



**VASSILIKO CEMENT WORKS**  
PUBLIC COMPANY LTD

**ANNUAL REPORT AND CONSOLIDATED FINANCIAL STATEMENTS 2006**





*Dr. ANDREAS PANAYIOTOU*  
*Executive Chairman*

***Distinguished Guests,  
Dear Shareholders,***

On behalf of the Board of Directors I would like to welcome you to the 41st Annual General Meeting of the Company's shareholders.

Vassiliko Cement Works Public Company Ltd, the largest industrial unit of Cyprus, is continuously developing at all levels, entrepreneurial, technological and environmental with a special dynamism. This dynamism and the investment in the product quality, form the basis for the creation of a competitive outward looking business. In parallel, the organisation is investing in its specialised personnel and the professional culture of continuous adaptation to the new challenges of the sector. The fundamental values for continuous improvement of product quality, best customer service and the respect to the environment, constitute core values, and are strongly connected with the accomplishment of its economic objectives.

**Financial Results**

The total sales of the Group increased from £45.870.000 in 2005 (€79.332.000) to £49.781.000 (€86.096.000) in 2006, while operating profit increased from £7.979.000 (€13.799.000) to £11.953.000 (€20.672.000). The effect of other operating revenues that increased from £794.000 (€1.373.000) in 2005 to £4.180.000 (€7.229.000) was also important so that the profit for the financial period 2006 increased to £10.670.000 (€18.452.000) compared to £6.926.000 (€11.977.000) in 2005.

**Review of the year**

The climbing growth rate of the Cyprus cement market during 2006 continued and as a result, the total cement consumption in Cyprus reached to 1.627.000 tones compared to 1.589.000 tones of the previous year, an increase of 2,4%.



The total Group clinker and cement sales also increased from 1.406.000 tones to 1.458.000, an increase of 3,7%. The local cement sales increased to 1.187.000 from 1.160.000 tones in 2005.

The progressive course of the Group continued the first quarter of 2007. Characteristically, the profit for the period increased from £1.887.000 (€3.247.000) in 2006 to £2.312.000 (€3.982.000) in 2007, following the very strong growth of the local cement market. The local cement and clinker sales of the Group reached 331.000 tones for the first quarter of 2007 compared to 277.000 tones during the respective period of 2006 (19,5% increase). Total revenues increased by 10% from £11.726.000 (€20.193.000) in 2006 to £12.915.000 (€22.241.000) in 2007.

Vassiliko Cement has always been entrusted by the Cypriot and the European customers and its name became a synonym to good quality. During 2006, the Group exported 271.000 tons of cement from the Vassiliko Port. The total value of exports exceeded £5,5 (€9,5) million. Vassiliko Cement Works supports steadily the economy of Cyprus through its exports and offers direct and indirect employment to more than 350 workers and collaborators.

### **Energy costs**

As it is well known, the cement production is highly energy intensive and the direct energy cost exceeds the 37% of the total cost. The fuel and electricity costs continued their increasing trend during the last year, affecting adversely the production cost.

Vassiliko Cement Works managed through the implementation of specific measures to mitigate the energy cost increases. These measures include the use of alternative fuels, like sludge, olive-kernels, meat-flour, chopped tyres, etc, as well as investments in new plant and equipment of higher efficiency. Moreover, the Group promotes new products friendlier to the environment that require less energy for their production. The Quality Management System of the Group monitors the production process at each stage to verify the excellent quality of products.

Furthermore, the successful operation of the power plant installed in 2003, reduced the electricity cost in relation to the offered price from the Electricity Authority of Cyprus. Following the successful results of the initial investment in power generation, the Group proceeded during 2006 with a further investment of £1,5 (€2,6) million to double the capacity of its power station to 10 MW. After the operation of the new generators the coming autumn, it is expected to achieve a further saving of electricity cost of £600.000 (€1.030.000) per annum.



### **Technological upgrades and protection of environment**

As it is already known, the Group has proceeded with the erection of a new clinker silo with total capacity of 90.000 tones. The total investment is expected to reach £6 (€10,3) million and it will be completed in 2007. The project is expected to help enormously the efforts for the protection of the environment, reduce significantly the dust emission levels, while it will contribute considerably towards the improvement of the final product quality and the reduction of operating costs.

The Group also, studies methods to increase the quantity of alternative fuels used for replacement of imported fossil fuels and promotion of friendlier to the environment cement types, as part of the effort to contain the increasing energy cost and reduce the carbon dioxide emissions to the atmosphere. To this effect, we expect the positive response of the government to specific suggestions of the Company, like the production of green coal from municipal waste and the utilisation of used car tyres for the production of energy, an action which also addresses to a great extent the issue of waste management. One important accomplishment of our Cement Industry towards this direction is the reduction of specific carbon dioxide emissions by 12,7% in relation to 1990, distinguishing Vassiliko Cement Works amongst the pioneers worldwide.

### **Strategic Development**

In the new environment brought by our accession to the European Union, Vassiliko Cement Works materialises its strategy for further development with the unification of the forces in the cement industry. In the international competition scene, the country has a champion enterprise. It is driven by Cypriot hands and has earned the trust of its customers and the respect of its competitors in the whole of Europe.

The recent agreement between Vassiliko Cement Works Group and the Cyprus Cement Company, is a historical development that answers to the international competition challenge. In the European Union framework, we are obliged to strengthen our Group constantly. The development is a prerequisite for survival. The new agreement opens the way to the creation of a strong industry with Cypriot identity that will be able to be a leader in the international scene.

The merger agreement provides for the common management of the cement production and distribution operations as well as those of the aggregates quarries and ready mix sectors as follows:

(1) Vassiliko Cement Works will assume the management of Cyprus Cement Company's operations in relation to the production and distribution of cement.



(2) Vassiliko Cement Works will acquire through C.C.C. Building Materials Limited, which will be a wholly owned subsidiary, all the direct and indirect investments that Cyprus Cement Company has in Latouros Quarries Ltd, C.C.C. Aggregates Limited, Athinodorou Beton-Transport Limited, Athinodorou Beton-Estates Limited and Athinodorou Beton Ltd as well as in ELMENI Quarries Ltd.

(3) The above agreement provides for, at a future date and under certain conditions, the termination or substantial decrease in the production of cement at the Moni cement plant in conjunction with the operation of a new, state-of-the-art, cement production line at Vassiliko.

As consideration, for the acquisition of the above rights and investments, Vassiliko Cement Works will issue and allot as fully paid 18.199.794 shares to Cyprus Cement Company, which after their issue will represent the 25,3% of the issued share capital of Vassiliko Cement Works and will be traded at the Cyprus Stock Exchange.

The agreement will come into force once the Company receives the approval of the Commission for the Protection of Competition and of other competent authorities as well as the Shareholders' General Meetings of the two companies.

The agreement also provides for the installation of a modern production line for increase of the total cement production in Cyprus from 1,8 million tones to 2,4 million tones, to satisfy the demand of the increasing needs of the growing local construction industry, while in parallel it will strengthen the exporting orientation of the industry.

The environmental performance of the new production unit will improve noticeably, reducing all emissions while the energy saving achieved will be very important.

#### **Dividend**

The Board of Directors, having taken into account the results of the year, as well as the current year prospects, decided to propose to the General Meeting the payment of an additional dividend of £1.075.000 (€1.859.212) for the financial year 2006, which corresponds to 2 cents (€0,035) per share or 8% of the nominal share price.

Together with the interim dividend paid in December 2006 of £806.000 (€1.393.977), which corresponds to 1,5 cents(€0,026) per share, or 6% of the nominal share price, the total dividend to be paid from the 2006 retained profits amounts to £1.881.000(€3.253.189) and corresponds to 3,5 cents (€0,061) per share, or 14% of the nominal share price.



### **Departing Directors**

We would also like to thank warmly Mr. Jean-Yves Gestin and Mr. Giorgio Ghinaglia who retired from the Board of Directors on 11 January 2007, for the valuable services they have offered to the Group as members of the Board.

### **Personnel**

Finally, I would like to express the sincere appreciation and deepest respect of the Board of Directors to the General Manager, the Management and the personnel that form the spinal cord of the Group and the most valuable resource of the Company. I would also like to thank the Legal Advisors and the Auditors, Hellenic Mining Public Company Ltd, Italcementi Group, as well as other associates for their invaluable services to the Group. Sincere appreciation is also expressed to the shareholders of the Group for their trust and support they have shown to us and I would like to assure them that our aim always remains the financial prosperity of the Group and the management of the operations in a transparent manner. To this end, we will continue working with the same eagerness and devotion for the accomplishment of all the targets we have set and materialise our vision ***“to continuously strengthen our leading position and through our dynamic development to contribute in the progress of our homeland”***.

Vassiliko Cement Works proceeds with steady steps and adapts dynamically to the new challenges. Its accumulated know-how, its highly trained committed, enthusiastic and experienced personnel, as well as its essential infrastructure are invaluable assets to face these challenges successfully.

