

**ZLATNA PANEGA CEMENT AD**

**ANNUAL FINANCIAL STATEMENTS**  
31 December 2007

General Information.....	i
Directors' Report .....	ii
Independent Auditors' Report to the Shareholders of Zlatna Panega Cement AD .....	1
Income Statement.....	2
Balance Sheet.....	3
Statement of Changes in Equity .....	4
Cash Flow Statement.....	5
Notes to the Financial Statements	
1. Corporate information.....	6
2.1 Basis of preparation .....	6
2.2 Changes in accounting policies and disclosures.....	7
2.3 Significant accounting judgements, estimates and assumptions.....	8
2.4 Summary of significant accounting policies.....	9
2.5 Future changes in accounting policies.....	16
3. Expenses and other revenues .....	18
4. Income tax.....	22
5. Property, plant and equipment .....	24
6. Intangible assets .....	25
7. Investments .....	26
8. Other financial assets .....	26
9. Inventories .....	27
10. Trade and other receivables .....	27
11. Cash and short-term deposits .....	28
12. Issues capital and reserves .....	28
13. Interest bearing loans .....	29
14. Restoration provision.....	30
15. Retirement benefits .....	31
16. Trade and other payables .....	32
17. Related party disclosures .....	33
18. Dividends distributed .....	36
19. Commitments and contingencies.....	36
20. Financial risk management objectives and policies .....	37
21. Financial instruments .....	40
22. Events after the balance sheet date.....	40

**Directors**

Alexandar Nakov Chakmakov  
Mihalis Sigalas  
Giorgos Moschopoulos  
Prokopios Agamemnon Belezinis  
Fokion Tasoulas  
Ianis Georgakakis

**Registered office**

Zlatna Panega Village, Lovech District,  
No 2 Shipka Street.

**Solicitors**

Futekova, Hristova, Tomeshkova EOOD  
Penkov, Markov and Partners OOD

**Bankers**

Bulgarian Post Bank – Lovech Branch  
Alpha Bank – Sofia  
Societe General – Expressbank, Sofia  
BNP Paribas

**Auditors**

Ernst & Young Audit OOD  
Business Park Sofia  
Building 10, Floor 2  
Mladost 4  
1715 Sofia

**ZLATNA PANEGA CEMENT AD**  
**DIRECTORS' REPORT**  
For the year ended 31 December 2007

(All amounts in EUR thousand unless otherwise stated)

**DIRECTORS' REPORT**

The Directors present their report and the financial statements that have been prepared in accordance with International Financial Reporting Standards as adopted by the European Union for the year ended 31 December 2007. These financial statements have been audited by Ernst and Young Audit OOD.

**GENERAL INFORMATION**

The Company is registered in the Republic of Bulgaria. The principal activity of the company includes production and sales of cement.

**BUSINESS DESCRIPTION**

**Current year results**

The results of the current year activities are seen as positive since the profit before tax of the Company amounted to EUR 34,814 thousand while the budgeted profit before tax was set at approximately EUR 35,430 thousand. The Company generated the abovementioned level of profits because the budgeted dividend income of EUR 4,556 thousand from Gravel and Sand Pits Bulgaria EAD ("GSPB"), a wholly-owned subsidiary, was not distributed. In addition, the Company's actual cement sales, in quantities, exceeded budgeted quantities by 59 thousand tons. During 2007 the Company sold 1,239 thousand tons of cement (2006: 1,158 thousand tons). The increase of the quantities sold and the increased average annual ex-works selling prices contributed for the increase of revenue for the current year by EUR 12,133 thousand.

Due to the finalized investment program for the upgrade of Kiln 5, the Company started operation of the upgraded kiln from the beginning of 2007 and produced 858 thousand tons of clinker (2006: 519 thousand tons). Due to this reason, the Company purchased 93 thousand tons of clinker in 2007 (2006: 365 thousand tons) from third parties and related parties. The increased own production of the semi-finished product (clinker) contributed to the decrease of cost of sales for 2007 to EUR 51,550 thousand (2006: EUR 54,636 thousand).

**Dividends and distribution of profits**

At the General Meeting of the Shareholders held on 23 April 2007, a decision was taken to distribute dividends of EUR 18,753 thousand. These dividends were paid in full as of 31 December 2007.

**Share capital structure**

<b>Shareholders</b>	<b>Percentage</b>	<b>Number of shares (thousands)</b>	<b>Nominal value (thousands)</b>
REA Cement Limited, Cyprus	99.99	32,169,338	16,448
Individuals and State of Bulgaria	0.01	3,689	2

**Investments**

As at 31 December 2007 Zlatna Panega Cement AD holds interests in the following subsidiaries and associates: The Company is 100% owner of Zlatna Panega Beton EOOD and Gravel and Sand Pits Bulgaria EAD ("GSPB"). These investments are carried at cost as at 31 December 2007. Through GSPB, the Company has an interest of 48.77% in the capital of Holcim Karierni Materiali AD, a 48.72% interest in Karierni AD, a 100% in Rudmak – FYROM and a 100% interest in Double V Co Ltd., Ruse.

In addition, the Company has an 8% participation in Granitoid AD (the majority shares of which are owned by REA Cement Limited).

**ZLATNA PANEGA CEMENT AD**  
**DIRECTORS' REPORT**  
For the year ended 31 December 2007

(All amounts in EUR thousand unless otherwise stated)

**OBJECTIVES OF THE COMPANY FOR 2008**

The Directors are set to achieve the following objectives for 2008:

- annual sales of cement to reach 1,290 thousand tons;
- maintain the present position in the market.

We look optimistically at the future of Zlatna Panega Cement AD and believe that if management exercises proper control over the business, this will lead to quality improvement and stability of the Company.

**CORPORATE GOVERNANCE**

The Company is constituted as a joint stock company in compliance with the Commercial Law of the Republic of Bulgaria and has a one-tier system of governance.

As at 31 December 2007 the Board of Directors consists of:

1. Alexander Nakov Chakmakov
2. Mihalis Sigalas
3. Giorgos Moschopoulos
4. Fokion Tasoulas
5. Ianis Georgakakis

Alexander Nakov Chakmakov is the Company's Executive Director.

**Directors' 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 then ended.

The Directors confirm that suitable accounting policies have been used and applied consistently and reasonable and prudent judgments and estimates have been made in the preparation of the financial statements for the year ended 31 December 2007.

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.

Alexandar Chakmakov  
Executive director

Zlatna Panega Cement AD  
Zlatna Panega



1 February 2008

## INDEPENDENT AUDITORS' REPORT

### TO THE SHAREHOLDERS OF ZLATNA PANEGA CEMENT AD

We have audited the accompanying financial statements of **ZLATNA PANEGA CEMENT AD**, which comprise the balance sheet as of 31 December 2007, 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 **ZLATNA PANEGA CEMENT AD** as of 31 December 2007, 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.



Sofia, Bulgaria

4 February 2008

**ZLATNA PANEGA CEMENT AD**  
**INCOME STATEMENT**  
For the year ended 31 December 2007

(All amounts in EUR thousand unless otherwise stated)

	Notes	2007	2006
Sale of cement products		80,315	68,760
Rendering of transport services		11,348	10,770
<b>Revenue</b>		<b>91,663</b>	<b>79,530</b>
Cost of sales	3.1	(51,550)	(54,637)
<b>Gross profit</b>		<b>40,113</b>	<b>24,893</b>
Other income	3.7	719	687
Selling and distribution costs	3.2	(568)	(472)
Administrative expenses	3.3	(3,449)	(2,903)
Other expenses	3.4	(1,130)	(1,914)
<b>Operating profit</b>		<b>35,685</b>	<b>20,291</b>
Finance revenue	3.8	176	231
Finance costs	3.9	(1,047)	(231)
<b>Profit before tax</b>		<b>34,814</b>	<b>20,291</b>
Income tax expense	4	(3,503)	(1,627)
<b>Profit for the year</b>		<b>31,311</b>	<b>18,664</b>

Chief Executive Officer  
Alexander Chakmakov



The accompanying notes to the annual financial statements on pages 6 to 40 form an integral part of these financial statements.

