



**ZLATNA PANEGA CEMENT AD**

**ANNUAL SEPARATE FINANCIAL  
STATEMENTS**

31 December 2010

# ZLATNA PANEGA CEMENT AD

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## ZLATNA PANEGA CEMENT AD

### General Information

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#### **Directors**

Alexandar Nakov Chakmakov  
Michalis Sigalas  
Konstantinos Derdemezis  
Fokion Tasoulas

#### **Registered office**

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

#### **Solicitors**

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

#### **Bankers**

EFG Eurobank – Lovech Branch  
Alpha Bank – Sofia  
Societe General – Expressbank, Sofia  
BNP Paribas  
United Bulgarian Bank – Sofia  
Raiffeisen Bulgaria

#### **Auditors**

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

## ZLATNA PANEGA CEMENT AD

### DIRECTORS' REPORT

For the year ended 31 December 2010

### DIRECTORS' REPORT

The Directors present their report and the financial statements that have been prepared in accordance with International Financial Reporting Standards as adopted by the European Union for the year ended 31 December 2010. These financial statements have been audited by Ernst and Young Audit OOD.

### GENERAL INFORMATION

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

### BUSINESS DESCRIPTION

#### Current period results

The results of the current year are considered as positive since the profit before tax of the Company amounted to EUR 3,765 thousand. During the period the Company sold 621 thousand tons of cement (2009: 693 thousand tons). The decrease of the quantities sold and average ex works prices contributed for the decrease of revenue for the current period by EUR 14,749 thousand.

#### Dividends and distribution of profits

At the General Meeting of the Shareholders held on 20 April 2010, a decision was taken not to distribute dividends.

#### Share capital structure

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

#### Investments

As at 31 December 2010 Zlatna Panega Cement AD holds interests in the following subsidiaries and associates:

The Company is 100% owner of Zlatna Panega Beton EOOD, Gravel and Sand Pits Bulgaria EAD ("GSPB") and Geospan EDOO (FYROM). These investments are carried at cost as at 31 December 2010. Through GSPB, the Company has an interest of 48.77% in the capital of Holcim Karierni Materiali AD, a 48.72% interest in Holcim Karierni Materiali Plovdiv AD and a 100% interest in Double V Co Ltd., Ruse.

During 2010 Holcim Karierni Materiali AD acquired 100% of Vris OOD. As a result of the transaction, Zlatna Panega Cement has a significant influence with interest of 48.77% in Vris OOD, through its subsidiary Gravel and Sand Pits – Bulgaria EAD.

In 2010 the Company incorporated a new subsidiary Geospan EDOO, FYROM. 100 % of the share capital of the newly incorporated subsidiary is owned by Zlatna Panega Cement AD.

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

## ZLATNA PANEGA CEMENT AD

### DIRECTORS' REPORT

For the year ended 31 December 2010

#### OBJECTIVES OF THE COMPANY FOR 2011

The Directors are set to achieve the following objectives for 2011:

- Increase of the effectiveness of industrial performance;
- Keeping of the market position in the conditions of extremely decreased construction market;
- Decrease of the variable and the fixed costs of the Company;
- Increase the usage of alternative fuels

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

#### CORPORATE GOVERNANCE

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

As at 31 December 2010 the Board of Directors consists of:

1. Alexandar Nakov Chakmakov
2. Mihalis Sigalas
3. Konstantinos Derdemezis
4. Fokion Tasoulas

Alexander Nakov Chakmakov is the Company's Executive Director.


#### Directors' responsibilities

The Directors are required by Bulgarian law to prepare financial statements each financial year that give a true and fair view of the state of affairs of the company as at the year end and of the profit or loss and cash-flows for the year then ended.

The Directors confirm that suitable accounting policies have been used and applied consistently and reasonable and prudent judgments and estimates have been made in the preparation of the financial statements for year ended 31 December 2010.

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

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

  
\_\_\_\_\_  
Alexandar Chakmakov  
Executive director

Zlatna Panega Cement AD  
Zlatna Panega



31 January 2011

## Independent auditors' report

To the shareholders of

Zlatna Panega Cement AD

### Report on the separate financial statements

We have audited the accompanying separate financial statements of Zlatna Panega Cement AD, which comprise the separate balance sheet as of 31 December 2010, and the separate statement of comprehensive income, separate statement of changes in equity and separate statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

#### Management's responsibility for the separate financial statements

Management is responsible for the preparation and presentation of separate financial statements that give a true and fair view in accordance with International Financial Reporting Standards, as adopted for use in the European Union, and for such internal control as management determines is necessary to enable the preparation of separate 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 separate 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 separate financial statements are free from material misstatement.

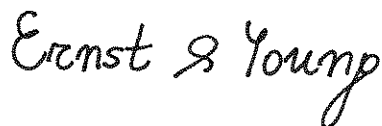
An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the separate financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the separate financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation of separate financial statements that give a true and fair view 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 separate 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 separate financial statements give a true and fair view of the financial position of Zlatna Panega Cement AD as of 31 December 2010, and of its financial performance and cash flows for the year then ended in accordance with International Financial Reporting Standards, as adopted for use in the European Union.

Ernst & Young Audit OOD

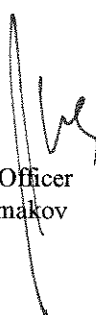
A handwritten signature in cursive script that reads 'Ernst & Young'.

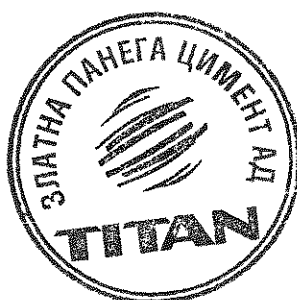
18 February 2011

Sofia, Bulgaria

**ZLATNA PANEGA CEMENT AD**  
**SEPARATE STATEMENT OF COMPREHENSIVE INCOME**  
For the year ended 31 December 2010

	<u>Notes</u>	<u>2010</u>	<u>2009</u>
		<u>€000</u>	<u>€000</u>
Sale of cement products		36,298	49,490
Rendering of transport services		4,660	6,217
<b>Revenue</b>		<b>40,958</b>	<b>55,707</b>
Cost of sales	5.1	(31,133)	(37,658)
<b>Gross profit</b>		<b>9,825</b>	<b>18,049</b>
Other income	5.7	1,271	904
Selling and distribution costs	5.2	(576)	(673)
Administrative expenses	5.3	(3,868)	(4,062)
Other expenses	5.4	(1,165)	(931)
<b>Operating profit</b>		<b>5,487</b>	<b>13,287</b>
Finance income	5.8	54	4
Finance costs	5.9	(1,776)	(1,996)
<b>Profit before tax</b>		<b>3,765</b>	<b>11,295</b>
Income tax income / (expense)	6	1,917	(951)
<b>Profit for the period</b>		<b>5,682</b>	<b>10,344</b>
<b>Other comprehensive income for the period, net of tax</b>		<b>-</b>	<b>-</b>
<b>Total comprehensive income for the period</b>		<b>5,682</b>	<b>10,344</b>

  
Chief Executive Officer  
Alexander Chakmakov



The accompanying notes to the financial statements on pages 7 to 42 form an integral part of these financial statements.



**ZLATNA PANEGA CEMENT AD**  
**SEPARATE BALANCE SHEET**  
As of 31 December 2010

	Notes	2010	2009
		€000	€000
<b>ASSETS</b>			
<b>Non-current assets</b>			
Property, plant and equipment	7	75,219	67,925
Investment property	8	1,494	503
Intangible assets	9	94	123
Investments in subsidiaries	10.1	3,688	3,633
Available-for-sale investments	10.2	21	21
Long-term receivables	14	517	-
Other financial assets	11	65	60
Deferred tax asset	6	292	-
		<b>81,390</b>	<b>72,265</b>
<b>Current assets</b>			
Non-current assets held for sale	12	307	-
Inventories	13	7,769	11,449
Trade and other receivables	14	8,378	11,543
Receivables from related parties	23	1,798	1,331
Prepayments	15	282	1,225
Income tax receivables		539	1,587
Cash and short-term deposits	16	255	56
		<b>19,328</b>	<b>27,191</b>
<b>TOTAL ASSETS</b>		<b>100,718</b>	<b>99,456</b>
<b>EQUITY AND LIABILITIES</b>			
<b>Equity</b>			
Issued capital	17.1	28,602	28,602
Legal reserve	17.2	1,645	1,645
Retained earnings		41,671	35,989
<b>Total equity</b>		<b>71,918</b>	<b>66,236</b>
<b>Non-current liabilities</b>			
Interest-bearing loans to banks	18	12,271	12,271
Restoration provision	19	1,582	1,463
Retirement benefit liability	20	253	212
Deferred tax liability	6	-	1,625
Other financial liabilities	21	259	-
		<b>14,365</b>	<b>15,571</b>
<b>Current liabilities</b>			
Trade and other payables	22	3,700	2,858
Interest-bearing loans to banks	18	9,425	13,786
Payables to related parties	23	1,032	1,005
Other financial liabilities	21	278	-
		<b>14,435</b>	<b>17,649</b>
<b>Total liabilities</b>		<b>28,800</b>	<b>33,220</b>
<b>TOTAL EQUITY AND LIABILITIES</b>		<b>100,718</b>	<b>99,456</b>

Chief Executive Officer  
Alexander Chakmakov



The accompanying notes to the financial statements on pages 7 to 42 form an integral part of these financial statements.

