverable amount is the higher of an asset's or cash-generating unit's fair value less costs to sell and its value in use and is determined for an individual asset, unless the asset does not generate cash inflows that are largely independent of those from other assets or groups of assets. Where the carrying amount of an asset exceeds its recoverable amount, the asset is considered impaired and is written down to its recoverable amount. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. In determining fair value less costs to sell, an appropriate valuation model is used. These calculations are corroborated by valuation multiples or available fair value indicators.

Impairment losses of continuing operations are recognised in the income statement in those expense categories consistent with the function of the impaired asset.

For non-financial assets, an assessment is made at each reporting date as to whether there is any indication that previously recognised impairment losses may no longer exist or may have decreased. If such indication exists, the Company makes an estimate of recoverable amount. A previously recognised impairment loss is reversed only if there has been a change in the estimates used to determine the asset's recoverable amount since the last impairment loss was recognised. If that is the case the carrying amount of the asset is increased to its recoverable amount. That increased amount cannot exceed the carrying amount that would have been determined, net of depreciation, had no impairment loss been recognised for the asset in prior years. Such reversal is recognised in the income statement.

Financial assets

Financial assets within the scope of IAS 39 Financial Instruments: Recognition and Measurement are classified as either financial assets at fair value through profit or loss, loans and receivables, held to maturity investments, and available for sale financial assets, as appropriate. When financial assets are recognised initially, they are measured at fair value, plus, in the case of investments not at fair value through profit or loss, directly attributable transaction costs. The Company considers whether a contract contains an embedded derivative when the entity first becomes a party to it. The embedded derivatives are separated from the host contract which is not measured at fair value through profit or loss when the analysis shows that the economic characteristics and risks of embedded derivatives are not closely related to those of the host contract.

The Company determines the classification of its financial assets after initial recognition and, where allowed and appropriate, re-evaluates this designation at each financial year end.

(All amounts in EUR thousand unless otherwise stated)

2.4 Summary of significant accounting policies (continued)

Financial assets (continued)

All regular way purchases and sales of financial assets are recognised on the trade date, which is the date that the Company commits to purchase the asset. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the period generally established by regulation or convention in the marketplace.

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. After initial measurement loans and receivables are subsequently carried at amortised cost using the effective interest method less any allowance for impairment. Amortised cost is calculated taking into account any discount or premium on acquisition and includes fees that are an integral part of the effective interest rate and transaction costs. Gains and losses are recognised in the income statement when the loans and receivables are derecognised or impaired, as well as through the amortisation process.

Impairment of financial assets

The Company assesses at each balance sheet date whether a financial asset or group of financial assets is impaired.

Assets carried at amortised cost

If there is objective evidence that an impairment loss on loans and receivables carried at amortised cost has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future expected credit losses that have not been incurred) discounted at the financial asset's original effective interest rate (i.e. the effective interest rate computed at initial recognition). The carrying amount of the asset is reduced through use of an allowance account. The amount of the loss is recognised in profit or loss.

The Company first assesses whether objective evidence of impairment exists individually for financial assets that are individually significant, and individually or collectively for financial assets that are not individually significant. If it is determined that no objective evidence of impairment exists for an individually assessed financial asset, whether significant or not, the asset is included in a group of financial assets with similar credit risk characteristics and that group of financial assets is collectively assessed for impairment. Assets that are individually assessed for impairment and for which an impairment loss is or continues to be recognised are not included in a collective assessment of impairment.

If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised, the previously recognised impairment loss is reversed. Any subsequent reversal of an impairment loss is recognised in profit or loss, to the extent that the carrying value of the asset does not exceed its amortised cost at the reversal date.

In relation to trade receivables, a provision for impairment is made when there is objective evidence (such as the probability of insolvency or significant financial difficulties of the debtor) that the Company will not be able to collect all of the amounts due under the original terms of the invoice. The carrying amount of the receivable is reduced through use of an allowance account. Impaired debts are derecognised when they are assessed as uncollectible.

