CEMENTARNICA "USJE" AD - SKOPJE

Financial Statements

31 December 2006

Contents

GENERAL INFORMATION

Directors

Konstantinos Derdemezis

Registered office

Prvomajska bb
1000 Skopje

Solicitors

Lawyer Office Polenak - external lawyer
Lawyer Office Dimitrov - external lawyer

Bankers

Komercijalna Banka AD - Skopje
Stopanska Banka AD - Skopje
Tutunska Banka AD - Skopje
Alfa Bank AD - Skopje

Auditors

Ernst & Young Certified Auditors Ltd.
Marshall Tito 19
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INDEPENDENT AUDITORS' REPORT

To the Board of Directors of Cementarnica "USJE" AD - Skopje

We have audited the accompanying financial statements of Cementarnica "USJE" AD - Skopje ("the Company") and the consolidated financial statements of Cementarnica "USJE" AD - Skopje and its subsidiary (together "the Group"), which comprise the Company's and the Group's balance sheets as at 31 December 2006 and the income statements, statements of the changes in equity and cash flows statements 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 Macedonian accounting regulation. 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 responsible 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' judgement, 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 for the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the 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 Company's financial statements and the Group's consolidated financial statements present fairly, in all material respects, the financial position of the Company and of the Group as of 31 December 2006 and the results of the operations and cash flows for the Company and for the Group for the year then ended in accordance with Macedonian accounting regulation.

Without qualifying our opinion, we draw your attention to Note 2.1 to the financial statements, which defines the basis of preparation of the Company's and the Group's financial statements. The legal financial reporting framework in Macedonia is specified in the Macedonian Company Act based on which companies should present their annual financial statements. This Act states that the financial statements should be prepared in accordance with the International Accounting Standards (IAS), which are updated on an annual basis, so as to be harmonized with the current standards as revised, amended or adopted by the International Accounting Standards Board and as officially translated into the Macedonia language, approved by the Ministry of Finance and published in the State Gazette. As of the date these financial statements were authorized for issuance by the Company's and Group's management, the IFRS, as endorsed by the EU were neither updated nor translated and published accordingly. The local practice is continuing to evolve. The Group and the Company have chosen however to present its financial statements in accordance with officially translated and published IAS and IFRS into the Macedonian language.

Ernst & Young

Ernst & Young Certified Auditors Ltd.
Skopje, 26 February 2007

Друштво за ревизија, сметководствени и книговодствени консалтинг и услуги ЕРНСТ И ЈАНГ -ОВЛАСТЕНИ РЕВИЗОРИ ДООЕЛ * СКОПЈЕ *

INCOME STATEMENT
For the year ended 31 December 2006

	Notes	Consolidated 2006 MKD'000	Consolidated 2005 MKD'000	Company 2006 MKD'000	Company 2005 MKD'000
Sales	3a	4.498.242	4.169.928	4.498.242	4.169.928
Cost of sales	3b	(2.470.562)	(2.352.818)	(2.470.562)	(2.352.818)
Gross profit		**2.027.680**	**1.817.110**	**2.027.680**	**1.817.110**
Other operating income	3c	26.091	34.657	26.091	34.657
Other operating expenses	3d	(92.766)	(27.317)	(92.756)	(27.317)
Selling and marketing expenses	3e	(42.148)	(59.070)	(42.026)	(59.070)
Administrative expenses	3f	(234.888)	(219.607)	(234.658)	(219.607)
Profit from operating activities		**1.683.969**	**1.545.773**	**1.684.331**	**1.545.773**
Net finance income	3g	278.973	13.084	278.921	13.084
Net profit before income tax		**1.962.942**	**1.558.857**	**1.963.252**	**1.558.857**
Income tax expense	4	251.237	209.845	251.237	209.845
Profit for the year		**1.711.705**	**1.349.012**	**1.712.015**	**1.349.012**

	Consolidated 2006	Consolidated 2005
Attributable to:		
Equity holders of the parent	1.711.813	1.349.012
Minority interest	(108)	-
	1.711.705	**1.349.012**

The accompanying notes form an integral part of these financial statements

BALANCE SHEET
at 31 December 2006

	Notes	Consolidated 2006 MKD'000	Consolidated 2005 MKD'000	Company 2006 MKD'000	Company 2005 MKD'000
ASSETS					
Non-current assets					
Property, plant and equipment	5	2.020.378	1.913.209	2.007.731	1.913.209
Investment properties		789	-	789	-
Investments in subsidiary	6	-	-	12.330	-
Available-for-sale financial assets	7	-	250.469	-	250.469
		2.021.167	**2.163.678**	**2.020.850**	**2.163.678**
Current assets					
Inventories	8	852.022	728.270	852.022	728.270
Trade and other receivables	9	226.291	150.128	226.279	150.128
Trading investments		-	232	-	232
Cash and cash equivalents	10	2.464.723	1.212.226	2.458.687	1.212.226
		3.543.036	**2.090.856**	**3.536.988**	**2.090.856**
TOTAL ASSETS		**5.564.203**	**4.254.534**	**5.557.838**	**4.254.534**
EQUITY AND LIABILITIES					
Capital and reserves					
Share capital	11	1.747.730	1.747.730	1.747.730	1.747.730
Other reserves	12	631.861	804.955	631.888	804.955
Retained earnings		2.812.030	1.362.217	2.812.232	1.362.217
		5.191.621	**3.914.902**	**5.191.850**	**3.914.902**
Minority interest		6.516	-	-	-
Total equity		**5.198.137**	**3.914.902**	**5.191.850**	**3.914.902**
Non-current liabilities					
Provision for retirement benefits	13	**60.652**	**15.499**	**60.652**	**15.499**
Current liabilities					
Trade and other payables	14	269.880	297.533	269.802	297.533
Current portion of retirement benefit obligations	13	5.295	10	5.295	10
Income tax payable		30.239	26.590	30.239	26.590
		305.414	**324.133**	**305.336**	**324.133**
TOTAL EQUITY AND LIABILITIES		**5.564.203**	**4.254.534**	**5.557.838**	**4.254.534**

