Sharr Beteiligungs, Hani i Elezit

Financial Statements

For the year ended

31 December 2010

With the Report of the Auditor Thereon

Contents

Statement of financial position

As at 31 December

In Euro	*Note*	**2010**	**2009**
Assets			
Property, plant and equipment	*13*	117,386	225,373
Leasehold improvements	*14*	-	1,156,069
Total non-current assets		117,386	1,381,442
Inventories	*15*	5,301,736	2,863,939
Trade and other receivables	*16*	950,687	479,639
Current tax asset		1,280,146	-
Cash and cash equivalents	*17*	3,982,891	6,256,669
Total current assets		11,515,460	9,600,247
Total assets		11,632,846	10,981,689
Equity			
Accumulated profit		4,810,541	2,973,787
Total equity		4,810,541	2,973,787
Liabilities			
Deferred tax liabilities	*18*	-	3,236
Total non-current liabilities		-	3,236
Current tax liability		-	925,963
Trade and other payables	*19*	5,504,302	6,170,897
Provisions for litigation	*20*	350,000	350,000
Provisions for site restoration	*20*	968,003	557,806
Total current liabilities		6,822,305	8,004,666
Total liabilities		6,822,305	8,007,902
Total equity and liabilities		11,632,846	10,981,689

The notes on pages 5 to 32 are an integral part of these financial statements.

The financial statements set out on pages 1 to 32 were authorised for issue by the directors of Sharr Beteiligungs, Hani i Elezit on 31 March 2011 and were signed on their behalf by:

Emmanuel Mitsou
Managing Director

Xhemail Dernjani
Chief Accountant

Statement of comprehensive income

For the year ended 31 December

In Euro	*Note*	2010	2009
Revenue	*6*	37,086,016	45,512,548
Cost of sales		(23,885,714)	(28,331,149)
Gross profit		13,200,302	17,181,399
Other income	*7*	5,498	1,225,651
Distribution expenses		(1,310,776)	(1,692,033)
Administrative expenses		(1,337,831)	(1,077,041)
Other expenses	*8*	(427,457)	(350,063)
Results from operating activities		10,129,736	15,287,913
Finance income		99,274	209,551
Finance costs		(80,279)	-
Net finance income	*11*	18,995	209,551
Profit before income tax		10,148,731	15,497,464
Income tax expense	*12*	(621,533)	(1,807,574)
Profit for the period		9,527,198	13,689,890
Other comprehensive income for the period, net of income tax		-	-
Total comprehensive income for the period		9,527,198	13,689,890

The notes on pages 5 to 32 are an integral part of these financial statements.

Statement of changes in equity

For the year ended 31 December

In Euro	Accumulated profit	Total
Balance at 1 January 2009	6,673,259	6,673,259
Profit or loss	13,689,890	13,689,890
Total comprehensive income for the period	13,689,890	13,689,890
Dividends distributed to owners	(17,389,362)	(17,389,362)
Balance at 31 December 2009	2,973,787	2,973,787
Balance at 1 January 2010	2,973,787	2,973,787
Profit or loss	9,527,198	9,527,198
Total comprehensive income for the period	9,527,198	9,527,198
Dividends distributed to owners	(7,690,444)	(7,690,444)
Balance at 31 December 2010	4,810,541	4,810,541

The notes on pages 5 to 32 are an integral part of these financial statements

Statement of cash flows

For the year ended 31 December

In Euro	*Note*	2010	2009
Cash flows from operating activities			
Profit for the period		9,527,198	13,689,890
Adjustments for:			
Depreciation	*10*	498,265	577,201
Amortisation	*10*	1,156,069	2,797,287
Write off of non-trade payables	*7*	-	(835,117)
Release of allowance for consumables and spare parts from Sharr SOE	*7*	-	(374,579)
Provision for site restoration	*10*	507,125	(20,556)
Write down of inventories	*10*	5,016	253,227
Interest income	*11*	(97,950)	(198,169)
Income tax expense	*12*	621,533	1,807,574
		12,217,256	17,696,758
Change in inventories		(2,442,813)	287,960
Change in trade and other receivables		(471,048)	277,833
Change in trade and other payables		(666,595)	1,722,363
Change in provisions		(96,928)	(228,001)
Cash generated from operating activities		8,539,872	19,756,913
Interest paid		-	(3,499,539)
Income tax paid		(2,830,878)	(1,376,690)
Net cash from operating activities		5,708,994	14,880,684
Cash flows from investing activities			
Interest received		97,950	198,169
Acquisition of property, plant and equipment		(390,278)	(25,099)
Net cash (used in)/from investing activities		(292,328)	173,070
Cash flows from financing activities			
Dividends paid		(7,690,444)	(17,389,362)
Net cash used in financing activities		(7,690,444)	(17,389,362)
Net decrease in cash and cash equivalents		(2,273,778)	(2,335,608)
Cash and cash equivalents at 1 January		6,256,669	8,592,277
Cash and cash equivalents at 31 December	*17*	3,982,891	6,256,669

The notes on pages 5 to 32 are an integral part of these financial statements.

Notes to the financial statements

1. Reporting entity

Sharr Beteiligungs, Hani i Elezit ("the Branch") was established in 2000 as a branch of Sharr Beteiligungs GmbH, Hamburg ("the Parent"). On 13 June 2000, the Branch entered into an agreement with the United Nations Interim Administration in Kosovo ("UNMIK"), for lease, management and operation of the "Sharr cement plant" located in Hani i Elezit, Kosovo. According to Kosovo Assembly Law No. 03/L-067 from 2008, Privatization Agency of Kosovo ("PAK") was established as the successor of KTA in respect of the lease agreement. KTA was previously regulated by UNMIK Regulation 2002/12 "On the establishment of the Kosovo Trust Agency".

On 25 January 2010 an agreement was signed with PAK, by which was approved the transaction for the sale of the Branch to Titan Cement Group. On the same date, the new owner of the Branch is required to continue the lease, management and operations of Sharr Cement Plant and its assets in accordance with the Lease Agreement. Furthermore the Lease Agreement was extended up until 31 December 2010.

In a view of the fact that the Lease Agreement expires on 31 December 2010, the PAK has decided by resolution of its Board of Directors, dated 30 July 2010 to privatize Sharr Cement Plant by honouring the Lease agreement and exercising by the Parent of the option to acquire the Sharr cement plant assets at a fair market price. For this reason PAK invited the Parent to enter into negotiations which the Parent accepted.

To facilitate the privatization process, the PAK incorporated a new legal entity „New Company" with share capital of € 1,000. The negotiations were closed on 9 December 2010 by signing the share purchase agreement („SPA") between the PAK and the Parent. On this date the operating lease agreement between PAK and the Parent has been terminated; PAK has transferred assets from Sharr cement plant to the New Company and transfer of 100% interest in New Company to the Parent as buyer of the New Company. After this date the Branch has continued with the business using the assets of the New Company. At the date of issuing of these financial statements the management has not yet decided, whether the business will be continued ether by the Branch or by the New Company or eventually by the merger of the companies in place.