**ZLATNA PANEGA CEMENT AD**  
**BALANCE SHEET**  
As of 31 December 2007

(All amounts in EUR thousand unless otherwise stated)

	Notes	2007	2006
<b>ASSETS</b>			
<b>Non-current assets</b>			
Property, plant and equipment	5	67,640	52,953
Intangible assets	6	67	96
Investments in subsidiaries	7.1	3,633	3,633
Available-for-sale investments	7.2	21	21
Other financial assets	8	44	38
		<u>71,405</u>	<u>56,741</u>
<b>Current assets</b>			
Inventories	9	9,184	7,173
Trade receivables	10	6,981	4,738
Other receivables		103	110
Receivables from related parties	17	6,803	1,698
Prepayments		1,120	2,054
Cash and short-term deposits	11	69	2,655
		<u>24,260</u>	<u>18,428</u>
<b>TOTAL ASSETS</b>		<u><b>95,665</b></u>	<u><b>75,169</b></u>
<b>EQUITY AND LIABILITIES</b>			
<b>Equity</b>			
Issued capital	12.1	28,602	28,602
Legal reserve	12.2	1,645	1,645
Retained earnings		31,375	18,817
<b>Total equity</b>		<u><b>61,622</b></u>	<u><b>49,064</b></u>
<b>Non-current liabilities</b>			
Interest-bearing loans	13	12,271	1,994
Restoration provision	14	1,583	1,568
Retirement benefit liability	15	183	198
Deferred tax liability	4	626	681
		<u>14,663</u>	<u>4,441</u>
<b>Current liabilities</b>			
Trade payables	16.1	4,934	6,694
Other payables	16.2	1,323	730
Interest-bearing loans	13	11,667	8,202
Payables to related parties	17	179	5,330
Income tax payable		1,277	708
		<u>19,380</u>	<u>21,664</u>
<b>Total liabilities</b>		<u><b>34,043</b></u>	<u><b>26,105</b></u>
<b>TOTAL EQUITY AND LIABILITIES</b>		<u><b>95,665</b></u>	<u><b>75,169</b></u>

Chief Executive Officer  
Alexander Chakmakov



The accompanying notes to the annual financial statements on pages 6 to 40 form an integral part of these financial statements.



**ZLATNA PANEGA CEMENT AD**  
**STATEMENT OF CHANGES IN EQUITY**  
For the year ended 31 December 2007

(All amounts in EUR thousand unless otherwise stated)

	Issued capital	Legal reserve	Retained earnings	Total
<b>At 1 January 2006</b>	<b>28,602</b>	<b>1,251</b>	<b>15,517</b>	<b>45,370</b>
Profit for the year	-	-	18,664	18,664
Distribution of dividends (note 18)	-	-	(14,970)	(14,970)
Transfer between reserves	-	394	(394)	-
<b>At 31 December 2006</b>	<b>28,602</b>	<b>1,645</b>	<b>18,817</b>	<b>49,064</b>
<b>At 1 January 2007</b>	<b>28,602</b>	<b>1,645</b>	<b>18,817</b>	<b>49,064</b>
Profit for the year	-	-	31,311	31,311
Distribution of dividends (note 18)	-	-	(18,753)	(18,753)
<b>At 31 December 2007</b>	<b>28,602</b>	<b>1,645</b>	<b>31,375</b>	<b>61,622</b>

Chief Executive Officer  
Alexander Chakmakov



The accompanying notes to the annual financial statements on pages 6 to 40 form an integral part of these financial statements.

**ZLATNA PANEGA CEMENT AD**  
**CASH FLOW STATEMENT**  
For the year ended 31 December 2007

(All amounts in EUR thousand unless otherwise stated)

	Notes	2007	2006
<b>OPERATING ACTIVITIES</b>			
<b>Profit before tax</b>		<b>34,814</b>	<b>20,291</b>
Adjustments to reconcile profit before tax to net cash flows			
Non-cash:			
Depreciation of property, plant and equipment	5	4,551	2,605
Amortisation of intangible assets	6	32	33
Impairment of property, plant and equipment		-	250
(Gain)/Loss on disposal of property, plant and equipment		(97)	81
Movement in doubtful debt allowance	10	27	(131)
Movement in restoration provision	14	15	1,007
Movement in employee benefit liability		(15)	17
Interest income	3.8	(128)	(167)
Interest expense	3.9	919	186
Working capital adjustments:			
Increase in inventories		(2,011)	(635)
Increase in trade and other receivables		(2,238)	(797)
Decrease/(Increase) in prepayments		147	(565)
Increase in other financial assets		(6)	(5)
(Decrease)/Increase in trade and other payables		(1,241)	3,176
Income tax paid		(2,989)	(2,754)
<b>Net cash flows from operating activities</b>		<b>31,780</b>	<b>22,592</b>
<b>INVESTING ACTIVITIES</b>			
Proceeds from sale of property, plant and equipment		271	-
Purchase of property, plant and equipment		(19,963)	(23,312)
Purchase of intangible assets		(3)	-
Disbursement of loans from related parties		(7,469)	(6,648)
Proceeds from loans from related parties		2,417	5,540
Interest received		50	167
Share capital contributions to subsidiaries		-	(44)
<b>Net cash flows used in investing activities</b>		<b>(24,697)</b>	<b>(24,297)</b>
<b>FINANCING ACTIVITIES</b>			
Proceeds from interest-bearing loans		103,283	23,078
Repayment of interest-bearing loans		(89,541)	(12,882)
Interest paid		(915)	(186)
Dividends paid	18	(22,496)	(11,226)
<b>Net cash flows used in financing activities</b>		<b>(9,669)</b>	<b>(1,216)</b>
<b>Net decrease in cash and cash equivalents</b>		<b>(2,586)</b>	<b>(2,921)</b>
<b>Cash and cash equivalents at 1 January</b>		<b>2,655</b>	<b>5,576</b>
<b>Cash and cash equivalents at 31 December</b>	11	<b>69</b>	<b>2,655</b>

Chief Executive Officer  
Alexander Chakmakov

The accompanying notes to the annual financial statements on pages 6 to 40 form an integral part of these financial statements.



(All amounts in EUR thousand unless otherwise stated)

## **1. Corporate information**

The financial statements of Zlatna Panega Cement AD (the Company) for the year ended 31 December 2007 were authorized for issue in accordance with a resolution of the Board of Directors on 1 February 2008.

Zlatna Panega Cement AD is a joint stock company. The Company is incorporated and domiciled in Zlatna Panega, Bulgaria with a resolution of the Lovech District Court 63/12 June 1989 and its fiscal year ends being 31 December.

The principal activities of the Company include the production and sale of cement. The plant is located near the village of Zlatna Panega. A nearby quarry is the main source of raw materials.

As of 31 December 2007 the Company was owned by:

- REA Cement Limited, Cyprus 99.99 %
- Individuals and the State of Bulgaria 0.01 %

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 Zlatna Panega Cement AD have been prepared in accordance with International Financial Reporting Standards, as endorsed by the European Union (IFRS as endorsed by the EU).

The preparation of these annual financial statements of the Company is required by the ultimate parent company for its consolidation. Therefore, these are the stand alone financial statements of Zlatna Panega Cement AD where the investments in subsidiaries are accounted for at cost. The Company meets the exemption criteria under IAS 27 Consolidated and Separate Financial Statements, for not preparing and presenting consolidated financial statements, which are as follows:

- The shareholders of the Company have been informed about and do not object to Zlatna Panega Cement AD not presenting consolidated financial statements;
- The Company's debt or equity instruments are not traded in a public market (a domestic or foreign stock exchange or an over-the-counter market, including local and regional markets);
- The Company did not file, nor is in the process of filing, its financial statements with a securities commission or other regulatory organisations for the purpose of issuing any class of instruments in a public market; and
- The ultimate parent company, Titan Cement S.A., Greece, prepares and presents consolidated financial statements available for public use that comply with IFRS. These consolidated financial statements are obtainable on the internet address "<http://www.titan.gr/en/financial/year.htm>." The address of the registered office of Titan Cement S.A. is 22 A Halkidos Str., 111 43 Athens, Greece.

(All amounts in EUR thousand unless otherwise stated)

## 2.2 Changes in accounting policy and disclosures

### New and amended standards and interpretations effective for reporting periods ended 31 December 2007

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 performance or position of the Company. They did however give rise to additional disclosures:

- IFRS 7 Financial Instruments: Disclosures
- IAS 1 Amendment: Presentation of Financial Statements - Capital Disclosures
- IFRIC 7 Applying Restatement Approach under IAS 29 Financial Reporting in Hyperinflationary Economies
- IFRIC 8 Scope of IFRS 2
- IFRIC 9 Reassessment of Embedded Derivates
- IFRIC 10 Interim Financial Reporting and Impairment

The principal effect of these changes is as follows:

#### *IFRS 7 Financial Instruments: Disclosures*

This standard requires disclosures that enable users of the financial statements to evaluate the significance of the Company's financial instruments and the nature and extent of risks arising from those financial instruments. The new disclosures are included throughout the financial statements. While there has been no effect on the financial position or results, comparative information has been revised where needed.