Signed on behalf of the Board of Directors on 26 February 2007

Konstantinos Derdemezis

Chief Executive Director

Цементарница "УСЈЕ" АД Скопје

Olivera Vasilkovska

Finance Manager

CASH FLOW STATEMENT
For the year ended 31 December 2006

	Note	Consolidated 2006 MKD'000	Consolidated 2005 MKD'000	Company 2006 MKD'000	Company 2005 MKD'000
Cash flow from operating activities					
Net profit before income taxes		1.962.942	1.558.857	1.963.252	1.558.857
Adjustments for:					
(Gain) on disposal of PP&E		(10.217)	(527)	(10.217)	(527)
(Gain) on disposal of AFSFA		(238.019)	-	(238.019)	-
Depreciation		202.647	192.546	202.647	192.546
Provision for retirement benefits		51.685	17.848	51.685	17.848
Fly ash written off		16.632	-	16.632	-
Bad debts collection		(6.592)	-	(6.592)	-
Interest income		(46.359)	(15.046)	(46.307)	(15.046)
Dividend income		(3.157)	(6.821)	(3.157)	(6.821)
Net loss relating to minority interest		108	-	-	-
Interest expense		6.389	4.908	6.389	4.908
Other provision		7.479	-	7.479	-
Operating profit before working capital changes		**1.943.538**	**1.751.765**	**1.943.792**	**1.751.765**
(Increase) / Decrease in trade and other receivables		(117.160)	43.012	(117.160)	43.012
(Increase) / Decrease in inventories		(92.795)	112.490	(92.783)	112.490
Decrease in trading investments		232	-	232	-
(Decrease) in provision for retirement benefits		(1.247)	-	(1.247)	-
(Decrease) / Increase in trade and other payables		(27.653)	139.434	(27.731)	139.434
Cash generated from operations		**1.704.915**	**2.046.701**	**1.705.103**	**2.046.701**
Interest expense paid		(6.389)	(4.908)	(6.389)	(4.908)
Income tax paid		(247.588)	(209.845)	(247.588)	(209.845)
Net cash flows generated from operations		**1.450.938**	**1.831.948**	**1.451.126**	**1.831.948**
Cash flows from investing activities					
Purchase of PP&E		(318.715)	(209.723)	(306.068)	(209.723)
Proceeds from sale of PP&E		10.848	1.845	10.848	1.845
Proceeds from sale of AFSFA		315.421	-	315.421	-
Interest income received		46.359	15.046	46.307	15.046
Minority interest		6.516	-	-	-
Dividends received		3.157	6.821	3.157	6.821
Net cash flows generated from / (used in) investing activities		**63.586**	**(186.011)**	**69.665**	**(186.011)**
Cash flows from financing activities					
Dividends paid to group shareholders		(248.562)	(1.048.172)	(248.562)	(1.048.172)
Dividends paid to minority shareholders		(13.438)	(57.028)	(13.438)	(57.028)
Investment in subsidiary		-	-	(12.330)	-
Net cash flows (used) in financing activities		**(262.000)**	**(1.105.200)**	**(274.330)**	**(1.105.200)**
Net increase in cash and cash equivalents		**1.252.524**	**540.737**	**1.246.461**	**540.737**
Net foreign exchange differences		(27)	-	-	-
Cash and cash equivalents at 1 January		1.212.226	671.489	1.212.226	671.489
Cash and cash equivalents at 31 December	10	**2.464.723**	**1.212.226**	**2.458.687**	**1.212.226**

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

	Share capital MKD'000	*Other reserves (note 12) MKD'000*	*Retained earnings MKD'000*	*Total MKD'000*	*Minority interest MKD'000*	*Total equity MKD'000*
At 1 January 2005	**1.747.730**	**623.971**	**1.118.405**	**3.490.106**	**-**	**3.490.106**
Dividends declared	-	-	(1.105.200)	(1.105.200)	-	(1.105.200)
Fair value gain on available-for-sale financial assets	-	180.984	-	180.984	-	180.984
Profit for the year	-	-	1.349.012	1.349.012	-	1.349.012
At 31 December 2005	**1.747.730**	**804.955**	**1.362.217**	**3.914.902**	**-**	**3.914.902**
Dividends declared	-	-	(262.000)	(262.000)	-	(262.000)
Fair value gain on available-for-sale financial assets	-	88.788	-	88.788	-	88.788
Realized gain on disposal of available-for-sale financial assets	-	(261.855)	-	(261.855)	-	(261.855)
Translation difference	-	(27)	-	(27)	-	(27)
Initial contribution	-	-	-	-	6.624	6.624
Profit/(loss) for the year	-	-	1.711.813	1.711.813	(108)	1.711.705
	1.747.730	**631.861**	**2.812.030**	**5.191.621**	**6.516**	**5.198.137**