**ZLATNA PANEGA CEMENT AD**  
**SEPARATE STATEMENT OF CHANGES IN EQUITY**  
For the year ended 31 December 2010

	Issued capital (note 17.1)	Legal reserve (note 17.2)	Retained earnings	Total
	€000	€000	€000	€000
<b>At 1 January 2009</b>	<b>28,602</b>	<b>1,645</b>	<b>45,879</b>	<b>76,126</b>
Total comprehensive income for the year	-	-	10,344	10,344
Distribution of dividends (note 24)	-	-	(20,234)	(20,234)
<b>At 31 December 2009</b>	<b>28,602</b>	<b>1,645</b>	<b>35,989</b>	<b>66,236</b>
<b>At 1 January 2010</b>	<b>28,602</b>	<b>1,645</b>	<b>35,989</b>	<b>66,236</b>
Total comprehensive income for the year	-	-	5,682	5,682
<b>At 31 December 2010</b>	<b>28,602</b>	<b>1,645</b>	<b>41,671</b>	<b>71,918</b>

Chief Executive Officer  
Alexander Chakmakov



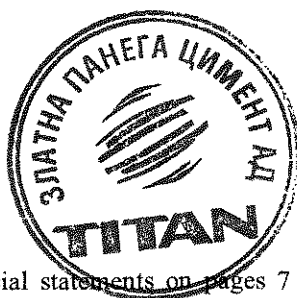
The accompanying notes to the financial statements on pages 7 to 42 form an integral part of these financial statements.

**ZLATNA PANEGA CEMENT AD**  
**SEPARATE CASH FLOW STATEMENT**

For the year ended 31 December 2010

	Notes	2010	2009
		€000	€000
<b>OPERATING ACTIVITIES</b>			
<b>Profit before tax</b>		<b>3,765</b>	<b>11,295</b>
Adjustments to reconcile profit before tax to net cash flows			
Non-cash:			
Depreciation of property, plant and equipment	7	7,525	6,761
Amortisation of intangible assets	9	46	56
Gain on disposal of property, plant and equipment		(8)	(8)
Movement in doubtful debt allowance	14	232	314
Movement in restoration provision	19	119	(304)
Movement in employee benefit liability	20	41	19
Losses from fair value adjustments to investment properties	8	26	
Interest income	5.8	(45)	(2)
Interest expense	5.9	1,564	1,897
Working capital adjustments:			
Decrease in inventories		2,074	4,991
Decrease / (Increase) in trade and other receivables		308	(1,887)
Decrease in prepayments		932	559
Increase in other financial assets		(5)	(7)
Decrease in trade and other payables		(417)	(2,142)
Income tax received / (paid)		952	(300)
Increase in other financial liabilities		578	-
<b>Net cash flows from operating activities</b>		<b>17,687</b>	<b>21,242</b>
<b>INVESTING ACTIVITIES</b>			
Proceeds from sale of property, plant and equipment		11	13
Purchase of property, plant and equipment		(11,684)	(2,823)
Purchase of intangible assets		(17)	(51)
Acquisition of subsidiaries		(55)	-
Loans granted to related parties		(40)	-
Interest received		2	2
<b>Net cash flows used in investing activities</b>		<b>(11,783)</b>	<b>(2,859)</b>
<b>FINANCING ACTIVITIES</b>			
Proceeds from interest-bearing loans		37,954	81,255
Repayment of interest-bearing loans		(42,311)	(78,152)
Proceeds from loans from related parties		276	665
Repayment of loans from related parties		(245)	(12)
Interest paid		(1,379)	(1,888)
Dividends paid	24	-	(20,234)
<b>Net cash flows used in financing activities</b>		<b>(5,705)</b>	<b>(18,366)</b>
<b>Net increase in cash and cash equivalents</b>		<b>199</b>	<b>17</b>
<b>Cash and cash equivalents at 1 January</b>		<b>56</b>	<b>39</b>
<b>Cash and cash equivalents at 31 December</b>	16	<b>255</b>	<b>56</b>

Chief Executive Officer  
 Alexander Chakmakov



The accompanying notes to the financial statements on pages 7 to 42 form an integral part of these financial statements.

**ZLATNA PANEGA CEMENT AD**  
**NOTES TO THE SEPARATE FINANCIAL STATEMENTS**  
As of 31 December 2010

## **1. Corporate information**

The annual financial statements of Zlatna Panega Cement AD (the Company) for the year ended 31 December 2010 were authorized for issue in accordance with a resolution of the Board of Directors on 31 January 2011.

Zlatna Panega Cement AD is a joint stock company. The Company is incorporated and domiciled in Zlatna Panega, Bulgaria with a resolution of the National Register 63/1989 430 and its fiscal year ends being 31 December.

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

As of 31 December 2010 the Company was owned by:

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

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

## **2.1. Basis of preparation**

The financial statements have been prepared on a historical cost basis except for investment properties which are stated at fair value. They are presented in Euros (EUR) and all values are rounded to the nearest thousand (EUR thousand) except when otherwise indicated.

### **Statement of compliance**

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

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

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

## 2.2. Summary of significant accounting policies

### a) Foreign currency translation

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

### b) Revenue recognition

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

#### *Sale of goods*

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

#### *Rendering of services*

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

#### *Interest income*

Interest income is recorded using the effective interest rate (EIR), which is the rate that exactly discounts the estimated future cash receipts through the expected life of the financial instrument or a shorter period, where appropriate, to the net carrying amount of the financial asset. Interest income is included in finance income in the statement of comprehensive income.

#### *Dividend income*

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

### c) Taxes

#### *Current income tax*

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

## 2.2. Summary of significant accounting policies (continued)

### c) 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; and
- in respect of taxable temporary differences associated with investments in subsidiaries, where the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future.

Deferred income tax assets are recognised for all deductible temporary differences, carry forward of unused tax credits and unused tax losses, to the extent that it is probable that taxable profit will be available against which the deductible temporary differences, and the carry forward of unused tax credits and unused tax losses can be utilised except:

- where the deferred income tax asset relating to the deductible temporary difference arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and
- in respect of deductible temporary differences associated with investments in subsidiaries, deferred income tax assets are recognised only to the extent that it is probable that the temporary differences will reverse in the foreseeable future and taxable profit will be available against which the temporary differences can be utilised.

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

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

Deferred taxes relating to items recognised outside the profit or loss are recognised outside the profit or loss. Deferred tax items are recognised in correlation to the underlying transaction either in other comprehensive income or directly in equity.

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.

## 2.2. Summary of significant accounting policies (continued)

### d) Financial instruments - initial recognition and subsequent measurement

- **Financial assets**

#### **Initial recognition and measurement**

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.

Purchases or sales of financial assets that require delivery of assets within a time frame established by regulation or convention in the marketplace (regular way purchases) are recognised on the trade date, i.e., the date that the Company commits to purchase or sell the asset.

The Company's financial assets include long term receivables, cash and short term deposits, trade and other receivables, loan receivables, unquoted investments and other financial assets.

#### **Subsequent measurement**

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

##### *Investments in subsidiaries*

Investments in subsidiaries are measured at cost (according to IAS 27 Consolidated and separate financial statements) in these separate financial statements. Further details are given in Note 2.1 above and Note 10.1.

##### *Loans and receivables*

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. After initial measurement, such financial assets are subsequently measured at amortised cost using the effective interest rate method (EIR), less impairment. Amortised cost is calculated by taking into account any discount or premium on acquisition and fees or costs that are an integral part of the EIR. The EIR amortisation is included in the statement of comprehensive income. The losses arising from impairment are recognised in the statement of comprehensive income in other expenses.

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

Available-for-sale financial assets are those non-derivative financial assets that are designated as available-for-sale or are not classified in any of the other categories. The Company has an available-for-sale investment in equity shares (Note 10.2). As these shares do not have a quoted market price in an active market and their fair value cannot be reliably measured, they are measured at cost. Interest earned or paid on the investments is reported as interest income or expense using the effective interest rate. Dividends earned on investments are recognised in the statement of comprehensive income as 'Dividends received' when the right of payment has been established.

#### **Derecognition**

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

## 2.2. Summary of significant accounting policies (continued)

### d) Financial instruments - initial recognition and subsequent measurement (continued)

- Financial assets (continued)

#### Derecognition (continued)

When the Company has transferred its rights to receive cash flows from an asset or has entered into a pass-through arrangement, 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.

In that case, the Company also recognises an associated liability. The transferred asset and the associated liability are measured on a basis that reflects the rights and obligations that the Company has retained.

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.

#### Impairment of financial assets

The Company assesses at each reporting date whether a financial asset or group of financial assets is impaired. A financial asset or a group of financial assets is deemed to be impaired if, and only if, there is objective evidence of impairment as a result of one or more events that has occurred after the initial recognition of the asset (an incurred 'loss event') and that loss event has an impact on the estimated future cash flows of the financial asset or the group of financial assets that can be reliably estimated. Evidence of impairment may include indications that the debtors or a group of debtors is experiencing significant financial difficulty, default or delinquency in interest or principal payments, the probability that they will enter bankruptcy/announce over-indebtedness or undertake other financial reorganisation or where observable data indicate that there is a measurable decrease in the estimated future cash flows, such as changes in arrears or economic conditions that correlate with defaults.