The sole operation of the Branch is the production and sale of masonry cement and cement. The Branch operates solely on the Kosovo market.

2. Basis of preparation

(a) Statement of compliance

The financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRSs").

(b) Basis of measurement

The financial statements have been prepared on the historical cost basis.

(c) Functional and presentation currency

The financial statements are presented in Euro, which is the Branch's functional currency.

Notes to the financial statements

2. Basis of preparation (continued)

(d) Use of estimates and judgements

The preparation of financial statements in conformity with IFRSs requires management to make judgements, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses. Actual results may differ from these estimates.

Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimates are revised and in any future periods affected.

Information about critical judgements in applying accounting policies that have the most significant effect on the amounts recognised in the financial statements is included in the following notes:

- Note 22 – lease classification

Information about assumptions and estimation uncertainties that have a significant risk of resulting in a material adjustment within the next financial year are included in the following notes:

- Note 20 – provisions

3. Significant accounting policies

The accounting policies set out below have been applied consistently to all periods presented in these financial statements.

(a) Foreign currency

Transactions in foreign currencies are translated to Euros at exchange rates at the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies at the reporting date are retranslated to Euros at the exchange rate at that date. The foreign currency gain or loss on monetary items is the difference between amortised cost in Euros at the beginning of the period, adjusted for effective interest and payments during the period, and the amortised cost in foreign currency translated at the exchange rate at the end of the reporting period. Foreign currency differences arising on retranslation are recognised in profit or loss.

(b) Financial instruments

(i) Non-derivative financial assets

The Branch initially recognises loans and receivables and deposits on the date that they are originated. All other financial assets (including assets designated at fair value through profit or loss) are recognised initially on the trade date, which is the date that the Branch becomes a party to the contractual provisions of the instrument.

Notes to the financial statements

3. Significant accounting policies (continued)

(b) Financial instruments (continued)

(i) Non-derivative financial assets (continued)

The Branch derecognises a financial asset when the contractual rights to the cash flows from the asset expire, or it transfers the rights to receive the contractual cash flows on the financial asset in a transaction in which substantially all the risks and rewards of ownership of the financial asset are transferred. Any interest in transferred financial assets that is created or retained by the Branch is recognised as a separate asset or liability.

Financial assets and liabilities are offset and the net amount presented in the statement of financial position when, and only when, the Branch has a legal right to offset the amounts and intends either to settle on a net basis or to realise the asset and settle the liability simultaneously.

The Branch has loans and receivables as non-derivative financial assets.

Loans and receivables

Loans and receivables are financial assets with fixed or determinable payments that are not quoted in an active market. Such assets are recognised initially at fair value plus any directly attributable transaction costs. Subsequent to initial recognition loans and receivables are measured at amortised cost using the effective interest method, less any impairment losses.

Loans and receivables comprise cash and cash equivalents, and trade and other receivables.

Cash and cash equivalents

Cash and cash equivalents comprise short-term deposits with related parties, bank balances cash on hand and call deposits with original maturities of three months or less.

(ii) Non-derivative financial liabilities

Financial liabilities are recognised initially on the trade date, which is the date that the Branch becomes a party to the contractual provisions of the instrument.

The Branch derecognises a financial liability when its contractual obligations are discharged or cancelled or expire.

Financial assets and liabilities are offset and the net amount presented in the statement of financial position when, and only when, the Branch has a legal right to offset the amounts and intends either to settle on a net basis or to realise the asset and settle the liability simultaneously.

The financial liabilities are recognised initially at fair value plus any directly attributable transaction costs. Subsequent to initial recognition, these financial liabilities are measured at amortised cost using the effective interest method.

The Branch has trade and other payables as non-derivative financial liabilities.

Notes to the financial statements

3. Significant accounting policies (continued)

(c) Property, plant and equipment

(i) Recognition and measurement

Items of property, plant and equipment are measured at cost less accumulated depreciation and accumulated impairment losses.

Cost includes expenditures that are directly attributable to the acquisition of the asset. Purchased software that is integral to the functionality of the related equipment is capitalised as part of that equipment.

When parts of an item of property, plant and equipment have different useful lives, they are accounted for as separate items (major components) of property, plant and equipment.

The gain and loss on disposal of an item of property, plant and equipment is determined by comparing the proceeds from disposal with the carrying amount of property, plant and equipment, and is recognised net within other income/other expenses in profit or loss.

(ii) Subsequent costs

The cost of replacing part of an item of property, plant and equipment is recognised in the carrying amount of the item if it is probable that the future economic benefits embodied within the component will flow to the Branch and its cost can be measured reliably. The carrying amount of the replaced component is derecognised. The costs of the day-to-day servicing of property, plant and equipment are recognised in profit or loss as incurred.

(iii) Depreciation

Depreciation is based on the cost of an asset less its residual value. Significant components of individual assets are assessed and if a component has a useful life that is different from the remainder of that asset, the component is depreciated separately.

Depreciation is recognised in profit or loss on a straight-line basis over the shorter of the estimated useful lives of each part of an item of property, plant and equipment, and the remainder of the lease period (refer note 13).

For the assets under construction which are not transferred to PAK, the depreciation will be recognised in profit or loss on a straight-line basis over the estimated useful lives of each component (refer note 13).

The estimated useful lives for the current and comparative periods are as follows:

• Production equipment	5-10 years
• Vehicles	5-10 years
• Computers and telecommunication equipment	3 years

Depreciation methods, useful lives and residual values are reviewed at each reporting date and adjusted if appropriate.

Notes to the financial statements

3. Significant accounting policies (continued)

(d) Leasehold improvements

Leasehold improvements are measured at cost less accumulated amortisation and accumulated impairment losses.

Amortisation is recognised in profit or loss on a straight-line basis over the term of the lease.

- Leasehold improvements 5-10 years

Amortisation methods, useful lives and residual values are reviewed at each reporting date and adjusted if appropriate.

(e) Inventories

Inventories are measured at the lower of cost and net realisable value. The cost of inventories is based on a weighted average cost formula, and includes expenditure incurred in acquiring the inventories, production or conversion costs and other costs incurred in bringing them to their existing location and condition.

Net realisable value is the estimated selling price in the ordinary course of business, less the estimated costs of completion and selling expenses.

(f) Impairment

(i) Non-derivative financial assets

A financial asset not carried at fair value through profit or loss is assessed at each reporting date to determine whether there is objective evidence that it is impaired. A financial asset is impaired if objective evidence indicates that a loss event has occurred after the initial recognition of the asset, and that the loss event had a negative effect on the estimated future cash flows of that asset that can be estimated reliably.