### **Dr. ANDREAS PANAYIOTOY**

*Executive Chairman*

Nicosia, 27 June 2007



## Contents

	Page
<b>Vassiliko Cement Works Group</b>	
• Progress of Continuous Growth	ii
• Board of Directors	iii
• Expansion in the Building Industry	v
• Vision - Mission - Values	vi
<b>Environment and Energy Saving</b>	
• Sustainable Development	vii
• The concept of Sustainable Development	ix
• Research Programme for the Bio-drying of Municipal Organic Waste and the Production of Fuel for the Cement Industry.	xi
• New Clinker Silo: Protection of the environment, Quality of the Products	xii
• Power Generation Station of Vassiliko Cement Works: ...our own energy!	xii
<b>Annual Report and Consolidated Financial Statements</b>	
• Officers, Professional Advisers and Bankers	2
• Notice of Annual General Meeting	3
• Declaration of the Members of the Board of Directors	5
• Directors' Report	6
• Corporate Governance Report	10
• Remuneration Report	15
• Directors (Curriculum Vitae)	17
• Independent Auditor's Report	21
• Consolidated Income Statement	23
• Consolidated Statement of Recognised Income and Expense	24
• Consolidated Balance Sheet	25
• Consolidated Statement of Cash Flows	26
• Notes to the Consolidated Financial Statements	27



## Vassiliko Cement Works Group



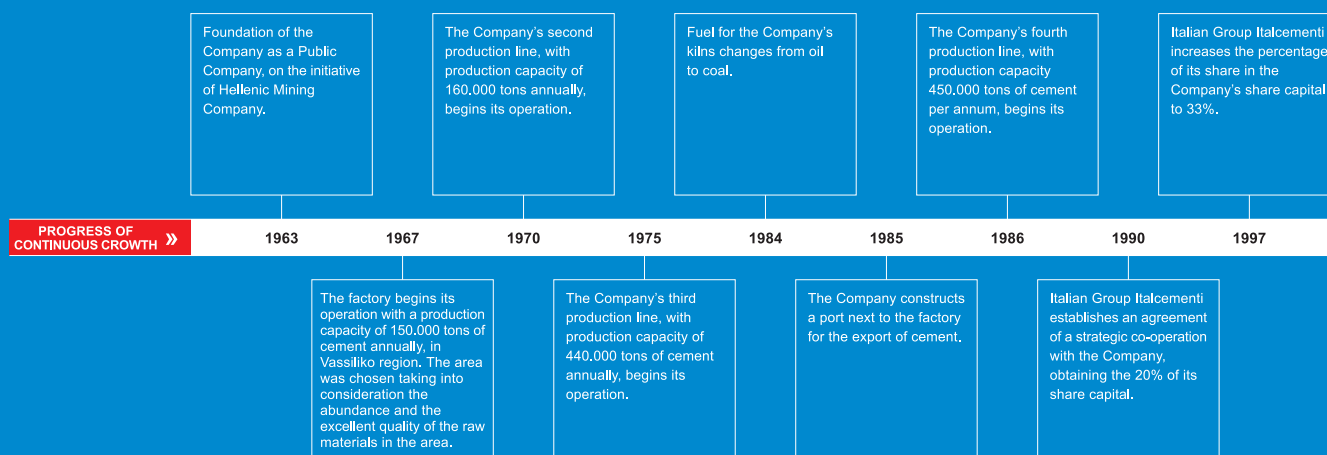
### *Progress of Continuous Growth*

Vassiliko Cement Works Public Company Ltd, the largest industrial installation in Cyprus, was established in 1963, as a Public Company, on the initiative of Hellenic Mining Company. Vassiliko region was chosen as the best possible location for the erection of the plant, taking into consideration the abundance and the excellent quality of the raw materials in the area.

The main characteristic of Vassiliko Cement Works is its continuous progress in every field – business, technology and environment – and its dynamic development. This dynamism and the investment in the quality of its products, form the grounds for the creation of a competitive outward-looking business. At the same time the company invests in its skilled and specialised human resources and in a professional culture of continuous adaption to the new challenges of the sector.

The plant was put into operation in 1967 with an annual production of 150.000 tons of cement. The first years of its operation were exceptionally encouraging since the Company managed to sell the entire production of cement and, at the same time, make remarkable profits. Since 1967 the Company developed in parallel with the island's growing economy. Gradually, new production lines were installed in order to increase the production capacity of the initial plant so that the increasing demand in the local market could be satisfied. At the same time, the company developed an international customer network based on the quality of the company's products, reliability and competitiveness.

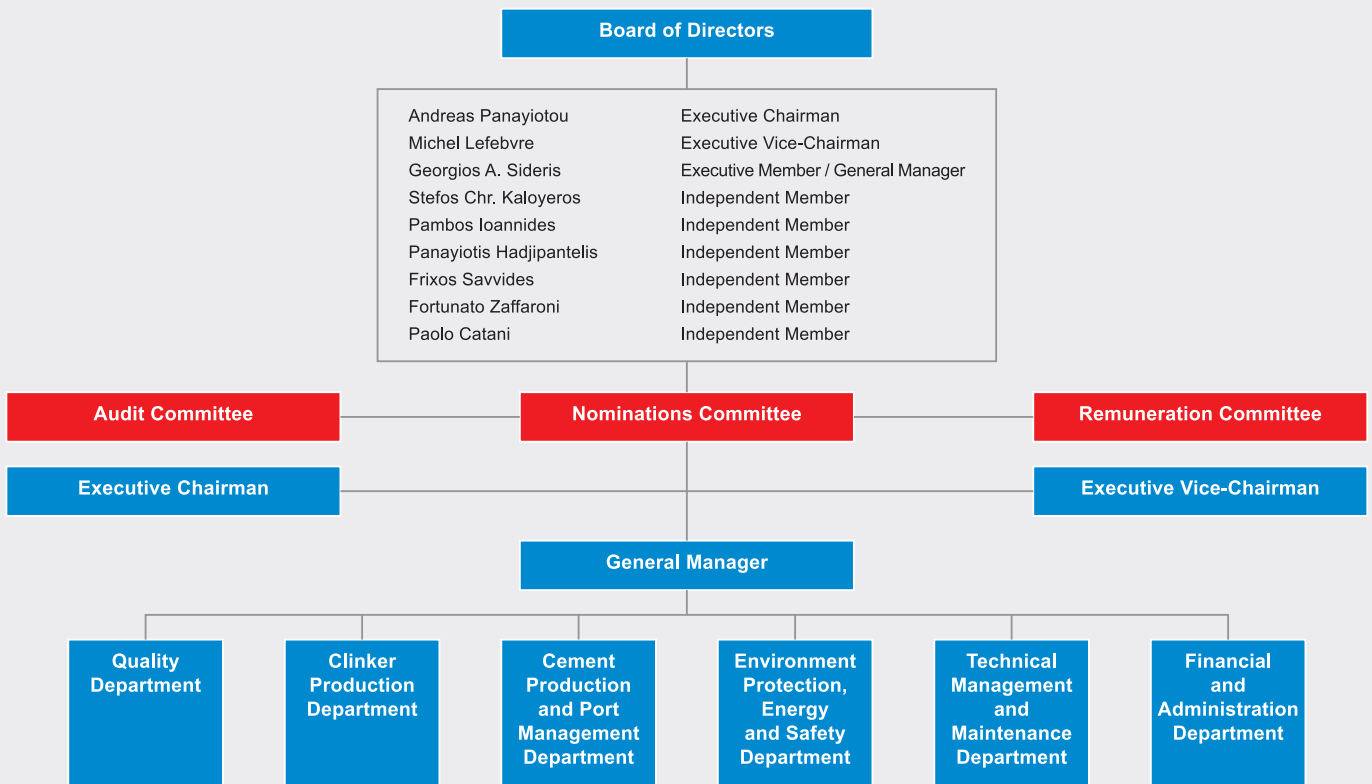
*(continues on page iv)*







## Vassiliko Cement Works Group



Erection of a new cement silo with 25.000 tons storage capacity.

2000

Installation of a new cement mill of the latest technology with 450,000 tons grinding capacity per annum.

2001

2002

Purchase of 51% of the issued share capital of A.E.S. Atlas Etimo Skirodema Ltd, from the entirely subsidiary company Vassiliko Building Materials Ltd, aiming at the expansion of our activities in ready mix concrete production.

2003

2004

2006

Acquisition of 30% of the share capital of Pyrga-Quarries Ltd, thus creating a strategic alliance with Ioannou and Paraskevides Company Ltd, which owns the remaining 70%.

Installation of private generators (6MW) of internal combustion aiming at a 25% reduction of the energy expenses as a result of the liberation of the energy market.

Increase of the capacity of the private generators from 6MW to 10MW aiming at the satisfaction of 50% of our needs in energy with a further investment which amounts £1,5 million.

Commencement of the construction of a new clinker silo with 90.000 tons capacity and of total investment £6 million, which will be completed in 2007, aiming at the protection of the environment, improvement of the final products quality and the reduction of operating costs.