#### *Financial Assets carried at amortised cost*

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

The carrying amount of the asset is reduced through the use of an allowance account and the amount of the loss is recognised in the statement of comprehensive income. Interest income continues to be accrued on the reduced carrying amount and is accrued using the rate of interest used to discount the future cash flows for the purpose of measuring the impairment loss. The interest income is recorded as part of finance income in the statement of comprehensive income. Loans together with the associated allowance are written off when there is no realistic prospect of future recovery and all collateral has been realised or has been transferred to the Group. If, in a subsequent year, the amount of the estimated impairment loss increases or decreases because of an event occurring after the impairment was recognised, the previously recognised impairment loss is increased or reduced by adjusting the allowance account. If a future write-off is later recovered, the recovery is credited to finance costs in the statement of comprehensive income.



## 2.2. Summary of significant accounting policies (continued)

### d) Financial instruments - initial recognition and subsequent measurement (continued)

- **Financial assets (continued)**

#### Impairment of financial assets (continued)

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

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

- **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, and in the case of loans and borrowings, plus 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.

##### *Other non-interest bearing financial liabilities*

Other non-interest bearing financial liabilities include retentions for qualitative performance of contractual obligations by construction subcontractors. Upon initial recognition, these liabilities are measured at the present value of all future cash outflows discounted using the prevailing market rates of interest for similar instruments. The Company accretes the discount to profit or loss using the effective interest rate method. The excess of the nominal value of other non-interest bearing financial liabilities over their present value is recognised in the profit or loss.

#### Derecognition

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.

### e) 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.

## 2.2. Summary of significant accounting policies (continued)

### f) Fair value of financial instruments

The fair value of financial instruments that are traded in active markets at each reporting date is determined by reference to quoted market prices or dealer price quotations (bid price for long positions and ask price for short positions), without any deduction for transaction costs.

For financial instruments not traded in an active market, the fair value is determined using appropriate valuation techniques. Such techniques may include using recent arm's length market transactions; reference to the current fair value of another instrument that is substantially the same; discounted cash flow analysis or other valuation models.

An analysis of fair values of financial instruments and further details as to how they are measured are provided in Note 27.

### g) 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 17.1. Any proceeds in excess of par value are recorded in share premium.

### h) Non-current assets held for sale

Non-current assets classified as held for sale are measured at the lower of their carrying amount and fair value less costs to sell. Non-current assets are classified as held for sale if their carrying amounts will be recovered principally through a sale transaction rather than through continuing use. This condition is regarded as met only when the sale is highly probable and the asset or disposal group is available for immediate sale in its present condition. Management must be committed to the sale, which should be expected to qualify for recognition as a completed sale within one year from the date of classification. Property plant and equipment and intangible assets once classified as held for sale are not depreciated or amortised.

### i) Property, plant and equipment

Property, plant and equipment are stated at cost less accumulated depreciation and/ or 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 recognised in profit or loss as incurred.

Depreciation is calculated on a straight line basis over the useful life of the assets, as follows:

Buildings	10 to 40 years
Plant and machinery	5 to 40 years
Vehicles	5 to 25 years
Furniture and fittings	2 to 10 years

#### *Spare parts*

Spare parts are recognized as non current assets if all of the following recognition criteria are met:

- The spare parts are held for use in the production or supply of goods or services, for rental to others, or for administrative purposes;
- The spare parts are expected to be used during more than one period;
- It is probable that future economic benefits associated with the item will flow to the entity;
- The cost of the item can be measured reliably;
- The unit value of the qualifying major spare part and stand-by equipment exceeds EUR 35 thousand.

The depreciation of a major spare part begins when the spare part is bought into service rather than when it is acquired, as in that moment it is in the location and condition necessary for it to be capable of operating in the manner intended by management. The useful life can not exceed the lesser period between the remaining useful life of the asset to which the spare part is attached and its own useful life.

## 2.2. Summary of significant accounting policies (continued)

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

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

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

### j) Leases

The determination of whether an arrangement is, or contains a lease is based on the substance of the arrangement at inception date of whether the fulfilment of the arrangement is dependent on the use of a specific asset or assets or the arrangement conveys a right to use the asset.

#### *Company as a lessee*

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

### k) Investment properties

Investment properties are measured initially at cost, including transaction costs. The carrying amount includes the cost of replacing part of an existing investment property at the time that cost is incurred if the recognition criteria are met; and excludes the costs of day to day servicing of an investment property. Subsequent to initial recognition, investment properties are stated at fair value, which reflects market conditions at the reporting date. Gains or losses arising from changes in the fair values of investment properties are included in the statement of comprehensive income in the period in which they arise.

Investment properties are derecognised when either they have been disposed of or when the investment property is permanently withdrawn from use and no future economic benefit is expected from its disposal. The difference between the net disposal proceeds and the carrying amount of the asset is recognised in the statement of comprehensive income in the period of derecognition.

Transfers are made to or from investment property only when there is a change in use. For a transfer from investment property to owner occupied property, the deemed cost for subsequent accounting is the fair value at the date of change in use. If owner occupied property becomes an investment property, the Company accounts for such property in accordance with the policy stated under property, plant and equipment up to the date of change in use.

### l) Borrowing costs

Borrowing costs directly attributable to the acquisition, construction or production of an asset that necessary takes a substantial period of time to get ready for its intended use or sale are capitalized as part of the cost of the respective assets. All other borrowing costs are expensed in the period they occur. Borrowing costs consists of interest and other costs that an entity incurs in connection with the borrowing of funds.

The Company capitalizes borrowing costs for all eligible assets where construction has been commenced on or after 1 January 2009. The Company continues to expense borrowing costs relating to construction projects that commenced prior to 1 January 2009.

## 2.2. Summary of significant accounting policies (continued)

### m) 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/ or any accumulated impairment losses, if any.

The useful lives of intangible assets are assessed to be finite, as follows:

Concession rights	20 years
Licences	10 years
Computer software	10 years

Intangible assets with finite lives are amortised over the useful economic life and assessed for impairment whenever there is an indication that the intangible asset may be impaired. The amortisation period and the amortisation method for an intangible asset with a finite useful life are reviewed at least at each financial year end.

Changes in the expected useful life or the expected pattern of consumption of future economic benefits embodied in the asset is accounted for by changing the amortisation period or method, as appropriate, and treated as changes in accounting estimates. The amortisation expense on intangible assets with finite lives is recognised in profit or loss in the expense category consistent with the function of the intangible asset.

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

### n) Inventories

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

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

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

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

### o) 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.

## 2.2. Summary of significant accounting policies (continued)

### o) Impairment of non-financial assets (continued)

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

### p) Cash and cash equivalents

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

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

### q) Provisions

#### *General*

Provisions are recognised when the Company has a present obligation (legal or constructive) as a result of a past event, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation. Where the Company expects some or all of a provision to be reimbursed, for example under an insurance contract, the reimbursement is recognised as a separate asset but only when the reimbursement is virtually certain. The expense relating to any provision is presented in the 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 recognised as a finance cost.

#### *Restoration provision*

In accordance with the quarry concession agreement, the Company is obliged to restore the surface of the quarry upon the cessation of its use. The provision arising during the period reflects the additional amount that would be needed to restore the surface of the quarry that has been excavated during the period. Restoration costs are provided at the present value of expected costs to settle the obligation using estimated cash flows. The cash flows are discounted at a current pre-tax rate that reflects the risks specific to the restoration liability. The unwinding of the discount is expensed as incurred and recognised in the statement of comprehensive income as a finance cost. The estimated future costs of restoration are reviewed annually and adjusted as appropriate. Changes in the estimated future costs or in the discount rate applied are recognised in the statement of comprehensive income.

### r) Retirement benefits

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

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

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

## 2.2. Summary of significant accounting policies (continued)

### s) CO<sub>2</sub> emission rights

Emission rights are accounted under the net liability method, based on which the Company recognizes such a liability from the point when the emissions made are in excess of the allowances allocated. Emission rights acquired in excess of those required to cover its shortages are recognized as an asset, at cost.

## 2.3. Changes in accounting policy and disclosures

### New and amended standards and interpretations

The accounting policies adopted are consistent with those of the previous financial year, except for the following new and amended IFRS and IFRIC interpretations effective as of 1 January 2010:

- IFRS 2 *Share-based Payment: Group Cash-settled Share-based Payment Transactions* effective 1 January 2010
- IFRS 3 *Business Combinations (Revised)* and IAS 27 *Consolidated and Separate Financial Statements (Amended)* effective 1 July 2009, including consequential amendments to IFRS 2, IFRS 5 IFRS 7, IAS 7, IAS 21, IAS 28, IAS 31 and IAS 39
- IAS 39 *Financial Instruments: Recognition and Measurement – Eligible Hedged Items* effective 1 July 2009
- IFRIC 17 *Distributions of Non-cash Assets to Owners* effective 1 July 2009
- Improvements to IFRSs (May 2008 and April 2009)

The adoption of the standards or interpretations is described below:

#### **IFRS 2 *Share-based Payment (Revised)***

The IASB issued an amendment to IFRS 2 that clarified the scope and the accounting for group cash-settled share-based payment transactions. The Company adopted this amendment as of 1 January 2010. It did not have an impact on the financial position or performance of the Company.

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

IFRS 3 (Revised) introduces significant changes in the accounting for business combinations occurring after becoming effective. Changes affect the valuation of non-controlling interest, the accounting for transaction costs, the initial recognition and subsequent measurement of a contingent consideration and business combinations achieved in stages. These changes will impact the amount of goodwill recognised, the reported results in the period that an acquisition occurs and future reported results.