COMPANY'S STATEMENT OF CHANGES IN EQUITY
For the year ended 31 December 2006

	Share capital	*Other reserves (note 12)*	*Retained earnings*	*Total*
	MKD'000	*MKD'000*	*MKD'000*	*MKD'000*
At 1 January 2005	**1.747.730**	**623.971**	**1.118.405**	**3.490.106**
Transfer	-	-	-	-
Dividends declared	-	-	(1.105.200)	(1.105.200)
Fair value gain on available-for-sale financial assets	-	180.984	-	180.984
Profit for the year	-	-	1.349.012	1.349.012
At 31 December 2005	**1.747.730**	**804.955**	**1.362.217**	**3.914.902**
Dividends declared	-	-	(262.000)	(262.000)
Fair value gain on available-for-sale financial assets	-	88.788	-	88.788
Realized gain on disposal of available-for-sale financial assets	-	(261.855)	-	(261.855)
Profit for the year	-	-	1.712.015	1.712.015
At 31 December 2006	**1.747.730**	**631.888**	**2.812.232**	**5.191.850**

NOTES TO THE FINANCIAL STATEMENTS
At 31 December 2006

1. Corporate information

Cementarnica "Usje" A.D. – Skopje ("the Company") is incorporated in the Republic of Macedonia with the registered address at Prvomajska bb, Skopje.

The Company's main activity is production and trade with cement, masonry cement, ready mix concrete, clinker and other related products. The main operation of the subsidiary are support services to the Group's sales in Kosovo.

The Company is controlled by Balkcem Limited registered in Cyprus, which has 94,84% shareholding in the Company.

The number of employees as of 31 December 2006 was 536.

The Company and the Group financial statements for the year ended 31 December 2006 have been approved for issue by the Board of Directors on 26 February 2007.

2.1 Basis of preparation

The consolidated financial statements of Cementarnica "Usje" A.D.- Skopje and its subsidiary ("the Group") and the financial statements of the Company have been prepared in accordance with the Company Law (Official Gazette 28/04 and 84/05) and Accounting Principles applicable in the Republic of Macedonia("Macedonian GAAP"), which comprise the following:

- The revisions of International Accounting Standards, IAS 1 to IAS 39 were published on 30 December 2004, previously effective as of 5 November 1999. The effective date for all revised standards is January 1, 2005. In addition, International Accounting Standards, IAS 40 and IAS 41 were published with the effective date 1 January 2005.
- On 10 February 2005 International Financial Reporting Standard 1 was published. The effective date was set to 17 February 2005.
- On 29 December 2005 International Financial Reporting Standards, IFRS 2 to IFRS 7 were published. The effective date was set to 30 December 2005.

The practice on which to draw opinion on the interpretations and application of the above Standards is still developing. Therefore, the Group's and the Company's financial statements prepared under Macedonian GAAP may differ in accounting and disclosure treatments to those as provided by the International Financial Reporting Standards endorsed by European Union.

The accounting polices adopted are consistent with those of the previous financial years and estimates made under the previous Macedonian GAAP have been made consistent with new/revised Standards mandatory for financial years beginning on or after 1 January 2006, where applicable. It was impracticable to apply particular requirements of new/revised Standards to comparative information that relates to annual periods beginning before 1 January 2006.

The Group's consolidated financial statements and the financial statements of the Company have been prepared on a historical cost basis, except for available-for-sale investments that have been measured at fair value. The consolidated financial statements and the Company's financial statements are presented in Macedonian Denars ("MKD") and all values are rounded to the nearest thousands ('000) except when otherwise indicated.

2.1 Basis of preparation (continued)

Basis of consolidation

The Company has one foreign subsidiary - Cement Plus for Building Materials, incorporated in Kosovo. The accompanying consolidated financial statements include the accounts of the Company and its subsidiary as at 31 December 2006 and 2005. The financial statements of the consolidated subsidiary are prepared for the same reporting year as the parent company, using consistent accounting policies.

All intra-group balances, transactions, income and expenses and profits and losses resulting from intra-group transactions that are recognized in assets, are eliminated in full. Subsidiary is fully consolidated from the date of acquisition, being the date on which the Group obtains control, and continue to be consolidated until the date that such control ceases.

Minority interests represent the portion of profit or loss and net assets not held by the Group and are presented separately in the income statement and within equity in the consolidated balance sheet, separately from parent shareholder's equity.

2.2 Summary of significant accounting policies

a. Foreign currency translation

The Group and the Company prepare the financial statements in Macedonian denars, which is the Group's and the Company's functional currency and the presentation currency for local statutory purposes. Each entity in the Group determines its own functional currency and items included in the financial statements in each entity are measured using that functional currency. Transactions in foreign currencies are initially recorded in the functional currency rate ruling at the date of transaction. Monetary and non-monetary assets and liabilities denominated in foreign currencies are retranslated at the functional currency rate of exchange ruling at the balance sheet date. All differences are taken to profit or loss.