Objective evidence that financial assets are impaired can include default or delinquency by a debtor, restructuring of an amount due to the Branch on terms that the Branch would not consider otherwise, indications that a debtor or issuer will enter bankruptcy.

Loans and receivables

The Branch considers evidence of impairment for loans and receivables at a specific asset. All individually significant receivables are assessed for specific impairment.

An impairment loss in respect of a financial asset measured at amortised cost is calculated as the difference between its carrying amount and the present value of the estimated future cash flows discounted at the asset's original effective interest rate. Losses are recognised in profit or loss and reflected in an allowance account against loans and receivables. Interest on the impaired asset continues to be recognised. When a subsequent event (e.g. repayment by a debtor) causes the amount of impairment loss to decrease, the decrease in impairment loss is reversed through profit or loss.

Notes to the financial statements

3. Significant accounting policies (continued)

(f) Impairment (continued)

(i) Non-derivative financial assets (continued)

The carrying amounts of the Branch's non-financial assets, other than inventories and deferred tax assets are reviewed at each reporting date to determine whether there is any indication of impairment. If any such indication exists, then the asset's recoverable amount is estimated. An impairment loss is recognised if the carrying amount of an asset or its related cash-generating unit "CGU" exceeds its estimated recoverable amount.

The recoverable amount of an asset or CGU is the greater of its value in use and its fair value less costs to sell. 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 or CGU. For the purpose of impairment testing, assets that cannot be tested individually are grouped together into the smallest group of assets that generates cash inflows from continuing use that are largely independent of the cash inflows of other assets or groups of assets or CGU.

The Branch's corporate assets do not generate separate cash inflows. If there is an indication that a corporate asset may be impaired, then the recoverable amount is determined for the CGU to which the corporate asset belongs.

Impairment losses are recognised in profit or loss. Impairment losses recognised in respect of CGUs are allocated to reduce the carrying amount of the assets in the CGU on a pro rata basis.

Impairment losses recognised in prior periods are assessed at each reporting date for any indications that the loss has decreased or no longer exists. An impairment loss is reversed if there has been a change in the estimates used to determine the recoverable amount.

An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortisation, if no impairment loss had been recognised.

(g) Employee benefits

(i) Defined contribution plans

The Branch contributes to its employees' post retirement plans as prescribed by the national legislation. Contributions, based on salaries, are made to the national organizations responsible for the payment of pensions. There is no additional liability in respect of these plans. Obligations for contributions to defined contribution pension plans are recognised as an employee benefit expense in profit or loss in the periods during which services are rendered by employees.

Notes to the financial statements

3. Significant accounting policies (continued)

(g) Employee benefits (continued)

(ii) Short-term benefits

Short-term employee benefit obligations are measured on an undiscounted basis and are expensed as the related service is provided. A liability is recognised for the amount expected to be paid under short-term cash bonus or profit-sharing plans if the Branch has a present legal or constructive obligation to pay this amount as a result of past service provided by the employee, and the obligation can be estimated reliably.

(h) Provisions

A provision is recognised if, as a result of a past event, the Branch has a present legal or constructive obligation that can be estimated reliably, and it is probable that an outflow of economic benefits will be required to settle the obligation. Provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the liability. The unwinding of the discount is recognised as finance cost.

(i) Site restoration

In accordance with applicable legal requirements, a provision for site restoration in respect of exploration of land, and the related expense, is recognised when the land is explored below the specified quota.

(i) Revenue

(i) Goods sold

Revenue from the sale of goods in the course of ordinary activities is measured at the fair value of the consideration received or receivable, net of returns, trade discounts and volume rebates. Revenue is recognised when persuasive evidence exists, usually in the form of an executed sales agreement, that the significant risks and rewards of ownership have been transferred to the customer, recovery of the consideration is probable, the associated costs and possible return of goods can be estimated reliably, there is no continuing management involvement with the goods, and the amount of revenue can be measured reliably. If it is probable that discounts will be granted and the amount can be measured reliably, then the discount is recognised as a reduction of revenue as the sales are recognised.

Transfer of risks and rewards occurs when the cement is received by the customer.

(j) Lease payments

Payments made under operating leases are recognised in profit or loss on a straight-line basis over the term of the lease. Lease incentives received are recognised as an integral part of the total lease expense, over the term of the lease.

Contingent lease payments are accounted for by revising the minimum lease payments over the remaining term of the lease when the lease adjustment is confirmed.

Notes to the financial statements

3. Significant accounting policies (continued)

(j) Lease payments (continued)

Determining whether an arrangement contains a lease

At inception of an arrangement, the Branch determines whether such an arrangement is or contains a lease. A specific asset is the subject of a lease if fulfilment of the arrangement is dependent on the use of that specified asset. An arrangement conveys the right to use the asset if the arrangement conveys to the Branch the right to control the use of the underlying asset.

At inception or upon reassessment of the arrangement, the Branch separates payments and other consideration required by such an arrangement into those for the lease and those for other elements on the basis of their relative fair values.

(k) Finance income and finance costs

Finance income is comprised of interest income on funds invested. Interest income is recognised as it accrues in profit or loss, using the effective interest method.

Finance costs comprise interest expense on borrowings and impairment losses recognised on financial assets.
Borrowing costs that are not directly attributable to the acquisition construction or production of a qualifying asset are recognised in profit or loss using the effective interest method.

Foreign currency gains and losses are reported on a net basis as either finance income or finance cost depending on whether foreign currency movements are in a net gain or net loss position.

(l) Income tax expense

Income tax expense comprises current and deferred tax. Current tax and deferred tax are recognised in profit or loss except to the extent that it relates to a business combination, or items recognised directly in equity or in other comprehensive income.

Current tax is the expected tax payable or receivable on the taxable income or loss for the year, using tax rates enacted or substantively enacted at the reporting date, and any adjustment to tax payable in respect of previous years. Current tax payable also includes any tax liability arising from the declaration of dividends.

Deferred tax is recognised in respect of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes.

Notes to the financial statements

3. Significant accounting policies (continued)

(l) Income tax expense (continued)

Deferred tax is not recognised for:

- temporary differences on the initial recognition of assets or liabilities in a transaction that is not a business combination and that affects neither accounting nor taxable profit or loss; and

- temporary differences related to investments in subsidiaries and jointly controlled entities to the extent that it is probable that they will not reverse in the foreseeable future.

Deferred tax is measured at the tax rates that are expected to be applied to temporary differences when they reverse, based on the laws that have been enacted or substantively enacted by the reporting date. Deferred tax asset and liabilities are offset if there is legally enforceable right to offset current tax liabilities and assets, and they relate to income taxes levied by the same tax authorities on the same taxable entity, or on different tax entities, but they intend to settle current tax liabilities and assets on a net basis or their tax assets and liabilities will be realised simultaneously.