IAS 27 (Amended) requires that a change in the ownership interest of a subsidiary (without loss of control) is accounted for as a transaction with owners in their capacity as owners. Therefore, such transactions will no longer give rise to goodwill, nor will it give rise to a 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 by IFRS 3 (Revised) and IAS 27 (Amended) affect acquisitions or loss of control of subsidiaries and transactions with non-controlling interests after 1 January 2010.

The above revisions and amendments did not have an impact on the stand alone financial statements of the Company.

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

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 has concluded that the amendment will have no impact on its financial position or performance, as it has not entered into any such hedges.

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

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

This interpretation provides guidance on accounting for arrangements whereby an entity distributes non-cash assets to shareholders either as a distribution of reserves or as dividends. The interpretation has no effect on either, the financial position or performance of the Company.

### **Improvements to IFRSs**

#### **New and amended standards and interpretations (continued)**

In May 2008 and April 2009, the 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. These amendments, as listed below, did not have any impact on the accounting policies, financial position or performance of the Company.

- IFRS 2 *Share-based Payment*
- IFRS 5 *Non-current Assets Held for Sale and Discontinued Operations*
- IFRS 8 *Operating Segments*
- IAS 1 *Presentation of Financial Statements*
- IAS 7 *Statement of Cash Flows*
- IAS 17 *Leases*
- IAS 34 *Interim Financial Reporting*
- IAS 36 *Impairment of Assets*
- IAS 38 *Intangible Assets*
- IAS 39 *Financial Instruments: Recognition and Measurement*
- IFRIC 9 *Reassessment of Embedded Derivatives*
- IFRIC 16 *Hedge of a Net Investment in a Foreign Operation*

## 3. Significant accounting judgments, estimates and assumptions

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

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

### *Restoration provision*

The Company accruals for provision for quarry restoration. This requires the management to make estimates about the cost of materials, labour, third party services and other expenses necessary for the restoration activities. The estimation of these costs and expenditures is complex because the obligation will be fulfilled in the (probably remote) future and the related contract and laws are often not clear regarding what is required. Furthermore, the resulting provision is further influenced by the changing technologies and, environmental, safety, business, political and statutory considerations. At 31 December 2010 the best estimate of the restoration provision was EUR 1,582 thousand (31 December 2009: EUR 1,463 thousand). Further details are provided in Note 19 to the financial statements.

### 3. Significant accounting judgments, estimates and assumptions (continued)

#### *Retirement benefits*

The retirement benefit obligation is determined using actuarial valuation for financial year 2010. The actuarial valuation involves making assumptions about discount rates, future salary increases, personnel turnover rates and mortality rates. Due to the long-term nature of the plan, such estimates are subject to significant uncertainty. The net employee liability at 31 December 2010 is EUR 253 thousand (31 December 2009: EUR 212 thousand). Further details are provided in Note 20 to the financial statements.

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

Accounting for property, plant and equipment, and intangible assets involves the use of estimates for determining the expected useful lives of these assets and their residual values. The determination of the useful lives of the assets is based on management's judgment. Further details are provided in Note 2.2 i) and Note 2.2 m).

Effective 1 January 2010 the Company reestimated the useful lives of certain buildings, plant and machinery. The effect from the change in the current year is increase in depreciation expenses by EUR 851 thousand. Further details are provided in Note 7.

#### *Impairment of receivables*

Management maintains an allowance for doubtful receivables to account for estimated losses resulting from the inability of customers to make required payments. When evaluating the adequacy of an allowance for doubtful receivables, management bases its estimates on the ageing of accounts receivable, balances and historical write-off experience, customer credit worthiness and changes in customer payment terms. If the financial condition of customers were to deteriorate, actual write-offs might be higher than expected. At 31 December 2010 the best estimate of the provision for impairment of receivables is EUR 831 thousand (31 December 2009: EUR 599 thousand). Further details are provided in Note 14.

#### *Investment properties*

The Company carries its investment properties at fair value, with changes in fair value being recognized in the statement of comprehensive income. The key assumptions used to determine the fair value of the investment properties, are further explained in Note 8.

### 4. Standards issued but not yet effective

Standards issued but not yet effective up to the date of issuance of the Company's financial statements are listed below. This listing is of standards and interpretations issued, which the Company reasonably expects to be applicable at a future date. The Company intends to adopt those standards when they become effective.

#### **IAS 12 Income Taxes (Amendment)**

The amendment provides a practical solution to the problem of determining whether assets measured using the fair value model in IAS 40 Investment Property are recovered through use or through sale. The amendment is effective for annual periods beginning on or after 1 July 2011. The Company does not expect any impact on its financial position or performance. The amendment has not been endorsed by EU yet.

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

The amended standard is effective for annual periods beginning on or after 1 January 2011. It clarified the definition of a related party to simplify the identification of such relationships and to eliminate inconsistencies in its application. The revised standard introduces a partial exemption of disclosure requirements for government-related entities. The Company does not expect any impact on its financial position or performance.

#### **IAS 32 Financial Instruments: Presentation – Classification of Rights Issues (Amendment)**

The amendment to IAS 32 is effective for annual periods beginning on or after 1 February 2010 and amended the definition of a financial liability in order to classify rights issues (and certain options or warrants) as equity instruments in cases where such rights are given pro rata to all of the existing owners of the same class of an entity's non-derivative equity instruments, or to acquire a fixed number of the entity's own equity instruments for a fixed amount in any currency. This amendment will have no impact on the Company after initial application.



#### 4. Standards issued but not yet effective (continued)

***IFRS 7 Financial Instruments: Disclosures (Amendments)***

The amendments improve the disclosure requirements in relation to transferred financial assets. They are effective for annual periods beginning on or after 1 July 2011. The amendments are deemed to have no impact on the financial statements of the Company. They have not been endorsed by EU yet.

***IFRS 9 Financial Instruments: Classification and Measurement***

IFRS 9 as issued reflects the first phase of the IASBs work on the replacement of IAS 39 and applies to classification and measurement of financial assets as defined in IAS 39. The standard is effective for annual periods beginning on or after 1 January 2013. In subsequent phases, the IASB will address classification and measurement of financial liabilities, hedge accounting and derecognition. The completion of this project is expected in early 2011. The Company is in the process of assessing the impact of IFRS 9 on its financial position or performance. The Standard has not been endorsed by EU yet.

***IFRIC 14 Prepayments of a minimum funding requirement (Amendment)***

The amendment to IFRIC 14 is effective for annual periods beginning on or after 1 January 2011 with retrospective application. The amendment provides guidance on assessing the recoverable amount of a net pension asset. The amendment permits an entity to treat the prepayment of a minimum funding requirement as an asset. The amendment is deemed to have no impact on the financial statements of the Company.

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

IFRIC 19 is effective for annual periods beginning on or after 1 July 2010. The interpretation clarifies that equity instruments issued to a creditor to extinguish a financial liability qualify as consideration paid. The equity instruments issued are measured at their fair value. In case that this cannot be reliably measured, the instruments are measured at the fair value of the liability extinguished. Any gain or loss is recognised immediately in profit or loss. The adoption of this interpretation will have no effect on the financial statements of the Company.

***Improvements to IFRSs (issued in May 2010)***

The IASB issued *Improvements to IFRSs*, an omnibus of amendments to its IFRS standards. The amendments have not been adopted as they become effective for annual periods on or after either 1 July 2010 or 1 January 2011. The Company expects no impact from the adoption of the amendments on its financial position or performance. The improvements have not been endorsed by EU yet.

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**5. Expenses and other revenues**

**5.1 Cost of sales**

	<u>2010</u>	<u>2009</u>
	€000	€000
<b>Variable costs</b>		
Kiln fuel	(5,941)	(8,016)
Distribution expenses – freight	(4,660)	(6,256)
Electricity	(3,374)	(3,667)
Raw materials	(2,732)	(3,585)
Fuel and oil	(431)	(428)
Refractory	(371)	(712)
Grinding media	(100)	(33)
Other expenses	(284)	(77)
<b>Fixed costs</b>		
Depreciation	(6,978)	(6,129)
Plant salaries, wages and related expenses	(1,996)	(2,262)
Other fixed costs	(1,447)	(1,388)
Packaging costs (including related staff cost)	(1,294)	(1,617)
Contract labour	(600)	(717)
Repair and maintenance – spare parts	(548)	(1,125)
Plant utilities	(110)	(105)
Insurance and taxes	(108)	(92)
Lining	(2)	(36)
Inventory change	(157)	(1,413)
	<u>(31,133)</u>	<u>(37,658)</u>

**5.2 Selling and distribution costs**

	<u>2010</u>	<u>2009</u>
	€000	€000
Salaries and related expenses	(297)	(312)
Third party fees	(94)	(136)
Car related expenses	(74)	(77)
Advertising and promotion	(30)	(36)
Travel - entertainment	(23)	(31)
Utilities	(15)	(14)
Insurance and taxes	(14)	(19)
Other	(29)	(48)
	<u>(576)</u>	<u>(673)</u>