The functional currency of the foreign operations, Cement Plus for Building Materials - Kosovo is the Euro. As of each reporting date, the assets and liabilities of this subsidiary are translated through conversion in euro into the presentation currency of Cementarnica "USJE" AD (the Macedonian Denars) at the rate of exchange ruling at the balance sheet date (2006: MKD EUR 61,1741 for Euro 1; 2005: n/a) and, its income statement is translated at the weighted average exchange rate for the year (2006: MKD 61,1760 for Euro 1; 2005: n/a). The exchange differences arising on the translation are taken directly to a separate component of equity. On disposal of a foreign entity, the deferred cumulative amount recognized in equity relating to that particular foreign operation is recognized in the income statement.

b. Investment in subsidiary

Subsidiaries are all entities over which the Company has the power to govern the financial and operating policies, generally accompanying a shareholding of more than one half of the voting rights. In the stand alone financial statements of the Company, investment in subsidiary is presented at cost less any impairment in value. Distributions received in excess of accumulated profits from the investee are regarded as a recovery of investment and are recognized as a reduction of the cost of the investment.

2.2 Summary of significant accounting policies (continued)

c. Property. plant and equipment

Property, plant and equipment is stated as follows:

- those assets acquired up to 31 December 1998, the revaluation under the previous GAAP at the date of transition of the Group to IFRS (1 January 2004) was accepted as deemed cost since the revaluation was broadly comparable to depreciated cost under IFRS adjusted to reflect changes in general price index.

- those assets acquired after 31 December 1998 are stated at historical cost less accumulated depreciation and any subsequent accumulated impairment loss.

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

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

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

Buildings	2,5 -10%
Equipment	5 - 25%

Land is stated in the balance sheet at cost less impairment and is not depreciated as it is deemed to have an infinite life, except quarries which are depreciated on a depletion basis.

d. Investment property

Investment property, principally comprising freehold office buildings, is held for long-term rental yields and is not occupied by the Group. Investment property is measured under cost model which means that it is carried at cost, less accumulated depreciation and impairment loss, if any, in accordance with IAS 16 requirements in respect of property, plant and equipment and IAS 36 regarding impairment. Transfer from inventory does not change the cost of the property.

e. Available-for-sale financial assets

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

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

2.2 Summary of significant accounting policies (continued)

e. Available-for-sale financial assets (continued)

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

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

f. Inventories

Inventories are stated at the lower of cost and net realisable value. Cost is determined by the weighted average method. The cost of finished goods and work in progress comprises raw materials, direct labor, other direct costs and related production overheads, excluding distribution costs and administrative expenses. Net realisable value is the estimated selling price in the ordinary course of business, less applicable variable selling expenses. Tools and consumable stores are written-off 100% when consumed.

g. Trade receivables

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

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.

h. Cash and cash equivalents

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

i. Share capital

Ordinary shares are classified as equity.

j. Trade payables

Trade payables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method.

2.2 Summary of significant accounting policies (continued)

k. Taxation

Current tax

Current tax assets and liabilities for the current and prior period are measured at the amounts expected to be recovered 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.

Deferred tax

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

Deferred tax liabilities are recognized for all taxable temporary differences, except:

- where the deferred tax liability arises from the initial recognition of the goodwill or of an asset or liability in a transaction that is not a business combination and, at the time of transaction, affects neither the accounting profit nor taxable profit or loss; and

- in respect of taxable temporary differences associated with investments in subsidiaries, associates and interest in join ventures, where the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future.

Deferred income tax assets are recognized 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 utilized 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 transaction, affects neither the accounting profit nor taxable profit or loss; and

- in respect of deductible temporary differences associated with investments in subsidiaries, associates and interest in join ventures, deferred tax assets are recognized only to the extent that is probable that the temporary differences will reverse in the foreseeable future and taxable profit will be available against which the temporary differences can be utilized.

2.2 Summary of significant accounting policies (continued)

k. Taxation (continued)

Sales tax

Revenues, expenses and assets are recognized net of the amount of sales tax except:

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

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

l. Employee benefits

Pension

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

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

Termination and retirement benefits

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

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

2.2 Summary of significant accounting policies (continued)

l. Employee benefits (continued)

Total number of Service Years	*Number of Wages*
10	1
20	3
30	3
35 (women)	3
40 (men)	3

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

m. Provisions

Provisions are recognised and calculated when the Group has a present legal or contractual obligation as a result of a past event, and when it is probable that an outflow of resources will be required to settle the obligation, and when a reliable estimate of the amount can be made.

n. Revenue recognition

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

Sales of goods

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

Interest income

The interest relates to trade receivables from construction and other firms are accounted for at the moment when the receivables are collected. And, the Interest relates to time deposit are accounted for at the expired date of time deposit.

Dividend income

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

o. Dividends distribution

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

2.2 Summary of significant accounting policies (continued)

p. Financial risk management

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

a) Credit risk

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

b) Market risk

Foreign exchange risk

The Group and the Company operates internationally and is exposed to foreign exchange risk arising from various currency exposures. To manage the foreign exchange risk the Group and the Company provides enough cash in foreign currencies held in banks in order to maintain its future commercial transactions.

Price risks

The Group is exposed to equity securities price risk because of available for sale investments held by the Group. The Group and the Company is not exposed to commodity price risk.

c) Liquidity risk

Prudent liquidity risk management implies maintaining sufficient cash and the availability of funding through an adequate amount of committed credit facilities.

d) Interest risk

The Group's and the Company's income and operating cash flows are substantially independent of changes in market interest rates.