#### *IAS 1 Amendment: Presentation of Financial Statements – Capital Disclosures*

This amendment requires disclosures to enable users of the financial statements to evaluate the Company's objectives, policies and processes for managing capital. These new disclosures are shown in Note 20.

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

IFRIC 7 requires entities to apply IAS 29 Financial Reporting in Hyper-inflationary Economies in the reporting period in which an entity first identifies the existence of hyperinflation in the economy of its functional currency as if the economy had always been hyperinflationary. IFRIC 7 is not relevant to the Company's operations and did not have an effect on the financial statements.

#### *IFRIC 8 Scope of IFRS 2*

This interpretation requires IFRS 2 *Share-Based Payments* to be applied to any arrangements in which the entity cannot identify specifically some or all of the goods received, in particular where equity instruments are issued for consideration which appears to be less than fair value. As the Company does not have any share-based payments, the interpretation had no impact on its financial position or performance.

#### *IFRIC 9 Reassessment of Embedded Derivatives*

IFRIC 9 states that the date to assess the existence of an embedded derivative is the date that an entity first becomes a party to the contract, with reassessment only if there is a change to the contract that significantly modifies the cash flows. As the Company has no embedded derivative requiring separation from the host contract, the interpretation had no impact on the financial position or performance of the Company.

(All amounts in EUR thousand unless otherwise stated)

## 2.2 Changes in accounting policy and disclosures (continued)

### New and amended standards and interpretations effective for reporting periods ended 31 December 2007 (continued)

#### *IFRIC 10 Interim Financial Reporting and Impairment*

This interpretation requires that an entity must not reverse an impairment loss recognised in a previous interim period in respect of goodwill or an investment in either an equity instrument or a financial asset carried at cost. As the Company had no impairment losses previously reversed, the interpretation had no impact on the financial position or performance of the Company.

Certain reclassifications of comparative information included in the balance sheet and cash flow statement were made in order to ensure consistency with the presentation of current financial year's figures. The comparative information for trade receivables and other receivables as well as trade payables and other payables were presented as separate line items accordingly. In the cash flow statement the comparative information for interest paid and interest received were reclassified from operating activities to financing and investing activities, respectively.

## 2.3 Significant accounting judgments, 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 for in the period the changes become known.

The key assumptions concerning the future and other key sources of estimation uncertainty at the balance sheet date, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are discussed below.

#### *Restoration provision*

The Company recognises a provision for quarry restoration. This requires the management to make estimates about the cost of materials, labour, third party services and other expenses necessary for the restoration activities. The estimation of these future costs is complex and requires management to make estimates and judgments because the obligation will be fulfilled in the future and the related contract and laws are often not clear regarding what is required. Furthermore, the resulting provision is further influenced by the changing technologies and, environmental, safety, business, political and statutory considerations. At 31 December 2007 the best estimate of the restoration provision was EUR 1,583 thousand (2006: EUR 1,568 thousand). Further details are provided in Note 14 to the financial statements.

#### *Retirement benefits*

The cost of retirement benefit plan is determined using actuarial valuation. The actuarial valuation involves making assumptions about discount rates, future salary increases, personnel turnover rates and mortality rates. Due to the long-term nature of the plan, such estimates are subject to significant uncertainty. The net employee liability at 31 December 2007 is EUR 183 thousand (2006: EUR 198 thousand). Further details are provided in Note 15 to the financial statements.

#### *Useful lives of property plant and equipment, and intangible assets*

Accounting for property, plant and equipment, and intangible assets involves the use of estimates for determining the expected useful lives of these assets and their residual values. The determination of the useful lives of the assets is based on management's judgment.

#### *Provision for impairment of receivables*

Management maintains an allowance for doubtful receivables to account for estimated losses resulting from the inability of customers to make required payments. When evaluating the adequacy of an allowance for doubtful receivables, management bases its estimates on the ageing of accounts receivable, balances and historical write-off experience, customer credit worthiness and changes in customer payment terms. If the financial condition of customers were to deteriorate, actual write-offs might be higher than expected.

(All amounts in EUR thousand unless otherwise stated)

## **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 these annual 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.

### **Property, plant and equipment**

Property, plant and equipment are stated at cost 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. Likewise, when a 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. All other repair and maintenance costs are recognised in profit or loss as incurred.

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

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.

(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 are 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 profit or loss 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 profit or loss 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 profit or loss 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 profit or loss.

### Investments and other 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.

(All amounts in EUR thousand unless otherwise stated)

## 2.4 Summary of significant accounting policies (continued)

### Investments and other financial assets (continued)

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 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.

#### *Investments in subsidiaries*

Investments in subsidiaries are measured at cost in these separate financial statements. Further details are given in Note 2.1 above and Note 7.1.

#### *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 profit or loss when the loans and receivables are derecognised or impaired, as well as through the amortisation process.

#### *Available-for-sale financial investments*

Available-for-sale financial assets are those non-derivative financial assets that are designated as available-for-sale or are not classified in any of the other categories. The Company has an available-for-sale investment in equity shares (Note 7.2). As these shares do not have a quoted market price in an active market and their fair value cannot be reliably measured, they are measured at cost. Interest earned or paid on the investments is reported as interest income or expense using the effective interest rate. Dividends earned on investments are recognised in the income statement as 'Dividends received' when the right of payment has been established.

### 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.



(All amounts in EUR thousand unless otherwise stated)

## 2.4 Summary of significant accounting policies (continued)

### Impairment of financial assets (continued)

#### *Assets carried at amortised cost (continued)*

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.

#### *Available-for-sale financial investments*

If there is objective evidence that an impairment loss has been incurred on the unquoted equity instrument that is not carried at fair value because its fair value cannot be reliably measured, the amount of the impairment loss is measured as the difference between the carrying amount of the financial asset and the amount that would be expected to be recovered from it, if reliably measured. The amount of the loss is recognised in profit or loss. Such impairment losses are not reversed.

### Inventories

Inventories are valued at the lower of cost and net realisable value.

Costs incurred in bringing each product to its present location and condition are accounted for as follows:

Raw materials	–	Purchase cost on a weighted average basis;
Finished goods and work in progress	–	cost of direct materials and labour and a proportion of manufacturing overheads based on normal operating capacity but excluding borrowing costs

Net realisable value is the estimated selling price in the ordinary course of business, less estimated costs of completion and the estimated costs necessary to make the sale.

### 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 less directly attributable transaction costs, and have not been designated “as at fair value through profit or loss”. 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 profit or loss when the liabilities are derecognised as well as through the amortisation process.

### Issued capital

Issued capital represents the par value of shares issued and paid by the shareholders adjusted with the effect of hyperinflation as disclosed in Note 12.1. Any proceeds in excess of par value are recorded in share premium.

(All amounts in EUR thousand unless otherwise stated)

## 2.4 Summary of significant accounting policies (continued)

### 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 profit or loss.

### 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.

#### *Restoration provision*

In accordance with the quarry concession agreement, the Company is obliged to restore the surface of the quarry upon the cessation of its use. The restoration provision is based on the management's best estimate of the expenses that will be incurred when the excavation from the quarry is ceased. The estimated future costs of restoration are reviewed annually and adjusted as appropriate.

(All amounts in EUR thousand unless otherwise stated)

## 2.4 Summary of significant accounting policies (continued)

### Retirement benefits

According to Bulgarian labour legislation, an employer is obliged to pay two or six gross monthly salaries to its employees upon retirement, depending on the length of their service. If an employee has worked for the same employer for 10 years, the retirement benefit amounts to six gross monthly salaries upon retirement, otherwise, two gross monthly salaries. The retirement benefits are unfunded. The cost of providing benefits under the retirement benefit plan is determined using the projected unit credit actuarial valuation method. Actuarial gains and losses are recognised as income or expense when the net cumulative unrecognised actuarial gains and losses at the end of the previous reporting period exceed 10% of the retirement benefit obligation. The gains or losses are recognised over the average expected remaining working lives of the employees.