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

**5.3 Administrative expenses**

	<u>2010</u>	<u>2009</u>
	€000	€000
Salaries and related expenses	(1,465)	(1,492)
Depreciation	(547)	(632)
Security	(417)	(469)
Consultancy fees	(333)	(252)
Utilities	(161)	(188)
Car related expenses	(142)	(167)
Insurance and taxes	(115)	(114)
Donations	(88)	(59)
Travel – entertainment	(89)	(95)
Audit fees	(72)	(73)
Amortization (note 9)	(46)	(56)
Repairs and maintenance	(29)	(36)
Other	(364)	(429)
	<u>(3,868)</u>	<u>(4,062)</u>

**5.4 Other expenses**

	<u>2010</u>	<u>2009</u>
	€000	€000
Impairment of trade receivables (note 14)	(315)	(333)
Staff leaving indemnities	(166)	(293)
Cost of goods, materials and scrap sold	(543)	(41)
Write off materials	(46)	(95)
Employee related accruals	-	(29)
Expenses pertaining to disposal of property, plant and equipment	(13)	(24)
Expenses for demolition	(19)	(14)
Cost of bars, canteen and rest house	(1)	(7)
Restoration provision (note 19)	(12)	(84)
Losses from fair value adjustments to investment properties (note 8)	(26)	-
Other	(24)	(11)
	<u>(1,165)</u>	<u>(931)</u>

**5.5 Expenses by nature**

	<u>2010</u>	<u>2009</u>
	€000	€000
Materials used and recognised as an expense	(14,773)	(19,067)
Hired services	(8,718)	(10,230)
Depreciation (note 7)	(7,525)	(6,761)
Employee benefits expense (note 5.6)	(4,065)	(4,421)
Amortisation (note 9)	(46)	(56)
Change in work in progress and finished goods	(157)	(1,413)
Other	(1,458)	(1,376)
<b>Total cost of sales, selling and distribution, administrative and other expenses</b>	<u>(36,742)</u>	<u>(43,324)</u>

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

**5.6 Employee benefits expense**

	<u>2010</u>	<u>2009</u>
	€000	€000
Wages and salaries	(2,889)	(3,145)
Social security costs	(549)	(609)
Retirement benefits	(43)	(29)
Other related expenses	(584)	(638)
	<u>(4,065)</u>	<u>(4,421)</u>

**5.7 Other income**

	<u>2010</u>	<u>2009</u>
	€000	€000
Sale of scrap and materials	426	92
Gain on sale of emission rights	406	-
Refund of excise	50	88
Sale of goods and rent of offices	211	10
Rendering of other services	21	66
Reversal of impairment of receivables (note 14)	6	11
Employee related provisions	1	-
Income from investment property	-	22
Reversal of quarry provision (note 19)	-	388
Other	150	227
	<u>1,271</u>	<u>904</u>

**5.8 Finance income**

	<u>2010</u>	<u>2009</u>
	€000	€000
Effect from discounting of other financial liabilities	41	-
Foreign exchange gains	9	2
Bank accounts and deposits	2	2
Loans provided to related parties (note 23)	2	-
	<u>54</u>	<u>4</u>

**5.9 Finance costs**

	<u>2010</u>	<u>2009</u>
	€000	€000
Bank loans and overdrafts	(1,327)	(1,865)
Effect from discounting of long term receivables	(154)	-
Unwinding of discount on restoration provision (note 19)	(107)	-
Loans received from related parties (note 23)	(83)	(32)
Fee expense	(89)	(80)
Foreign exchange losses	(10)	(3)
Other finance costs (note 20)	(6)	(16)
	<u>(1,776)</u>	<u>(1,996)</u>

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**6. Income tax**

The major components of income tax income / (expense) for the year ended 31 December 2010 and 2009 are:

	<u>2010</u>	<u>2009</u>
	<u>€000</u>	<u>€000</u>
Current income tax charge	-	(275)
Deferred income tax income / (expense)	<u>1,917</u>	<u>(676)</u>
<b>Income tax income / (expense) reported in the statement of comprehensive income</b>	<b><u>1,917</u></b>	<b><u>(951)</u></b>

In 2010 the nominal statutory tax rate is 10% (2009: 10%).

Reconciliation between income tax expense and the product of accounting profit multiplied by the statutory tax rate for the year ended 31 December 2010 and 2009 is as follows:

	<u>2010</u>	<u>2009</u>
	<u>€000</u>	<u>€000</u>
Accounting profit before income tax	<u>3,765</u>	<u>11,295</u>
Income tax expense at statutory tax rate of 10% for 2010 (2009: 10%)	(377)	(1,130)
Expenses not deductible for tax purposes	(15)	(16)
Tax relief recognized in tax return	846	141
Tax relief available for future periods	1,463	-
Other	-	54
<b>Income tax income / (expense)</b>	<b><u>1,917</u></b>	<b><u>(951)</u></b>

As per the provisions of Bulgarian Corporate Income Tax Act (CITA) any taxable person is eligible to income tax relief up to 100% of the income tax for the fiscal year, only if the following requirements are simultaneously met:

- the taxable person carries out manufacturing activities solely in municipalities where the rate of unemployment for the year preceding the current year is by 35% or more higher than the average for Bulgaria for the same period;
- additional requirements, the most important of which are as follows:
  - the income tax holiday should be invested in property, plant and equipment and intangible assets, part of an initial capital expenditure plan;
  - the initial investment (i.e. qualifying capital expenditure projects) should be made within four years following the beginning of the year for which the income tax relief is claimed;
  - the initial investment must be made in municipalities where the rate of unemployment for the year of tax holiday claim is by 35% or more higher than the average for Bulgaria for the same period;
  - the activity, related to the initial investment, should continue to be performed in the respective municipality for a period of at least five years after the year of completion of the initial investment; this circumstance shall be declared annually in the annual tax returns until the lapse of a five-year period;
  - at least 25% of the value of the property, plant and equipment and intangible assets, forming part of the initial investment, should be self-financed or debt-financed by the taxable person;
  - the income tax relief should not exceed 50% of the present value of the property, plant and equipment, included in the initial investment plan, determined as at 31 December of the year of the tax holiday.

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**6. Income tax (continued)**

As of 31 December 2010 the Company considers that it is eligible for the following tax relieves as all the above mentioned requirements of CITA are considered "satisfied":

- EUR 4,010 thousand related to qualifying capital expenditure project "Vertical Cement Mill" (with total budgeted amount of EUR 10,000 thousand) declared in 2007 annual tax return. This tax relief was recognised as a reduction of current income tax expense in the statement of comprehensive income for the financial year 2008.
- EUR 1,331 thousand related to qualifying capital expenditure project "Raw Material silos" (with total budgeted amount of EUR 3,000 thousand) which was declared in 2008 annual tax return. This tax relief was recognised as a reduction of current income tax expense in the statement of comprehensive income for the financial year 2008.
- EUR 141 thousand related to qualifying capital expenditure project "Tyres feeding installation for Kiln 5" (with total budgeted amount of EUR 300 thousand) which was declared in 2009 annual tax return. This tax relief was recognised as a reduction of current income tax expense in the statement of comprehensive income for the financial year 2009. As at 31 December 2010 the project was completed.
- EUR 2,309 thousand related to qualifying capital expenditure project "RDF Installation" (with total budgeted amount of EUR 4,793 thousand) which was declared in 2010 annual tax return. The Company recognized EUR 846 thousand of this tax relief as a reduction of current income tax expense in the statement of comprehensive income for the financial year 2010 (up to the amount of the tax payable on the current tax profit). The Company recognised deferred tax asset on the unused tax holiday at the amount of EUR 1,463 thousand as it will be available for reduction against future income tax payables.

Deferred income tax at 31 December 2010 and 31 December 2009 relates to the following:

	<b>Balance Sheet</b>		<b>Statement of comprehensive income</b>	
	<b>31 December 2010</b>	<b>31 December 2009</b>	<b>2010</b>	<b>2009</b>
	<b>€000</b>	<b>€000</b>	<b>€000</b>	<b>€000</b>
<i>Deferred tax liability</i>				
Accelerated depreciation for tax purposes	1,453	1,873	420	(721)
	<u>1,453</u>	<u>1,873</u>		
<i>Deferred tax asset</i>				
Unused leave allowance	(16)	(21)	(5)	(12)
Restoration provision	(158)	(146)	12	23
Retirement benefits	(25)	(21)	4	2
Impairment of receivables	(83)	(60)	23	32
Unused tax credit	(1,463)	-	1,463	-
	<u>(1,745)</u>	<u>(248)</u>		
<b>Deferred tax income / (expense)</b>			<u><b>1,917</b></u>	<u><b>(676)</b></u>
<b>Deferred tax (asset) / liability, net</b>	<u><b>(292)</b></u>	<u><b>1,625</b></u>		

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**7. Property, plant and equipment**