Fair value estimation

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

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

3. Revenue and expenses

a. **Sales**

	Consolidated		*Company*	
	2006	*2005*	*2006*	*2005*
	MKD'000	*MKD'000*	*MKD'000*	*MKD'000*
Gross sales				
Domestic market	3.259.252	2.945.601	3.259.252	2.945.601
Foreign market	1.238.990	1.224.327	1.238.990	1.224.327
	4.498.242	**4.169.928**	**4.498.242**	**4.169.928**
Domestic market				
Income from cement	3.006.164	2.770.377	3.006.164	2.770.377
Income from RMC	111.522	65.906	111.522	65.906
Income from usjepor	56.078	50.662	56.078	50.662
Income from services	25.207	10.568	25.207	10.568
Income from palletising	32.523	30.782	32.523	30.782
Income from goods for resale	22.308	11.403	22.308	11.403
Income from sand	2.089	3.149	2.089	3.149
Other	3.361	2.754	3.361	2.754
	3.259.252	**2.945.601**	**3.259.252**	**2.945.601**
Foreign market				
Income from cement	720.457	732.665	720.457	732.665
Income from clinker	382.716	351.085	382.716	351.085
Income from petrol koks	111.869	122.380	111.869	122.380
Income from usjepor	14.215	12.559	14.215	12.559
Income from goods for resale	9.446	5.390	9.446	5.390
Income from services	139	248	139	248
Other	148	-	148	-
	1.238.990	**1.224.327**	**1.238.990**	**1.224.327**

3. Revenues and expenses (continued)

b. Cost of sales

	Consolidated		*Company*	
	2006	*2005*	*2006*	*2005*
	MKD'000	*MKD'000*	*MKD'000*	*MKD'000*
Energy	783.759	643.437	783.759	643.437
Cost of materials	398.831	329.023	398.831	329.023
Salaries and wages	313.285	308.004	313.285	308.004
Transportation services	221.731	221.404	221.731	221.404
Depreciation	191.400	179.383	191.400	179.383
Cost of merchandise sold	141.267	131.285	141.267	131.285
Consumption of tools and consumable stores	111.174	138.034	111.174	138.034
Spare parts	86.910	86.957	86.910	86.957
Maintenance	83.979	70.538	83.979	70.538
Compensation to employees	54.011	55.422	54.011	55.422
Inventories, net	12.324	123.008	12.324	123.008
Insurance premium	9.193	10.257	9.193	10.257
Travel expenses	3.969	4.432	3.969	4.432
Provision for inventories	4.241	3.200	4.241	3.200
Services as material costs	1.262	4.204	1.262	4.204
Cost of own products use and palletising	(59.647)	(47.023)	(59.647)	(47.023)
Staff leaving indemnities	-	5.452	-	5.452
Other services	107.199	82.306	107.199	82.306
Other expenses	5.674	3.495	5.674	3.495
	2.470.562	**2.352.818**	**2.470.562**	**2.352.818**

c. Other operating income

	Consolidated		*Company*	
	2006	*2005*	*2006*	*2005*
	MKD'000	*MKD'000*	*MKD'000*	*MKD'000*
Gain from sale of fixed assets	10.217	454	10.217	454
Collected written off receivables	6.592	21.280	6.592	21.280
Canteen	3.835	3.978	3.835	3.978
Other revenues from previous years	2.764	1.200	2.764	1.200
Rent income	1.217	636	1.217	636
Insurance claims	473	6.327	473	6.327
Other	993	782	993	782
	26.091	**34.657**	**26.091**	**34.657**

3. Revenues and expenses (continued)

d. Other operating expenses

	Consolidated 2006 MKD'000	Consolidated 2005 MKD'000	Company 2006 MKD'000	Company 2005 MKD'000
Provision for retirement benefits and jubilee rewards	51.685	17.848	51.685	17.848
Fly-ash write off	16.632	-	16.632	-
Staff leaving indemnities (including VELP)	8.500	-	8.500	-
Bad debts provision	-	4.439	-	4.439
Withholding tax	1.889	-	1.889	-
Expenses from previous years	1.842	1.295	1.842	1.295
Entertainment and advertising	1.423	-	1.423	-
Other	10.795	3.735	10.785	3.735
	92.766	**27.317**	**92.756**	**27.317**

e. Selling and marketing expenses

	Consolidated 2006 MKD'000	Consolidated 2005 MKD'000	Company 2006 MKD'000	Company 2005 MKD'000
Salaries and wages	15.026	15.665	15.026	15.665
Other services	11.963	18.023	11.963	18.023
Entertainment and advertising	1.329	7.007	1.329	7.007
Depreciation	3.922	4.169	3.922	4.169
Compensation to employees	3.411	3.563	3.411	3.563
Travel expenses	2.102	1.862	2.102	1.862
Cost of materials	1.077	1.126	1.077	1.126
Fair costs	344	557	344	557
Staff leaving indemnities	-	4.873	-	4.873
Other expenses	2.974	2.225	2.852	2.225
	42.148	**59.070**	**42.026**	**59.070**