The past service cost is recognised as an expense on a straight line basis over the average period until the benefits become vested. If the benefits are already vested immediately following the introduction of, or changes to, the retirement plan, past service cost is recognised immediately.

The defined benefit liability comprises the present value of the defined benefit obligation less past service cost not yet recognised.

### 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.

#### *Company as a lessee*

Operating lease payments are recognised as an expense in the income statement on a straight line basis over the lease term.

### 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 goods*

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

#### *Rendering of services*

Revenue from transport services is recognised over the period during which the service is performed.

(All amounts in EUR thousand unless otherwise stated)

## **2.4 Summary of significant accounting policies (continued)**

### **Revenue recognition (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).

#### *Dividend income*

Revenue is recognised when the Company's right to receive the dividend payment is established.

### **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. Tax reliefs are 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; and
- in respect of taxable temporary differences associated with investments in subsidiaries, 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 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; and
- in respect of deductible temporary differences associated with investments in subsidiaries, deferred income tax assets are recognised only to the extent that it 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 utilised.

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.

(All amounts in EUR thousand unless otherwise stated)

## 2.4 Summary of significant accounting policies (continued)

### Taxes (continued)

#### *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.

## 2.5 Future changes in accounting policies

### Standards, interpretations and amendments issued but not yet effective

Certain new standards, amendments and interpretations to existing standards have been published that are mandatory for accounting periods beginning on or after 1 January 2008 or later periods but which the Company has not early adopted, as follows:

#### *IAS 23 Borrowing Costs - Revised*

A revised IAS 23 Borrowing costs was issued in March 2007, and becomes effective for financial years beginning on or after 1 January 2009. The standard has been revised to require capitalisation of borrowing costs when such costs relate to a qualifying asset. A qualifying asset is an asset that necessarily takes a substantial period of time to get ready for its intended use or sale. The Company will be required to change its accounting policy from 1 January 2009 to capitalise borrowing costs on qualifying assets prospectively from that date. In accordance with the transitional requirements in the Standard, the Company will adopt this as a prospective change. Accordingly, borrowing costs will be capitalised on qualifying assets with a commencement date after 1 January 2009. No changes will be made for borrowing costs incurred to this date that have been expensed.

#### *IAS 1 Presentation of Financial Statements - Revised*

A revised IAS 1 Presentation of Financial Statements becomes effective for financial years beginning on or after 1 January 2009. The standard was revised to require statement of changes in equity to include only transactions with shareholders. A new statement of comprehensive income is introduced and dividends to equity holders are shown only in the statement of changes of equity or notes to the financial statements. The Company is in the process of assessing the impact this revised standard will have on its financial statements.

#### *IFRS 8 Operating segments*

IFRS 8 replaces IAS 14 Segment Reporting and is effective for periods beginning on or after 1 January 2009. IFRS 8 adopts a management approach to segment reporting. The information reported would be that which management uses internally for evaluating the performance of operating segments and allocating resources to those segments. This information may be different from that reported in the balance sheet and income statement and entities will need to provide explanations and reconciliations of the differences. As the Company does not report any operating segment, this standard will have no impact on it.

(All amounts in EUR thousand unless otherwise stated)

## 2.5 Future changes in accounting policies (continued)

### Standards, interpretations and amendments issued but not yet effective (continued)

#### *IFRIC 11, IFRS 2-Group and Treasury Share Transactions*

IFRIC 11 becomes effective for financial years beginning on or after 1 March 2007. This Interpretation requires arrangements whereby an employee is granted rights to an entity's equity instruments to be accounted for as an equity-settled scheme by an entity even if the entity chooses or is required to buy those equity instruments from another party, or the shareholders of the entity provide the equity instruments needed. The Interpretation also extends to the way in which subsidiaries, in their separate financial statements, account for schemes when their employees receive rights to equity instruments of the parent. IFRIC 11 is not relevant to the Company's operations.

#### *IFRIC 12 Service Concession Arrangements*

IFRIC Interpretation 12 was issued in November 2006 and becomes effective for annual periods beginning on or after 1 January 2008. This Interpretation applies to service concession operators and explains how to account for the obligations undertaken and rights received in service concession arrangements. As the Company is not an operator, this Interpretation will have no impact on it.

#### *IFRIC 13 Customer Loyalty Programmes*

IFRIC Interpretation 13 was issued in June 2007 and becomes effective for annual periods beginning on or after 1 July 2008. This Interpretation requires customer loyalty award credits to be accounted for as a separate component of the sales transaction in which they are granted and therefore part of the fair value of the consideration received is allocated to the award credits and deferred over the period that the award credits are fulfilled. The Company expects that this interpretation will have no impact on the Company's financial statements as no such schemes currently exist.

#### *IFRIC 14, IAS 19 - The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction*

IFRIC Interpretation 14 was issued in July 2007 and becomes effective for annual periods beginning on or after 1 January 2008. This Interpretation provides guidance on how to assess the limit on the amount of surplus in a defined benefit scheme that can be recognised as an asset under IAS 19 Employee Benefits. The Company expects that this Interpretation will have no impact on its financial position or performance as it does not operate funded defined benefit schemes.

(All amounts in EUR thousand unless otherwise stated)

### 3. Expenses and other revenues

#### 3.1 Cost of sales

	<u>2007</u>	<u>2006</u>
<b>Variable costs</b>		
Distribution expenses – freight	(11,328)	(10,952)
Kiln fuel	(8,437)	(4,697)
Electricity	(4,746)	(3,084)
Raw materials	(7,441)	(4,766)
Purchase of clinker	(4,485)	(19,374)
Refractory	(527)	(444)
Grinding media	(173)	(467)
Fuel and oil	(242)	(381)
Explosives	-	(67)
Tyres	(7)	(30)
Cost of traded clinker	-	(868)
Other expenses	(60)	(39)
<b>Fixed costs</b>		
Plant salaries, wages and related expenses	(2,508)	(2,566)
Repair and maintenance – spare parts	(2,163)	(1,422)
Lining	(116)	(169)
Contract labour	(2,377)	(764)
Insurance and taxes	(101)	(88)
Plant utilities	(136)	(154)
Other fixed costs	(1,080)	(673)
Depreciation (note 5)	(4,010)	(2,190)
Packaging costs	(1,868)	(1,589)
Inventory change	255	147
	<u><b>(51,550)</b></u>	<u><b>(54,637)</b></u>

**ZLATNA PANEGA CEMENT AD**  
**NOTES TO THE FINANCIAL STATEMENTS**  
As of 31 December 2007

(All amounts in EUR thousand unless otherwise stated)

**3. Expenses and other revenues (continued)**

**3.2 Selling and distribution costs**

	<u>2007</u>	<u>2006</u>
Salaries and related expenses	(248)	(210)
Utilities	(21)	(17)
Travel - entertainment	(56)	(36)
Advertising and promotion	(78)	(60)
Contract labour	(33)	(17)
Insurance and taxes	(25)	(31)
Other	(107)	(101)
	<u>(568)</u>	<u>(472)</u>

**3.3 Administrative expenses**

	<u>2007</u>	<u>2006</u>
Salaries and related expenses	(1,083)	(942)
Depreciation (note 5)	(541)	(415)
Amortisation (note 6)	(32)	(33)
Utilities	(200)	(138)
Travel – entertainment	(158)	(140)
Consultancy fees	(224)	(187)
Audit fees	(71)	(38)
Repairs and maintenance	(99)	(40)
Insurance and taxes	(124)	(150)
Supplies	(21)	(17)
Other	(896)	(803)
	<u>(3,449)</u>	<u>(2,903)</u>



(All amounts in EUR thousand unless otherwise stated)

### 3. Expenses and other revenues (continued)

#### 3.4 Other expenses

	<u>2007</u>	<u>2006</u>
Cost of goods, materials and scrap sold		
Expenses for demolition	(321)	(76)
Cost of bars, canteen and rest house	(273)	(230)
Expenses pertaining to disposal of fixed assets	(95)	(96)
Impairment of fixed assets	(173)	(74)
Provision for impairment of trade receivables (note 10)	-	(250)
Other provisions (employee unused leave accrual)	(30)	(30)
Restoration provision (note 14)	(108)	(107)
Staff leaving indemnities	(15)	(1,013)
Other	(27)	-
	<u>(88)</u>	<u>(38)</u>
	<u><b>(1,130)</b></u>	<u><b>(1,914)</b></u>