Estia Etimo Skirodema Ltd, a subsidiary company with 120.000 m<sup>3</sup> production capacity begins its operation in Paphos district.

## Vassiliko Cement Works Group



*(continuation from page ii)*

Recognising the great potential of the international market, the Company constructed its own port, next to cement plant, in 1983, through which up to 40% of the cement production is exported on an annual basis. Vassiliko port provides loading and unloading services to third parties for the import and export of annoying bulk cargos. Today the Company is capable of producing 1,4 million tons Grey and White cement per annum.

The year 1990 was an important milestone in the Company's development since the Italian Italcementi Group acquired 20% of the Company's share capital, a percentage which was later increased to 33%. Italcementi is one of the largest cement producers in the world with investments in Europe, Asia, America and Africa.

Italcementi contributed decidedly to the development and the progress of Vassiliko Cement Works in the field of the cement production process by offering valuable know-how, and the assisting towards the introduction of new technology.

The Company was committed to a sustainable development programme for which there have been considerable investments in order to increase capacity and improve and upgrade the production processes, while other significant funds aim at improving its environmental performance.

The Company invests in its relation with the neighbouring communities and their people. The main concern remains the protection of the environment, which is a value strongly connected with the Company's growth.

Vassiliko Cement Works, reaching half a century of life, has supported the Cyprus economy and the society with its high quality products, the offering of employment to many families and the foreign currency inflow due to its considerable exports.

Always looking ahead to the dynamic conditions which are being shaped in Cyprus after joining the European family, and anticipating the intense competition from the countries of the Eastern Mediterranean where the cost of energy and personnel is at very low levels, Vassiliko Cement Works adapts and responds to these challenges, always keeping high the values that distinguish it: the high quality of its products, the continuous development and growth, the respect to the environment and the excellently trained human resources.

In this scope, studies have begun for the complete upgrade of the production lines with the best available technology, aiming at the reduction of the production cost at 30%, saving energy and other operational expenses, while at the same time there will be a reduction of gas emission and an increase of the total capacity to satisfy the increased demand in Cyprus and abroad. These studies are now at the final stage of completing.



## Vassiliko Cement Works Group



### *Expansion in the Building Industry*

Since 2004, Vassiliko Cement Works, following its strategic growth in the building industry, has had its first presence in the field of ready mix concrete through its participation in the company **A.E.S. Atlas Etimo Skirodema Ltd.**

The above company operates in the north of Paphos, in Drousia area. In 2005, Vassiliko Cement Work, through its subsidiary company **Estia Etimo Skirodema Ltd**, advanced in the installation and operation of a second unit of ready mix concrete in the south-east of Paphos, in the industrial region of Saint Barbara. The unit began to operate in March 2006.

Vassiliko Group, through the above subsidiary companies, manages to produce more than 200.000m<sup>3</sup> of ready mix concrete annually with a fleet of 16 concrete truck mixers and 6 concrete pumps. Thirty five persons are employed for the needs of this activity. The Group always aims at offering high standard services and products and at the continuous strengthening of its place in the building industry.





## Vassiliko Cement Works Group

**40**  
*Years*  
VASSILIKO CEMENTS

### *Vision • Mission • Values*

**Vision:** *We continuously strengthen our leading position and through our dynamic development we also contribute in the progress of our homeland.*

**Mission:** *Quality is the main concern of our dynamic development, thus facing the challenge of competition. We improve our production, at a lower cost, with safety for the employees and sensitivity for the environment.*

**Values:**

- *Quality.*
- *Safety (anthropocentric policy).*
- *Environment (social responsibility).*
- *Team work.*
- *Continuous development of our Company.*

For us all, the employees in the largest industry in Cyprus, the vision, values and mission, constitute the core of our relation with the colleagues, the company and our homeland.

## Environment and Energy Saving



### *Sustainable Development*

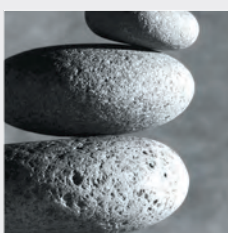
In the Report of the World Committee for the Environment and the Development (Brundland Report), “Sustainable Development” is defined as **“the development which meets the present needs without putting at stake the right of the future generations to meet their own needs”**.

In the Treaty of the European Union “Sustainable Development” is defined as **“the development which respects the environment”**, that is to say, the one that “guarantees environmental viability”.

The concept of Sustainable Development includes a number of components: financial, social, environmental, educational, demographic, and cultural and its aim is to improve the living conditions of the individuals, while safeguarding the environment in a short-term, medium-term and mainly, a long term basis.

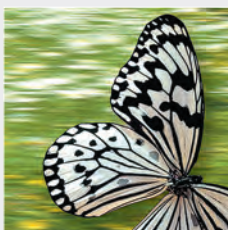
More specifically the objective of sustainable development has a triple dimension: an effective financial development, socially fair and environmentally viable, and it is of vital importance, that each society ensures that the new generations will have access to the natural resources which the present generation enjoys.

Many people believe that Sustainable Development is an impossible target for the current consuming society. Opinions vary depending on the ideology of people. There is also a disagreement concerning the strategies that should be followed for the achievement of the objectives of sustainable development.



In theory, sustainable development concerns the connection between environmental and developmental issues. In practice, sustainable-viable development aims at the management of our local environment in a way that:

- It allows wildlife to live in.
- Natural resources are used without being wasted.
- It is kept free of pollution.
- No damage is caused in the wider environment (worldwide).
- Collaboration with the people in the communities is encouraged.
- All the members of the community are free to use the local environment and have a say for the changes than take place in it.
- The new generation is given the chance to enjoy what we do today or even more.



One of the most important challenges nowadays is the achievement of sustainable development through the establishment of a long-term strategy which will aim at the harmonisation of environmental, financial and social policy.



## Environment and Energy Saving



The European Union presented the outline of this strategy in the conclusions of the European Council of Gothenburg as well as during the World Conference for the Sustainable Development in 2002, which took place in Johannesburg.

The major objectives of its strategy are:

- Restriction of the repercussions of the climate changes (decreasing gradually, until 2020, the gases that cause the greenhouse effect at 1% compared to the levels in 1990).
- Reduction of the major dangers for the public health
- Safety and quality of food in all the stages of food chain
- Eliminations of the dangers for the health and the environment which are connected to chemical substances
- Fighting epidemics and the resistance to antibiotics
- Improvement of viable management of natural resources
- Reduction of losses in biodiversity until 2010
- Reduction of unfavourable consequences of transport

### **Renewable energy resources:**

Traditional mining energy resources are not inexhaustible. Earth cannot offer more than it has already done.

The new energy resources, which are called renewable energy resources because they do not derive from the extraction of raw materials, require the development of know-how and technological potential, which, however, have not been thoroughly investigated yet.

Consequently, they constitute a great hope for the future, but, at the same time a real challenge, as they will allow us to face climate changes effectively. Many experiments have already been conducted: wind power, programme of hydrogen technology development etc.

European Union is one of the most developed regions in the World and it has one of the highest levels of technology and know-how.

Research in the field of renewable energy resources will enable us to invert the tendency of systematic exhaustion of natural resources. It also shows enormous potential concerning added value and employment, which we cannot ignore.

The challenge of future development demands controlling these new forms of energy, which will gradually substitute conventional fuels.



## Environment and Energy Saving



### *The concept of Sustainable Development*

The concept of sustainable development presupposes harmonisation of environmental, financial and social policy. In practice, it is a triple concept which aims at a financial, efficient, socially fair and environmentally viable society, recognising for each generation the right in development and prosperity, without mortgaging the right of the future generations to satisfy their own needs.

#### **Protection of the environment**

- Upgrade Electrostatic filter Kiln 4 and reduction of dust emissions to 50mg/m<sup>3</sup>.
- Controlled conditions.
  - » Operation of an analyst of continuous measurement of all gas emissions (CO, NO<sub>x</sub>, HF, HCl, etc).
  - » Measurements of Dioxins and Heavy Metals by an independent specialised firm with levels at 80% lower than the permissible limits.
  - » Measurements in Zygi area for concentration for breathable dust with levels within the limits determined by the European Union.

#### **Reduction of carbon dioxide emissions**

- Reduction of specific emissions at 12,7% in comparison with 1990.
- Use of renewable resources and energy saving.
- Production of composite types of cement.

#### **Clinker Silo of 90.000 tons capacity**

- Reduction of dust emissions.
- Improvement of the quality of the products.
- Energy saving from clinker handling.





## Environment and Energy Saving



### **10MW Electricity Production**

- Modern Internal Combustion high performance engines.
- Energy saving with cogeneration by drying raw materials with hot exhaust gases.
- Reduction of total carbon dioxide emissions.
- Vassiliko Cement Works became the largest independent electricity producer in Cyprus.

### **Alternative fuels / renewable energy resources**

- Licence for Non Hazardous Waste Management by the Advisory Committee of Waste Management (ACWM).
- Use of Alternative Resources (of energy) Fuels: meat flower, sewage sludge, olive kernels, chopped vehicle tyres.
- Research of the development of a method of solid bio-fuel production from domestic waste in landfilling areas.
- Saving foreign currency.
- Achievement of the Cyprus Republic objectives concerning the commitment it has undertaken towards the European Union for the development of renewable energy resources.