3. Revenues and expenses (continued)

f. Administrative expenses

	Consolidated		*Company*	
	2006	*2005*	*2006*	*2005*
	MKD'000	*MKD'000*	*MKD'000*	*MKD'000*
Salaries and wages	41.047	43.046	41.047	43.046
Other services	24.875	20.470	24.875	20.470
Compensation to employees	10.146	11.163	10.146	11.163
Depreciation	7.325	8.994	7.325	8.994
Travel expenses	6.437	4.705	6.437	4.705
Cost of materials	3.331	2.159	3.331	2.159
Cost of energy	2.912	2.654	2.912	2.654
Transport services	1.502	1.664	1.502	1.664
Insurance premium	1.375	1.803	1.375	1.803
Entertainment and advertising	4.638	-	4.638	-
Other taxes and contributions	778	1.863	778	1.863
Consumption of tools and consumable stores	465	220	465	220
Maintenance	272	450	272	450
Technical fees	129.300	120.211	129.300	120.211
Other expenses	485	205	255	205
	234.888	**219.607**	**234.658**	**219.607**

g. Finance income, net

	Consolidated		*Company*	
	2006	*2005*	*2006*	*2005*
	MKD'000	*MKD'000*	*MKD'000*	*MKD'000*
Interest income	46.359	15.046	46.307	15.046
Dividend income	3.157	6.821	3.157	6.821
Interest expense	(6)	(28)	(6)	(28)
Net foreign exchange losses	(2.173)	(3.875)	(2.173)	(3.875)
Bank charges	(6.383)	(4.880)	(6.383)	(4.880)
Gain from sale of available-for-sale financial assets	238.019	-	238.019	-
	278.973	**13.084**	**278.921**	**13.084**

4. Income tax

A reconciliation of income tax expense applicable to profit from operating activities before income tax at the statutory income tax rate to Company's effective income tax rate for the period ended 31 December is as follows:

	Consolidated		*Company*	
	2006	*2005*	*2006*	*2005*
	MKD'000	*MKD'000*	*MKD'000*	*MKD'000*
Net profit before income tax	1.962.942	1.558.857	1.963.252	1.558.857
At statutory income tax rate of 15%	294.441	233.829	294.488	233.829
Tax on income not taxable for income tax purposes	(11.245)	(6.028)	(11.245)	(6.028)
Tax on expenses not deductible for income tax purposes	13.194	9.284	13.194	9.284
Tax relief on investment in fixed assets	(44.662)	(27.240)	(44.662)	(27.240)
Tax losses not recognized	47	-	-	-
Adjustment in respect to current income tax of previous periods	(538)	-	(538)	-
	251.237	**209.845**	**251.237**	**209.845**

The Group has tax losses which arose from its subsidiary, which according to income tax regulations in Kosovo are available to be set off against taxable profits. Deferred tax assets have not been recognized in respect of these losses as they may not be used to offset taxable profits elsewhere in the Group and they have been arisen from the subsidiary that have been loss-making for some time.

5. Property, plant and equipment

The Group **31 December 2006**	*Land and Buildings MKD'000*	*Equipment MKD'000*	*Construction in progress MKD'000*	*Total MKD'000*
Cost				
At 1 January 2006	2.772.201	3.606.878	13.942	6.393.021
Additions	102.674	71.824	144.217	318.715
Transfer from CIP	2.608	113.944	(116.552)	-
Reclassification	3.177	(3.177)	-	-
Reactivate business premises	(29.048)	-	-	(29.048)
Disposal	-	(9.458)	-	(9.458)
At 31 December 2006	**2.851.612**	**3.780.011**	**41.607**	**6.673.230**
Depreciation				
At 1 January 2006	1.911.519	2.568.293	-	4.479.812
Charge for the year	30.219	172.428	-	202.647
Transfer to investment property	(28.259)	-	-	(28.259)
Correction for previously classified assets held for sale	7.479	-	-	7.479
Disposal	-	(8.827)	-	(8.827)
At 31 December 2006	**1.920.958**	**2.731.894**	**-**	**4.652.852**
Net book value at 31 December 2006	**930.654**	**1.048.117**	**41.607**	**2.020.378**

The Company **31 December 2006**	*Land and Buildings MKD'000*	*Equipment MKD'000*	*Construction in progress MKD'000*	*Total MKD'000*
Cost				
At 1 January 2006	2.772.201	3.606.878	13.942	6.393.021
Additions	90.060	71.791	144.217	306.068
Transfer from CIP	2.608	113.944	(116.552)	-
Reclassification	3.177	(3.177)	-	-
Reactivate business premises	(29.048)	-	-	(29.048)
Disposal	-	(9.458)	-	(9.458)
At 31 December 2006	**2.838.998**	**3.779.978**	**41.607**	**6.660.583**
Depreciation				
At 1 January 2006	1.911.519	2.568.293	-	4.479.812
Charge for the year	30.219	172.428	-	202.647
Transfer to investment property	(28.259)	-	-	(28.259)
Correction for previously classified assets held for sale	7.479	-	-	7.479
Disposal	-	(8.827)	-	(8.827)
At 31 December 2006	**1.920.958**	**2.731.894**	**-**	**4.652.852**
Net book value at 31 December 2006	**918.040**	**1.048.084**	**41.607**	**2.007.731**

