



**GRANITOID AD**

**ANNUAL FINANCIAL STATEMENTS**

31 December 2009

# GRANITOID AD

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## **GRANITOID AD**

### **General Information**

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#### **Directors**

Alexander Nakov Chakmakov  
Mihailis Sigalas  
Konstantinos Derdemezis  
Fokion Tasulas

#### **Registered office**

Batanovtcy, Pernik Region

#### **Solicitors**

Penkov & Markov  
Alexander Sazdov

#### **Bankers**

Eurobank EFG Bulgaria AD

#### **Auditors**

Ernst & Young Audit OOD  
Business Park Sofia  
Building 10, Floor 2  
Mladost 4  
1766 Sofia, Bulgaria

**GRANITOID AD**  
**DIRECTORS' REPORT**  
For the year ended 31 December 2009

**DIRECTORS' REPORT**

The Directors of Granitoid AD (the Company) present their annual report and the financial statements of the Company for the year ended 31 December 2009, that have been prepared in accordance with the International Financial Reporting Standards, as adopted by the European Union. These financial statements have been audited by Ernst & Young Audit OOD.

**BUSINESS DESCRIPTION**

Granitoid AD has been registered in Bulgaria. The core activity of the Company after 1 June 2005 is the sale of property, plant and equipment and re-cultivation of the terrains.

**OPERATING REVIEW**

**Current year results**

The operating result for 2009 is negative. The loss amounts to EUR 65 thousand (2008: 11 EUR thousand profit).

**Dividends and profit distribution**

The Annual general meeting of the shareholders was held in March 2009. No decision for dividend and profit distribution was taken. The next meeting at which an operating review for the year 2009 will be performed, will be held in April 2009.

**Share capital structure**

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

**OBJECTIVES OF THE COMPANY FOR 2010**

The Directors have set the following objectives for the year 2010:

- Continuing the Company's operations.
- The Company decreases significantly its operations and its future operation as a going concern is dependent on the continuing support from the ultimate shareholder. The ultimate shareholder has provided the Company with a letter of support.

**GRANITOID AD**  
**DIRECTORS' REPORT**  
For the year ended 31 December 2009

**CORPORATE GOVERNANCE**

In accordance with the Commercial legislation in Bulgaria, as at 31 December 2009 Granitoid AD is a joint stock company with a one-tier system of corporate management.

The Board of Directors of the Company as at 31 December 2009 consists of:

1. Alexander Nakov Chakmakov
2. Mihailis Sigalas
3. Konstantinos Derdemezis
3. Fokion Tasulas

Executive Director of the Company is Alexander Nakov Chakmakov.

**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.

The Directors confirm that suitable accounting policies have been used and applied consistently and reasonable and prudent judgements and estimates have been made in the preparation of the financial statements for the year ended 31 December 2009.

The Directors also confirm that applicable accounting standards have been followed and that the financial statements have been prepared on a going concern basis.

The Directors are responsible for keeping proper accounting records, for safeguarding the assets of the company and for taking reasonable steps for the prevention and detection of fraud and other irregularities.

\_\_\_\_\_  
Alexander Chakmakov  
Executive Director  
Granitoid AD  
Batanovcy  
29 January 2010



## Independent Auditor's Report

To the shareholders  
of Granitoid AD

We have audited the accompanying financial statements of Granitoid AD, which comprise the balance sheet as of 31 December 2009, and the statement of comprehensive income, statement of changes in equity and statement of cash flows 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.

### Auditor's responsibility

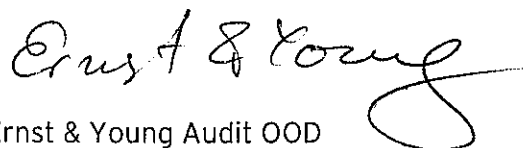
Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance whether 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 Granitoid AD as of 31 December 2009, 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.

A handwritten signature in cursive script that reads 'Ernst & Young'.

Ernst & Young Audit OOD

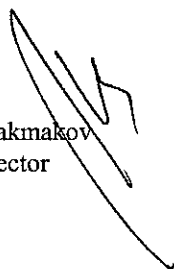
Sofia, Bulgaria

1 February 2010

**GRANITOID AD**  
**STATEMENT OF COMPREHENSIVE INCOME**  
For the year ended 31 December 2009

	Notes	2009	2008
		€000	€000
Sale of tyres		3	18
Cost of sales		(2)	(20)
<b>Gross profit</b>		<b>1</b>	<b>(2)</b>
Sale of property, plant and equipment	3.1	17	150
Cost of property, plant and equipment sold	3.2	(10)	(11)
<b>Profit from sale of property</b>		<b>7</b>	<b>139</b>
Other income	3.7	3	44
Administrative expenses	3.3	(73)	(112)
Other expenses	3.4	(3)	(58)
<b>Operating (loss)/profit before tax</b>		<b>(65)</b>	<b>11</b>
Income tax	4	-	-
<b>(Loss)/profit for the year</b>		<b>(65)</b>	<b>11</b>
<b>Other comprehensive income for the year, net of tax</b>		<b>-</b>	<b>-</b>
<b>Total comprehensive income for the year</b>		<b>(65)</b>	<b>11</b>

Alexander Chakmakov  
Executive Director




The accompanying notes to the financial statements on pages 7 to 32 form an integral part of these financial statements.