	Land and buildings	Plant and machinery	Vehicles	Furniture and fittings	Assets under construction	Total
	€000	€000	€000	€000	€000	€000
<b>Cost:</b>						
At 1 January 2009	12,138	72,363	5,383	1,357	2,725	93,966
Additions	231	13	9	12	2,402	2,667
Transfers	21	1,937	19	22	(1,999)	-
Disposals	-	(110)	(234)	(80)	-	(424)
<b>At 31 December 2009</b>	<b>12,390</b>	<b>74,203</b>	<b>5,177</b>	<b>1,311</b>	<b>3,128</b>	<b>96,209</b>
At 1 January 2010	12,390	74,203	5,177	1,311	3,128	96,209
Additions	1,538	210	-	-	11,468	13,216
Transfers	27	693	-	73	(793)	-
Transfers from inventory (note 13)	-	1,606	-	-	-	1,606
Disposals	-	(90)	(464)	(51)	-	(605)
<b>At 31 December 2010</b>	<b>13,955</b>	<b>76,622</b>	<b>4,713</b>	<b>1,333</b>	<b>13,803</b>	<b>110,426</b>
<b>Depreciation:</b>						
At 1 January 2009	1,456	17,492	2,174	820	-	21,942
Depreciation charge for the period	451	5,523	571	216	-	6,761
Disposals	-	(106)	(233)	(80)	-	(419)
<b>At 31 December 2009</b>	<b>1,907</b>	<b>22,909</b>	<b>2,512</b>	<b>956</b>	<b>-</b>	<b>28,284</b>
At 1 January 2010	1,907	22,909	2,512	956	-	28,284
Depreciation charge for the period	448	6,411	495	171	-	7,525
Disposals	-	(88)	(463)	(51)	-	(602)
<b>At 31 December 2010</b>	<b>2,355</b>	<b>29,232</b>	<b>2,544</b>	<b>1,076</b>	<b>-</b>	<b>35,207</b>
<b>Net book value:</b>						
At 1 January 2009	10,682	54,871	3,209	537	2,725	72,024
At 31 December 2009	10,483	51,294	2,665	355	3,128	67,925
At 31 December 2010	11,600	47,390	2,169	257	13,803	75,219

As at 31 December 2010 Plant and machinery comprised major spare parts of EUR 1,313 thousand, which are not available for use and therefore not depreciated.

*Assets under construction*

Assets under construction relate to major capital projects as Vertical cement mill 9, Silos for Raw materials, RDF Installation and others.

*Impairment of property, plant and equipment*

Based on the review for impairment of the tangible fixed assets, the Company's management has not found indicators that the book value of the assets exceeds their recoverable amount. Therefore, no impairment of property, plant and equipment has been recognised at 31 December 2010 (2009: Nil).

Effective 1 January 2010 the Company reestimated the useful life of certain buildings, plant and machinery. The effect from the change in the current year is as follows:

Depreciation expense before the change – EUR 520 thousand

Depreciation expense after the change – EUR 1,371 thousand

Effect – EUR 851 thousand

The amount of the effect in future periods is not disclosed because estimating it is impracticable.

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**8. Investment property**

	<u>2010</u>	<u>2009</u>
	<u>€000</u>	<u>€000</u>
Opening Balance at 1 January	503	-
Loss from fair value adjustments (note 5.4)	(26)	-
Additions	1,017	503
Closing balance at 31 December	<u>1,494</u>	<u>503</u>

The Company engaged an accredited external valuer to fair value its investment properties. The effective date of the valuations was 31 December 2010. Fair values were estimated by applying the following valuation methods:

- Property with fair value as of 31 December 2010 of EUR 290 thousand were valued under the market comparables method and the residual value method (income approach). The results determined under the two methods were weighted as the market comparables method was given an 80% and the residual value method – 20%. Under the market comparables method actual transaction prices and ask prices were used. They were adjusted upwards by 5% to reflect the differences between the subject of valuation and the comparables – such as location, size, accessibility, infrastructure.
- Properties with fair value of EUR 1,204 thousand were valued under the discounted cash flow method. On the basis of an analysis of the real estate market in the area, the appraiser determined an average rent per sq. meter of office space of Euro 9.25 per sq. m per month and Euro 50 per parking space per month. The valuation assumes 100% occupancy of the property throughout the forecast period following the first 2-month void period. The net rent income is discounted with a discount rate of 9.75%. Due to the observed market illiquidity, the appraiser used the market comparables method only as a relevance test

**9. Intangible assets**

	<u>Concession rights</u>	<u>Licences</u>	<u>Computer software</u>	<u>Total</u>
	<u>€000</u>	<u>€000</u>	<u>€000</u>	<u>€000</u>
<b>Cost:</b>				
At 1 January 2009	41	141	141	323
Additions	-	-	51	51
<b>At 31 December 2009</b>	<u>41</u>	<u>141</u>	<u>192</u>	<u>374</u>
At 1 January 2010	41	141	192	374
Additions	-	1	16	17
Disposals	-	(5)	(22)	(27)
<b>At 31 December 2010</b>	<u>41</u>	<u>137</u>	<u>186</u>	<u>364</u>
<b>Amortisation:</b>				
At 1 January 2009	23	124	48	195
Amortisation charge for the period	2	16	38	56
<b>At 31 December 2009</b>	<u>25</u>	<u>140</u>	<u>86</u>	<u>251</u>
At 1 January 2010	25	140	86	251
Amortisation charge for the period	2	2	42	46
Disposals	-	(5)	(22)	(27)
<b>At 31 December 2010</b>	<u>27</u>	<u>137</u>	<u>106</u>	<u>270</u>
<b>Net book value:</b>				
At 1 January 2009	<u>18</u>	<u>17</u>	<u>93</u>	<u>128</u>
At 31 December 2009	<u>16</u>	<u>1</u>	<u>106</u>	<u>123</u>
At 31 December 2010	<u>14</u>	<u>-</u>	<u>80</u>	<u>94</u>



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**9. Intangible assets (continued)**

*Impairment of intangible assets*

The Company has carried out a review for existence of impairment indicators at 31 December 2010. No indications have been found that the carrying amount of the assets exceeds their recoverable amount and therefore, no impairment loss has been recognized in the financial statements (2009: Nil).

**10. Investments**

**10.1 Investments in subsidiaries**

	Country of incorporation	% equity interest	
		2010	2009
Zlatna Panega Beton EOOD	Bulgaria	100%	100%
Gravel and Sand Pits – Bulgaria EAD	Bulgaria	100%	100%
Geospan EDOO (FYROM)	FYROM	100%	-

The investments in subsidiaries are measured at cost as follows:

	2010	2009
	€000	€000
Zlatna Panega Beton EOOD	3,564	3,564
Gravel and Sand Pits Bulgaria EAD	69	69
Geospan EDOO (FYROM)	55	-
	<b>3,688</b>	<b>3,633</b>

In 2010 the Company incorporated a new subsidiary Geospan EDOO, FYROM. 100 % of the share capital of the newly incorporated subsidiary is owned by Zlatna Panega Cement AD.

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

**10.2 Available-for-sale investments**

The Company has an 8% participation in Granitoid AD, the majority shareholder of which is REA Cement Limited. Granitoid AD is a joint stock company, incorporated in Bulgaria. The equity shares are measured at cost because they do not have a quoted market price in an active market and their fair value cannot be reliably measured. The cost of the available-for-sale investment is EUR 21 thousand as of 31 December 2010 and 2009.

**11. Other financial assets**

In accordance with the quarry concession agreement, the Company is obliged to maintain a deposit equal to 10% of the amount of the average three-month excavated material, during the concession period (20 years). As of 31 December 2010 the amount deposited and restricted for this purpose is EUR 65 thousand (31 December 2009: EUR 60 thousand). It earns interest at 2.5% per annum.

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**12. Non-current assets held for sale**

As of 31 December 2010 Non-current assets held for sale at the amount of EUR 307 thousand comprise of unzoned land located in Sofia.

Non-current assets held for sale are valued at lower of cost and net realizable value (NRV). As at 31 December 2010 the net realizable value was determined by an accredited external valuer using the market approach and the income approach (residual value method) – the two values were weighted as the market approach was assigned 90% weight and the income approach – 10%. Under the market approach, the Appraiser used ask prices and adjusted them to reflect the differences in comparison to the valued plot (such as location, accessibility, infrastructure, construction potential). In addition the Appraiser applied an ask price discount of 15%.

**13. Inventories**

	<u>2010</u>	<u>2009</u>
	<u>€000</u>	<u>€000</u>
Raw materials	804	1,910
Spare parts	5,479	7,696
Packaging materials	382	328
Work in progress	386	430
Finished goods	718	1,085
	<u>7,769</u>	<u>11,449</u>

In 2010, the Company reviewed the nature of its inventories, their turnover and technical characteristics. As a result, it was determined that a substantial part of them, amounting to EUR 1,606 thousand represent major spare parts and stand-by equipment that can be used in more than one reporting period. As a result of this spare parts with book value of EUR 1,606 thousand presented as Inventories as of 31 December 2009 were transferred to Property, plant and equipment in the current year.

**14. Trade and other receivables**

	<u>2010</u>	<u>2009</u>
	<u>€000</u>	<u>€000</u>
Trade receivables	5,815	10,447
Receivables under court proceedings	2,381	1,577
Less: Provision for impairment	(831)	(599)
Trade receivables, net	7,365	11,425
Short-term portion of long-term receivables	482	-
VAT receivable	369	-
Other receivables	162	118
Trade and other receivables, net	<u>8,378</u>	<u>11,543</u>

Trade receivables are non-interest bearing and are generally on 0-75 days terms.