(All amounts in EUR thousand unless otherwise stated)

2.4 Summary of significant accounting policies (continued)

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 purpose of the cash flow statement, cash and cash equivalents consist of cash and short-term deposits as defined above.

Interest bearing loans and borrowings

All loans and borrowings are initially recognised at the fair value of the consideration received less directly attributable transaction costs.

After initial recognition, interest bearing loans and borrowings are subsequently measured at amortised cost using the effective interest method.

Gains and losses are recognised in the income statement when the liabilities are derecognised as well as through the amortisation process.

Derecognition of financial assets and liabilities

Financial assets

A financial asset (or, where applicable a part of a financial asset or part of a group of similar financial assets) is derecognised when:

- the rights to receive cash flows from the asset have expired;
- the Company retains the right to receive cash flows from the asset, but has assumed an obligation to pay them in full without material delay to a third party under a 'pass through' arrangement; or
- the Company has transferred its rights to receive cash flows from the asset and either (a) has transferred substantially all the risks and rewards of the asset, or (b) has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

Where the Company has transferred its rights to receive cash flows from an asset and has neither transferred nor retained substantially all the risks and rewards of the asset nor transferred control of the asset, the asset is recognised to the extent of the Company's continuing involvement in the asset. Continuing involvement that takes the form of a guarantee over the transferred asset is measured at the lower of the original carrying amount of the asset and the maximum amount of consideration that the Company could be required to repay.

Where continuing involvement takes the form of a written and/or purchased option (including a cash settled option or similar provision) on the transferred asset, the extent of the Company's continuing involvement is the amount of the transferred asset that the Company may repurchase, except that in the case of a written put option (including a cash settled option or similar provision) on an asset measured at fair value, the extent of the Company's continuing involvement is limited to the lower of the fair value of the transferred asset and the option exercise price.

Financial liabilities

A financial liability is derecognised when the obligation under the liability is discharged or cancelled or expires.

Where an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a derecognition of the original liability and the recognition of a new liability, and the difference in the respective carrying amounts is recognised in the income statement.

(All amounts in EUR thousand unless otherwise stated)

2.4 Summary of significant accounting policies (continued)

Provisions

General

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.

Leases

The determination of whether an arrangement is, or contains a lease is based on the substance of the arrangement at inception date of whether the fulfilment of the arrangement is dependent on the use of a specific asset or assets or the arrangement conveys a right to use the asset. A reassessment is made after inception of the lease only if one of the following applies:

- a) There is a change in contractual terms, other than a renewal or extension of the arrangement;
- b) A renewal option is exercised or extension granted, unless the term of the renewal or extension was initially included in the lease term;
- c) There is a change in the determination of whether fulfilment is dependant on a specified asset; or
- d) There is a substantial change to the asset.

Where a reassessment is made, lease accounting shall commence or cease from the date when the change in circumstances gave rise to the reassessment for scenarios a), c) or d) and at the date of renewal or extension period for scenario b).

For arrangements entered into prior to 1 January 2005, the date of inception is deemed to be 1 January 2005 in accordance with the transitional requirements of IFRIC 4.

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. Revenue is measured at the fair value of the consideration received, excluding discounts, rebates, and other sales taxes or duty. The following specific recognition criteria must also be met before revenue is recognised:

Sale of non-current assets

Revenue from the sale of non-current assets is recognised when the significant risks and rewards of ownership of the assets have passed to the buyer, usually on dispatch of the goods.

Rental income

Rental income arising from operating leases on investment properties is accounted for on a straight line basis over the lease terms.

(All amounts in EUR thousand unless otherwise stated)

2.4 Summary of significant accounting policies (continued)

Interest income

Revenue is recognised as interest accrues (using the effective interest method that is the rate that exactly discounts estimated future cash receipts through the expected life of the financial instrument to the net carrying amount of the financial asset).

Taxes

Current income tax

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

The Company benefits from a tax relief calculated as 30% of the corporate tax due as at the year end in accordance with the Law for Foreign Investments. The tax relief is unconditional and is accounted for as a decrease in the income tax expense for the year.