**GRANITOID AD**  
**BALANCE SHEET**  
As of 31 December 2009

	Notes	2009	2008
		€000	€000
<b>ASSETS</b>			
<b>Non-current assets</b>			
Property, plant and equipment	5	140	152
		<u>140</u>	<u>152</u>
<b>Current assets</b>			
Trade and other receivables	7	1	5
Receivables from related parties	12	-	1
Cash and short-term deposits	8	9	58
		<u>10</u>	<u>64</u>
<b>TOTAL ASSETS</b>		<u><b>150</b></u>	<u><b>216</b></u>
<b>EQUITY AND LIABILITIES</b>			
<b>Equity</b>			
Issued capital	9.1	19,117	19,117
Legal reserve	9.2	62	62
Accumulated losses		(19,046)	(18,981)
<b>Total equity</b>		<u><b>133</b></u>	<u><b>198</b></u>
<b>Current liabilities</b>			
Trade and other payables	10	17	18
		<u>17</u>	<u>18</u>
<b>Total liabilities</b>		<u><b>17</b></u>	<u><b>18</b></u>
<b>TOTAL EQUITY AND LIABILITIES</b>		<u><b>150</b></u>	<u><b>216</b></u>

Alexander Chakmakov  
Executive Director

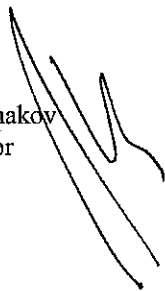


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**GRANITOID AD**  
**STATEMENT OF CHANGES IN EQUITY**  
For the year ended 31 December 2009

	Issued capital (note 9.1)	Legal reserve (note 9.2)	Accumulated losses	Total
	€000	€000	€000	€000
At 1 January 2008	19,117	62	(18,992)	187
Total comprehensive income for the year	-	-	11	11
<b>At 31 December 2008</b>	<b>19,117</b>	<b>62</b>	<b>(18,981)</b>	<b>198</b>
At 1 January 2009	19,117	62	(18,981)	198
Total comprehensive income for the year	-	-	(65)	(65)
<b>At 31 December 2009</b>	<b>19,117</b>	<b>62</b>	<b>(19,046)</b>	<b>133</b>

Alexander Chakmakov  
Executive Director




The accompanying notes to the financial statements on pages 7 to 32 form an integral part of these financial statements.

**GRANITOID AD**  
**CASH FLOW STATEMENT**  
For the year ended 31 December 2009

	<u>Notes</u>	<u>2009</u>	<u>2008</u>
		€000	€000
<b>OPERATING ACTIVITIES</b>			
(Loss)/Profit before tax		(65)	11
Adjustments to reconcile profit before tax to net cash flows			
Non-cash:			
Depreciation of property, plant and equipment	5	2	1
Amortisation of intangible assets	6	-	1
Profit from disposal of property, plant and equipment		(7)	(139)
Movement in provision for other liabilities and charges	11	-	(3)
Working capital adjustments:			
Decrease in trade and other receivables	7	5	326
Decrease in trade and other payables	10	(1)	(299)
<b>Net cash flows used in operating activities</b>		<u>(66)</u>	<u>(102)</u>
<b>INVESTING ACTIVITIES</b>			
Proceeds from sale of property, plant and equipment		17	123
Proceeds from sale of non-current assets held for sale		-	27
Purchase of property, plant and equipment	5	-	(10)
<b>Net cash flows from investing activities</b>		<u>17</u>	<u>140</u>
<b>Net (decrease)/increase in cash and cash equivalents</b>		<b>(49)</b>	<b>38</b>
<b>Cash and cash equivalents at 1 January</b>		<u>58</u>	<u>20</u>
<b>Cash and cash equivalents at 31 December</b>	8	<u>9</u>	<u>58</u>

Alexander Chakmakov  
Executive Director




The accompanying notes to the financial statements on pages 7 to 32 form an integral part of these financial statements.

**GRANITOID AD**  
**NOTES TO THE FINANCIAL STATEMENTS**  
As of 31 December 2009

## **1. Corporate information**

The financial statements of Granitoid AD ("the Company") for the year ended 31 December 2009 were authorized for issue in accordance with a resolution of the Board of Directors on 29 January 2010.

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

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

As of 31 December 2009 the Company is owned as follows:

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

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

## **2.1 Basis of preparation**

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

### **Statement of compliance**

The financial statements of Granitoid AD have been prepared in accordance with International Financial Reporting Standards (IFRS), as adopted by the European Union (EU). The preparation of these annual financial statements of the Company is required by the ultimate parent company for its consolidation.

### **Going concern**

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

The operations of the Company resulted in significant accumulated losses which may cast doubts as regards its ability to continue as a going concern. The future viability of the Company depends upon the business environment as well as upon the continuing support of the existing and potential shareholders and providers of finance. The directors have analyzed the ability of Granitoid AD to continue operations in the future and have taken measures to strengthen its position by obtaining financial support from the parent company and other related parties. The Company has been provided with a binding letter of support from the parent company, stating that adequate funds and full support would be provided to enable the Company to continue operations at least until the next twelve-month period.

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

## 2.2 Changes in accounting policy and disclosures

### New and amended standards and interpretations effective for reporting periods ended 31 December 2009

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 International Financial Reporting Interpretations Committee (“IFRIC”) interpretations as of 1 January 2009:

- IFRS 1 *First-time Adoption (Amended)*
- IFRS 2 *Share-based Payments – Vesting Conditions and Cancellations (Amendment)*
- IFRS 7 *Financial Instruments: Disclosures (Amendment)*
- IFRS 8 *Operating Segments*
- IAS 1 *Presentation of Financial Statements (Revised)*
- IAS 23 *Borrowing Costs (Revised)*
- IAS 27 *Consolidated and Separate Financial Statements (Amended)*
- IAS 32 *Financial Instruments: Presentation and IAS 1 Puttable Financial Instruments and Obligations Arising on Liquidation*
- IFRIC 9 *Reassessment of Embedded Derivatives and IAS 39 Financial Instruments: Recognition and Measurement*
- IFRIC 12 *Service Concession Arrangements*
- IFRIC 13 *Customer Loyalty Programmes* effective for annual periods beginning on or after 1 July 2008
- IFRIC 15 *Agreements for the Construction of Real Estate*
- IFRIC 16 *Hedges of a Net Investment in a Foreign Operation*
- IFRIC 18 *Transfers of Assets from Customers*
- *Improvements to IFRSs (issued in 2008 and 2009)*