#### 3.5 Expenses by nature

	<u>2007</u>	<u>2006</u>
Materials used and recognised as an expense		
Hired services	(30,292)	(36,516)
Depreciation (note 5)	(16,949)	(14,472)
Amortisation (note 6)	(4,551)	(2,605)
Employee benefits expense (note 3.6)	(32)	(33)
Change in work in progress	(3,933)	(3,703)
Other	255	147
	<u>(1,195)</u>	<u>(2,744)</u>
Total cost of sales, selling and distribution, administrative and other expenses	<u><b>(56,697)</b></u>	<u><b>(59,926)</b></u>

#### 3.6 Employee benefits expense

	<u>2007</u>	<u>2006</u>
Wages and salaries		
Social security costs	(3,156)	(2,905)
Retirement benefits	(754)	(740)
	<u>(23)</u>	<u>(58)</u>
	<u><b>(3,933)</b></u>	<u><b>(3,703)</b></u>

**ZLATNA PANEGA CEMENT AD**  
**NOTES TO THE FINANCIAL STATEMENTS**  
As of 31 December 2007

(All amounts in EUR thousand unless otherwise stated)

**3. Expenses and other revenues (continued)**

**3.7 Other income**

	<u>2007</u>	<u>2006</u>
Sale of scrap and materials	476	260
Packing fees	-	73
Reversal / (utilisation) of provisions from past years	3	144
Rendering of other services	90	107
Sale of goods in the rest house	36	53
Other	114	50
	<u>719</u>	<u>687</u>

**3.8 Finance revenue**

	<u>2007</u>	<u>2006</u>
Interest income calculated using the effective interest method for financial assets carried at amortised cost:		
Bank accounts and deposits	4	70
Loans provided to related parties	124	97
Foreign exchange gains	48	64
	<u>176</u>	<u>231</u>

**3.9 Finance costs**

	<u>2007</u>	<u>2006</u>
Interest expense calculated using the effective interest method for financial liabilities carried at amortised cost:		
Bank loans and overdrafts	(919)	(93)
Fee expense (other than amounts included in determining the effective interest rate) arising from financial liabilities carried at amortised cost	(61)	(93)
Foreign exchange losses	(67)	(45)
	<u>(1,047)</u>	<u>(231)</u>

(All amounts in EUR thousand unless otherwise stated)

#### 4. Income tax

The major components of income tax expense for the year ended 31 December 2007 and 2006 are:

	<u>2007</u>	<u>2006</u>
Current income tax charge	(3,558)	(2,260)
Deferred income tax benefit	<u>55</u>	<u>633</u>
Income tax expense reported in the income statement	<u><b>(3,503)</b></u>	<u><b>(1,627)</b></u>

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

Reconciliation between income tax expense and the product of accounting profit multiplied by the statutory tax rate for the year ended 31 December 2007 and 2006 is as follows:

	<u>2007</u>	<u>2006</u>
Accounting profit before income tax	<u>34,814</u>	<u>20,291</u>
Income tax expense at statutory tax rate of 10% for 2007 (2006: 15%)	(3,481)	(3,044)
Expenses not deductible for tax purposes	(23)	(13)
Revenue not subject to tax	1	4
Tax relief	-	1,085
Effect of change in the tax rate	<u>-</u>	<u>341</u>
Income tax expense	<u><b>(3,503)</b></u>	<u><b>(1,627)</b></u>

For 2006, the Company was entitled to an unconditional investment tax relief at 30% of the corporate income tax expense, as per the Foreign Investment Act (repealed), amounting to EUR 1,003 thousand and capital expenditure tax relief of EUR 82 thousand as per the Bulgarian Corporate Income Tax Act (CITA) determined at 10% of the capital expenditure incurred for completed projects at prior year-end since all conditions per CITA were met.

Following the accession of Bulgaria to the European Union since 1 January 2007, the tax legislation has been changed and treats the tax reliefs available to the Company as state aids. As such, they are subject to approval by the European Commission (EC). As of the date the present financial statements were authorised for issue, the approval of the EC was still pending. Based on this, the Company did not recognise any tax reliefs (i.e. any reduction of the current income tax expense) for the year ended 31 December 2007.

(All amounts in EUR thousand unless otherwise stated)

#### 4. Income tax (continued)

Deferred income tax at 31 December relates to the following:

	Balance Sheet		Income Statement	
	2007	2006	2007	2006
<i>Deferred tax liability</i>				
Accelerated depreciation for tax purposes	783	827	44	564
	<u>783</u>	<u>827</u>	<u>44</u>	<u>564</u>
<i>Deferred tax asset</i>				
Unused leave allowance	(25)	(18)	7	-
Restoration provision	(104)	(102)	2	98
Retirement benefits	(18)	(18)	-	(7)
Provision for impairment of receivables	(5)	(3)	2	(19)
Write-down of inventory	(5)	(5)	-	(3)
	<u>(157)</u>	<u>(146)</u>		
<b>Deferred tax benefit</b>			<u>55</u>	<u>633</u>
<b>Deferred tax liability, net</b>	<u>626</u>	<u>681</u>		

**ZLATNA PANEGA CEMENT AD**  
**NOTES TO THE FINANCIAL STATEMENTS**  
As of 31 December 2007

(All amounts in EUR thousand unless otherwise stated)

**5. 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>
<b>Cost:</b>						
At 1 January 2006	5,341	22,715	2,597	1,190	8,304	40,147
Additions	297	133	273	51	24,335	25,089
Transfers	67	2,964	317	(311)	(3,037)	-
Disposals	(46)	(378)	(35)	(13)	-	(472)
At 31 December 2006	5,659	25,434	3,152	917	29,602	64,764
Additions	56	106	205	168	18,877	19,412
Transfers	3,097	38,144	886	127	(42,254)	-
Disposals	(10)	(471)	(35)	(42)	-	(558)
At 31 December 2007	<u>8,802</u>	<u>63,213</u>	<u>4,208</u>	<u>1,170</u>	<u>6,225</u>	<u>83,618</u>
<b>Depreciation and impairment:</b>						
At 1 January 2006	737	7,113	1,065	432	-	9,347
Depreciation charge for the year	182	1,861	437	125	-	2,605
Disposals	(13)	(87)	(31)	(10)	-	(141)
At 31 December 2006	906	8,887	1,471	547	-	11,811
Depreciation charge for the year	288	3,754	372	137	-	4,551
Disposals	(4)	(313)	(29)	(38)	-	(384)
At 31 December 2007	<u>1,190</u>	<u>12,328</u>	<u>1,814</u>	<u>646</u>	<u>-</u>	<u>15,978</u>
<b>Net book value:</b>						
At 1 January 2006	<u>4,604</u>	<u>15,602</u>	<u>1,532</u>	<u>758</u>	<u>8,304</u>	<u>30,800</u>
At 31 December 2006	<u>4,753</u>	<u>16,547</u>	<u>1,681</u>	<u>370</u>	<u>29,602</u>	<u>52,953</u>
At 31 December 2007	<u>7,612</u>	<u>50,885</u>	<u>2,394</u>	<u>524</u>	<u>6,225</u>	<u>67,640</u>

*Impairment of property, plant and equipment*

Based on the impairment review performed the management considers that there are neither indications that the assets' carrying amounts may exceed their recoverable amounts, nor indications for a reversal of impairment losses recognised previously.

*Useful lives*

The useful lives of the assets are estimated as follows:

	<u>2007</u>	<u>2006</u>
Buildings	10 to 40 years	10 to 25 years
Plant and machinery	4.92 to 40 years	4.92 to 25 years
Vehicles	5 to 25 years	5 to 25 years
Furniture and fittings	2 to 10 years	2 to 10 years

During 2007 the Company reviewed the useful lives of certain buildings, plant and machinery in accordance with Titan Group's policies. As a result, the depreciation charge for the year related to those assets decreased by EUR 256 thousand.

*Assets under construction*

Assets under construction relate to major capital projects as New Administrative Building, Industrial Water Supply, Sewage, Water Treatment Plant, Storage Silo 4, Transport of Clinker to Clinker Silo, FeSO<sub>4</sub> Installation and others.