Deferred income tax

Deferred income tax is provided using the liability method on temporary differences at the balance sheet date between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes.

Deferred income tax liabilities are recognised for all taxable temporary differences, except where the deferred income tax liability arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss.

Deferred income tax assets are recognised for all deductible temporary differences, carry forward of unused tax credits and unused tax losses, to the extent that it is probable that taxable profit will be available against which the deductible temporary differences, and the carry forward of unused tax credits and unused tax losses can be utilised except where the deferred income tax asset relating to the deductible temporary difference arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss.

The carrying amount of deferred income tax assets is reviewed at each balance sheet date and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred income tax asset to be utilised. Unrecognised deferred income tax assets are reassessed at each balance sheet date and are recognised to the extent that it has become probable that future taxable profit will allow the deferred tax asset to be recovered.

Deferred income tax assets and liabilities are measured at the tax rates that are expected to apply to the year when the asset is realised or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted at the balance sheet date.

Deferred income tax assets and deferred income tax liabilities are offset, if a legally enforceable right exists to set off current tax assets against current income tax liabilities and the deferred income taxes relate to the same taxable entity and the same taxation authority.

Value added tax

Revenues, expenses and assets are recognised net of the amount of value added tax (VAT) except:

- where the VAT incurred on a purchase of assets or services is not recoverable from the taxation authority, in which case the VAT is recognised as part of the cost of acquisition of the asset or as part of the expense item as applicable; and
- receivables and payables that are stated with the amount of VAT included.

The net amount of VAT recoverable from, or payable to, the taxation authority is included as part of receivables or payables in the balance sheet.

(All amounts in EUR thousand unless otherwise stated)

2.5 Future changes in accounting policies

IFRSs and IFRIC Interpretations 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 2007 or later periods but which the Company has not early adopted, as follows:

IFRS 7 Financial Instruments: Disclosures and a complementary amendment to IAS 1 Presentation of Financial Statements – Capital Disclosures (effective from 1 January 2007).

IFRS 7 introduces new disclosures to improve the information about financial instruments. It requires the disclosure of qualitative and quantitative information about exposure to risks arising from financial instruments, including specified minimum disclosures about credit risk, liquidity risk and market risk, including sensitivity analysis to market risk. It replaces IAS 30, Disclosures in the Financial Statements of Banks and Similar Financial Institutions, and disclosure requirements in IAS 32, Financial Instruments: Disclosure and Presentation. It is applicable to all entities that report under IFRS. The amendment to IAS 1 introduces disclosures about the level of an entity's capital and how it manages capital. The Company assessed the impact of IFRS 7 and the amendment to IAS 1 and concluded that the main additional disclosures will be the sensitivity analysis to market risk and the capital disclosures required by the amendment of IAS 1. The Company will apply IFRS 7 and the amendment to IAS 1 from annual periods beginning 1 January 2007.

IFRS 8 Operating segments (effective from 1 January 2007).

IFRS 8 is not relevant for the Company's operations.

IFRIC 7 Applying the Restatement Approach under IAS 29 Financial Reporting in Hyperinflationary Economies (effective for financial years beginning on or after 1 March 2006).

IFRIC 7 is not relevant to the Company's operations.

IFRIC 8 Scope of IFRS 2 (effective for financial years beginning on or after 1 May 2006).

IFRIC 8 is not relevant to the Company's operations.

IFRIC 9 Reassessment of Embedded Derivatives (effective for financial years beginning on or after 1 June 2006).

IFRIC 9 is not relevant to the Company's operations.

IFRIC 10 Interim Reporting and Impairment (effective for financial years beginning on or after 1 November 2006).

IFRIC 10 addresses the inconsistency between IAS 34 Interim Financial Reporting and the impairment requirements relating to goodwill in IAS 36 Impairment of Assets and equity instruments classified as available for sale in IAS 39 Financial Instruments: Recognition and Measurement. IFRIC 10 states that the specific requirements of IAS 36 and IAS 39 take precedence over the general requirements of IAS 34 and, therefore, any impairment loss recognised for these assets in an interim period may not be reversed in subsequent interim periods. Management is currently assessing the impact of IFRIC 10 on the Company's interim reporting.