When the adoption of the standard or interpretation is deemed to have an impact on the financial statements or performance of the Company, its impact is described below:

*IFRS 1 First-time Adoption (Amended) – Cost of investments in subsidiaries, jointly controlled entities or associates*  
The amendments to IFRS 1 allow the cost of investments in subsidiaries, jointly controlled entities or associates (in the opening IFRS financial statements) to be determined as either cost in accordance with IAS 27 or deemed cost. As the Company is not first time adopter of IFRS, these amendments did not have an impact on its financial statements.

#### *IFRS 2 Share-based Payments – Vesting Conditions and Cancellations (Amendment)*

The standard restricts the definition of “vesting condition” to a condition that includes an explicit or implicit requirement to provide services. Any other conditions are non-vesting conditions, which have to be taken into account to determine the fair value of the equity instruments granted. In the case that the award does not vest as the result of a failure to meet a non-vesting condition that is within the control of either the entity or the counterparty, this must be accounted for as a cancellation. As the Company does not have share-based payment schemes, the amendment did not have impact on it.

#### *IFRS 7 Financial Instruments: Disclosures (Amendment)*

The amended standard requires additional disclosures about fair value measurement and liquidity risk. Fair value measurements related to items recorded at fair value are to be disclosed by source of inputs using a three level fair value hierarchy, by class, for all financial instruments recognised at fair value. In addition, reconciliation between the beginning and ending balance for level 3 fair value measurements is now required, as well as significant transfers between levels in the fair value hierarchy. The amendments also clarify the requirements for liquidity risk disclosures with respect to derivative transactions and assets used for liquidity management. The fair value measurement disclosures are presented in Note 15. The fair value measurement and liquidity risk disclosures are not significantly impacted by the amendments and are presented in Note 15 and 14, respectively.

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

### **New and amended standards and interpretations effective for reporting periods ended 31 December 2009 (continued)**

#### *IFRS 8 Operating Segments*

IFRS 8 replaced IAS 14 Segment Reporting. 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 statement of comprehensive income and entities will need to provide explanations and reconciliations of the differences. As the Company does not report any operating segment, this standard did not have impact on it.

#### *IAS 1 Presentation of Financial Statements (Revised)*

The standard separates owner and non-owner changes in equity. The statement of changes in equity includes only details of transactions with owners, with non-owner changes in equity presented as a reconciliation of each component of equity. In addition, the standard introduces the statement of comprehensive income: it presents all items of recognised income and expense, either in one single statement, or in two linked statements. The Company has elected to present one single statement.

#### *IAS 23 Borrowing Costs (Revised)*

The revised standard requires capitalisation of borrowing costs that are directly attributable to the acquisition, construction or production of 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's previous policy was to expense borrowing costs as they were incurred. In accordance with the transitional provisions of the amended IAS 23, the Company has adopted the standard on a prospective basis. Therefore, borrowing costs are capitalised on qualifying assets with a commencement date on or after 1 January 2009. No changes will be made for borrowing costs incurred to this date that have been expensed.

#### *IAS 27 Consolidated and Separate Financial Statements (Amended) – Cost of investments in subsidiaries, jointly controlled entities or associates*

The amended IAS 27 requires all dividends from subsidiaries, jointly controlled entities or associates to be recognized in profit or loss in separate financial statements. The revision to IAS 27 will have to be applied prospectively. Further, it allows cost of an investment in a subsidiary, in limited reorganizations, to be based on the previous carrying amount of the subsidiary rather than its fair value. The amendments of IAS 27 did not have an impact on the financial statements of the Company.

#### *IAS 32 Financial Instruments: Presentation and IAS 1 Puttable Financial Instruments and Obligations Arising on Liquidation*

The standards have been amended to allow a limited scope exception for puttable financial instruments to be classified as equity if they fulfil a number of specified criteria. The amendments did not have any impact on the financial statements of the Company.

#### *IFRIC 9 Reassessment of Embedded Derivatives and IAS 39 Financial Instruments: Recognition and Measurement*

This amendment to IFRIC 9 requires an entity to assess whether an embedded derivative must be separated from a host contract when the entity reclassifies a hybrid financial asset out of the fair value through profit or loss category. This assessment is to be made based on circumstances that existed on the later of the date the entity first became a party to the contract and the date of any contract amendments that significantly change the cash flows of the contract. IAS 39 now states that if an embedded derivative cannot be reliably measured, the entire hybrid instrument must remain classified as at fair value through profit or loss. The adoption of these amendments did not have any impact on the financial position or the performance of the Company.

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

### New and amended standards and interpretations effective for reporting periods ended 31 December 2009 (continued)

#### IFRIC 12 *Service Concession Arrangements*

This interpretation applies to service concession operators and explains how to account for the obligations undertaken and rights received in service concession arrangements. The interpretation did not have any impact on the financial statements of the Company.

#### IFRIC 13 *Customer Loyalty Programmes*

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 adoption of this Interpretation did not have any impact on the financial statements of the Company as no such schemes currently exist.

#### IFRIC 15 *Agreements for the Construction of Real Estate*

The interpretation is to be applied retrospectively. It clarifies when and how revenue and related expenses from the sale of a real estate unit should be recognised if an agreement between a developer and a buyer is reached before the construction of the real estate is completed. Furthermore, the interpretation provides guidance on how to determine whether an agreement is within the scope of IAS 11 *Construction Contracts* or IAS 18 *Revenue*. This interpretation did not have any impact on the Company's financial statements.