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

As at 31 December 2010, trade receivables at nominal value of EUR 1,216 thousand (31 December 2009: EUR 717 thousand) were provided for impairment following receivable collectability analysis performed by the Company's management. Movements in the provision for impairment of receivables were as follows:

	<b>Individually impaired receivables</b>
	<b>€000</b>
At 1 January 2009	285
Charge for the year (note 5.4)	333
Utilized	(8)
Unused amounts reversed (note 5.7)	(11)
<b>At 31 December 2009</b>	<b>599</b>
At 1 January 2010	599
Charge for the period (note 5.4)	315
Utilized	(77)
Unused amounts reversed (note 5.7)	(6)
<b>At 31 December 2010</b>	<b>831</b>

The ageing analysis of trade receivables is as follows:

	<b>Total</b>	<b>Neither past due nor impaired</b>	<b>Past due but not impaired</b>				
			<b>&lt; 30 days</b>	<b>30-60 days</b>	<b>61-90 days</b>	<b>91-120 days</b>	<b>&gt;120 days</b>
	<b>€000</b>	<b>€000</b>	<b>€000</b>	<b>€000</b>	<b>€000</b>	<b>€000</b>	<b>€000</b>
2010	7,365	606	250	1,136	428	463	4,482
2009	11,425	969	1,098	2,326	1,647	1,462	3,923

*Long-term receivables*

As at 31 December 2010 the Company reports receivables in the total amount of EUR 999 thousand consisting of a long-term portion of EUR 517 thousand and a short-term portion of EUR 482 thousand. They are non-interest bearing and are related to sale of cement to various clients. Receivables should be settled under repayment schedules agreed with respective clients. The maturity term of those receivables varies from 1 to 2 years. Long term receivables are presented at the present value of the expected future cash flows discounted at a discount rate of 10.3% per annum.

**15. Prepayments**

	<b>2010</b>	<b>2009</b>
	<b>€000</b>	<b>€000</b>
Prepayments to third parties	282	714
Advances paid to related parties (note 23)	-	511
	<b>282</b>	<b>1,225</b>

## 16. Cash and short-term deposits

	2010	2009
	€000	€000
Cash at bank	251	51
Cash in hand	4	5
	<u>255</u>	<u>56</u>

Cash at bank earns interest at floating rates based on daily bank deposit rates. As of 31 December 2010 the fair value of cash and short-term deposits is EUR 255 thousand (31 December 2009: EUR 56 thousand).

## 17. Issued capital and reserves

### 17.1 Issued capital

	2010	2009
	€000	€000
Ordinary shares of EUR 0.51 each, as per court registration	16,450	16,450
Hyperinflation adjustment	12,152	12,152
	<u>28,602</u>	<u>28,602</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 12,152 thousand represents the effect of hyperinflation in the share capital from its nominal and legally registered value of EUR 16,450 thousand to EUR 28,602 thousand. The hyperinflation is performed using the movement in the exchange rate between Bulgarian Lev and German Mark (DEM) as the most representative and reasonable measure of inflation during that period.

	Number of ordinary shares (thousands)	Authorised capital
At 1 January 2009	32,173	16,450
At 1 January 2010	32,173	16,450
<b>At 31 December 2010</b>	<b>32,173</b>	<b>16,450</b>

All ordinary shares issued were fully paid.

### 17.2 Reserves

#### *Legal reserve*

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

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**18. Interest - bearing loans to banks**

	Effective interest rate %	Maturity	2010 €000	2009 €000
<b>Current</b>				
(1) Overdraft facility in BNP Paribas with limit of BGN 15,000 thousand	3M Sofibor +2 %	31 October 2011	86	7,281
(2) Overdraft facility in Raiffeisen bank with limit of BGN 10,000 thousand	1M Sofibor +2.3 %	15 June 2012	4,829	-
(3) Overdraft facility in Raiffeisen bank with limit of BGN 15,000 thousand	1M Sofibor +2.3 %	15 December 2012	4,452	-
(4) Revolving facility in Alpha bank with limit of BGN 10,000 thousand	3M Sofibor +4.25%	30 November 2011	-	2,775
(5) Revolving facility in Alpha bank with limit of BGN 10,000 thousand	9% fixed rate	30 November 2011	-	-
(6) Overdraft facility in UBB AD with limit of BGN 9,779 thousand	BASE rate of UBB +1%	31 October 2011	58	3,730
			<b>9,425</b>	<b>13,786</b>

	Effective interest rate %	Maturity	2010 €000	2009 €000
<b>Non-Current</b>				
(7) Long-term bullet loan with maturity of 3 years in Societe Generale - Expressbank with total limit of BGN 24,000 thousand for working capital needs and capital expenditure	1M Sofibor +1.5 %	11 March 2012	12,271	12,271
			<b>12,271</b>	<b>12,271</b>

(1) Overdraft facility concluded with BNP Paribas for a limit of BGN 15,000 thousand (EUR 7,669 thousand). The facility is secured by a Corporate Guarantee issued by Titan Cement S.A. On 15 December 2010 the Company signed an annex with BNP Paribas that during the period from 1 January 2011 till 31 October 2011 the total amount of the Facility shall be at the maximum amount of BGN 5,870 thousand (EUR 3,000 thousand).

(2) and (3) Overdraft facility concluded with Raiffeisen bank for a limit of BGN 25,000 thousand (EUR 12,782 thousand). The facility is secured by a Corporate Guarantee issued by Titan Cement S.A. The bank may unilaterally cancel the overdraft facilities respectively on 15 June 2011 and 15 December 2011 and set the respective loans as available on demand.

(4) and (5) Revolving credit line facility concluded with Alpha bank for a total limit of BGN 20,000 thousand (EUR 10,226 thousand). The facility is secured by a Corporate Guarantee issued by Titan Cement S.A.

(6) Revolving credit line facility concluded with UBB for a limit of BGN 9,779 thousand (EUR 5,000 thousand). The facility is secured by a Corporate Guarantee issued by Titan Cement S.A.

(7) Long term bullet loan with maturity of 3 years concluded with Societe General - Expressbank for a total limit of BGN 24,000 thousand (EUR 12,271 thousand). The facility is secured by Corporate Guarantee issued by Titan Cement S.A. It is repayable in full on 11 March 2012.

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**18. Interest - bearing loans to banks (continued)**

As at 31 December 2010, the Company has available EUR 26,252 thousand (31 December 2009: EUR 14,339 thousand) of undrawn committed and uncommitted borrowing facilities in respect of which all precedent conditions had been met.

**19. Restoration provision**

	<u>Restoration provision</u>
	<u>€000</u>
At 1 January 2009	1,767
Arising during the period (note 5.4)	84
Unused amounts reversed* (note 5.7)	<u>(388)</u>
<b>At 31 December 2009</b>	<b>1,463</b>
At 1 January 2010	1,463
Arising during the period (note 5.4)	12
Unwinding of discount (note 5.9)	<u>107</u>
<b>At 31 December 2010</b>	<b><u>1,582</u></b>

A provision has been recognized for restoration costs, associated with the quarry concession agreement, under which the Company is obliged to restore the surface of the quarry upon the cessation of its use.

\* As a result of changes in the estimated future costs and in the discount rate applied, EUR 388 thousand are recognized in the statement of comprehensive income.

**20. Retirement benefits**

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

The Company performs actuarial assessment of the retirement benefit obligation once a year as part of the annual financial statement close procedures.

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

**Net benefits expense**

	<u>2010</u>	<u>2009</u>
Current service cost (note 5.6)	22	8
Interest cost (note 5.9)	13	15
Net actuarial (gain) recognised during the year (note 5.9)	(7)	1
Past service cost (note 5.6)	<u>21</u>	<u>21</u>
<b>Net benefit expense recognised in the statement of comprehensive income</b>	<b><u>49</u></b>	<b><u>45</u></b>

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**20. Retirement benefits (continued)**

**Benefit liability**

	<b>2010</b>	<b>2009</b>
	<b>€000</b>	<b>€000</b>
Present value of retirement benefit obligation	215	233
Unrecognised actuarial gains	38	-
Unrecognised past service costs	-	(21)
<b>Benefit liability recognised in the balance sheet</b>	<b>253</b>	<b>212</b>

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

	<b>Amount</b>
	<b>€000</b>
Retirement benefit obligation at 1 January 2009	244
Interest cost	15
Current service cost	8
Benefits paid	(26)
Actuarial gains on obligation	(8)
<b>Retirement benefit obligation at 31 December 2009</b>	<b>233</b>
Interest cost	13
Current service cost	22
Benefits paid	(8)
Actuarial gains on obligation	(45)
<b>Retirement benefit obligation at 31 December 2010</b>	<b>215</b>

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

	<b>2010</b>	<b>2009</b>
Discount rate	5.4 %	6.0 %
Future salary increases	4.0 %	2.5 %

Amounts for the year ended 31 December 2010 and previous four annual periods are as follows:

	<b>2010</b>	<b>2009</b>	<b>2008</b>	<b>2007</b>	<b>2006</b>
	<b>€000</b>	<b>€000</b>	<b>€000</b>	<b>€000</b>	<b>€000</b>
Present value of retirement benefit obligation	215	233	244	247	281
Experience adjustments on plan liabilities	(45)	(8)	7	(18)	(7)

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**21. Other financial liabilities**

	<u>2010</u>	<u>2009</u>
	<u>€000</u>	<u>€000</u>
<i>Non-current</i>		
Retentions	259	-
	<u>259</u>	<u>-</u>
<i>Current</i>		
Retentions	278	-
	<u>278</u>	<u>-</u>

According to the contracts signed with subcontractors in relation to its capital projects the Company retains certain amounts as guarantee for qualitative fulfilment of contractual obligations by subcontractors. Retentions are determined as a percentage of each progress payment. They are non-interest bearing and are payable as follows: 50% of the retentions – upon issue of Technical acceptance and 50% - 12 months after the issue of Technical acceptance. The maturity term of the retentions varies from 1 to 2 years. Upon initial recognition, retentions are measured at the present value of all future cash outflows using the discount rate of 7.3 % per annum. The Company accretes the discount to profit or loss using the effective interest rate method.