A deferred tax asset is recognised for unused tax losses, tax credits and deductible temporary differences, to the extent that it is probable that future taxable profits will be available against which they can be utilised. Deferred tax assets are reviewed at each reporting date and are reduced to the extent that it is no longer probable that the related tax benefit will be realised.

(m) New standards and interpretations not yet adopted

A number of new standards, amendments to standards and interpretations are effective for annual periods beginning after 1 January 2010, and have not been applied in preparing these financial statements. None of these is expected to have a significant effect on the financial statements of the Branch.

4. Determination of fair values

A number of the Branch's accounting policies and disclosures require the determination of fair value, for both financial and non-financial assets and liabilities. Fair values have been determined for measurement and/or disclosure purposes based on the following methods. Where applicable, further information about the assumptions made in determining fair values is disclosed in the notes specific to that asset or liability.

(i) Trade and other receivables

The fair value of trade and other receivables is estimated as the present value of future cash flows, discounted at the market rate of interest at the reporting date. This fair value is determined for disclosure purposes.

Notes to the financial statements

4. Determination of fair values (continued)

(ii) Non-derivative financial liabilities

Fair value, which is determined for disclosure purposes, is calculated based on the present value of future principal and interest cash flows, discounted at the market rate of interest at the reporting date.

5. Financial risk management

Overview

The Branch has exposure to the following risks from its use of financial instruments:

- credit risk
- liquidity risk
- market risk

This note presents information about the Branch's exposure to each of the above risks, the Branch's objectives, policies and processes for measuring and managing risk, and the Branch's management of capital. Further quantitative disclosures are included throughout these financial statements.

Risk management framework

The Chief Executive Officer has overall responsibility for the establishment and oversight of the Branch's risk management framework.

Branch's risk management is established in order to identify and analyse the risks faced by Branch, to set appropriate risk limits and controls and monitor risks and adherence to limits.

(a) Credit risk

Credit risk is the risk of financial loss to the Branch if a customer or counterparty to a financial instrument fails to meet its contractual obligations, and arises principally from the Branch's receivables from customers.

(i) Trade and other receivables

Branch's exposure to credit risk is influenced by the individual characteristics of each customer. Around 99% of Branch's customer base consists of domestic customers. Next to the individual customer risk there is an inherent country risk related to the customers.

Branch has established a credit procedure under which each new customer is analysed for creditworthiness before Branch's standard payment and delivery terms and conditions are offered. Branch's analysis includes bank references, if available.

Notes to the financial statements

5. Financial risk management (continued)

(a) Credit risk (continued)

(i) Trade and other receivables (continued)

Purchase limits are established for each customer, which represents the maximum open amount, without requiring an approval from the CEO. These limits are reviewed monthly in sales department and finance department.

Customers that fail to meet the benchmark for creditworthiness of Branch may buy goods from Branch on a prepayment basis or by providing a bank guarantee issued by one of the three biggest Kosovo's banks. In all other cases the Branch does not require collateral in respect of trade and other receivables.

The Branch establishes an allowance for impairment that represents its estimate of incurred losses in respect of trade and other receivables. The main components of this allowance are a specific loss component that relates to individually significant exposures in respect of losses that have been incurred but not yet identified.

The Branch held cash and cash equivalents of € 3,979,129 as at 31 December 2010 (2009: € 6,172,464) which represents its maximum credit exposure on these assets. The cash and cash equivalents is held in well known banks in Kosovo.

(b) Liquidity risk

Liquidity risk is the risk that the Branch will encounter difficulty in meeting the obligations associated with its financial liabilities that are settled by delivering cash or another financial asset.

The Branch has implemented accounting and controlling procedures in line with the Titan Group and is able to monitor cash flow requirements at any point of time.

The Branch always ensures that it has sufficient cash available on demand to meet expected operational expenses for a period of 60 days, including the servicing of other financial obligations. This excludes the potential impact of extreme circumstances, as natural disasters or political disturbances in the region.

(c) Market risk

Market risk is the risk that changes in market prices, such as foreign exchange rates and interest rates will affect Branch's income or the value of its holdings of financial instruments. The objective of market risk management is to manage and control market risk exposure within acceptable parameters, while optimising the return.

Notes to the financial statements

5. Financial risk management (continued)

(c) Market risk (continued)

(i) Currency risk

The Branch is exposed to foreign currency risk on purchases that are denominated in a currency other than Euro. The currencies giving rise to this risk are primarily USD and MKD. Since transaction in foreign currency presents small portion in the annual turnover of the Branch, changes in the foreign exchange rates could not have a significant effect on the financial results of the Branch.

The Branch did not enter into any foreign exchange hedge instruments.

(d) Capital management

The Branch does not have specific capital management policy in place, since the privatisation process has been completed on 9 December 2010, and at the date of issue of these financial statements the management has not yet decided, whether the business will be continued ether by the Branch or by the New Company or eventually by the merger of the companies in place.

Notes to the financial statements

6. Revenue

In Euro	2010	2009
Sales of goods	37,086,016	45,512,548
	37,086,016	45,512,548

7. Other income

In Euro	2010	2009
Write off of non-trade payables	-	835,117
Release of allowance for consumables and spare parts from Sharr SOE	-	374,579
Other	5,498	15,955
	5,498	1,225,651

Following the reconciliation of liabilities, that have occurred from the Lease and other agreements, carried out between Privatization Agency of Kosovo – legal successor of UNMIK and the Branch in 2009, the management of the Branch decided to write off the non – trade payables in the amount of € 835,117 and to release the allowance for consumables and spare parts from Sharr SOE in the amount of € 374,579 or in total € 1,209,696. The total amount represents the allowance of spare parts and small inventories on hand made on 13 June 2000 which was opening financial position date (refer note 15).

8. Other expenses

In Euro	2010	2009
Expenses for former employees	314,364	292,688
Donations	112,853	57,324
Other	240	51
	427,457	350,063

Expenses for former employees in the amount of € 314,364 (2009: € 292,688) represents amount paid according to the contract with Kosovo Trust Agency ("KTA") for leave programme of 137 employees commencing at 13 June 2006 with duration of 12 months. This contract was extended each following year, and in 2010 was extended till the end of the year. With this contract the employees were transferred to KTA and received compensation of € 128 each.

In addition to the payment, according to the contract, the Branch has signed agreement with these employees to pay the rest of the salary from € 128 up to 60% of the previous salary for these employees that were transferred to KTA.

In 2008 annex to the contract was signed according to which employees who are included in the program of paid leave will be entitled to 60% of the salary increase that has been approved for the regular employees as of 1 August 2008.