#### IFRIC 16 *Hedges of a Net Investment in a Foreign Operation*

The interpretation is to be applied prospectively. IFRIC 16 provides guidance on the accounting for a hedge of a net investment. As such it provides guidance on identifying the foreign currency risks that qualify for hedge accounting in the hedge of a net investment, where within the group the hedging instruments can be held in the hedge of a net investment and how an entity should determine the amount of foreign currency gain or loss, relating to both the net investment and the hedging instrument, to be recycled on disposal of the net investment. This interpretation did not have any impact on the Company's financial statements.

#### IFRIC 18 *Transfers of Assets from Customers*

IFRIC 18 applies to the accounting for transfers of items of property, plant and equipment by entities that receive such transfers from their customers and addresses the following issues: (a) Is the definition of an asset met?; (b) If the definition of an asset is met, how should the transferred item of property, plant and equipment be measured on initial recognition?; (c) If the item of property, plant and equipment is measured at fair value on initial recognition, how should the resulting credit be accounted for?; (d) How should the entity account for a transfer of cash from its customer? This interpretation did not have any impact on the Company's financial position or performance.

#### *Improvements to IFRSs (issued in 2008 and 2009)*

In May 2008 and April 2009, the International Accounting Standards Board ("IASB") issued omnibus of amendments to its standards, primarily with a view to removing inconsistencies and clarifying wording. There are separate transitional provisions for each standard. The adoption of the following amendments resulted in changes to accounting policies but did not have any impact on the financial position or performance of the Company.

- *IFRS 5 Non-current Assets Held for Sale and Discontinued Operations*: When a subsidiary is held for sale, all of its assets and liabilities shall be classified as held for sale under IFRS 5, even when the entity will retain a non-controlling interest in the subsidiary after the sale. As the Company does not report a subsidiary held for sale, this amendment did not have any impact on the Company's financial statements.
- *IAS 1 Presentation of Financial Statements*: Assets and liabilities classified as held for trading in accordance with IAS 39 *Financial Instruments: Recognition and Measurement* are not automatically classified as current in the statement of financial position.

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

### **New and amended standards and interpretations effective for reporting periods ended 31 December 2009 (continued)**

#### *Improvements to IFRSs (issued in 2008 and 2009) (continued)*

- IAS 16 *Property, Plant and Equipment*: Replaces the term “net selling price” with “fair value less costs to sell”.
- IAS 18 *Revenue*: The Board has added guidance (which accompanies the standard) to determine whether an entity is acting as a principal or as an agent. The features to consider are whether the entity:
  - Has primary responsibility for providing the goods or service
  - Has inventory risk
  - Has discretion in establishing prices
  - Bears the credit risk

The Company has assessed its revenue arrangements against these criteria and concluded that it is acting as principal in all arrangements. The revenue recognition accounting policy has been updated accordingly.

- IAS 20 *Accounting for Government Grants and Disclosures of Government Assistance*: Loans granted with no or low interest will not be exempt from the requirement to impute interest. Interest is to be imputed on loans granted with below-market interest rates.
- IAS 23 *Borrowing Costs*: The definition of borrowing costs is revised to consolidate the two types of items that are considered components of ‘borrowing costs’ into one – the interest expense calculated using the effective interest rate method calculated in accordance with IAS 39.
- IAS 36 *Impairment of Assets*: When discounted cash flows are used to estimate ‘fair value less cost to sell’ additional disclosure is required about the discount rate, consistent with disclosures required when the discounted cash flows are used to estimate ‘value in use’.
- IAS 38 *Intangible Assets*: Expenditure on advertising and promotional activities is recognised as an expense when the Company either has the right to access the goods or has received the service.

Other amendments resulting from Improvements to IFRSs to the following standards did not have any impact on the accounting policies, financial position or performance of the Company:

- IFRS 7 *Financial Instruments: Disclosures*
- IAS 8 *Accounting Policies, Change in Accounting Estimates and Error*
- IAS 10 *Events after the Reporting Period*
- IAS 19 *Employee Benefits*
- IAS 27 *Consolidated and Separate Financial Statements*
- IAS 28 *Investments in Associates*
- IAS 29 *Financial Reporting in Hyperinflationary Economics*
- IAS 31 *Interest in Joint Ventures*
- IAS 34 *Interim Financial Reporting*
- IAS 38 *Intangible Assets*
- IAS 39 *Financial Instruments: Recognition and Measurement*
- IAS 40 *Investment Properties*
- IAS 41 *Agriculture*



## **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.

### *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. Further details are provided in Note 5 and Note 6.

### *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 aging 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.

## **2.4 Summary of significant accounting policies**

### **Foreign currency translation**

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

As at the reporting date, the assets, liabilities, equity, revenue and expenses of the Company are translated into the presentation currency at the fixed rate of BGN/EUR of 1.95583 (or EUR/BGN of 0.51129) quoted by the Bulgarian National Bank. BGN is pegged to the EUR at the exchange rate of 1.95583 as from 1 January 2002 (BGN was pegged to the DEM as from 1 July 1997, with the introduction of the Currency Board in Bulgaria). In connection to the translation (from functional to presentation currency) no foreign exchange differences have arisen.

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 to the functional currency 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 losses, if any. 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 recognized in profit or loss as incurred.

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

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

### **Property, plant and equipment (continued)**

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

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 recognized as an expense when incurred.

### **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 amortized over the useful economic life and assessed for impairment whenever there is an indication that the intangible asset may be impaired. The amortization period and the amortization 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 amortization period or method, as appropriate, and treated as changes in accounting estimates. The amortization expense on intangible assets with finite lives is recognized in profit or loss in the expense category consistent with the function of the intangible asset.