IFRIC 11 IFRS 2 – Group and Treasury Share Transactions (effective from 1 March 2007).

IFRIC 11 is not relevant to the Company's operations.

IFRIC 12 Service Concession Agreements (effective from 1 January 2008).

IFRIC 12 is not relevant to the Company's operations.

The Company expects that adoption of the pronouncements listed above will have no impact on the Company's financial statements in the period of initial application.

GRANITOID AD
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As of 31 December 2006

(All amounts in EUR thousand unless otherwise stated)

3. Revenues and expenses

3.1 Sale of non-current assets

	<u>2006</u>	<u>2005</u>
Sale of property, plant and equipment	334	1,4
Sale of investment properties	<u>-</u>	<u>2,5</u>
	<u>334</u>	<u>3,9</u>

3.2 Cost of non-current assets sold

	<u>2006</u>	<u>2005</u>
Net book value of property, plant and equipment sold	44	1,0
Net book value of investment properties sold	<u>-</u>	<u>673</u>
	<u>44</u>	<u>1,0</u>

3.3 Administrative expenses

	<u>2006</u>	<u>2005</u>
Depreciation	(8)	(83)
Amortisation	(2)	-
Salaries and related expenses	(51)	(51)
Security	(29)	(29)
VAT, local and alternative taxes	(28)	(14)
Other expenses	(9)	(14)
Fuel, spare parts and other materials	(10)	(10)
Electricity	(8)	(10)
Telephone and courier	(9)	(10)
Insurance	-	(8)
Professional services	<u>(5)</u>	<u>(5)</u>
	<u>(159)</u>	<u>(234)</u>

GRANITOID AD
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3. Revenues and expenses (continued)

3.4 Other expenses

	<u>2006</u>	<u>2005</u>
Expenses for recultivation of terrains	(427)	(143)
Expenses for tax penalties	(26)	-
Expenses for unrecognized VAT credit	(27)	-
Expenses for extraction and transportation of slag and clinker	-	(29)
	<u>(480)</u>	<u>(172)</u>

3.5 Expenses by nature

	<u>2006</u>	<u>2005</u>
Materials	(13)	(19)
Hired services	(507)	(229)
Depreciation	(8)	(83)
Amortisation	(2)	-
VAT, local and alternative taxes	(31)	(14)
Employee benefits expense (note 3.6)	(51)	(51)
Other	(27)	(10)
Total cost of sales, selling and distribution, administrative and other expenses	<u>(639)</u>	<u>(406)</u>

3.6 Employee benefits expense

	<u>2006</u>	<u>2005</u>
Wages and salaries	(45)	(43)
Social security costs	(6)	(8)
	<u>(51)</u>	<u>(51)</u>

3.7 Other income

	<u>2006</u>	<u>2005</u>
Rental income	-	217
Sale of materials and scrap	24	72
Other	29	7
	<u>53</u>	<u>296</u>

GRANITOID AD
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3. Revenues and expenses (continued)

3.8 Finance revenue

	<u>2006</u>	<u>2005</u>
Interest income	<u>2</u>	<u>7</u>
	<u>2</u>	<u>7</u>

3.9 Finance costs

	<u>2006</u>	<u>2005</u>
Interest expense	(1)	(58)
Other	<u>(2)</u>	<u>(2)</u>
	<u>(3)</u>	<u>(60)</u>

4. Income tax

The major components of income tax expense for the years ended 31 December 2006 and 2005 are:

	<u>2006</u>	<u>2005</u>
Current income tax charge	<u>-</u>	<u>(49)</u>
Income tax expense reported in the income statement	<u>-</u>	<u>(49)</u>

In 2006 the nominal statutory effective tax rate is 15% (2005: 15%). For 2007 the nominal statutory effective tax rate is 10%.