Notes to the financial statements

9. Personnel expenses

In Euro	2010	2009
Wages and salaries	3,680,354	3,634,390
Compulsory social security contributions	323,415	248,834
Contribution for employees according to lease agreement (note 22)	2,440,082	3,777,263
Other staff costs	62,929	68,174
	6,506,780	7,728,661

Other staff costs comprise expenses for transportation and travel allowances.

10. Expenses by nature

In Euro	2010	2009
Energy and fuel consumed	11,038,690	10,223,688
Personnel expenses (note 9)	6,506,780	7,728,661
Raw materials and consumables used	3,808,403	5,018,884
Mining concession	1,537,486	-
Maintenance and repair	1,440,411	1,313,974
Amortization (note 14)	1,156,069	2,797,287
Rent and leases	681,446	1,022,584
Consulting	71,691	912,167
Depreciation (note 13)	498,265	577,201
Write down of inventories	5,016	253,227
Transportation expenses	279,219	251,647
Security costs	184,431	192,284
Advertising and promotion costs	88,201	60,306
Changes in inventories of finished goods and work in progress	(2,196,633)	38,570
Provision for site restoration	507,125	(20,556)
Other expenses	927,721	730,299
Total costs of sales, distribution expenses and administrative expenses	26,534,321	31,100,223

Expenses for mining concession in the amount of € 1,537,486 (2009: nil) relates to expenses for extraction of marl retrospectively for the period from year 2005 to year 2010. Extraction of the raw material was covered by UNMIK's regulation No. 2005/3 article 33, 46, 48 till 51 and 64, for the mines and minerals of Kosovo, and according to this regulation any business entity is obliged to be subject to this regulation. Invoices for extraction of marl were received for the first time on 1 March 2009 from the Independent Commission for Mines and Minerals ("ICMM"). The Branch has not recognised these expenses in 2009, since according to the lawyer opinion the Branch is not obliged to pay the claimed liabilities, due to the fact that in the lease agreement on managing and operating the cement plant, was covered the lessee's right for extraction of raw material – marl, necessary for cement production.

Notes to the financial statements

10. Expenses by nature (continued)

Namely, in the chapter IV "Lessee's rights", point 4.4, the lessee's rights for the extraction of raw material was regulated as follows "with regard to any quarries that are included in the Lease, Lessee may extract and use, at no additional cost, gravel, sand, marl, clay, limestone or stone found within the quarries for purposes necessary and useful to its operations and activities under the Lease, provided that the Lessee is in proper possession of licences or permits requisite to such extraction". The management did not want to have any obstacles in the business in relation to unpaid fees for marl extraction, accordingly these liabilities have been paid and related expenses recorded, although they have still court proceedings against the ICMM.

11. Finance income and finance costs

Recognised in profit or loss

In Euro	**2010**	**2009**
Interest income	97,950	198,169
Net foreign exchange gain	1,324	11,382
Finance income	99,274	209,551
Impairment loss on interest receivables	(80,279)	-
Finance costs	(80,279)	-
Net finance income recognised in profit or loss	18,995	209,551

12. Income tax expense

In Euro	**2010**	**2009**
Current tax expense		
Current period	624,769	2,043,002
	624,769	2,043,002
Deferred tax income		
Origination of temporary differences	(3,236)	(235,428)
	(3,236)	(235,428)
Total income tax expense	621,533	1,807,574

Notes to the financial statements

12. Income tax expense (continued)

Reconciliation of effective tax rate

In Euro	2010	2010	2009	2009
Profit for the period		9,527,198		13,689,890
Total income tax expense		621,533		1,807,574
Profit excluding income tax		10,148,731		15,497,464
Income tax using the domestic corporation tax rate	10.0%	1,014,873	10.0%	1,549,746
Non-deductible expenses	0.5%	48,661	2.4%	377,160
Recognition of previously unrecognised tax losses	(3.5%)	(349,954)	-	-
Tax incentives	(0.9%)	(92,047)	-	-
Reduction in tax rate	-	-	(0.8%)	(119,332)
	6.1%	621,533	11.6%	1,807,574

In 2010 the Branch's books and records for the period from 1 January 2005 to 31 December 2009 have been audited by the tax authorities. The tax authorities have issued a final report on the tax audit by which the Branch has to pay additional tax on income in the amount of EUR 1,344,931 (including the EUR 363,699 penalty for late payment). On 23 December 2010 the Branch filed an appeal to the commission, within the tax authorities, against their final decision. After the hearing session held by the commission, within the tax authorities, the appeal of the Branch was rejected. The rejected appeal was analyzed by the tax experts engaged by the Branch and according to their opinion the tax authorities have no right to charge the Branch the additional tax on income, since the calculation of additional charge and refusal of the appeal derives from retrospective application (for the period 1 January 2005 – 31 January 2009) of the provisions of the Law No.03/L-162, ratified by the President of the Assembly of Republic of Kosovo on 29 December 2009 and published as effective from 1 January 2010, according to which the retrospective application of the Law is prohibited.

In 2011 the Branch has paid the additional tax excluding penalty of EUR 363,699 stated in the final report, using the Decision of the Government to release the Branch from the penalties with one single payment of all obligations that the Branch had toward the tax administration taken from this audit. This is valid for all tax periods as foreseen with the decision of the Government No. 06/126 dated 26 May 2010.
Using the right for reduction of penalties will not interrupt, stop and prejudice the Branch from the right to appeal to the Independent Review Board within legal terms and procedures, and whatever the final decision of certain justice levels might be it will be applicable by the tax administration.

Based on the above, the management expects that the appeal will be accepted by the Independent Review Board and the additionally paid amount of tax on income will be reimbursed by the tax authorities. Accordingly, the expense for additional tax on income in the amount of EUR 1,344,931 was not recognised in these financial statements.

Notes to the financial statements

12. Income tax expense (continued)

The Branch's books and records for the period from 1 January 2010 to 31 December 2010 were not audited by the tax authorities. Therefore, the Branch's tax liabilities may not be considered finalized i.e. a provision for additional taxes and penalties, if any, that may be levied in the event of a tax audit cannot, at this stage, be determined with any reasonable accuracy.