Gains or losses arising from derecognizing of an intangible asset are measured as the difference between the net disposal proceeds and the carrying amount of the asset and are recognized in profit or loss when the asset is derecognized.

### **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 recognized impairment losses may no longer exist or may have decreased. If such indication exists, the Company makes an estimate of recoverable amount. A previously recognized 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 recognized. 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 recognized for the asset in prior years. Such reversal is recognized in profit or loss.

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

### **Financial assets**

#### **Initial recognition**

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. The Company determines the classification of its financial assets at initial recognition.

Financial assets are recognised initially, at fair value, plus, in the case of investments not at fair value through profit or loss, directly attributable transaction costs.

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.

The Company's financial assets include cash and short term deposits and trade and other receivables.

#### **Subsequent measurement**

The subsequent measurement of financial assets depends on their classification as follows:

##### *Loans and receivables*

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Such financial assets are carried at amortised cost using the effective interest method less any allowance for impairment. 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.

### **Financial liabilities**

#### **Initial recognition**

Financial liabilities are classified as financial liabilities at fair value through profit or loss, loans and borrowings, or as derivatives designated as hedging instruments in an effective hedge, as appropriate. The Company determines the classification of its financial liabilities at initial recognition.

Financial liabilities are recognised initially, at fair value plus, and in the case of loans and borrowings, directly attributable transaction costs.

The Company's financial liabilities include trade and other payables and interest bearing loans.

#### **Subsequent measurement**

The measurement of financial liabilities depends on their classification as follows:

##### *Interest bearing loans and borrowings*

After initial recognition, interest bearing loans and borrowings are 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.

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

### **Offsetting of financial instruments**

Financial assets and financial liabilities are offset and the net amount reported in the balance sheet if, and only if, there is a currently enforceable legal right to offset the recognised amounts and there is an intention to settle on a net basis, or to realise the assets and settle the liabilities simultaneously.

### **Amortised cost of financial instruments**

Amortised cost is computed using the effective interest method less any allowance for impairment and principal repayment or reduction. The calculation takes into account any premium or discount on acquisition and includes transaction costs and fees that are an integral part of the effective interest rate.

### **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 amortized 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 recognized 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 recognized are not included in a collective assessment of impairment.

If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognized, the previously recognized impairment loss is reversed. Any subsequent reversal of an impairment loss is recognized in profit or loss, to the extent that the carrying value of the asset does not exceed its amortized 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 derecognized when they are assessed as uncollectible.

## 2.4 Summary of significant accounting policies (continued)

### Cash and cash equivalents

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

For the purpose of the cash flow statement, cash and cash equivalents consist of cash and cash equivalents as defined above.

### 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 9.1. Any proceeds in excess of par value are recorded in share premium.

### 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.

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

### **Provisions**

#### *General*

Provisions are recognized 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 recognized as a separate asset but only when the reimbursement is virtually certain. The expense relating to any provision is presented in the statement of comprehensive income 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 recognized as a finance cost.

### **Revenue recognition**

Revenue is recognised to the extent that it is probable that the economic benefits will flow to the Company and the revenue can be reliably measured. Revenue is measured at the fair value of the consideration received, excluding discounts, rebates, and other sales taxes or duty. The following specific recognition criteria must also be met before revenue is recognised:

#### *Sale of non-current assets*

Revenue from the sale of non-current assets is recognized when the significant risks and rewards of ownership of the assets have passed to the buyer, usually on transfer of legal ownership title.

#### *Sale of tyres and other assets*

Revenue from the sale of tyres and other assets is recognized when the significant risks and rewards of ownership of the assets have passed to the buyer, usually on dispatch of the tyres and other assets.

#### *Interest income*

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

### **Taxes**

#### *Current income tax*

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

## 2.4 Summary of significant accounting policies (continued)

### Taxes (continued)

#### *Deferred income tax*

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

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

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

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

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

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

#### *Value added tax*

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

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

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

## 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 2010 or later periods but which the Company has not early adopted, as follows:

#### *IFRS 1 Additional Exemptions for First-time Adopters (Amendments)*

The amendments to IFRS 1 were issued in July 2009 and become effective for annual periods beginning on or after 1 January 2010. These amendments provide for additional exemptions from full retrospective application of IFRS for the measurement of oil and gas assets and the assessment of leasing contracts in accordance with IFRIC 4. The Company does not expect these amendments to impact its financial statements. These amendments have not yet been endorsed by the EU.

#### *IFRS 2 Group Cash-settled Share-based Payment Transactions (Amendments)*

These amendments to IFRS 2 were issued in June 2009 and become effective for annual periods beginning on or after 1 January 2010. These amendments clarify the scope and the accounting for group cash-settled share-based payment transactions. The Company does not expect these amendments to impact its financial position or performance. These amendments have not yet been endorsed by the EU.

#### *IFRS 3 Business Combinations (Revised) and IAS 27 Consolidated and Separate Financial Statements (Revised)*

The revised standards were issued in January 2008 and become effective for annual periods beginning on or after 1 July 2009. The revised IFRS 3 introduces a number of changes in the accounting for business combinations occurring after this date that will impact the amount of goodwill recognised, the reported results in the period that an acquisition occurs, and future reported results. The revised IAS 27 requires that a change in the ownership interest of a subsidiary (without loss of control) is accounted for as an equity transaction. Therefore, such transactions will no longer give rise to goodwill, nor will it give rise to gain or loss. Furthermore, the amended standard changes the accounting for losses incurred by the subsidiary as well as the loss of control of a subsidiary. The changes introduced by the revised IFRS 3 and the revised IAS 27 must be applied prospectively and will affect future acquisitions or loss of control and transactions with minority interests.