### **Continuous improvement of the relations with the neighboring communities**

- Open communication channels to reach solutions on various issues.
- Briefing about actions taken by the Company on issues concerning renewable energy resources and the environment.
- Transparency in processes.
- Funding of public projects.
- Improvement of the infrastructure of schools / communities.
- Improvement of secondary roads in Zygi.
  - » Diversion of traffic of heavy and other vehicles outside built-up areas.

### **Green Areas**

- Restoration of areas in depleted quarries.
- Plantation of green in large areas around the plant.





## Environment and Energy Saving

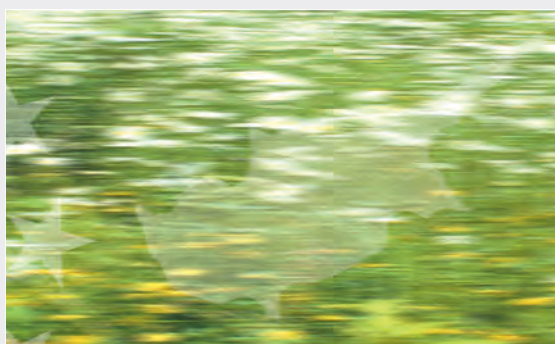


### *Research Programme for the Bio-drying of Municipal Organic Waste and the Production of Fuel for the Cement Industry.*

A research programme titled: "Examining the factors that influence the bio-drying of municipal organic waste for the production of stabilized recycled fuel (SRF) for the cement industry" has started in Vassiliko Cement Works Company since September 2004. This programme is subsidised by the Institution of the Promotion of Research in Cyprus. The realisation of the research programme has been undertaken by a doctoral researcher from the Imperial College of London in collaboration with Vassiliko Cement works and Isotech Ltd.

Using bio-drying, we achieve the removal of the humidity that exists in the organic waste (food left-over, garden waste, paper). This is achieved with the use of the heat that is released during the bio-decomposition of a small percentage of waste. The result is the production of high quality fuel that can replace considerable quantities of conventional fuels in cement work. It can remarkably reduce the quantities of organic litter that end up to sanitary waste dump, something which is an obligation of Cyprus according to the Directive for the landfilling of Waste.

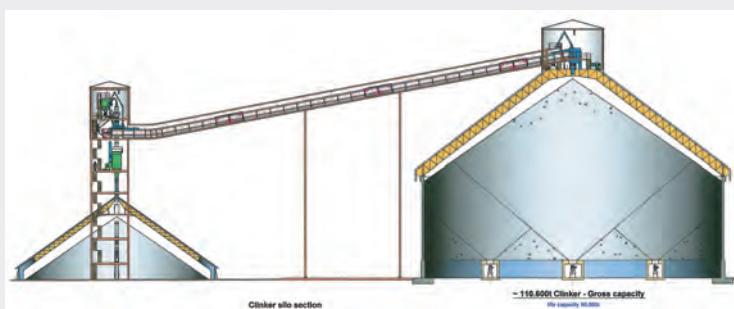
The objective of the programme is the improvement of the bio-drying method (minimisation of processing required time) as well as the improvement of the produced fuel. The up to now results have been particularly encouraging since the required processing time has been reduced from 15 to 5 days.



## Environment and Energy Saving



### *New Clinker Silo: Protection of the environment, Quality of the Products*



In the line with our Company's policy for the protection of the environment and sustainable development, we have started the construction of a new Clinker Silo with total capacity of 90.000 tons. The total investment is expected to reach £6 million and it will be completed in 2007. The new clinker silo is expected to help enormously the effort for environmental protection, reducing

considerably the levels of dust emissions while it will significantly contribute in the further improvement of the final products quality as well as in the reduction of operating costs.



### *Power Generation Station of Vassiliko Cement Works: ...our own energy!*

In September 2003, in an effort to reduce the carbon dioxide (CO<sub>2</sub>) emissions and the energy related production cost, we have installed internal combustion power generators

with 6MW capacity, which covered 25% of the plant needs in power consumption. The successful operation of the station has reduced energy cost, compared to the alternative power supply, which is Cyprus Electricity Authority.

Following the success of the initial investment, the Company proceeded to the doubling of its power station capacity to 10MW with an additional investment of £1,5 million. The new power generators installed and have been operating since September 2006. This station achieves increased productivity by co-generation, where the hot gases are used for the drying of the raw materials, thus saving energy and at the same time reducing the total amount of the emitted pollutants.



## **Annual Report and Consolidated Financial Statements 2006**

---

### **Contents**

	<b>Page</b>
<b>Officers, Professional Advisers and Bankers</b>	<b>2</b>
<b>Notice of Annual General Meeting</b>	<b>3</b>
<b>Declaration of the Members of the Board of Directors</b>	<b>5</b>
<b>Directors' Report</b>	<b>6</b>
<b>Corporate Governance Report</b>	<b>10</b>
<b>Remuneration Report</b>	<b>15</b>
<b>Directors (Curriculum Vitae)</b>	<b>17</b>
<b>Independent Auditor's Report</b>	<b>21</b>
<b>Consolidated Income Statement</b>	<b>23</b>
<b>Consolidated Statement of Recognised Income and Expense</b>	<b>24</b>
<b>Consolidated Balance Sheet</b>	<b>25</b>
<b>Consolidated Statement of Cash Flows</b>	<b>26</b>
<b>Notes to the Consolidated Financial Statements</b>	<b>27</b>



## Officers, Professional Advisers and Bankers

---

<b>Directors:</b>	ANDREAS PANAYIOTOU	(Executive Chairman)
	MICHEL LEFEBVRE	(Executive Vice-Chairman)
	GEORGIOS A. SIDERIS	(General Manager)
	STEFOS CHR. KALOYEROS	
	PAMBOS IOANNIDES	
	PANAYIOTIS HADJIPANTELIS	
	FRIXOS SAVVIDES	
	FORTUNATO ZAFFARONI	
	PAOLO CATANI	

---

**Financial Manager:** GEORGIOS S. SAVVA

**Secretary:** MARIA MAVRIDOU

**Independent Auditors:** KPMG

**Legal Advisers:** TASSOS PAPADOPOULOS & CO

**Bankers:** ALPHA BANK LTD  
BANK OF CYPRUS PUBLIC COMPANY LTD  
COMMERCIAL BANK OF GREECE S.A.  
HELLENIC BANK PUBLIC COMPANY LTD  
NATIONAL BANK OF GREECE (CYPRUS) LTD  
MARFIN POPULAR BANK PUBLIC COMPANY LTD  
BNP PARIBAS

---

**Registered Office:** 1A, KYRIAKOS MATSIS AVENUE  
P.O. BOX 22281, 1519 LEFKOSIA, CYPRUS

**Registered Number:** 1210



## Notice of Annual General Meeting

---

The 41st annual general meeting of the shareholders of Vassiliko Cement Works Public Company Ltd will be held at the HILTON PARK HOTEL in Lefkosia, on 27 June 2007 at 4:00 p.m. to transact the following business:

- **Consider the annual report of the Board of Directors for the year 2006.**
- **Receive, consider and approve the annual financial statements and the report of the auditors for the year 2006.**
- **Approve the additional dividend for the year 2006.**
- **Elect new directors in the place of those who retire.**
- **Approve the remuneration report.**
- **Fix the remuneration of the directors for the year 2007.**
- **Re-appoint Messrs KPMG as the auditors of the Company and fix their remuneration for the year 2007.**
- **Transact any other business which, in accordance with the Company's Articles of Association, can be presented at the annual general meeting.**

By order of the Board

**M. MAVRIDOU**

Secretary

**Lefkosia, 24 April 2007**

---

A shareholder entitled to attend and vote at the above-mentioned general meeting is entitled to appoint a Proxy to attend and vote on his/her behalf. The relevant Instrument of Proxy must be drawn in accordance with Article No. 70 of the Company's Articles of Association and must be deposited at the Registered Office of the Company (1A, Kyriakos Matsis Avenue, P.O. Box 22281, 1519 Lefkosia, Cyprus) at least 48 hours before the time set for the general meeting. The Proxy who will be appointed need not be a member of the Company.



## Notice of Annual General Meeting

(continuation)

### » Explanatory Notes

The formal Notice of the 2007 AGM is set out above. The Notice asks Vassiliko Cements Works shareholders to approve a number of items of business. For your information, the explanatory notes below summarise the purpose of each Resolution to be voted on by Vassiliko Cement Works shareholders at this year's AGM.

- **Resolution 1: To consider the Annual Report**

The Chairman will present the Annual Report of the Board of Directors for the year ended 31 December 2006 to the meeting.

- **Resolution 2: To receive consider and approve the Annual Financial Statements and the Report of the Auditors**

The Chairman will present the Annual Financial Statements and Messrs KPMG will present their Audit Report for the year ended 31 December 2006 to the meeting.