13. Property, plant and equipment

In Euro	Production Equipment	Fixtures and fittings	Under construction	Total
Cost				
At 1 January 2009	1,819,523	804,900	-	2,624,423
Additions	-		27,238	27,238
Transfer	-	20,843	(20,843)	-
Disposals	-	(26,416)	-	(26,416)
At 31 December 2009	1,819,523	799,327	6,395	2,625,245
At 1 January 2010	1,819,523	799,327	6,395	2,625,245
Additions	-	-	390,278	390,278
Transfer	151,721	127,566	(279,287)	-
Disposals	-	(24,045)	-	(24,045)
Write off	(1,971,244)	(902,848)	-	(2,874,092)
At 31 December 2010	-	-	117,386	117,386
Depreciation				
At 1 January 2009	1,201,303	645,645	-	1,846,948
Charge for the year	439,403	137,798	-	577,201
Disposals	-	(24,277)	-	(24,277)
At 31 December 2009	1,640,706	759,166	-	2,399,872
At 1 January 2010	1,640,706	759,166	-	2,399,872
Charge for the year	330,538	167,727	-	498,265
Disposals	-	(24,045)	-	(24,045)
Write off	(1,971,244)	(902,848)		(2,874,092)
At 31 December 2010	-	-	-	-
Carrying amounts				
At 1 January 2009	618,220	159,255	-	777,475
At 31 December 2009	178,817	40,161	6,395	225,373
At 1 January 2010	178,817	40,161	6,395	225,373
At 31 December 2010	-	-	117,386	117,386

Notes to the financial statements

13. Property, plant and equipment (continued)

Upon the expiration or early termination of the lease agreement or of any extensions or renewals thereof, the Branch is obliged to leave in good and operating order the leased premises and all plant and equipment necessary for the continued operation of the plant, including removable trade fixtures, the same will remain the property of UNMIK, or of the Branch that UNMIK may specify, up to the amount stated in the lease agreement. Namely, according to the lease agreement with UNMIK the Branch has made a commitment to invest 16 million Euros over the period of the lease. Investments are considered as all funds invested in the enterprise for working capital, equipment, technology transfer, training and environmental programs and other activities that contribute to the revival and development of the plant. The total amount of € 24,055,467 invested by the Branch up to 31 December 2003, has been officially confirmed and accepted by UNMIK in 2004. As the Branch invested larger amount in leasehold improvements, in 2005 it reclassified all assets under construction as property, plant and equipment. As at the date of the termination of the lease agreement on 9 December 2010, all physical assets and improvements made by the Branch, except for the assets under construction has been transferred to PAK without compensation. In accordance with the SPA, the PAK has transferred the physical assets and improvements to the New Company as part of the privatisation process, accordingly the Branch has written off the production equipment, fixtures and fittings and the leasehold improvements from its records.

14. Leasehold improvements

In Euro	Leasehold improvements	Total
Cost		
At 1 January 2009	19,716,067	19,716,067
At 31 December 2009	19,716,067	19,716,067
At 1 January 2010	19,716,067	19,716,067
Write off	(19,716,067)	(19,716,067)
At 31 December 2010	-	-
Amortisation		
At 1 January 2009	15,762,711	15,762,711
Charge for the year	2,797,287	2,797,287
At 31 December 2009	18,559,998	18,559,998
At 1 January 2010	18,559,998	18,559,998
Charge for the year	1,156,069	1,156,069
Write off	(19,716,067)	(19,716,067)
At 31 December 2010	-	-
Carrying amount		
At 1 January 2009	3,953,356	3,953,356
At 31 December 2009	1,156,069	1,156,069
At 1 January 2010	1,156,069	1,156,069
At 31 December 2010	-	-

Notes to the financial statements

14. Leasehold improvements (continued)

Upon the expiration or early termination of the lease agreement or of any extensions or renewals thereof, the Branch is obliged to leave in good and operating order the leased premises and all plant and equipment necessary for the continued operation of the plant, including removable trade fixtures, the same will remain the property of UNMIK, or of the Branch that UNMIK may specify, up to the amount stated in the lease agreement. Namely, according to the lease agreement with UNMIK the Branch has made a commitment to invest 16 million Euros over the period of the lease. Investments are considered as all funds invested in the enterprise for working capital, equipment, technology transfer, training and environmental programs and other activities that contribute to the revival and development of the plant.

The total amount of € 24,055,467 invested by the Branch up to 31 December 2003, has been officially confirmed and accepted by UNMIK in 2004. As the Branch invested larger amount in leasehold improvements, in 2005 it reclassified all assets under construction as property, plant and equipment.

As at the date of the termination of the lease agreement on 9 December 2010, all physical assets and improvements made by the Branch, except for the assets under construction has been transferred to PAK without compensation. In accordance with the SPA, the PAK has transferred the physical assets and improvements to the New Company as part of the privatisation process, accordingly the Branch has written off the production equipment, fixtures and fittings and the leasehold improvements from its records.

15. Inventories

In Euro	2010	2009
Raw materials, consumables and spare parts	1,566,317	1,325,154
Work in progress	2,789,699	807,003
Finished goods	945,720	731,782
	5,301,736	2,863,939

In 2010 the write-down of consumable and spare parts to net realisable value amounted to € 5,016 (2009: € 253,227). The write-down is included in cost of sales.

On 13 June 2000 when the lease agreement was signed the Branch had the opening balance sheet of Sharr Cement Plant at that date. Due to the limited information available prior to 13 June 2000, it was not possible to perform an accurate valuation of the spare parts and small inventories on hand as at that date or of their usefulness to the future operations of the Branch. As such management has decided to make an allowance against the full carrying value of spare parts and small inventories on hand on the opening financial position date as at 13 June 2000 with decrease of the liability to the Sharr Cement Plant, Socially Owned Enterprise ("Sharr SOE") in the amount of DM 2,365,764 or equivalent to € 1,209,596. Afterwards, if any of these items, against which an allowance has been made, were used, an adjustment was made to reduce the allowance with the original value of these items as per the inventory list as of 13 June 2000 and an increase of the liability to the Sharr SOE (non - trade payables).

Notes to the financial statements

15. Inventories (continued)

Following the reconciliation of liabilities, that have occurred from the Lease and other agreements, carried out between Privatization Agency of Kosovo – legal successor of UNMIK and the Branch in 2009, management of the Branch decided to write off the non – trade payables in the amount of € 835,117 and to release the allowance for consumables and spare parts from Sharr SOE in the amount of € 374,579 or in total € 1,209,696. The total amount represents the allowance of spare parts and small inventories on hand made on 13 June 2000 which was opening financial position date (refer note 7).

16. Trade and other receivables

In Euro	2010	2009
Trade receivables	404,721	407,979
Receivables from related parties	208,326	-
VAT receivable	98,915	-
Other receivables	238,725	71,660
	950,687	479,639

The Branch exposure to credit risk and impairment losses related to trade and other receivables is disclosed in note 21.