#### *IFRS 9 Financial Instruments*

The first phase of IFRS 9 *Financial Instruments* was issued in November 2009 and becomes effective from 1 January 2013. The main focus of the first phase is the classification and measurement of financial assets. The impact from the first phase of the new IFRS 9 is expected to be analysed by the Company. This standard has not yet been endorsed by the EU.

#### *IAS 39 Financial Instruments: Recognition and Measurement – Eligible Hedged Items*

These amendments to IAS 39 were issued in August 2008 and become effective for annual periods beginning on or after 1 July 2009. The amendment clarifies that an entity is permitted to designate a portion of the fair value changes or cash flow variability of a financial instrument as a hedged item. This also covers the designation of inflation as a hedged risk or portion in particular situations. The Company does not expect these amendments to impact its financial statements.



## 2.5. Future changes in accounting policies (continued)

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

#### *IAS 24 Related Party Disclosures (Revised)*

The amendments to IAS 24 were issued in November 2009 and become effective for annual periods beginning 1 January 2011. The revised version of IAS 24 clarifies and simplifies the definition of a related party. The Company does not expect these amendments to impact its financial statements. The revised standard has not yet been endorsed by the EU.

#### *IFRIC 14 Prepayment of a Minimum Funding Requirement (Amendment)*

This amendment was issued in November 2009 and is effective for annual periods beginning 1 January 2011. This amendment will allow these entities to recognise a prepayment of pension contributions as an asset rather than an expense. The Company does not expect the amendment to impact its financial statements. This amendment has not yet been endorsed by the EU.

#### *IFRIC 17 Distributions of Non-cash Assets to Owners*

IFRIC 17 was issued on 27 November 2008 and is effective for annual periods beginning on or after 1 July 2009 and must be applied prospectively. IFRIC 17 applies to all non-reciprocal distributions of non-current assets to owners. It provides guidance when to recognise a liability, how to measure it and the associated assets, and when to derecognise the asset and liability and consequences of doing so. The Company is in the process of assessing the impact of IFRIC 17 on its financial statements.

#### *IFRIC 19 Extinguishing Financial Liabilities with Equity Instruments*

IFRIC 19 was issued in November 2009 and is effective for annual periods 1 July 2010. The IFRIC clarifies the measurement of equity instruments issued to a creditor to extinguish a financial liability as well as the treatment of the difference between the fair value of the equity instruments issued and the carrying amount of the financial liability that is extinguished. The Company is in the process of assessing the impact of IFRIC 17 on its financial statements. This Interpretation has not yet been endorsed by the EU.

#### *Improvements to IFRSs (issued in 2008 and 2009)*

Improvements to IFRSs were issued in 2008 and 2009 by the International Accounting Standards Board as its second omnibus of amendments to its standards. Most of the amendments become effective for annual periods beginning on or after 1 January 2010. The impacts of the first-time application of these amendments on the Company's financial statements are currently being reviewed. These amendments have not yet been endorsed by the EU.

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**3. Revenues and expenses**

**3.1 Sale of property, plant and equipment**

	<u>2009</u>	<u>2008</u>
	€000	€000
Sale of land and buildings	8	123
Sale of land held for sale	-	27
Sale of vehicles	9	-
	<u>17</u>	<u>150</u>

**3.2 Cost of property, plant and equipment sold**

	<u>2009</u>	<u>2008</u>
	€000	€000
Net book value of land and buildings sold	(1)	(9)
Net book value of land held for sale sold	-	(2)
Net book value of vehicles sold	(9)	-
	<u>(10)</u>	<u>(11)</u>

**3.3 Administrative expenses**

	<u>2009</u>	<u>2008</u>
	€000	€000
Salaries and related expenses	(39)	(61)
Security	(17)	(17)
Electricity	(4)	(12)
Telephone and courier	(4)	(6)
VAT, local and alternative taxes	(3)	(7)
Fuel, spare parts and other materials	(1)	(2)
Depreciation	(1)	(1)
Amortization	-	(1)
Audit fees	(1)	(1)
Other expenses	(3)	(4)
	<u>(73)</u>	<u>(112)</u>

**3.4 Other expenses**

	<u>2009</u>	<u>2008</u>
	€000	€000
Expenses for re-cultivation of terrains	(1)	(17)
Expenses for tax penalties	(2)	(41)
	<u>(3)</u>	<u>(58)</u>

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**3. Revenues and expenses (continued)**

**3.5 Expenses by nature**

	<u>2009</u>	<u>2008</u>
	€000	€000
Materials	(5)	(14)
Hired services	(25)	(45)
Depreciation (Note 5)	(2)	(1)
Amortization (Note 6)	-	(1)
VAT, local and alternative taxes	(3)	(7)
Employee benefits expense (Note 3.6)	(39)	(61)
Other	(2)	(41)
<b>Total administrative and other expenses</b>	<b><u>(76)</u></b>	<b><u>(170)</u></b>

**3.6 Employee benefits expense**

	<u>2009</u>	<u>2008</u>
	€000	€000
Wages and salaries	(36)	(54)
Social security costs	(3)	(7)
	<b><u>(39)</u></b>	<b><u>(61)</u></b>

**3.7 Other income**

	<u>2009</u>	<u>2008</u>
	€000	€000
Released liabilities for VAT claims	2	30
Other	1	14
	<b><u>3</u></b>	<b><u>44</u></b>

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**4. Income tax**

The Company did not report any current or deferred taxes for the year ended 31 December 2009 (2008: Nil).