- **Resolution 3: Dividend**

The Directors have proposed an additional dividend of 2 cents per Ordinary Share. If approved at the AGM, the dividend will be paid to the entitled shareholders, holders of the Company's shares at the closing of the trading day of the Cyprus Stock Exchange of 10 July 2007. The share of the Company will be traded ex-dividend as of 11 July 2007.

Payment of the dividend will be made (effected) till the 27 July 2007.

- **Resolution 4: Re-appointment of Directors**

In accordance with Company's Articles of Association, Mr. Fortunato Zaffaroni and Mr. Paolo Catani who were appointed by the Board on 11 January 2007 as Independent Non-Executive Directors will be standing down and offer themselves for re-appointment by the Company shareholders.

In addition Messrs Michel Lefebvre, Frixos Savvides and Andreas Panayiotou are the Directors who will be retiring by rotation this year and are standing for re-appointment in accordance with the Company's Articles of Association.

Brief details of all Directors appear on pages 17 to 20 of the Annual Report.

- **Resolution 5: Approve the remuneration report**

The Shareholders are asked to approve the remuneration report that appears on pages 15 to 16.

- **Resolution 6: To fix the remuneration of the Directors**

The Shareholders are asked to approve the remuneration of the Directors for the year 2007 to remain the same as that for the previous year i.e.

£4.000 for the Chairman

£3.000 for each of the Directors

£100 attendance fee per meeting held

- **Resolution 7: Re-appointment of Auditors**

This resolution relates to the re-appointment of KPMG as the Company's auditors to hold office until the next AGM of the Company, and to authorise the Directors to set their remuneration.



## **Declaration of the Members of the Board of Directors**

---

**Declaration of the members of the Board of Directors and the company officials responsible for the drafting of the financial statements.**

---

*We the members of the Board of Directors and the company officials responsible for the drafting of the financial statements of Vassiliko Cement Works Public Company Ltd for the year ended 31 December 2006, based on our knowledge, which is the product of careful and conscientious work, declare that the particulars which are specified in the consolidated financial statements are true and complete.*

**Members of the Board of Directors:**

*Executive:*

**ANDREAS PANAYIOTOU**

**MICHEL LEFEBVRE**

**GEORGIOS A. SIDERIS**

*Non Executive:*

**STEFOS CHR. KALOYEROS**

**PAMBOS IOANNIDES**

**PANAYIOTIS HADJIPANTELIS**

**FRIXOS SAVVIDES**

**FORTUNATO ZAFFARONI**

**PAOLO CATANI**

*Responsible for drafting the Financial Statements:*

**GEORGIOS SAVVA**, Financial Manager

**24 April 2007**

---



## Directors' Report

---

The Board of Directors of Vassiliko Cement Works Public Company Ltd (the 'Company') presents to the members its annual report together with the audited financial statements for the year ended 31 December 2006.

---

• **Financial Statements:**

The consolidated financial statements for the year 2006 include the results of the holding company and its subsidiary and associate companies.

---

• **Principal Activities:**

The Group's principal activities are the production of clinker and cement, which are sold in the local and international markets. The Group also has a presence in the ready mix concrete market and aggregates quarrying through its subsidiary and associate companies.

---

• **Review of Developments, Position and Performance of the Operations:**

The construction industry growth continued in 2006, as a result, the total cement consumption in Cyprus for 2006 reached to 1.627 thousand tones compared to 1.589 thousands tones in 2005, recording an increase of 2,4%. The total sales of the Group in cement and clinker also increased from 1.406 thousand tones to 1.458 thousand tones recording an increase of 3,7%. The local sales increased to 1.187 thousand tones from 1.160 thousand tones in 2005, while the exports increased to 271 thousand tones from 246 thousand tones in 2005.

As it is already known, during 2006 the power station capacity expanded to 10MW. This power station is a pioneer step in the Management efforts for mitigating the increasing energy cost through increased efficiency, which is achieved through co-generation, where hot exhaust gases are used to dry raw materials saving energy and reducing total emissions.

In parallel, Vassiliko Cement Works invests and develops further the processes for replacement of conventional fossil fuels with auxiliary fuels which are renewable forms of energy. The replacement of fuels with renewable energy sources in 2006 was strengthened. This is considered a significant measure for cost containment, as the average price of pet-coke which is the main fuel of the cement industry increased by 28% in 2006 compared to 2005. The management is fully committed towards further utilisation of renewable energy sources for both financial and environmental reasons.

As it is already known, the Group is considering the replacement of the three existing kiln lines with a new single production line of Best Available Technology. The new production line will have higher production capacity and will be more efficient due to lower energy consumption and lower operating expenses. The new line will also have a positive impact on the environment by reducing significantly all emissions well below the European standards.

In addition to the above actions that are in full compliance with the Group environmental policy for sustainable development, the construction of the new clinker silo of total capacity of 90.000 tones is in progress and will finish within 2007. The total investment is expected to reach £6 million and it is in line with the original budget. This project is expected to help enormously the efforts for the protection of the environment, reducing significantly the dust emission levels, while it will contribute towards the improvement of the final product quality and to the reduction of operating costs.

---





## Directors' Report

---

*(continuation)*

### • Financial Results:

The results of the Group are presented in the consolidated income statement. The net profit after taxation for the year ended 31 December 2006 amounted to £10.670.000 compared to a net profit of £6.926.000 in 2005. The Board of Directors proposes the payment of a dividend as shown below and the transfer of the net profit for the year to the profit and loss reserve.

---

### • Dividends:

Following the payment of an interim dividend of £806.000 in December 2006, which represents 1,5 cents per share, the Board of Directors recommend the payment of an additional dividend of £1.075.000 or 2 cents per share, so that the total dividend for 2006 will amount to £1.881.000 or 3,5 cents per share, which equals the dividend payment out of the profits of 2005.

---

### • Main Risks and Uncertainties:

Statements made in this report that are not historical facts, including our expectations for future volume and pricing trends, demand for our products, energy costs and other market developments are forward looking statements. These statements are not guarantees of future performance and involve risks, uncertainties and assumptions ("Factors"), which are difficult to predict.

Some of the Factors that could cause actual results to differ materially from those expressed in the forward-looking statements include, but are not limited to: the cyclical nature of the Company's business; national and regional economic conditions; currency fluctuations; seasonal nature of the Company's operations; levels of construction spending and, in particular, in Government infrastructure projects announced; supply/demand structure of the industry; competition from new or existing competitors; unfavorable weather conditions during peak construction periods; changes in and implementation of environmental and other governmental regulations. In general, the Company is subject to the risks and uncertainties of the construction industry. The forward-looking statements are made as of this date and the Company undertakes no obligation to update them, whether as a result of new information, future events or otherwise.

---

### • Future Developments:

Overall, based on recent trends, markets are expected to remain favourable in 2007.

As far as operating costs are concerned, we expect energy costs to increase further in 2007. As in previous years, risk management policies and performance programs should help to mitigate the impact of these increases.

---

### • Share Capital:

During the year there were no changes to the share capital of the Company.

---

### • Branches:

During the year the Group did not operate any branches.

---



## Directors' Report

(continuation)

### • Board of Directors:

The members of the Board of Directors on the date of the report appear on page 1. In accordance with the Company's Articles of Association (Article 92), at the present general meeting Messrs Michel Lefebvre, Frixos Savvides and Andreas Panayiotou retire from office by rotation and, being eligible, offer themselves for re-election.

Mr. Mr. Paolo Catani and Mr. Fortunato Zaffaroni, who were appointed by the Board of Directors on 11 January 2007 in order to fill the vacancy created by the resignation of Mr. Jean-Yves Gestin and Mr. Giorgio Ghinaglia, are subject to retirement (Article 97) at the general meeting of 27 June 2007 and, being eligible, offer themselves for re-election.

The Directors who served during the period from 30 May 2006, the date of the last Annual General Meeting, till this date were the following:

Andreas Panayiotou	
Michel Lefebvre	
Georgios A. Sideris	
Stefos Chr. Kaloyeros	
Pambos Ioannides	
Panayiotis Hadjipantelis	
Frixos Savvides	
Fortunato Zaffaroni	(appointed on 11 January 2007)
Paolo Catani	(appointed on 11 January 2007)
Jean-Yves Gestin	(resigned on 11 January 2007)
Giorgio Ghinaglia	(resigned on 11 January 2007)

The responsibilities of the Directors as members of the Board Committees are disclosed in the Corporate Governance Report.

There were no material changes to the compensation of the Board of Directors.

### • Post Balance Sheet Events:

The Group and Cyprus Cement Public Company Limited ('CCC') have signed a Heads of Agreement for the purpose of placing, on completion of certain conditions of which this agreement is subject to, and which are referred to below, under a common management of their cement production and distribution operations as well as those of the quarry and ready mix sectors.

As from the completion of the above agreement:

(1) The Group will assume the management of CCC's operations in relation to the production and distribution of cement.