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4. Income tax (continued)

A reconciliation between income tax expense and the product of accounting profit multiplied by the statutory tax rate for the years ended 31 December 2006 and 2005 is as follows:

	<u>2006</u>	<u>2005</u>
Accounting profit before income tax	<u>(297)</u>	<u>1,922</u>
Income tax expense at the statutory tax rate of 15% for 2006 (2005: 15%)	45	(288)
Expenses not deductible for tax purposes	-	(14)
Revenue not subject to tax	-	15
Unused tax losses	(45)	-
Utilization of previously unrecognised tax losses	<u>-</u>	<u>238</u>
Income tax expense	<u><u>-</u></u>	<u><u>(49)</u></u>

The Company has been last audited by the tax authorities for compliance with the following tax laws:

- Corporate income tax – until 31 December 2004;
- VAT – until 30 April 2006;
- Personal income tax – until 31 December 2004;
- Social security contributions – until 31 December 2004;
- Local taxes and fees – until 31 December 2002;

Except as mentioned above, the directors do not believe that, as of 31 December 2006, any material matters exist relating to the evolving fiscal and regulatory environment in the country, which would require adjustment to the accompanying financial statements.

The Company has incurred tax losses as follows,

<u>Tax period</u>	<u>Period of availability for tax relief</u>	<u>2006</u>	<u>2005</u>
2006	2007 through 2011	<u>263</u>	<u>-</u>
Total tax loss carried forward		263	-
Income tax rate		<u>10%</u>	<u>15%</u>
Deferred income tax asset not recognized		<u>26</u>	<u>-</u>

These losses can be carried forward as relief against future taxable profits. However, since the amounts and timing of future taxable income cannot be estimated reliably due to the uncertainties of the economic environment of the Company, no deferred tax asset has been recognized for the tax losses carried forward as of 31 December 2006.

GRANITOID AD
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(All amounts in EUR thousand unless otherwise stated)

5.1 Property, plant and equipment

	<u>Land and buildings</u>	<u>Plant and machinery</u>	<u>Vehicles</u>	<u>Furniture and fittings</u>	<u>Assets under construction</u>	<u>Total</u>
Cost:						
At 1 January 2005	273	554	1,633	16	3	2,479
Additions	92	15	-	-	-	107
Disposals	(7)	(34)	(1,629)	(11)	(3)	(1,684)
At 31 December 2005	358	535	4	5	-	902
Additions						
Transfers						
Disposals	(100)	(285)	-	-	-	(385)
At 31 December 2006	258	250	4	5	-	517
Depreciation and impairment:						
At 1 January 2005	148	534	570	10	3	1,265
Depreciation charge for the year	5	3	57	1	-	66
Disposals	(2)	(29)	(623)	(7)	(3)	(664)
At 31 December 2005	151	508	4	4	-	667
Depreciation charge for the year	5	2	-	1	-	8
Disposals	(47)	(285)	-	-	-	(332)
At 31 December 2006	109	225	4	5	-	343
Net book value:						
At 31 December 2006	149	25	-	-	-	174
At 31 December 2005	207	27	-	1	-	235
At 1 January 2005	125	20	1,063	6	-	1,214

Impairment of property, plant and equipment

The management has performed an impairment review of property, plant and equipment and considered that there were no indications that the assets' carrying amounts might exceed their recoverable amounts.

GRANITOID AD
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(All amounts in EUR thousand unless otherwise stated)

5.1 Property, plant and equipment (continued)

Useful lives

The useful lives of the assets are estimated as follows:

	<u>2006</u>	<u>2005</u>
Buildings	4 to 25 years	4 to 25 years
Plant and machinery	2 to 25 years	2 to 25 years
Vehicles	5 to 15 years	5 to 15 years
Furniture and fittings	5 to 7 years	5 to 7 years

5.2 Non-current assets held for sale

As of 31 December 2006 the Company reports non-current assets held for sale of EUR 9 thousand (2005: Nil). They include land plots. According to the Board of Directors decision, the management committed to sell the land and concluded preliminary sale agreements with customers as of 31 December 2006. The land is expected to be sold by the end of 2007. The fair value less costs to sell does not exceed the carrying amount of land held for sale as of 31 December 2006.