(All amounts in EUR thousand unless otherwise stated)

## 6. Intangible assets

	Concession rights	Licences	Computer software	Total
<b>Cost:</b>				
At 1 January 2006	41	141	41	223
Additions	-	-	-	-
Disposals	-	-	-	-
At 31 December 2006	41	141	41	223
Additions	-	-	3	3
Disposals	-	-	-	-
At 31 December 2007	<u>41</u>	<u>141</u>	<u>44</u>	<u>226</u>
<b>Amortisation and impairment:</b>				
At 1 January 2006	17	42	35	94
Amortisation charge for the year	1	28	4	33
Disposals	-	-	-	-
At 31 December 2006	18	70	39	127
Amortisation charge for the year	2	27	3	32
Disposals	-	-	-	-
At 31 December 2007	<u>20</u>	<u>97</u>	<u>42</u>	<u>159</u>
<b>Net book value:</b>				
At 1 January 2006	<u>24</u>	<u>99</u>	<u>6</u>	<u>129</u>
At 31 December 2006	<u>23</u>	<u>71</u>	<u>2</u>	<u>96</u>
At 31 December 2007	<u>21</u>	<u>44</u>	<u>2</u>	<u>67</u>

### *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>2007</u>	<u>2006</u>
Concession rights	20 years	20 years
Licences	10 years	10 years
Computer software	10 years	10 years

(All amounts in EUR thousand unless otherwise stated)

## 7. Investments

### 7.1 Investments in subsidiaries

	Country of incorporation	% equity interest	
		2007	2006
Zlatna Panega Beton EOOD	Bulgaria	100%	100%
Gravel and Sand Pits – Bulgaria EAD	Bulgaria	100%	100%

The investments in subsidiaries are measured at cost as follows:

	2007	2006
Zlatna Panega Beton EOOD	3,564	3,564
Gravel and Sand Pits EAD	69	69
	<u>3,633</u>	<u>3,633</u>

The shares in subsidiaries do not have a quoted market price in an active market and their fair value cannot be reliably measured.

### 7.2 Available-for-sale investments

The Company has an 8% participation in Granitoid AD, the majority shareholder of which is REA Cement Limited. Granitoid AD is a joint stock company, incorporated in Bulgaria. The equity shares are measured at cost because they do not have a quoted market price in an active market and their fair value cannot be reliably measured. The cost of the available-for-sale investment is EUR 21 thousand as of 31 December 2007 and 31 December 2006.

## 8. Other financial assets

In accordance with the quarry concession agreement, the Company is obliged to maintain a deposit equal to 10% of the amount of the average three-month excavated material, during the concession period (20 years). As of 31 December 2007 the amount deposited and restricted for this purpose is EUR 44 thousand (31 December 2006: EUR 38 thousand).

(All amounts in EUR thousand unless otherwise stated)

## 9. Inventories

	<u>2007</u>	<u>2006</u>
Raw materials (at cost)	2,750	2,724
Spare parts (at cost)	4,845	3,051
Packaging materials (at cost)	323	182
Work in progress (at cost)	233	140
Finished goods (at cost)	1,033	1,076
	<u><b>9,184</b></u>	<u><b>7,173</b></u>

## 10. Trade receivables

	<u>2007</u>	<u>2006</u>
Trade receivables	6,859	4,643
Aged receivables	6	18
Receivables under court procedure	322	256
Less: Provision for impairment	<u>(206)</u>	<u>(179)</u>
Trade receivables, net	<u><b>6,981</b></u>	<u><b>4,738</b></u>

Trade receivables are non-interest bearing and are generally on 0- 42 days terms.

As at 31 December 2007, trade receivables at nominal value of EUR 225 thousand (2006: EUR 179 thousand) were partially/fully provided for impairment following receivable collectability analysis performed by the Company's management. Movements in the allowance for impairment of receivables were as follows:

	<u>Allowance for individually impaired receivables</u>
At 1 January 2006	310
Charge for the year (note 3.4)	30
Utilised	(42)
Unused amounts reversed	<u>(119)</u>
<b>At 31 December 2006</b>	<u><b>179</b></u>
At 1 January 2007	179
Charge for the year (note 3.4)	30
Utilised	<u>(3)</u>
<b>At 31 December 2007</b>	<u><b>206</b></u>



(All amounts in EUR thousand unless otherwise stated)

## 10. Trade receivables (continued)

As at 31 December 2007, the ageing analysis of trade receivables is as follows:

	Total	Neither past due nor impaired	Past due but not impaired				
			< 30 days	30-60 days	60-90 days	90-120 days	>120 days
2007	6,981	3,665	881	1,983	238	12	202
2006	4,738	2,856	730	772	135	53	192

## 11. Cash and short-term deposits

	2007	2006
Cash at bank	55	1,514
Cash in hand	14	14
Short-term deposits	-	1,127
	<b>69</b>	<b>2,655</b>

Cash at bank earns interest at floating rates based on daily bank deposit rates. Short-term deposits are made for varying periods up to one month, depending on the immediate cash requirements of the Company, and earn interest at the respective short-term deposit rates (4% per annum). As of 31 December 2007 the fair value of cash and short-term deposits is EUR 69 thousand (2006: EUR 2,655 thousand).

## 12. Issued capital and reserves

### 12.1 Issued capital

	2007	2006
Ordinary shares of EUR 0.51 each, as per court registration	16,450	16,450
Hyperinflation adjustment	12,152	12,152
	<b>28,602</b>	<b>28,602</b>

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 12,152 thousand represents the effect of hyperinflation in the share capital from its nominal and legally registered value of EUR 16,450 thousand to EUR 28,602 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 during that period.

(All amounts in EUR thousand unless otherwise stated)

## 12. Issued capital and reserves (continued)

### 12.1 Issued capital (continued)

	Number of ordinary shares (thousands)	Authorised capital
At 1 January 2006	32,173	16,450
At 1 January 2007	<u>32,173</u>	<u>16,450</u>
At 31 December 2007	<u><u>32,173</u></u>	<u><u>16,450</u></u>

All ordinary shares issued were fully paid.

### 12.2 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 Zlatna Panega Cement AD. Legal reserves are required to equal one-tenth of the authorised 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.

## 13. Interest - bearing loans

	Effective interest rate %	Maturity	2007	2006
<b>Current</b>				
(1) Overdraft facility in BNP Paribas with limit of BGN 24,500 thousand	1M Sofibor +0.65 %	August 2008	7,033	8,202
(2) Overdraft facility in EFG Eurobank with limit of BGN 10,000 thousand	1M Sofibor +0.65 %	5 February 2008	2,078	-
(3) Revolving facility in Alpha bank with limit of BGN 10,000 thousand	1M Sofibor +0.65%	19 July 2008	<u>2,556</u>	<u>-</u>
			<u><u>11,667</u></u>	<u><u>8,202</u></u>
<b>Non-current</b>				
(4) Long-term bullet loan with maturity of 3 years in Societe Generale - Expressbank with total limit of BGN 24,000 thousand for working capital needs and capital expenditure	1M Sofibor +0.85 %	10 May 2009	<u>12,271</u>	<u>1,994</u>
			<u><u>12,271</u></u>	<u><u>1,994</u></u>

(All amounts in EUR thousand unless otherwise stated)

**13. Interest bearing loans (continued)**

(1) Overdraft facility concluded with BNP Paribas for a limit of BGN 24,500 thousand (EUR 12,527 thousand). The facility is secured by a Letter of Comfort issued by Titan Cement S.A. and Promissory Note issued by the Company.

(2) Overdraft facility concluded with EFG for a limit of BGN 10,000 thousand (EUR 5,113 thousand). The facility is secured by a Letter of Comfort issued by Titan Cement S.A. and Promissory Note issued by the Company.

(3) Revolving credit line facility concluded with Alpha bank for a limit of BGN 10,000 thousand (EUR 5,113 thousand). The facility is secured by a Corporate Guarantee issued by Titan Cement S.A.

(4) Long term bullet loan with maturity of 3 years concluded with Societe General - Expressbank for a total limit of BGN 24,000 thousand (EUR 12,271 thousand). The facility is secured by Corporate Guarantee issued by Titan Cement S.A. It is repayable in full on 10 May 2009.

As at 31 December 2007, the Company has available EUR 11,085 thousand (2006: EUR 19,638 thousand) of undrawn committed and uncommitted borrowing facilities in respect of which all precedent conditions had been met.