Reconciliation between income tax expense and the product of accounting (loss)/profit multiplied by the statutory tax rate for the years ended 31 December 2009 and 2008 is as follows:

	<u>2009</u>	<u>2008</u>
	<u>€000</u>	<u>€000</u>
Accounting (loss)/ profit before income tax	(65)	11
Income tax expense at statutory tax rate of 10% for 2009 (2008: 10%)	7	(1)
Revenue not subject to tax	-	1
Tax losses on which no deferred tax asset is recognised	(7)	-
<b>Income tax</b>	<u>-</u>	<u>-</u>

The Company has incurred tax losses as follows:

<u>Tax period</u>	<u>Period of availability for tax relief</u>	<u>2009</u>	<u>2008</u>
		<u>€000</u>	<u>€000</u>
2009	2010 through 2014	67	-
2007	2008 through 2012	5	5
2006	2007 through 2011	253	253
Total tax loss carried forward		325	258
Effective income tax rate		10%	10%
<b>Deferred income tax asset not recognized</b>		<u>33</u>	<u>26</u>

These losses can be carried forward as relief against future taxable profits. However, since the amounts and timing of future taxable income cannot be estimated reliably due to the uncertainties of the economic environment of the Company, no deferred tax asset has been recognized for the tax losses carried forward as of 31 December 2009 (2008: Nil).

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**5. Property, plant and equipment**

	Land and buildings	Plant and machinery	Vehicles	Furniture and fittings	Total
	€000	€000	€000	€000	€000
<b>Cost:</b>					
At 1 January 2008	243	247	4	5	499
Additions	-	-	10	-	10
Disposals	(8)	(65)	(4)	-	(77)
At 31 December 2008	<u>235</u>	<u>182</u>	<u>10</u>	<u>5</u>	<u>432</u>
Disposals	(1)	-	(10)	-	(11)
At 31 December 2009	<u>234</u>	<u>182</u>	<u>-</u>	<u>5</u>	<u>421</u>
<b>Depreciation:</b>					
At 1 January 2008	112	226	4	5	347
Depreciation charge for the year	-	-	1	-	1
Disposals	-	(64)	(4)	-	(68)
At 31 December 2008	<u>112</u>	<u>162</u>	<u>1</u>	<u>5</u>	<u>280</u>
Depreciation charge for the year	1	1	-	-	2
Disposals	-	-	(1)	-	(1)
At 31 December 2009	<u>113</u>	<u>163</u>	<u>-</u>	<u>5</u>	<u>281</u>
<b>Net book value:</b>					
At 1 January 2008	<u>131</u>	<u>21</u>	<u>-</u>	<u>-</u>	<u>152</u>
At 31 December 2008	<u>123</u>	<u>20</u>	<u>9</u>	<u>-</u>	<u>152</u>
At 31 December 2009	<u>121</u>	<u>19</u>	<u>-</u>	<u>-</u>	<u>140</u>

Included in land and buildings is land with carrying amount of EUR 121 thousand (2008: EUR 120 thousand).

*Impairment of property, plant and equipment*

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

*Useful lives*

The useful lives of the assets are estimated as follows:

Buildings	4 to 25 years
Plant and machinery	2 to 25 years
Vehicles	5 to 15 years
Furniture and fittings	5 to 7 years

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**6. Intangible assets**

	<b>Computer software</b>	<b>Total</b>
	<b>€000</b>	<b>€000</b>
<b>Cost:</b>		
At 1 January 2008	8	8
Disposals	(8)	-
At 31 December 2008	-	-
<b>At 31 December 2009</b>	<b>-</b>	<b>-</b>
<b>Amortization and impairment:</b>		
At 1 January 2008	7	7
Amortization charge for the year	1	1
Disposals	(8)	(8)
At 31 December 2008	-	-
<b>At 31 December 2009</b>	<b>-</b>	<b>-</b>
<b>Net book value:</b>		
At 1 January 2008	<b>1</b>	<b>1</b>
At 31 December 2008	-	-
<b>At 31 December 2009</b>	<b>-</b>	<b>-</b>

As at 31 December 2009 intangible assets are fully amortised.

*Useful lives*

The useful lives of the assets are estimated as follows:

Computer software	5 years
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**7. Trade and other receivables**

	<b>2009</b>	<b>2008</b>
	<b>€000</b>	<b>€000</b>
Taxes refundable	-	5
Other receivables	1	-
	<b>1</b>	<b>5</b>

Tax receivables are non-interest bearing and are set within the deadlines of the legislation.

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**7. Trade and other receivables (continued)**

Since 2003 Granitoid AD reported gross trade receivables of EUR 315 thousand from and trade payables of EUR 290 thousand to a counter party. These receivables and payables were outstanding for more than five years. In the past Granitoid AD initiated legal proceedings against the counter party. However the representatives of the latter could not be found and thus the litigation was stopped. In 2003 Granitoid AD partially impaired the trade receivables by EUR 25 thousand representing the excess of trade receivables over trade payables. As of 31 December 2008 the management assessed that the five year legal prescription period for these trade payables and receivables according to the Bulgarian law have expired. Consequently they were derecognized through offset based on the protocol for offsetting signed by and between Granitoid AD and the counter party, and the management's intentions to settle them on a net basis, which crystallized in 2008.

Movements in the provision for impairment of receivables were as follows:

	<b>Provision for impairment of receivables</b>
	<b>€000</b>
At 1 January 2008	25
Utilized	(25)
<b>At 31 December 2008</b>	<b>-</b>
<b>At 31 December 2009</b>	<b>-</b>

**8. Cash and short-term deposits**

	<b>2009</b>	<b>2008</b>
	<b>€000</b>	<b>€000</b>
Cash in hand	1	-
Cash at bank	8	58
	<b>9</b>	<b>58</b>

Cash at bank earns interest at floating rates based on daily bank deposit rates. As of 31 December 2009 the fair value of cash is EUR 9 thousand (2008: EUR 58 thousand).