6. Investment properties

	<u>2006</u>	<u>2005</u>
Cost:		
At 1 January	-	872
Additions	-	-
Disposals	-	(872)
At 31 December	<u>-</u>	<u>-</u>
Depreciation and impairment:		
At 1 January	-	183
Depreciation charge for the year	-	16
Disposals	-	(199)
At 31 December	<u>-</u>	<u>-</u>
Net book value:		
At 1 January	<u>-</u>	<u>689</u>
At 31 December	<u>-</u>	<u>-</u>

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6. Investment properties (continued)

Useful lives

The useful lives of the assets are estimated as follows:

	<u>2006</u>	<u>2005</u>
Buildings	-	4 to 25 years

7. Intangible assets

	<u>Computer software</u>	<u>Total</u>
Cost:		
At 1 January 2005	8	8
Additions	-	-
Disposals	-	-
At 31 December 2005	<u>8</u>	<u>8</u>
Additions	-	-
Disposals	-	-
At 31 December 2006	<u>8</u>	<u>8</u>
Amortisation and impairment:		
At 1 January 2005	3	3
Amortisation charge for the year	1	1
Disposals	-	-
At 31 December 2005	<u>4</u>	<u>4</u>
Amortisation charge for the year	2	2
Disposals	-	-
At 31 December 2006	<u>6</u>	<u>6</u>
Net book value:		
At 31 December 2006	<u>2</u>	<u>2</u>
At 31 December 2005	<u>4</u>	<u>4</u>
At 1 January 2005	<u>5</u>	<u>5</u>

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7. Intangible assets (continued)

Impairment of intangible assets

The management has performed an impairment review of intangible assets and considered that there were no indications that the assets' carrying amounts might exceed their recoverable amounts.

Useful lives

The useful lives of the assets are estimated as follows:

	<u>2006</u>	<u>2005</u>
Computer software	5 years	5 years

8. Trade and other receivables

	<u>2006</u>	<u>2005</u>
<i>Trade receivables, gross</i>	319	315
<i>Less: Provision for impairment</i>	(25)	(25)
Trade receivables, net	<u>294</u>	<u>290</u>
Taxes refundable	2	17
Deposit for bank guarantee	77	
Other receivables	<u>5</u>	<u>4</u>
	<u>378</u>	<u>311</u>

Trade receivables are non-interest bearing and are generally on 1 - 30 days' terms.

9. Cash and short-term deposits

	<u>2006</u>	<u>2005</u>
Cash at bank	21	56
Cash in hand	2	1
Short-term deposits	<u>-</u>	<u>230</u>
	<u>23</u>	<u>287</u>

Cash at bank earns interest at floating rates based on daily bank deposit rates. As of 31 December 2006 the fair value of cash is EUR 23 thousand (2005: EUR 287 thousand).

GRANITOID AD
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10. Issued capital and reserves

10.1 Issued capital

	<u>2006</u>	<u>2005</u>
Ordinary shares of EUR 0.51 each, as per court registration	308	308
Hyperinflation adjustment	<u>18,809</u>	<u>18,809</u>
	<u>19,117</u>	<u>19,117</u>

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 represents the effect of hyperinflation of the share capital from its nominal and legally registered value of EURO 308 thousand to EURO 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.

	<u>Number of ordinary shares (thousands)</u>	<u>Authorised capital</u>
At 1 January 2005	603	308
At 1 January 2006	<u>603</u>	<u>308</u>
At 31 December 2006	<u>603</u>	<u>308</u>

All ordinary shares issued were fully paid.

10.2 Reserves

Legal reserve

Legal reserves are formed as per article 246 of the Bulgarian Commercial Act stipulating reserve requirements for joint stock companies such as Granitoid AD. Legal reserves are required to equal one-tenth of the authorized capital. The source of the legal reserves comes from not less than one-tenth of earnings, premiums on share or debenture issues and other sources established by the articles of association of a company or the general meeting of its shareholders. The legal reserves can only be used to offset current year and prior year losses.