5. Property, plant and equipment (continued)

The Group and the Company 31 December 2005	*Land and Buildings MKD'000*	*Equipment MKD'000*	*Construction in progress MKD'000*	*Total MKD'000*
Cost				
At 1 January 2005	2.756.275	3.388.306	77.768	6.222.349
Additions	8.431	87.960	113.332	209.723
Transfer from CIP	7.152	170.006	(177.158)	-
Reclassification	343	(343)	-	-
Disposal	-	(39.051)	-	(39.051)
At 31 December 2005	**2.772.201**	**3.606.878**	**13.942**	**6.393.021**
Depreciation				
At 1 January 2005	1.880.659	2.444.340	-	4.324.999
Charge for the year	30.860	161.686	-	192.546
Disposal	-	(37.733)	-	(37.733)
At 31 December 2005	**1.911.519**	**2.568.293**	-	**4.479.812**
Net book value at 31 December 2005	**860.682**	**1.038.585**	**13.942**	**1.913.209**

6. Investments in subsidiary

Name and percentage holding	*Consolidated*		*Company*	
	2006 MKD'000	*2005 MKD'000*	*2006 MKD'000*	*2005 MKD'000*
Cement Plus LLC for buildings materials - Kosovo 65%	-	-	**12.330**	-

In July 2006, the Company established a new company in Kosovo. The new subsidiary is 65% owned by the Company.

7. Available-for-sale investments

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

	Consolidated		*Company*	
	2006	*2005*	*2006*	*2005*
	MKD'000	*MKD'000*	*MKD'000*	*MKD'000*
Komercijalna Banka AD - Skopje	-	248.339	-	248.339
Export Credit Banka AD - Skopje	-	1.994	-	1.994
Makedonska Banka AD - Skopje	-	81	-	81
Ohridska Banka AD - Ohrid	-	55	-	55
	-	**250.469**	**-**	**250.469**

At 31 December 2006, the Company had no available-for-sale financial assets as the assets were disposed of. Net unrealized gains reserves previously recorded in equity were recognized in the income statement.

8. Inventories

	Consolidated		*Company*	
	2006	*2005*	*2006*	*2005*
	MKD'000	*MKD'000*	*MKD'000*	*MKD'000*
Raw materials	377.708	269.440	377.708	269.440
Spare parts and supplies	267.813	240.374	267.813	240.374
Work in progress	88.252	92.873	88.252	92.873
Finished goods	75.341	83.044	75.341	83.044
Bags and pallets	31.984	34.224	31.984	34.224
Goods for resale	1.302	1.396	1.302	1.396
Tools and consumable stores	71	59	71	59
Prepayments for inventory purchase	9.551	6.860	9.551	6.860
	852.022	**728.270**	**852.022**	**728.270**

9. Trade and other receivables

	Consolidated		*Company*	
	2006	*2005*	*2006*	*2005*
	MKD'000	*MKD'000*	*MKD'000*	*MKD'000*
Trade debtors domestic	56.752	32.858	56.752	32.858
Trade debtors foreign	101.331	79.703	101.331	79.703
Advances to suppliers	1.468	278	1.468	278
Prepayments	64.172	33.698	64.172	33.698
Other receivables	2.568	3.591	2.556	3.591
	226.291	**150.128**	**226.279**	**150.128**

10. Cash and cash equivalents

	Consolidated		*Company*	
	2006	*2005*	*2006*	*2005*
	MKD'000	*MKD'000*	*MKD'000*	*MKD'000*
Short-term bank deposits	2.440.370	1.133.716	2.440.370	1.133.716
Cash at bank	24.318	78.472	18.282	78.472
Cash at hand	35	38	35	38
	2.464.723	**1.212.226**	**2.458.687**	**1.212.226**

Short-term bank deposits relate to time deposits up to one month in domestic and foreign currency and are placed in Stopanska banka AD - Skopje, Komercijalna banka AD - Skopje and Alfa Banka AD - Skopje.

The duration of deposits in domestic currency is month maturity at an interest rate of 4,9% p.a. The duration of deposits in foreign currency is one month at an interest rate of 2,9% p.a.

11. Share capital

The authorized, issued and fully paid share capital is:

The Group and the Company	*Number of shares*	*MKD '000*
Balkcem Limited - ordinary shares of MKD 3.100 each	534.667	94,84%
Other shareholders - ordinary shares of MKD 3.100 each	29.117	5,16%
	563.784	**100%**

	MKD'000
Share capital as registered	
At 31 December 2006 and 31 December 2005	**1.747.730**

Dividends paid and proposed

The Group and the Company	*MKD'000*
Declared and paid during the year ended 31 December 2005	
Final dividend for 2004:	
MKD 1.960,3 per share	1.105.200
Declared and paid during the year ended 31Ddecember 2006	
Final dividend for 2005:	
MKD 464,7 per share	262.000

Dividends declared and paid for the years ended 31 December 2006 and 2005 entirely relate to equity dividends on ordinary shares and to the results of the Company's separate financial statements.

12. Other reserves

The Group	*Asset revalu-ation reserve MKD'000*	*Net unrealized gains reserve MKD'000*	*Statutory reserves MKD'000*	*Foreign currency transla-tion reserve MKD'000*	*Total MKD'000*
At 1 January 2005	109.591	(7.917)	522.297	-	623.971
Correction from legal reserves	158.960	-	(158.960)	-	-
Unrealized gains on available-for-sale financial assets	-	180.984	-	-	180.984
At 31 December 2005	**268.551**	**173.067**	**363.337**	-	**804.955**
Unrealized gains on available-for-sale financial assets	-	88.788	-	-	88.788
Realized gains on available-for-sale financial assets	-	(261.855)	-	-	(261.855)
Currency translation difference	-	-	-	(27)	(27)
At 31 December 2006	**268.551**	**-**	**363.337**	**(27)**	**631.861**