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**9. Issued capital and reserves**

**9.1 Issued capital**

	<u>2009</u>	<u>2008</u>
	<u>€000</u>	<u>€000</u>
Ordinary shares of EUR 0.51 each, as per court registration	308	308
Hyperinflation adjustment	<u>18,809</u>	<u>18,809</u>
	<u><b>19,117</b></u>	<u><b>19,117</b></u>

In the period 1990-1997 the Bulgarian economy has experienced hyperinflation. According to IAS 29 Financial Reporting in Hyperinflationary Economies in such circumstances the Company has to hyper-inflate the amounts in its financial statements and to use them as a basis for the carrying amounts in its subsequent financial statements. The amount of EUR 18,809 thousand represents the effect of hyperinflation of the share capital from its nominal and legally registered value of EUR 308 thousand to EUR 19,117 thousand. The hyperinflation was 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.

	<u>Number of ordinary shares (thousands)</u>	<u>Authorized capital (€000)</u>
At 1 January 2008	603	308
At 1 January 2009	<u>603</u>	<u>308</u>
<b>At 31 December 2009</b>	<u><b>603</b></u>	<u><b>308</b></u>

All ordinary shares issued were fully paid.

**9.2 Reserves**

*Legal reserve*

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



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**10. Trade and other payables**

	<u>2009</u>	<u>2008</u>
	€000	€000
Trade payables	10	7
Unused paid leave	3	6
Payables to personnel	2	2
Social security	1	1
VAT payable	1	-
Payroll taxes	-	1
Deferred income	-	1
	<u>17</u>	<u>18</u>

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

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

During 2008 the Company derecognized payables for the total amount of EUR 295 thousand of which EUR 290 thousand were derecognized through offset with trade receivable. Please refer to Note 7 for details.

**11. Provisions**

	<u>Provision for other liabilities and charges</u>
	€000
At 1 January 2008	3
Utilized	(3)
<b>At 31 December 2008</b>	<u>-</u>
<b>At 31 December 2009</b>	<u>-</u>

The provision related to amounts due to a former employee of the Company, who initiated a litigation against Granitoid AD. During 2008 the Company lost the court case and paid to the employee which resulted in the utilization of the provision made.

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**12. Related party disclosures**

*The ultimate parent*

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

*Entity with controlling interest in the Company*

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

*Other related parties*

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

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

		Sales to related parties	Purchases from related parties	Amounts owed from related parties	Amounts owed to related parties
		€000	€000	€000	€000
<b>In respect of sales/purchases from related party</b>					
<i>Other related parties</i>					
Zlatna Panega Cement AD	2009	12	-	-	-
Zlatna Panega Cement AD	2008	28	-	1	-
Zlatna Panega Beton EOOD	2009	-	-	-	-
Zlatna Panega Beton EOOD	2008	3	-	-	-
	2009			-	-
	2008			<u>1</u>	<u>-</u>

**Terms and conditions of transactions with related parties**

The sales and purchases from related parties are made at contracted 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 the year ended 31 December 2009, the Company has not recorded any impairment of receivables relating to amounts owed by related parties (2008: Nil). This assessment is undertaken each financial year through examining the financial position of the related party and the market in which the related party operates.

**Compensation of key management personnel**

	2009	2008
	€000	€000
Short-term employee benefits	26	28
	<u>26</u>	<u>28</u>

### **13. Commitments and contingencies**

#### **Capital commitments**

As of 31 December 2009, the Company had no capital commitments. (2008: Nil)

#### **Legal claims**

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

#### **Other**

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

- Corporate income tax 1 – January 2005 - 31 December 2006;
- VAT – 1 October 2006 - 31 January 2008;
- Personal income tax – 1 January 2005 - 31 December 2006;
- Social security contributions – 1 January 2005 - 31 December 2006;
- Local taxes and fees – 1 January 2005 - 31 December 2006;

The directors do not believe that, as of 31 December 2009, any material matters exist relating to the evolving fiscal and regulatory environment in the country, which would require adjustment to the accompanying financial statements.

### **14. Financial risk management objectives and policies**

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

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

#### *Interest rate risk*

The Company's exposure to the risk of changes in market interest rates relates primarily to its short-term loans from related parties with floating interest rates. This interest rate risk is managed at parent company level.

As the Company did not have any significant outstanding loans at year end, it is not exposed to significant interest rate risk.

#### *Liquidity risk*

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

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**14. Financial risk management objectives and policies (continued)**

*Liquidity risk (continued)*

The table below summarizes the maturity profile of the Company's financial liabilities at 31 December 2009 based on contractual undiscounted payments.

**As of 31 December 2009**

	On demand	Less than 3 months	3 to 12 months	1 to 5 years	> 5 years	Total
	€000	€000	€000	€000	€000	€000
Trade and other payables	10	7	-	-	-	17
	<b>10</b>	<b>7</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>17</b>

**As of 31 December 2008**

	On demand	Less than 3 months	3 to 12 months	1 to 5 years	> 5 years	Total
	€000	€000	€000	€000	€000	€000
Trade and other payables	-	18	-	-	-	18
	<b>-</b>	<b>18</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>18</b>

*Foreign exchange risk*

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

*Credit risk*

The Company trades only with recognized, 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. There are no significant concentrations of credit risk within the Company.

*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 going concern and to maximize 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 the 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 2009 and 31 December 2008.

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

	2009	2008
	€000	€000
<b>EBITDA</b>	<b>(63)</b>	<b>13</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.

## **15. Financial instruments**

### **Fair values**

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

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

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

## **16. Events after the balance sheet date**

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