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11. Trade and other payables

	<u>2006</u>	<u>2005</u>
Trade payables	306	301
Unused paid leave	5	4
Payables to personnel	3	3
Social security	1	1
Payroll taxes	1	-
VAT payable	4	-
Other taxes	2	1
Accrued expenses and liabilities	27	65
Deferred income	20	3
	<u>369</u>	<u>378</u>

Terms and conditions of the financial liabilities, set out in the table above, are as follows:

- Trade payables are non-interest bearing and are normally settled on 30 day terms;
- Tax payables are non-interest bearing and are paid within the deadlines of the legislation
- Other payables are non-interest bearing and have an average term of 30 days.

12. Provisions

	<u>Provision for other liabilities and charges</u>
At 1 January 2006	2
Arising during the year	<u>1</u>
At 31 December 2006	<u><u>3</u></u>

The provision recognised for 2006 of EUR 1 thousand related to penalty interest on amounts due to a former employee of the Company, who initiated litigation against Granitoid AD, regarding professional illness. At the date the financial statements were authorized for issue, court case is in the Supreme Court of Appeal. The management believes that the outcome of the litigation will not lead to any significant additional liabilities exceeding the amount of the provision as of 31 December 2006.

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13. Related party disclosures

The ultimate parent

The ultimate parent of the Company is Titan Cement Company SA, incorporated in Greece.

Entity with controlling interest in the Company

Granitoid AD is controlled by REA Cement Limited, Cyprus, holding 91.26% of its shares.

Other related parties

Zlatna Panega Cement AD, Zlatna Panega Beton EOOD and Granitoid AD are related parties because they are under the common control of Titan Cement Company SA.

The following table provides the total amount of transactions, which have been entered into and the outstanding balances with related parties:

		<u>Sales to related parties</u>	<u>Purchases from related parties</u>	<u>Amounts owed from related parties</u>	<u>Amounts owed to related parties</u>
Sales / purchases from related party					
<i>Other related parties</i>					
Zlatna Panega Cement AD	2006	-	-	-	-
Zlatna Panega Cement AD	2005	3 237	-	-	-
Zlatna Panega Beton EOOD	2006	1	-	1	-
Zlatna Panega Beton EOOD	2005	732	-	1	-
	2006			<u>1</u>	<u>-</u>
	2005			<u>1</u>	<u>-</u>

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NOTES TO THE FINANCIAL STATEMENTS
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13. Related party disclosures (continued)

		<u>Interest received</u>	<u>Interest paid</u>	<u>Amounts owed from related parties</u>	<u>Amounts owed to related parties</u>
Loans from / to related party					
<i>Other related parties</i>					
Zlatna Panega Cement AD	2006	-	-	-	78
Zlatna Panega Cement AD	2005	-	-	-	-

Terms and conditions of transactions with related parties

The sales and purchases from related parties are made at normal market prices. Outstanding balances at year end are unsecured, interest free and settlement occurs in cash. There have been no guarantees provided or received for any related party receivables or payables. For the year ended 31 December 2006, the Company has not recorded any impairment of receivables relating to amounts owed by related parties (2005: Nil). This assessment is undertaken each financial year through examining the financial position of the related party and the market in which the related party operates.

Loans from related party

Zlatna Panega Cement AD

During the year, Granitoid AD has received a loan from its sole owner Zlatna Panega Cement AD in the amount of EUR 77 thousand (2005: Nil). It is intended to finance an issuance of bank guarantee to secure the tax liabilities in litigation. The loan is unsecured and is repayable on 30 Jun 2007. Interest is charged at Basic interest rate plus 2.5% spread.

Compensation of key management personnel

	<u>2006</u>	<u>2005</u>
Short-term employee benefits	<u>19</u>	<u>18</u>
	<u>19</u>	<u>18</u>

(All amounts in EUR thousand unless otherwise stated)

14. Commitments and contingencies

Capital commitments

As of 31 December 2006, the Company had no capital commitments.