(2) The Group will acquire through C.C.C. Building Materials Limited, which will be a wholly owned subsidiary, all the direct and indirect investments that CCC has in Latouros Quarries Ltd, C.C.C. Aggregates Limited, Athinodorou Beton-Transport Limited, Athinodorou Beton-Estates Limited and Athinodorou Beton Ltd as well as in ELMENI Quarries Ltd.

(3) The above agreement provides for, at a future date and under certain conditions, the termination or substantial decrease in the production of cement at the Moni cement factory in conjunction with the operation of a new, state-of-the-art, cement production line of the Group at Vassiliko. With this, it is expected that the environmental pollution from the operation of the Moni cement factory will be eliminated.



## Directors' Report

(continuation)

(4) The above Heads of Agreement are subject to the following conditions:

(i) The approval of an Extraordinary General Meeting of the Company for the increase of the company's share capital and for the issue of the new shares, that are referred to below, to CCC.

(ii) The approval, if this is required by any applicable law or regulation, of the terms and conditions of the Heads of Agreement by an Extraordinary General Meeting of CCC.

(iii) The approval or the issue of a declaration by the Commission for the Protection of Competition that there is no objection on their part.

(iv) The approval of the Cyprus Stock Exchange and Securities & Exchange Commission, if needed.

(v) The approval by any other competent authority that may have jurisdiction in any of the matters affecting these Heads of Agreement.

If any and all of the above conditions are not met or any approval is not obtained then the above agreement will be cancelled.

As consideration for the acquisition of the above rights and investments by the Group, the Company will issue and allot as fully paid 18.199.794 shares to CCC, which after their issue will represent the 25,3% of the issued share capital of VCW and will be traded at the Cyprus Stock Exchange. These shares will be issued and accounted at a price equal to the weighted average of the closing traded price of the shares of the Company during the last three months prior to the 9th March 2007. This price is equal to €2,89 (£1,67) per share and the total value of the shares to be issued based on the above price equals to €52.597.405 (£30.474.936). The Cyprus Pounds values were calculated using the Cyprus Pounds / Euro exchange rate on 9th March 2007 which is equal to £0,5794 = €1.

The Board of Directors is sure that this agreement will result in the modernisation of the cement production and distribution in Cyprus and will contribute to the substantial reduction of the damaging CO2 emissions for everybody's benefit. In addition it will assure the better exploitation and management of the mineral resources of Cyprus.

---

**• Independent Auditors:**

The independent auditors of the Company, Messrs KPMG, have expressed their willingness to continue in office. A resolution to fix their remuneration will be proposed at the Annual General Meeting.

---

On behalf of the Board of Directors

**ANDREAS PANAYIOTOU**

Executive Chairman

Lefkosia, 24 April 2007



## Corporate Governance Report

---

### » Section A

The Company has adopted and fully implements the 2nd edition of the Corporate Governance Code issued by the Cyprus Stock Exchange in 2006 and prepared procedures and regulations in order to ensure compliance with the Code.

### » Section B

#### • The Board

The Company is headed by the Board of Directors which at 31 December 2006 comprised three executive and six non-executive directors and is responsible to the shareholders for the proper management of Vassiliko Cement Works Public Company Ltd and its subsidiaries. According to the principles laid in the 2nd Edition of the Corporate Governance Code the non-executive directors comprised three independent directors and three non-independent directors. The members of the Board (excluding the Chairman) comprised three independent non-executive directors and five non-independent directors of which two executive and three non-executive directors. On 11th January 2007 two directors resigned from office and the current members of the Board (excluding the Chairman) comprises four independent non-executive directors and four non-independent directors of which two executive and two non-executive directors. The independent non-Executive directors of the Board are Messrs P. Hadjipantelis, Fr. Savvides, F. Zaffaroni and P. Catani.

The Board of Directors appointed Mr. Fr. Savvides, independent non-executive director, to be the Senior Independent Director. The Senior Independent Director of the Company is available to shareholders if they have concerns that have not been resolved through the normal channels of contact with the Chairman the Vice-Chairman or the General Manager or for which such contact is inappropriate. The Senior Independent Director will attend sufficient meetings of major shareholders and financial analysts to develop a balanced understanding of the issues and concerns of such shareholders. The Senior Independent Director can be contacted initially via the Company Secretary at the Registered Office of the Company.

The Board has six scheduled meetings a year, setting and monitoring the Group's strategy, reviewing trading performance, ensuring adequate funding, examining major capital expenditure, formulating policy on key issues and reporting to shareholders where appropriate. The Board of Directors convened 6 times during 2006. In accordance with best practice, the Board has established the Audit Committee, the Remunerations Committee and Nominations Committee as per the requirements of the code. The Company Secretary is responsible to and appointed by the Board and all directors have access to her advice and services. Directors may obtain independent professional advice if necessary, at the Company's expense. Formal agendas, papers and reports are supplied to directors in a timely manner, prior to Board meetings. Briefings are also provided at other times, for example, through operational visits and business presentations.



## Corporate Governance Report

(continuation)

### • Chairman and General Manager

There is a division of responsibility for the management of the Group between the Executive Chairman, Dr. A. Panayiotou, and the Director and General Manager, Mr. G. Sideris.

#### **The Executive Chairman has, among others, the following responsibilities and role:**

- Determines, in collaboration with the General Manager, the Agenda of the meeting of the Board of Directors.
- Chairs the Meetings of the Board of Directors and the General Meetings of the Shareholders of the Company.
- Reviews the information and documents and confirms their relevance in order to be submitted to the Members of the Board of Directors prior to the Board Meetings.
- Has periodic meetings with the Management of the Company to discuss various specific subjects.
- Reviews the strategy of the Company with the Executive Vice-Chairman and the General Manager of the Company before the meeting of the Board of Directors convened to consider the above subject.
- Represents the Company in all its major dealings.
- Meets with the major shareholders of the Company and conveys their suggestions to the Board of Directors.
- Together with the General Manager represent the Company at various meetings for the promotion of the strategic targets of the Company.
- Cooperates with the Executive Vice-Chairman and the General Manager of the Company to determine and form the strategic targets of the Group according to the developments of the sector within which the Group operates and secure the thorough appraisal of the Company's strategic or other development proposals and the presentation thereof to the Board of Directors for final approval.
- Confirms the existence of efficient system of control of the progress of implementation of the above targets and of the updating of the Board of Directors.
- Together with the Executive Vice-Chairman evaluates and promotes various other proposals of the General Manager.

#### **The General Manager of the Company, among others, has the following responsibilities:**

- Manages the Company according to the strategy and the commercial targets determined by the Board of Directors.
- Safeguards the daily smooth operation of the Company in line with the policy, the targets and the budgets approved by the Board of Directors.
- Ensures timely and effective implementation of the strategic resolutions of the Board of Directors in agreement with the Executive Chairman and the Executive Vice Chairman of the Group.
- In cooperation with the Executive Chairman manages the business development of the Company's activities, its subsidiary and associated companies.
- Is responsible to inform the Executive Chairman and the Executive Vice-Chairman, in regular intervals of time, regarding all the major issues of the Company, including the current status of the operations of the Company.



## Corporate Governance Report

(continuation)

### • Appointments to the Board

The Nominations Committee is chaired by Dr A. Panayiotou (Executive Chairman) and is composed of four other directors, Messrs M. Lefebvre (Executive Vice-Chairman), P. Ioannides (non-Executive Director), P. Hadjipantelis (Independent non-Executive Director) and St. Kaloyeros (non-Executive Director). The Nominations Committee is responsible for the selection and nomination of any new director, for the Board's consideration. The Committee is responsible to carry out a selection process. Upon the appointment of a new director, appropriate training is provided as required. In accordance with the Articles of Association of the Company and the Corporate Governance Code, the directors retire every three years by rotation and, if eligible, may offer themselves for re-election. The Board has set the 75th year of age as the year of retirement.

### • Relations with Shareholders

Importance is attached to maintaining a dialogue with the Company's institutional shareholders. Meetings are held with analysts and institutional shareholders on a regular basis. The annual general meeting is used as a forum for communicating with shareholders, providing briefings on the Company's performance during the year under review and current business activity. There will be an opportunity for shareholders to meet with and put questions to the directors, including the chairmen of the Audit, Nominations and Remunerations Committees. At annual general meetings, separate resolutions are proposed on each substantially separate issue and the number of proxy votes received for and against each resolution is announced. Members with voting rights of 5% may place items on the agenda of annual general meetings at the latest two months after the year end of the Company. Notices of annual general meetings are sent to shareholders at least 21 days before the meeting. The Board of Directors appointed Mr. Georgios Savva as Investor Liaison Officer to facilitate better communication with investors and shareholders.

### • Financial Reporting

The preparation and presentation of this report and financial statements and other price sensitive public reports, seek to ensure that reports are prepared in a way that represents a balanced and understandable assessment of the Group's position and prospects.