The Company	*Asset revalu-ation reserve MKD'000*	*Net unrealized gains reserve MKD'000*	*Statutory reserves MKD'000*	*Total MKD'000*
At 1 January 2005	109.591	(7.917)	522.297	623.971
Correction from legal reserves	158.960	-	(158.960)	-
Unrealized gains on available-for-sale financial assets	-	180.984	-	180.984
At 31 December 2005	**268.551**	**173.067**	**363.337**	**804.955**
Unrealized gains on available-for-sale financial assets	-	88.788	-	88.788
Realized gains on available-for-sale financial assets	-	(261.855)	-	(261.855)
At 31 December 2006	**268.551**	**-**	**363.337**	**631.888**

Assets revaluation reserve

The asset revaluation reserves have resulted from the revaluation of property, plant and equipment in accordance with local regulations up to 31 December 1998 as it is also explained in paragraph 2.2.c above. These reserves are not available for distribution of dividends and can be used for covering future losses and/or converted into share capital.

12. Other reserves (continued)

Net unrealized gains reserve

This reserve records fair value changes on available-for-sale financial assets.

Statutory reserves

Statutory reserves are regulated by local Company Law according to which companies are required to allocate to these reserves at least 15% of their annual net profit until the balance of the reserves reaches 20% of the company's share capital. The statutory reserves may be used only for covering losses if the balance does not exceed 20% of the Company's share capital. The excess over 20% of the share capital may be used for dividend distribution following a decision by the Assembly of the shareholders.

Foreign currency translation reserve

The foreign currency translation reserve is used to record exchange differences arising from the translation of the financial statements of the foreign subsidiary.

13. Provision for retirement benefits

	Consolidated		*Company*	
	2006	*2005*	*2006*	*2005*
	MKD'000	*MKD'000*	*MKD'000*	*MKD'000*
Retirement benefits	32.383	15.509	32.383	15.509
Jubilee anniversary awards	33.564	-	33.564	-
	65.947	**15.509**	**65.947**	**15.509**
Analyzed as:				
Non-current portion	60.652	15.499	60.652	15.499
Current portion	5.295	10	5.295	10
	65.947	**15.509**	**65.947**	**15.509**

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

14. Trade and other payables

	Consolidated		Company	
	2006	*2005*	*2006*	*2005*
	MKD'000	*MKD'000*	*MKD'000*	*MKD'000*
Domestic trade creditors	115.514	103.357	115.514	103.357
Foreign trade creditors	95.615	127.023	95.615	127.023
Customer prepayments	31.892	28.164	31.892	28.164
Other current liabilities	26.859	38.989	26.781	38.989
	269.880	**297.533**	**269.802**	**297.533**

15. Related party transactions

Balkcem Limited owns 94,84% of the Company's share capital.

The following transactions were carried out with the related parties:

a) Sales of goods and services

	Consolidated		Company	
	2006	*2005*	*2006*	*2005*
	MKD'000	*MKD'000*	*MKD'000*	*MKD'000*
Titan Cement Company - clinker	-	3.052	-	3.052
Titan Zlatna Panega - clinker	382.716	328.411	382.716	328.411
	382.716	**331.463**	**382.716**	**331.463**

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

Receivables from related parties

	Consolidated		Company	
	2006	*2005*	*2006*	*2005*
	MKD'000	*MKD'000*	*MKD'000*	*MKD'000*
Titan Zlatna Panega - clinker	**71.529**	**34.335**	**71.529**	**34.335**

15. Related party transactions (continued)

b) Purchases of goods and services

	Consolidated		*Company*	
	2006	*2005*	*2006*	*2005*
	MKD'000	*MKD'000*	*MKD'000*	*MKD'000*
Titan Cement Company - white cement and pet coke	548.394	427.154	548.394	427.154
Titan Cement Company - services	336	-	336	-
Titan Cement Company - spare parts and fixed assets	4.055	-	4.055	-
Titan Kosjeric - fixed assets and additives	-	1.299	-	1.299
Titan Zlatna Panega - services	275	447	275	447
Titan Cement Zlatna Panega - grey cement	3.348	-	3.348	-
Balkcem Limited - technical fee	129.300	120.211	129.300	120.211
	685.708	**549.111**	**685.708**	**549.111**

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

Payables to related parties

	Consolidated		*Company*	
	2006	*2005*	*2006*	*2005*
	MKD'000	*MKD'000*	*MKD'000*	*MKD'000*
Titan Cement Company - white cement and pet coke	47.603	88.930	47.603	88.930
Titan Cement Kosjeric - klinker	-	1.299	-	1.299
Titan Cement Zlatna Panega services	-	372	-	372
Titan Cement Zlatna Panega - grey cement	585	-	585	-
Balkcem Limited - technical fee	6.410	3.854	6.410	3.854
	54.598	**94.455**	**54.598**	**94.455**

The Group and the Company enter into these transactions with the above related parties at mutually agreed terms.

16. Subsequent events

Commencing from 1 January 2007, new lower tax rates were introduced in respect of income tax and other taxes (from 15% to 12%) which may have positive impact on the future Company's assets, liabilities and cash flows. It was pronounced by the Government further deceasing of the above taxes from 2008 onwards, by when the tax rates will decrease to 10%. It is expected that the Company will benefit from the above Government tax incentive.