**22. Trade and other payables**

	<u>2010</u>	<u>2009</u>
	<u>€000</u>	<u>€000</u>
Trade payables from domestic suppliers	1,987	1,567
Trade payables from foreign suppliers	1,073	457
Trade payables	3,060	2,024
Customer prepayments	222	189
Unused paid leave	162	206
Social security	48	61
Payroll taxes	21	25
V.A.T payable	-	107
Other taxes	25	10
Insurance premium payable	18	19
Other payables	144	217
	<u>3,700</u>	<u>2,858</u>

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

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



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**23. Related party disclosures**

*The ultimate parent*

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

*Entity with controlling interest in the Company*

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

*Subsidiaries*

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

*Associates*

Zlatna Panega Cement AD has a significant influence over Holcim Karierni Materiali AD, with interest of 48.77% and in Holcim Karierni Materiali Plovdiv AD, with interest 48.72% through its wholly-owned subsidiary Gravel and Sand Pits – Bulgaria EAD. During 2010 Holcim Karierni Materiali AD acquired 100% of Vris OOD. As a result of the transaction, Zlatna Panega Cement has a significant influence with interest of 48.77% in Vris OOD, through its subsidiary Gravel and Sand Pits – Bulgaria EAD.

*Other related parties*

Granitoid AD, Cementarnica Usje AD, Cementarnica Kosjerich, Antea Cement SHA, Titan America, Shar Beteiligung, Titan Beton and Aggregates Egypt LLC and Zlatna Panega Cement AD are related parties because they are under the common control of Titan Cement Company SA (the ultimate parent).

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

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

		Sales to related parties	Purchases from related parties	Amounts due from related parties	Amounts due to related parties
		€000	€000	€000	€000
<b>In respect of sales / purchases from related party</b>					
<i>Ultimate parent company</i>					
Titan Cement Company S.A.	2010	56	1	-	1
Titan Cement Company S.A.	2009	-	-	-	2
<i>Subsidiaries</i>					
Zlatna Panega Beton EOOD	2010	2,719	1,859	1,728	-
Zlatna Panega Beton EOOD	2009	2,416	207	1,773 <sup>(*)</sup>	-
Double V Co	2010	-	-	-	-
Double V Co	2009	-	1	-	-
<i>Other related parties</i>					
Granitoid AD	2010	-	-	-	-
Granitoid AD	2009	-	12	-	-
Cementarnica Usje AD	2010	90	-	2	-
Cementarnica Usje AD	2009	103	-	64	-
Cementarnica Kosjerich	2010	11	-	-	-
Cementarnica Kosjerich	2009	11	-	5	-
Shar Beteiligung	2010	11	-	-	-
Shar Beteiligung	2009	-	-	-	-
Antea Cement SHA	2010	91	-	26	-
Antea Cement SHA	2009	-	-	-	-
Titan America	2010	-	7	-	-
Titan America	2009	-	3	-	-
Titan Beton and Aggregates Egypt LLC	2010	211	-	-	-
Titan Beton and Aggregates Egypt LLC	2009	-	-	-	-
	2010			<u>1,756</u>	<u>1</u>
	2009			<u>1,842</u>	<u>2</u>

As of 31 December 2009 included in the amounts due from related parties is advance paid to the subsidiary Zlatna Panega Beton EOOD of EUR 511 thousand (note 15).

<sup>(\*)</sup> of which EUR 511 thousand are included in Prepayments (note 15)

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

		Interest income	Interest expense	Amounts due from related parties	Amounts due to related parties
		€000	€000	€000	€000
<b>In respect of loans from / to related party</b>					
<i>Subsidiaries</i>					
Gravel and Sand Pits EAD	2010	-	83	-	1,031
Gravel and Sand Pits EAD	2009	-	32	-	1,003
<i>Other related parties</i>					
Granitoid AD	2010	2	-	42	-
Granitoid AD	2009	-	-	-	-
	2010			<u>42</u>	<u>1,031</u>
	2009			<u>-</u>	<u>1,003</u>

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

The sales and purchases from related parties are made at contracted prices. Outstanding balances at period end are unsecured, interest free (except for loans) and settlement occurs in cash. Except as disclosed in note 18, there have been no guarantees provided or received for any related party receivables or payables. For the period ended 31 December 2010, the Company has not recorded any impairment of receivables relating to amounts owed from related parties (31 December 2009: Nil). This assessment is undertaken each financial period by examining the financial position of the related party and the market in which the related party operates.

**Loans owed to related parties**

*Gravel and Sand Pits – Bulgaria EAD*

During the year ended 31 December 2010, Zlatna Panega Cement AD borrowed from Gravel and Sand Pits – Bulgaria AD an amount of EUR 276 thousand. In year ended 31 December 2010 Zlatna Panega Cement AD repaid EUR 245 thousand. The intercompany loan is intended to finance the working capital needs of Zlatna Panega Cement AD. The loan was unsecured and is repayable in 2011. Interest is charged at 3M SOFIBOR plus spread of 2% effective (2009: the basic Interest Rate of UBB plus spread of 1.50%).

**Loans owed from related parties**

During the year ended 31 December 2010, Zlatna Panega Cement AD borrowed to Gronitoid AD an amount of EUR 40 thousand (31 December 2009: Nil). The intercompany loan is intended to finance the working capital needs of Granitoid. The loan is unsecured and is repayable in 2011. Interest is charged at Interest Rate of 9.11%.

**Compensation of key management personnel**

	2010	2009
	€000	€000
Short-term employee benefits	736	654
	<u>736</u>	<u>654</u>

**24. Dividends distributed**

During 2010, the General Meeting of Shareholders did not distribute dividends (2009: EUR 20,234 thousand of dividends were approved for distribution). The dividend per share is EUR 0 (2009: EUR 0.63).

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## 25. Commitments and contingencies

	2010	2009
	€000	€000
Capital commitments	3,197	7,791
Promissory note to the National Electricity Company	-	675
Promissory note to banks and leasing companies	5,761	5,761
	<u>8,958</u>	<u>14,227</u>

### Capital commitments

At 31 December 2010 the Company has capital commitments of EUR 3,197 thousand (2009: EUR 7,791 thousand) related to the completion of capital projects including: RDF Installation, Raw Material silos and others.

### 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 – until 31 December 2008;
- VAT – until 30 June 2009;
- Personal income tax – until 31 December 2008;
- Social security contributions – until 30 June 2009;
- Local taxes and fees – until 31 December 2004.

The directors do not believe that, as of 31 December 2010, any material matters exist relating to the evolving fiscal and regulatory environment in the country, which would require adjustment to the accompanying financial statements.

## 26. Financial risk management objectives and policies

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

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

### *Interest rate risk*

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

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

*Interest rate risk (continued)*

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

	Increase/ decrease in basis points	Effect on profit before tax
	€000	€000
<b>2010</b>		
Loans in BGN	+200	(496)
Loans in BGN	-100	248
<b>2009</b>		
Loans in BGN	+200	(536)
Loans in BGN	-100	268

*Liquidity risk*

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

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

**As of 31 December 2010**

	On demand	Less than 3 months	3 to 12 months	1 to 5 years	> 5 years	Total
	€000	€000	€000	€000	€000	€000
Interest bearing loans	-	116	9,772	12,367	-	22,255
Trade payables	-	3,060	-	-	-	3,060
Other payables	-	640	-	-	-	640
Payables to related parties	-	1	1,031	-	-	1,032
Other financial liabilities	-	-	289	289	-	578
	-	<b>3,817</b>	<b>11,092</b>	<b>12,656</b>	-	<b>27,565</b>

**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
Interest bearing loans	-	150	14,235	12,995	-	27,380
Trade payables	-	2,024	-	-	-	2,024
Other payables	-	834	-	-	-	834
Payables to related parties	-	9	996	-	-	1,005
	-	<b>3,017</b>	<b>15,231</b>	<b>12,995</b>	-	<b>31,243</b>

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

### *Foreign exchange risk*

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

### *Credit risk*

The Company trades only with recognised, creditworthy third parties. It is the Company's policy that all customers who wish to trade on credit terms are subject to credit verification procedures. In addition, receivable balances are monitored on an ongoing basis with the result that the Company's exposure to bad debts is not significant. The maximum exposure is the carrying amount as disclosed in note 14. There are no significant concentrations of credit risk within the Company.

With respect to credit risk arising from the other financial assets of the Company, which comprise cash and cash equivalents, available-for-sale financial investments and other financial assets (non-current), receivables from related parties the Company's exposure to credit risk arises from default of the counterparty, with a maximum exposure equal to the carrying amount of these instruments.

### *Capital management*

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

The Company manages its capital structure and makes adjustments to it, in light of changes in economic conditions. To maintain or adjust the capital structure, the Company may adjust the dividend payment to shareholders, return capital to shareholders or issue new shares, following the shareholders' approval. No changes were made in the objectives, policies or processes during years ended 31 December 2010 and 31 December 2009.

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

	2010	2009
	€000	€000
<b>EBITDA</b>	<b>13,058</b>	<b>20,104</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.

## 27. Financial instruments

### **Fair values**

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

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

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**27. Financial instruments (continued)**

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

**28. Events after the reporting period**

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