### • Internal Control

Risk assessment and review is carried out by the executive management with details of significant risks being documented. Periodic reports relating to significant risks and associated controls are prepared from this documentation and presented to the Board for its review. The Board has overall responsibility for the Group's systems of internal control and for reviewing their effectiveness. On the basis of the process described above during the year the Internal Auditors prepare Internal Audit Reports addressed to the Audit Committee which informs the Board through its Annual Internal Audit Report. According to the Internal Auditors Reports, the systems of internal control do not present any significant weaknesses. The Board has reviewed the key risks inherent in the Group, together with the operating, financial and compliance controls that have been implemented to mitigate those key risks. However, any system of internal control can provide only reasonable and not absolute assurance against material misstatement or loss. The Board has put in place an organisation structure with clearly defined lines of accountability and delegated authority. The principles have been designed to establish clear local operating autonomy within a framework of central leadership, stated aims and objectives. Procedures were established for business planning, budgeting, capital expenditure approval and treasury management. The executive directors regularly review the operating performance of each business and monitor progress against business plans.



## Corporate Governance Report

*(continuation)*

### • Audit Committee and Auditors

The Audit Committee comprises of Messrs P. Hadjipantelis (Chairman - Independent non-Executive Director), St. Chr. Kaloyeros (non-Executive Director), Fr. Savvides (Independent non-Executive Director), and P. Catani (Independent non-Executive Director) (appointed on 11th January 2007). Mr. J. Y. Gestin (non-Executive Director) who resigned on 11th January 2007 served the Committee during the year 2006 from the post of the Chairman of the Committee. The Committee meets at least twice a year and provides a forum for reporting by the Group's external and internal auditors who have access to the Committee for independent discussion, without the presence of the executive directors. The Audit Committee reviews a wide range of financial matters including the annual and quarterly results, statements and accompanying reports, before their submission to the Board and monitors the controls which are in force to ensure the integrity of the financial information reported to shareholders. The Audit Committee also advises the Board on the appointment of external auditors and on their remuneration both for audit and non-audit work. The Group's internal audit function is outsourced to PEK Ltd, a professional Auditors Firm, who monitors the internal control systems and reports to the management and to the Audit Committee. PEK Ltd perform their duties with the technical assistance of the Italcementi Group Internal Audit Department. Management is responsible for the implementation of the recommendations made by internal audit that carry out post-implementation reviews. The external auditors carry out independent and objective reviews and tests of the internal financial control processes, only to the extent that they consider necessary to form their judgement when expressing their audit opinion on the accounts.

### • Going Concern

After making appropriate enquiries, the directors consider that the Group has adequate resources to continue in operational existence for the foreseeable future. For this reason they continue to adopt the going concern basis in preparing the accounts and state that the Company intends to operate as a going concern for the next twelve months.

### • Remunerations Committee

The Remunerations Committee is composed of three non-executive directors who have no financial interest in the Group, no personal interest in the Committee's deliberations, and no involvement in the day-to-day management of the Group's operations. The members of the Committee are Messrs P. Hadjipantelis (Independent non-Executive Director), P. Ioannides (non-Executive Director), and F. Zaffaroni (Independent non-Executive Director) (appointed on 11th January 2007). Mr. J.Y Gestin (non-Executive Director) member of the Committee during 2006 resigned on 11th January 2007. The Committee will usually meet at least once a year. The Group Executive Chairman and Vice-Chairman will normally be invited to attend its meetings in order to make recommendations regarding the remuneration of the executive directors (other than their self). External legal and consultancy advice is obtained when necessary. The Group Executive Chairman and Vice-Chairman are not present when their own remunerations are discussed.

The Remuneration policy of the Directors of the Company is included in the Remunerations Report (page 14).



## Corporate Governance Report

---

*(continuation)*

### • **Directors seeking re-election**

All the directors are subject to election by the shareholders at the first Annual General Meeting that follows their appointment and thereafter retire every three years. According to the Articles of Association, one third of the nine Company directors retire from the Board at every Annual General Meeting. The directors liable to retirement according to the above provisions are those who served as members of the Board for the longest period since their last election.

In accordance with the Company's Articles of Association (Article 92), at the next shareholders Annual General Meeting Messrs Andreas Panayiotou (Executive Chairman), Michel Lefebvre (Executive Vice-Chairman) and Frixos Savvides (Independent non-Executive Director) shall retire from office by rotation and, being eligible, shall offer themselves for re-election.

Messrs Fortunato Zaffaroni and Paolo Catani, who were appointed by the Board of Directors on 11th January 2007 in order to fill the vacancies created by the resignations of Messrs Giorgio Ghinaglia and Jean-Yves Gestin, are subject to retirement (Article 97) at the next General Meeting and, being eligible, offer themselves for re-election.

### • **Loans and Guarantees granted to Directors**

No loans and/or guarantees were granted to the directors of the Company or to directors of any subsidiary or associated company as well as to their related parties by the Company and its subsidiaries and associated companies.

### • **Compliance with the Code of Corporate Governance Officer**

The Board of Directors appointed Mr. Georgios Savva, Financial Manager of the Company, at the position of Compliance with the Code of Corporate Governance Officer.

### • **Board of Directors Confirmation**

The Board of Directors assures that to the best of its knowledge, there has been no violation of the Securities and Stock Exchange of Cyprus Law and Regulations.

Lefkosia, 24 April 2007





## Remuneration Report

---

### • Remunerations Committee

The Remunerations Committee of the Board is responsible for ensuring that the remuneration packages awarded to executive directors are appropriate to individual levels of responsibility and performance, are consistent with the Company's remuneration policy, and are in line with the principles of the Corporate Governance Code.

---

### • Remuneration Policy

The Board's policy is to employ high calibre people for its key positions. It requires a corresponding level of performance from those people and seeks to reward accordingly. The Group may commission special reviews from time to time to assess the directors' compensation levels. Account is taken of the salary and total remuneration levels prevailing in comparable jobs both inside and outside the Construction and Building Materials sector, together with the individual performance and contribution of each executive director.

The remuneration of the Executive Chairman and the Executive Vice-Chairman consists of a base salary only. The remuneration of the Executive Board Member/General Manager includes variable-pay components to ensure that the executive remuneration is linked to the Company's performance and consists of base salary, a short-term/annual incentive plan (annual bonus) and benefits. The Board considers that packages of this nature are consistent with prevailing practice and are necessary to attract, retain and reward executives of the calibre the Group requires. In framing the policy, the Board has given full consideration to the provisions of the Corporate Governance Code.

The base salary of the Executive Board Members is considered sufficient to attract and retain high-calibre management needed to achieve the Company's business objectives and is determined based on level of responsibility and experience.

The annual incentive plan rewards for the performance of the previous year and is paid in cash. The maximum bonus payment is expressed as a percentage of base salary and is based on targets set by the Remunerations Committee at the beginning of the performance period. The targets relate to the Company's financial performance, costs containment measures and development of the Group activities.

In addition to the base salary and incentive plan participation, the Executive Board Member/General Manager enjoys the same benefits as other employees of the Company, which include provident fund and medical fund. No significant changes were made to the remuneration policy of the Company for year 2006 compared to the previous year.

The remunerations of the executive directors under their capacity as executives were as follows:

<b>Earnings:</b>	<b>Number of directors</b>
Up to £50,000	2
Between £50,000 and £100,000	1

The total remunerations of the executive directors under their capacity as executives for the year 2006 were £115,000:

	<b>(£000)</b>
<b>Remuneration of Executive Directors:</b>	
Salaries and benefits	91
Bonuses	12
Social benefits	5
Provident fund	7
<b>Total Remuneration</b>	<b>115</b>

---



## Remuneration Report

(continuation)

---

### • Pension Scheme

All the Employees of the Company including the General Manager are members of the Company's Provident Fund, which is a defined contribution scheme. No other additional pension schemes exist for any of the Executive Members of the Board.

---

### • Employment Contracts

Employment of executive directors are for indefinite periods, however notice periods do not exceed one year as per the requirements of the Corporate Governance Code. In case of termination by the Company of the employment of Executive Directors, prior to their retirement, the Company has to compensate the Executive Directors according to the provisions of the Law.

---

### • Non-executive Directors

The remuneration of the directors, both executives and non-executives, for services rendered to the Company as directors, is determined by the annual general meeting of the Company on the proposal of the Board. The non-executive directors have letters of appointment for a three-year term. They do not participate in any profit sharing, share option or other incentive scheme. The remunerations for each of the directors for 2006 were £3,000 and £4,000 for the Chairman and £100 per meeting for attendance in person as from 27/4/2006 (previously £75 per meeting).

The total remuneration of the directors, executives and non-executives, under their capacity as directors of the Company and as members of the Board of Directors' Committees for 2006 were as follows:

	Executives	Non- Executives	Total
	£000	£000	£000
Directors' Fees	10	18	28
Attendance Fees	2	4	6
	<hr/>	<hr/>	<hr/>
	12	22	34

---

### • Loans and Guarantees granted to Directors

No loans and/or guarantees were granted to the directors of the Company or to directors of any subsidiary or associated company as well as to their related parties by the Company and its subsidiaries and associated companies.