17. Cash and cash equivalents

In Euro	2010	2009
Bank balances	3,979,129	4,043,839
Short-term deposits with related parties	-	2,208,904
Cash on hand	3,762	3,926
	3,982,891	6,256,669

18. Deferred tax liabilities

Recognised deferred tax liabilities

Deferred tax assets and liabilities are attributable to the following:

In Euro	Assets		Liabilities		Net	
	2010	2009	2010	2009	2010	2009
Property, plant and equipment	-	(112,371)	-	-	-	(112,371)
Leasehold improvements	-	-	-	115,607	-	115,607
Tax (assets)/liabilities	-	(112,371)	-	115,607	-	3,236
Set off tax	-	112,371		(112,371)	-	-
Net tax liabilities	-	-	-	3,236	-	3,236

Notes to the financial statements

18. Deferred tax liabilities (continued)

Movement in temporary differences during the year

In Euro	Balance 1 Jan 09	Recognised in profit or loss	Recognised in equity	Balance 31 Dec 09	Recognised in profit or loss	Recognised in equity	Balance 31 Dec 10
Property, plant and equipment	(162,393)	50,022	-	(112,371)	112,371	-	-
Leasehold improvements	401,057	(285,450)	-	115,607	(115,607)	-	-
	238,664	(235,428)	-	3,236	(3,236)	-	-

19. Trade and other payables

In Euro	2010	2009
Compulsory contributions payable	2,440,082	3,777,263
Liabilities to related parties	1,014,907	193,227
Trade payables	895,540	1,129,297
Liabilities for UNMIK lease fee	478,058	325,338
Salaries payable	355,692	360,635
VAT payables	-	137,153
Other	320,023	247,984
	5,504,302	6,170,897

The Branch exposure to liquidity risk related to trade and other payables is disclosed in note 21.

20. Provisions

In Euro	Legal	Site restoration	Total
Balance at 1 January 2010	350,000	557,806	907,806
Provision made during the period	-	507,125	507,125
Provision used during the period	-	(96,928)	(96,928)
Balance at 31 December 2010	350,000	968,003	1,318,003
Current	350,000	968,003	1,318,003
	350,000	968,003	1,318,003

Legal

Provisions for Litigation relate to expected cash outflows for lost litigation. The provision is based on estimate of the amount the Branch would pay for settling of the liability.

Notes to the financial statements

20. Provisions (continued)

Site restoration/exploration

A provision of € 507,125 was made during the year ended 31 December 2010 in respect of the Branch's obligation to restore/explore the site for exploration of marl. In accordance with the Law on Environment protection and decision of the Ministry of Environment and Spatial Planning the Branch is obliged to cover the exploration area below quota 372. Provision of € 96,928 was used during 2010.

21. Financial instruments

(a) Credit risk

(i) Exposure to credit risk

The carrying amount of financial assets represents the maximum credit exposure. The maximum exposure to credit risk at the reporting date was:

In Euro	*Note*	**Carrying amount 2010**	**2009**
Trade and other receivables	*16*	778,804	412,979
Cash and cash equivalents	*17*	3,979,129	6,172,464
		4,757,933	6,585,443

The maximum exposure to credit risk for trade receivables and receivables from related parties at the reporting date by geographic region was:

In Euro	**Carrying amount 2010**	**2009**
Domestic	403,134	406,392
Germany	206,264	-
Other European countries	3,649	1,587
	613,047	407,979

Notes to the financial statements

21. Financial instruments (continued)

(a) Credit risk (continued)

(ii) Impairment losses

The aging of trade receivables and receivables from related parties at the reporting date was:

In Euro	Gross 2010	Impairment 2010	Gross 2009	Impairment 2009
Not past due	138,635	-	216,001	-
Past due 0-30 days	376,029	-	156,867	-
Past due 31-180 days	82,162	-	26,662	-
Past due 181-360 days	4,203	-	7,923	-
More than one year	12,087	69	595	69
	613,116	69	408,048	69

The movement in the allowance for impairment in respect of trade receivables and receivables from related parties during the year was as follows:

In Euro	2010	2009
Balance at 1 January	69	51,591
Write off of receivables previously impaired	-	(51,522)
Balance at 31 December	69	69

(a) Liquidity risk

The following are the contractual maturities of financial liabilities, excluding the impact of netting agreements:

31 December 2010

In Euro	*Carrying amount*	Contractual cash flows	6 mths or less	6-12 mths	1-2 years	2-5 years
Non-derivative financial liabilities	-					
Trade and other payables	5,368,283	(5,368,283)	(5,368,283)	-	-	-
	5,368,283	(5,368,283)	(5,368,283)	-	-	-

Notes to the financial statements

21. Financial instruments (continued)

(b) Liquidity risk (continued)

31 December 2009

In Euro	*Carrying amount*	Contractual cash flows	6 mths or less	6-12 mths	1-2 years	2-5 years
Non-derivative financial liabilities						
Trade and other payables	6,063,330	(6,063,330)	(6,063,330)	-	-	-
	6,063,330	(6,063,330)	(6,063,330)	-	-	-

(c) Interest rate risk

(i) Profile

At the reporting date the interest rate profile of the Branch's interest-bearing financial instruments was:

In Euro	Carrying amount 2010	2009
Variable rate instruments		
Financial assets	3,979,129	6,172,464
	3,979,129	6,172,464

Cash flow sensitivity analyses for variable rate instruments

A change of 100 basis points in the interest rates at the reporting date would have increased (decreased) profit or loss by the amounts shown below. This analysis assumes that all other variables, in particular foreign currency rates, remain constant. The analysis is preformed on the same basis for 2009.

Effect in Euro	Profit 100 bp increase	100 bp decrease
31 December 2010		
Variable rate instruments	39,791	(39,791)
Cash flow sensitivity (net)	39,791	(39,791)
31 December 2009		
Variable rate instruments	61,725	(61,725)
Cash flow sensitivity (net)	61,725	(61,725)

Notes to the financial statements

21. Financial instruments (continued)

(d) Accounting classifications and fair values

(i) Fair values versus carrying amounts

The fair values of financial assets and liabilities, together with the carrying amounts shown in the statement of financial position, are as follows:

In Euro	*Note*	Loans and receivables	Other financial liabilities	Total carrying amount	Fair value
31 December 2010					
Cash and cash equivalents	*17*	3,979,129	-	3,979,129	3,979,129
Loans and receivables	*16*	778,804	-	778,804	778,804
		4,757,933	-	4,757,933	4,757,933
Trade payables	*19*	-	(5,368,283)	(5,368,283)	(5,368,283)
		-	(5,368,283)	(5,368,283)	(5,368,283)

In Euro	*Note*	Loans and receivables	Other financial liabilities	Total carrying amount	Fair value
31 December 2009					
Cash and cash equivalents	*17*	6,172,464	-	6,172,464	6,172,464
Loans and receivables	*16*	412,979	-	412,979	412,979
		6,585,443	-	6,585,443	6,585,443
Trade payables	*19*	-	(6,063,330)	(6,063,330)	(6,063,330)
		-	(6,063,330)	(6,063,330)	(6,063,330)

The basis for determining fair values is disclosed in note 4.

22. Operating leases

Leases as lessee

The operating lease agreement was signed on 13 June 2000 for a period of ten years unless earlier terminated according to the applicable provisions in the agreement.