**14. Restoration provision**

	<u>Restoration provision</u>
At 1 January 2006	561
Arising during the period	1,013
Unutilised amount reversed	<u>(6)</u>
<b>At 31 December 2006</b>	<b>1,568</b>
Arising during the period	<u>15</u>
<b>At 31 December 2007</b>	<b><u>1,583</u></b>

In accordance with the quarry concession agreement, the Company is obliged to restore the surface of the quarry upon the cessation of its use. The restoration provision is based on the management's best estimate of the expenses that will be incurred when the excavation from the quarry is ceased. The provision arising during the period reflects the additional amount that would be needed to restore the surface of the quarry that has been excavated during the period and the effect of change in estimate of the restoration amount that occurred due to update prices of services for restoration of the expected. The restoration provision has not been discounted as the management is unaware for how many more years the quarry would be used and it is believed that the current values presented are the best estimate available for the time being.

**ZLATNA PANEGA CEMENT AD**  
**NOTES TO THE FINANCIAL STATEMENTS**  
As of 31 December 2007

(All amounts in EUR thousand unless otherwise stated)

**15. Retirement benefits**

According to the Bulgarian labour legislation and Company's collective labour agreement, Zlatna Panega Cement AD, as an employer is obliged to pay five or nine gross monthly salaries to its employees upon retirement, depending on the length of their service. If an employee has worked for the same employer for 10 years, the retirement benefit amounts to nine gross monthly salaries upon retirement (six gross monthly salaries as per Bulgarian labour legislation, plus three additional gross monthly salaries in accordance with the Company's Collective Labour Agreement), otherwise - five gross monthly salaries (two gross monthly salaries as per Bulgarian labour legislation, plus three additional gross monthly salaries in accordance with the Company's Collective Labour Agreement). The retirement benefits are unfunded.

The following tables summarise the components of net benefits expense recognised in the income statement and amounts recognised in the balance sheet for the retirement benefit plan:

**Net benefits expense**

	<u>2007</u>	<u>2006</u>
Current service cost	32	35
Interest cost	17	20
Net actuarial (gain)/loss recognised during the year	(5)	2
Past service cost	<u>(9)</u>	<u>21</u>
<b>Net benefit expense recognised in the income statement</b>	<b><u>35</u></b>	<b><u>78</u></b>

**Benefit liability**

	<u>2007</u>	<u>2006</u>
Present value of retirement benefit obligation	232	281
Unrecognised actuarial (gains)/losses	13	-
Unrecognised past service costs	<u>(62)</u>	<u>(83)</u>
<b>Benefit liability recognised in the balance sheet</b>	<b><u>183</u></b>	<b><u>198</u></b>

Changes in the present value of the retirement benefit obligation are as follows:

	<u>Amount</u>
Retirement benefit obligation at 1 January 2006	295
Interest cost	20
Current service cost	35
Benefits paid	(62)
Actuarial (gains)/losses on obligation	<u>(7)</u>
<b>Retirement benefit obligation at 31 December 2006</b>	<b><u>281</u></b>
Interest cost	17
Current service cost	32
Effect of curtailments	(30)
Benefits paid	(50)
Actuarial (gains)/losses on obligation	<u>(18)</u>
<b>Retirement benefit obligation at 31 December 2007</b>	<b><u>232</u></b>

**ZLATNA PANEGA CEMENT AD**  
**NOTES TO THE FINANCIAL STATEMENTS**  
As of 31 December 2007

(All amounts in EUR thousand unless otherwise stated)

**15. Retirement benefits (continued)**

**Benefit liability (continued)**

The principal assumptions used in determining retirement benefit obligation are shown below:

	<u>2007</u>	<u>2006</u>
Discount rate	5.7 %	6 %
Future salary increases	6 %	6 %

Amounts for the year ended 31 December 2007 and previous four annual periods are as follows:

	<u>2007</u>	<u>2006</u>	<u>2005</u>	<u>2004</u>	<u>2003</u>
Retirement benefit obligation	232	281	295	298	92
Experience adjustments on plan liabilities	18	7	14	(30)	7

**16. Trade and other payables**

**16.1. Trade payables**

	<u>2007</u>	<u>2006</u>
Trade payables from domestic suppliers	3,689	2,208
Trade payables from foreign suppliers	1,245	4,486
	<u><b>4,934</b></u>	<u><b>6,694</b></u>

**16.2. Other payables**

	<u>2007</u>	<u>2006</u>
Customer prepayments	562	137
Unused paid leave	307	237
Social security	68	89
Payroll taxes	39	34
V.A.T payable	129	-
Other taxes	23	30
Insurance premium payable	40	23
Other payables	155	180
	<u><b>1,323</b></u>	<u><b>730</b></u>

(All amounts in EUR thousand unless otherwise stated)

## **16. Trade and other payables (continued)**

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

- Trade payables are non-interest bearing and are normally settled on 1-90 day terms;
- Tax payables are non-interest bearing and are settled according to the legal deadlines.
- Other payables are non-interest bearing and have an average term of 15 days.

## **17. 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*

The Company is controlled by REA Cement Limited, Cyprus, holding 99.99% of the Company's shares. The remaining 0.01% of the shares are held by individuals and the State of Bulgaria.

### *Subsidiaries*

Zlatna Panega Beton EOOD and Gravel and Sand Pits – Bulgaria EAD (“GSPB”) are wholly-owned subsidiaries of the Company. Zlatna Panega Cement AD has also control over Rudmak Ltd FYROM and Double V Co, Ruse, Bulgaria, which are both wholly owned by GSPB.

### *Associates*

Zlatna Panega Cement AD has a significant influence over Holcim Inertni Materiali AD with interest of 48.77% and in Karieri AD with interest 48.72% through its wholly-owned subsidiary Gravel and Sand Pits – Bulgaria EAD.

### *Other related parties*

Granitoid AD, Cementarnica Usje AD, Cementarnica Kosjerich and Zlatna Panega Cement AD are related parties because they are under the common control of Titan Cement Company SA (the ultimate parent).

**ZLATNA PANEGA CEMENT AD**  
**NOTES TO THE FINANCIAL STATEMENTS**  
As of 31 December 2007

(All amounts in EUR thousand unless otherwise stated)

**17. Related party disclosures (continued)**

The following table provides the total amount of transactions, which have been entered into and the outstanding balances for the relevant financial year:

		<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>
<b>In respect of sales / purchases from related party</b>					
<i>Ultimate parent company</i>					
Titan Cement Company S.A.	2007	3	42	3	33
Titan Cement Company S.A.	2006	-	396	-	36
<i>Entity with controlling interest in the Company</i>					
REA Cement Ltd.	2007	-	-	-	-
REA Cement Ltd. (dividends)	2006	-	-	-	3,743
<i>Subsidiaries</i>					
Zlatna Panega Beton EOOD	2007	4,052	357	553	11
Zlatna Panega Beton EOOD	2006	3,897	427	573	24
<i>Other related parties</i>					
Cementarnica Usje AD	2007	91	2,413	3	135
Cementarnica Usje AD	2006	59	6,201	10	1,117
Cementarnica Kosjerich	2007	-	163	-	-
Cementarnica Kosjerich	2006	-	2,714	-	410
	2007			<u>559</u>	<u>179</u>
	2006			<u>583</u>	<u>5,330</u>

(All amounts in EUR thousand unless otherwise stated)

**17. Related party disclosures (continued)**

		Interest income	Interest expense	Amounts owed from related parties	Amounts owed to related parties
<b>In respect of loans from / to related party</b>					
<i>Subsidiaries</i>					
Zlatna Panega Beton EOOD	2007	61	-	3,883	-
Zlatna Panega Beton EOOD	2006	13	-	559	-
Gravel and Sand Pits EAD	2007	62	-	2,345	-
Gravel and Sand Pits EAD	2006	83	-	479	-
Double V Co	2007	-	-	15	-
Double V Co	2006	-	-	-	-
<i>Other related parties</i>					
Granitoid AD	2007	1	-	1	-
Granitoid AD	2006	1	-	77	-
	2007	-	-	<u>6,244</u>	<u>-</u>
	2006			<u>1,115</u>	<u>-</u>

**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 (except for loans) and settlement occurs in cash. There have been no guarantees provided or received for any related party receivables or payables. For year ended 31 December 2007, the Company has not recorded any impairment of receivables relating to amounts owed by related parties (2006: Nil). This assessment is undertaken each financial period by examining the financial position of the related party and the market in which the related party operates.