Legal claims

As a result of tax audit, the tax authorities issued tax assessment act №683/26.08.2004 which concluded that VAT credit of EUR 102 thousand should not be subject to refund. After the first instance appeal before the Tax Authorities Office, the assessed tax liability was decreased to EUR 61 thousand. The following appeal in Sofia City Court resulted in a further decrease of the assessed tax liabilities to EUR 52 thousand. However, the tax authorities appealed against the decision of the Sofia City Court before the Supreme Administrative Court. The latter has not yet taken decision on the case.

Except as the above mentioned claim, that was fully provided, the management does not foresee any other significant legal claims.

Guarantees

The Company has deposited a guarantee of EUR 77 thousand (2005: EUR 77 thousand) related to a litigation with the tax authorities regarding tax assessment act issued in 2004. The guarantee has been issued by Bulgarian Post Bank and is valid till 22.05.2007.

15. Financial risk management objectives and policies

The Company's principal financial instruments comprise loans and trade payables. The main purpose of these financial instruments is to raise finance for the Company's operations. The Company has various financial assets such as trade receivables and cash, which arise directly from its operations.

The main risks arising from the Company's financial instruments are cash flow interest rate risk, liquidity risk, foreign currency risk and credit risk. The management reviews and agrees policies for managing each of these risks which are summarised below.

Interest rate risk

The Company does not have any significant interest-bearing assets and/or liabilities. Therefore, it is not exposed to significant interest rate risks.

Liquidity risk

Prudent liquidity risk management implies maintaining sufficient cash, availability of funding through an adequate amount of committed credit facilities. The liquidity risk is addressed by continuing support of the parent company through disbursement of loans.

Foreign exchange risk

The Company operates in Bulgaria and executes transactions in Bulgarian leva mainly. Therefore, it is not exposed to significant foreign exchange risks.

(All amounts in EUR thousand unless otherwise stated)

15. Financial risk management objectives and policies (continued)

Credit risk

The Company trades only with recognised, creditworthy third parties. It is the Company's policy that all customers who wish to trade on credit terms are subject to credit verification procedures. In addition, receivable balances are monitored on an ongoing basis with the result that the Company's exposure to bad debts is not significant.

With respect to credit risk arising from the other financial assets of the Company, which comprise, and other financial assets, the Company's exposure to credit risk arises from default of the counterparty, with a maximum exposure equal to the carrying amount of these instruments.

16. Financial instruments

Fair values

Fair value is the amount at which a financial instrument may be exchanged or settled in an arm's length transaction as best proof of its market value in an active market.

The estimated fair value of the financial instruments is determined by the Company on the basis of available market information, if any, or proper valuation models. When the management uses available market information to determine the financial instruments' fair value, the market information might not completely reflect the value at which these instruments may be actually realized.

The management of Granitoid AD believes that the fair value of financial instruments comprising cash items, trade and other receivables, trade and other payables, payables to and receivables from related parties does not differ significantly from their current carrying amounts, especially when they are short-term in nature or their interest rates are changing in line with the change in the current market conditions.

Interest rate risk

The following table sets out the carrying amount, by maturity, of the Company's financial instruments that are exposed to interest rate risk:

Year ended 31 December 2006

	Within 1 year	1 – 2 years	2-3 years	3-4 years	4-5 years	More than 5 years	Total
<i>Floating rate</i>							
Cash assets	23	-	-	-	-	-	23
Loans received from related party	78	-	-	-	-	-	78

Year ended 31 December 2005

	Within 1 year	1 – 2 years	2-3 years	3-4 years	4-5 years	More than 5 years	Total
<i>Floating rate</i>							
Cash assets	287	-	-	-	-	-	287

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(All amounts in EUR thousand unless otherwise stated)

16. Financial instruments (continued)

Credit risk

There are no significant concentrations of credit risk within the Company.

17. Events after the balance sheet date

No significant events have been identified after the balance sheet date that may influence the financial statements.