Notes to the financial statements

22. Operating leases (continued)

Leases as lessee (continued)

According to the agreement, the Branch shall pay to the Lessor an annual rental fee of no less than five hundred eleven thousand two hundred ninety two Euros (€ 511,292) and no more than one million twenty two thousand five hundred eighty four Euros (€ 1,022,584) based on 10% of the cumulative EBITDA ("the Formula"), payable in quarterly instalment.

The minimal quarterly rental instalment of € 127,823 shall always be made in advance of the next quarter-year of the lease term. Within 40 days after the beginning of the next annual term an adjustment payment according to the Formula shall be made for the calendar year passed.

Also, according to the Agreement for the lease, operation and management of the Sharr SOE, the Branch should pay into a pool, on behalf of the workforce, 20% of its annual profits. In 2010 this amounts to € 2,440,082 (2009: € 3,777,263) and is included in personnel expenses.

The Branch shall pay all expenses for maintenance, insurance and utilities applicable to the premises (cement plant, the common areas, the limestone quarry and the marl quarry).

During the year ended 31 December 2010, € 681,446 was recognised as an expense in the statement of comprehensive income in respect of operating leases (2009: € 1,022,584). Since the lease agreement has been terminated on 9 December 2010, the Branch has calculated the lease fee taking into consideration the maximum amount of lease as per the agreement and the number of days in the year for which lease agreement was valid (343 days). From the lease fee amount of € 298,254 was deducted, which represents 50% from the amount equal to 7 months lease fee. This amount is calculated based on the lease agreement Article IV point 4.4 which says if the Branch is not in a position to extract the limestone necessary for its ordinary use at a suitable limestone quarry within an economically reasonable distance from the plant the Branch shell be entitled to a 50% reduction of the rental payment which otherwise would have been due. Since the Leesor has not obtained the required land for extraction in duration of seven months the Branch has reduced the lease fee.

23. Capital commitments

As at 31 December 2010 the Branch did not have any outstanding contracts for purchase of property, plant and equipment (2009: none).

24. Contingencies

Legal disputes

The Branch is involved in routine legal proceedings in the ordinary course of business. It is management's opinion that the final outcome of these lawsuits will not have a material effect on the Branch's results.

Notes to the financial statements

25. Related parties

Parent and ultimate controlling party

The Branch is controlled by Sharr Beteiligungs GmbH, Hamburg, the parent company. The ultimate parent of the Branch is Titan Cement Company S.A.

The Branch has a related party relationship with individuals with authority over and responsibility for the Branch, entities related to the abovementioned entities.

The following transactions were carried out with related parties:

(i) Sales of goods and services

In Euro	**2010**	**2009**
Sales of goods:		
Subsidiaries of ultimate parent	2,062	-
	2,062	-

(ii) Purchases of goods and services

In Euro	**2010**	**2009**
Purchases of goods and services:		
Ultimate parent	26,755	-
Subsidiaries of the parent	48,043	-
Subsidiaries of ultimate parent	5,107,928	1,618,640
	5,182,726	1,618,640

(iii) Key management personnel compensation

In Euro	**2010**	**2009**
Salaries and other short-term employee benefits	229,549	218,906
	229,549	218,906

The total remuneration is included in Personnel Expenses (refer note 9).

(iv) Year-end balances arising from sales/purchases of goods/services

Receivables from related parties (refer note 16):

In Euro	**2010**	**2009**
Parent	206,264	-
Subsidiaries of ultimate parent	2,062	-
	208,326	-

Notes to the financial statements

25. Related parties (continued)

(iv) Year-end balances arising from sales/purchases of goods/services (continued)

Liabilities to related parties (refer note 19):

In Euro	2010	2009
Ultimate parent	7,500	-
Subsidiaries of the parent	48,043	-
Subsidiaries of the ultimate parent	959,364	193,227
	1,014,907	193,227

(v) Short term deposits with related parties

Short term deposits with the parent:

In Euro	2010	2009
Beginning of the year	2,208,904	7,571,446
Deposited amount	6,500,000	9,500,000
Dividends paid	(6,505,625)	(9,742,821)
Withdrawn amount	(2,123,000)	(5,200,000)
Interest calculated	-	80,279
Impairment loss on interest receivable	(80,279)	-
End of the year	-	2,208,904

26. Subsequent events

No material events subsequent to the balance sheet date have occurred which require disclosure in the financial statements.

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Independent auditor's report to the shareholder of Sharr Beteiligungs, Hani i Elezit

We have audited the accompanying financial statements of Sharr Beteiligungs, Hani i Elezit ("the Branch"), which comprise the statement of financial position as at 31 December 2010, the statements of comprehensive income, changes in equity and cash flows for the year then ended, and notes, comprising a summary of significant accounting policies and other explanatory information.

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, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

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 about 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 our 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, we consider internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements give a true and fair view of the financial position of the Branch as at 31 December 2010, and of its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards.

KPMG Macedonia Ltd, established under Macedonian law, is a member of KPMG International, a Swiss cooperative.

Registered in the Basic court Skopje 1 Skopje with decision No. T.reg. 3433/1999

Tax No MK4030996107850

Emphasis of Matter

Without qualifying our opinion, we draw attention to the following:

a. As disclosed in the note 1 to the financial statements, at the expiration of the Lease agreement, the Privatization Agency of Kosovo ("PAK") as legal successor in respect of the lease agreement has finalized the privatization process of the plant. Namely, in order to facilitate the privatization process, the PAK incorporated a new legal entity „New Company" with share capital of € 1,000. The negotiations were closed on 9 December 2010 by signing the share purchase agreement („SPA") between the PAK and Sharr Beteiligungs GmbH, Hamburg ("the Parent"). On this date the operating lease agreement between PAK and the Parent has been terminated; PAK has transferred assets from Sharr cement plant to the New Company and transfer of 100% interest in New Company to the Parent as buyer of the New Company. After this date the Branch has continued with the business using the assets of the New Company. At the date of issuing of these financial statements the management has not yet decided, whether the business will be continued ether by the Branch or by the New Company or eventually by the merger of the companies in place.

b. As discussed in the note 12 to the financial statements in 2010 the Branch's books and records for the period from 1 January 2005 to 31 December 2009 have been audited by the tax authorities. The tax authorities have issued a final report on the tax audit by which the Branch has to pay additional tax on income in the amount of EUR 1,344,931 inclusive of EUR 363,699 penalty for late payment. The management shell appeal to the Independent Review Board on the final tax report and expects that the final outcome would be favorable for the Branch.

The Branch's books and records for the period from 1 January 2010 to 31 December 2010 were not audited by the tax authorities. Therefore, the Branch's tax liabilities may not be considered finalized i.e. a provision for additional taxes and penalties, if any, that may be levied in the event of a tax audit cannot, at this stage, be determined with any reasonable accuracy.

KPMG Macedonia Ltd
31 March 2011
Skopje