**Loans to related parties**

*Zlatna Panega Beton EOOD*

During 2007, Zlatna Panega Cement AD granted a loan to its wholly-owned subsidiary Zlatna Panega Beton EOOD in the amount of EUR 3,883 thousand (2006: EUR 559 thousand). It is intended to finance the capital expenditures of the subsidiary. The loan is unsecured and is repayable in 2008. Interest is charged at 1M Sofibor plus a spread of 0.65%.

*Gravel and Sand Pits – Bulgaria EAD*

During 2007, Zlatna Panega Cement AD granted a loan to its wholly-owned subsidiary Gravel and Sand Pits – Bulgaria EAD in the amount of EUR 2,345 thousand (2006: EUR 479 thousand). It is intended to finance the investment in its subsidiary Rudmak Ltd FYROM and its capital investments. The loan is unsecured and is repayable in 2008. Interest is charged at the 1M SOFIBOR plus a spread of 0.65%.



**ZLATNA PANEGA CEMENT AD**  
**NOTES TO THE FINANCIAL STATEMENTS**  
As of 31 December 2007

(All amounts in EUR thousand unless otherwise stated)

**Loans to related parties (continued)**

*Double V Co*

During the year, Zlatna Panega Cement AD has granted a loan to its wholly-owned subsidiary (through GSPB), Double V Co in the amount of EUR 15 thousand (31 December 2006: Nil). It is intended to finance the operating activities of the subsidiary. The loan is unsecured and is repayable in 2008. Interest is charged at the 1M SOFIBOR plus spread of 0.65%.

*Granitoid AD*

In 2006, Zlatna Panega Cement AD, granted loan to Granitoid AD in the amount of EUR 77 thousand. The interest rate was basic interest rate plus 2.5% spread. The loan was unsecured and repayable on 30 June 2007. The loan principle was fully repaid in 2007 while the accrued interest of EUR 1 thousand remained unsettled at 31 December 2007.

**Compensation of key management personnel**

	<u>2007</u>	<u>2006</u>
Short-term employee benefits	399	325
Termination benefits	-	17
	<u><b>399</b></u>	<u><b>342</b></u>

**18. Dividends distributed**

During 2007, the General Meeting of Shareholders approved distribution of dividends in the amount of EUR 18,753 (during 2006, EUR 14,970 thousand of dividends were approved for distribution. The dividend per share is EUR 0.58 (2006: EUR 0.47). For the year ended 31 December 2007 dividends actually paid amounted to EUR 22,496 thousand (2006: EUR 11,226 thousand).

**19. Commitments and contingencies**

	<u>2007</u>	<u>2006</u>
Capital commitments	1,310	6,118
Promissory note to the National Electricity Company	469	299
Promissory note to banks	<u>17,895</u>	<u>24,798</u>
	<u><b>19,674</b></u>	<u><b>31,215</b></u>

**Legal claims**

No significant legal claims are foreseen by the management of the Company.

(All amounts in EUR thousand unless otherwise stated)

## 19. Commitments and contingencies (continued)

### Other

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

- Corporate income tax – until 31 December 2004;
- VAT – until 31 December 2004;
- Personal income tax – until 31 December 2004;
- Social security contributions – until 31 August 2005;
- Local taxes and fees – until 31 December 2004.

The directors do not believe that, as of 31 December 2007, any material matters exist relating to the evolving fiscal and regulatory environment in the country, which would require adjustment to the accompanying financial statements.

## 20. Financial risk management objectives and policies

The Company's principal financial liabilities comprise bank 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 and short-term deposits, 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's exposure to the risk of changes in market interest rates relates primarily to the Company's short-term and long-term debt obligations with floating interest rates. The Company's policy is to manage its interest cost through continuous negotiations with financial institutions (banks) aimed at achieving the most favourable terms and conditions that are on offer.

The following table demonstrates the sensitivity to a reasonably possible change in interest rates, with all other variables held constant, of the Company's profit before tax (through the impact on the floating rate borrowings). There is no impact on the Company's equity.

	Increase/ decrease in basis points	Effect on profit before tax
<b>2007</b>		
Loans in BGN	+200	(315)
Loans in BGN	-100	157
<b>2006</b>		
Loans in BGN	+200	(5)
Loans in BGN	-100	3

(All amounts in EUR thousand unless otherwise stated)

## 20. Financial risk management objectives and policies (continued)

### Liquidity risk

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

The table below summarises the maturity profile of the Company's financial liabilities at 31 December 2007 based on contractual undiscounted payments.

#### Year ended 31 December 2007

	<u>On demand</u>	<u>Less than 3 months</u>	<u>3 to 12 months</u>	<u>1 to 5 years</u>	<u>&gt; 5 years</u>	<u>Total</u>
Interest bearing loans	-	2,082	9,585	12,271	-	23,938
Trade payables	-	4,934	-	-	-	4,934
Other payables	-	1,323	-	-	-	1,323
Payables to related parties	-	179	-	-	-	179
	-	<b>8,518</b>	<b>9,585</b>	<b>12,271</b>	-	<b>30,374</b>

#### Year ended 31 December 2006

	<u>On demand</u>	<u>Less than 3 months</u>	<u>3 to 12 months</u>	<u>1 to 5 years</u>	<u>&gt; 5 years</u>	<u>Total</u>
Interest bearing loans	-	-	8,202	1,994	-	10,196
Trade payables	-	6,694	-	-	-	6,694
Other payables	-	730	-	-	-	730
Payables to related parties	-	5,330	-	-	-	5,330
	-	<b>12,754</b>	<b>8,202</b>	<b>1,994</b>	-	<b>22,950</b>

### Foreign exchange risk

The Company's exposure to foreign currency risk is minimal due to the fact that the majority of foreign currency transactions relating to purchases are denominated in euro, which is currently fixed at BGN 1.95583 for 1 EUR.

(All amounts in EUR thousand unless otherwise stated)

## 20. 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. The maximum exposure is the carrying amount as disclosed in Note 10. There are no significant concentrations of credit risk within the Company.

With respect to credit risk arising from the other financial assets of the Company, which comprise cash and cash equivalents, available-for-sale financial investments and other financial assets (non-current), 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.

### *Capital management*

The primary objective of the Company's capital management is to ensure that it maintains a strong credit rating and healthy capital ratios in order to support its business as a going concern and to maximise shareholder value.

The Company manages its capital structure and makes adjustments to it, in light of changes in economic conditions. To maintain or adjust the capital structure, the Company may adjust the dividend payment to shareholders, return capital to shareholders or issue new shares, following the shareholders' approval. No changes were made in the objectives, policies or processes during the years ended 31 December 2007 and 31 December 2006.

The Company monitors its equity capital using earnings before interest, tax, depreciation and amortization (EBITDA) for the period.

	<u>2007</u>	<u>2006</u>
<b>EBITDA</b>	<b><u>40,268</u></b>	<b><u>22,930</u></b>

The Company is not subject to any externally imposed capital requirements. The structure and management of debt capital is determined at TITAN Group level.

(All amounts in EUR thousand unless otherwise stated)

## 21. 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. The fair value of investments that are actively traded in organised financial markets is determined by reference to quoted market bid prices at the close of business on the balance sheet date. For investments where there is no active market, fair value is determined using valuation techniques. Such techniques include using recent arm's length market transactions; reference to the current market value of another instrument which is substantially the same; discounted cash flow analysis or other valuation models.

The management of Zlatna Panega Cement AD believes that the fair value of financial instruments comprising cash items, trade and other receivables, interest-bearing loans and borrowings, trade and other payables 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.

Set out below is a comparison by category of carrying amounts and fair values of all of the Company's financial instruments that are carried in the financial statements:

	<i>Carrying amount</i>		<i>Fair value</i>	
	<u>2007</u>	<u>2006</u>	<u>2007</u>	<u>2006</u>
<i>Financial assets</i>				
Available for sale investment	21	21	21	21
Other financial asset	44	38	44	38
Trade receivables	6,981	4,738	6,981	4,738
Other receivables	103	110	103	110
Receivables from related parties	6,803	1,698	6,803	1,698
Cash and short-term deposits	69	2,655	69	2,655
<i>Financial liabilities</i>				
Interest bearing loans	23,938	10,196	23,938	10,196
Trade payables	4,934	6,694	4,934	6,694
Other payables	1,323	730	1,323	730
Payables to related parties	179	5,330	179	5,330

## 22. Events after the balance sheet date

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