## Directors (Curriculum Vitae)

---

### **Andreas Panayiotou - Executive Chairman**

Dr. Andreas Panayiotou was born in Nicosia, Cyprus in 1940. He studied Natural Science and Geography at the University of Athens, Greece (First Class Honours Degree), and Mining Geology-Mineral Exploration-Economic Geology at the Imperial College of Science and Technology, London (M.Sc.) and the University of New Brunswick, Canada (Ph.D.).

In 1964 he joined the Geological Survey Department of Cyprus and in 1981 was promoted to Senior Geologist and appointed Head of the Economic Geology-Geophysics-Geological Mapping Sector of the Department. In 1996 he was promoted to the post of Director of Administration and appointed Head of the Natural Resources Sector of the Ministry of Agriculture, Natural Resources and Environment.

In 1998 Dr. Panayiotou became Permanent Secretary and served at the Ministries of Justice and Public Order, and Interior.

In May 2002 he was appointed by the President of the Republic of Cyprus as Minister of the Interior where he served until the end of February 2003.

In 2003 he was appointed Member of the Board of Directors of the Hellenic Technical Enterprises Ltd, and Chairman of the Hellenic-Tzialis (Cyprus) Ltd. In 2004 Dr. Panayiotou was appointed Member of the Board of Directors of the Hellenic Bank (Finance) Ltd, and in April 2005 Member of the Board of Directors of the Hellenic Bank Public Company Ltd. In June 2005 he was elected Chairman of the same Bank.

Dr. Panayiotou has also served as Chairman of the Association of Geologists and Mining Engineers (1980-1986, 1988-1993), Member of the Management Committee of the Scientific Technical Chamber of Cyprus (1992-1996) and the Discipline Committee of the same Chamber (1996-1999), Chairman of the Board for the Consideration of the Town Planning Deviation (2000-2002) and Chairman of the Board of Management of the English School, Nicosia (1998 to date).

Dr. Andreas Panayiotou has published more than 30 papers in scientific books and journals about geology, mineral and water resources and has edited three geology books.



## Directors (Curriculum Vitae)

---

*(continuation)*

### **Michel Lefebvre - Executive Vice Chairman**

Mr. Michel Lefebvre is an Engineer graduate from the « Ecole Nationale Supérieure de l'Aéronautique et de l'Espace » and a graduate in Law and Economics. Mr. Michel Lefebvre worked as Finance and Administration Director at Olivetti, Valeo, and Aegis/Carat.

He joined CimENTS Français in July 1994 as Vice President, Finance and Administration, in charge of Financial, Accounting, Legal and Tax Management, Management Control and the redeployment of Management Information Systems and he is also Secretary of the Board.

In October 1998, he was appointed Executive Vice President. From January 2000 to September 2003, he was Finance and Acquisition Director of Italcementi.

At the beginning of 2004, he took the operational responsibility for the Greece/Bulgaria/Kazakhstan/Cyprus zone.

### **George Sideris - Director & General Manager**

Mr. George Sideris was born in Nicosia, in July 1952. He received University studies in London at the Imperial College of Science and Technology where in 1975 he received a first class honours Bachelors degree in Chemical Engineering and a Masters degree with Distinction in Advanced Chemical Engineering in 1976.

He was appointed as a Production Shift Engineer at Vassiliko Cement Works Ltd in 1976. Since then, he has served the Company from various posts.

In 1980 he was promoted to Production Supervisor a position which he held until 1990 when he was promoted to Production Manager and deputy to the General Manager.

In July 1997 he was appointed as General Manager, a post which he holds until today. He holds a position in the Board of Directors since June 2002.

During his long service he has accumulated valuable experience and has received external and internal seminar training in Human Resources, Leadership and Customer Satisfaction, and Quality, Health and Safety and Environmental Management Systems. In 1995-1996 he was assigned the project of the development of an ISO 9002 Quality Management System, for which the Company has been registered in 1996. He was also actively involved in Personnel reorganization and recruitment and new projects and strategic planning.

### **Stefos Chr. Kaloyeros - Director**

Mr Stefos Kaloyeros was born in Karavostasi in 1933. He is a graduate of the Pancyprian Gymnasium in Nicosia, as well as of the Loughborough College of Technology in England where he obtained a Degree in Mechanical Engineering.

Mr Kaloyeros is currently the Chairman and Managing Director of Nicosia Buses Ltd. He is a member of the Board of Directors of Cyprus Employers Association and a member of the Board of Directors of Vassiliko Cement Works Public Company Ltd.



## Directors (Curriculum Vitae)

---

*(continuation)*

### **Pambos Ioannides - Director**

Mr Pambos Ioannides was born in Nicosia in 1947. Mr Ioannides holds a Bachelor Degree from the National University of Athens, a Master of Laws from the University of London and he is a member of the Cyprus Bar Association.

Mr Ioannides is the Managing Partner of the Tassos Papadopoulos & Co Law Offices.

Mr Ioannides is a Legal Advisor of organizations, banks and other corporations and a member of the Board of Directors of public companies.

### **Panayiotis Hadjipantelis - Director**

Mr Panayiotis Hadjipantelis is the Chief Financial Officer of the Holy Archbishopric of Cyprus. Mr Hadjipantelis is a Certified Accountant – Fellow Member of the Chartered Association of Certified Accountants, Fellow Member of the Association of International Accountants and a Member of the Association of Certified Public Accountants of Cyprus.

Mr Hadjipantelis is the Executive Chairman of the Hellenic Mining Public Company Ltd and of the Hellenic Technical Enterprises Ltd and a member of the Board of Directors of the following companies: Athena Cyprus Investments Ltd, Hermes Airports Ltd, Logosnet Services Ltd, Cultural and Informative Company “The Logos”, as well as a member of the Board of Directors of Hellenic Mining Company Group companies and companies belonging to the Holy Archbishopric of Cyprus.

### **Frixos Savvides - Director**

Mr. Frixos Savvides was born in Limassol, in 1951. He graduated the Pultney College and the Wallbrook College. Mr. Savvides is a Member of the Institute of Chartered Accountants in England & Wales.

In 1977 Mr. Savvides joined Summers Morgan & Co Chartered Accountants (London) and in 1978 Touche Ross & Co, Chartered Accountants (Limassol) as Manager.

In 1979 Mr. Savvides set up the practice of Savvides & Partners / PKF, where he was the Managing Director until 1999. He was responsible for all aspects of the operations of the firm, and the administration of clients with broad experience in consulting.

Mr. Savvides served the Ministry of Health of the Republic of Cyprus as Minister of Health, from 1999 to 2003.

He is a member of the Board of Directors of multinational companies operating in the sectors of shipping, energy, insurance and international trade.

Mr Savvides is a Chairman of the Board and Spokesman of Apollon Football Club and member of the Rotary Club of Limassol/Amathusia. He has also served as Chairman of the Anti-Drug National Committee, as a member of the Board of Directors of Cyprus Telecommunications Authority and as the Vice-Chairman of the Board of Directors of Cyprus Airways.



## Directors (Curriculum Vitae)

---

*(continuation)*

### **Fortunato Zaffaroni**

Mr. Fortunato Zaffaroni was born in Tradate, Italy, in 1957. Mr. F. Zaffaroni is a graduate of the Milan Polytechnic where he received a Bachelors Degree in Chemical Engineering and of the University of Bocconi where he received a Masters degree in Business Administration.

Mr. F. Zaffaroni is a Managing Director of Interbulk Trading SA, Member of Italcementi Group. He joined Italcementi Group in 1996 which he served from the Office of the Chief Executive Officer, being responsible for special projects management and support, involved in internal reorganization and in management & acquisition projects, as well as from the posts of the Sales and Marketing Director and Sales Director of hydraulic binders sector. Mr. F. Zaffaroni worked as a Deputy Managing Director and Group Strategic Planning Manager at Lawson-Mardon Packaging, as a Marketing Manager of Styrene Division and Product Manager for Polystyrene Business at Montedison/Enichem Chemicals, and as a Project Engineer at Foster Wheeler Italiana Engineering Services Department.

### **Paolo Catani**

Mr. Paolo Catani was born in Bergamo, Italy, in 1939. Mr. Catani is a graduate of the Milan Polytechnic where he received a Bachelors Degree in Mechanical Engineering.

Mr. Catani has 42 years of experience in cement production sector since he has served Italcementi Group, one of the biggest cement producers in the world, from 1964 until 2006 from various posts. Specifically among other positions Mr. P. Catani served the Italcementi Group from the positions of the Director of Diagnostics and Performance Department and of the Member of the Board of Directors of the Italcementi Group Technical Center. He also served in the positions of the Director of the Grinding Department and the Vice Director of the Combustion Department.

Mr. P. Catani is a holder of some patents in the cement technology and machinery.



## **Independent Auditor's Report**

---

**to the Members of Vassiliko Cement Works Public Company Ltd**

### **Report on the Consolidated Financial Statements**

We have audited the consolidated financial statements of Vassiliko Cement Works Public Company Ltd (the "Company") and its subsidiaries (the "Group") on pages 23 to 48, which comprise the consolidated balance sheet as at 31 December 2006, and the consolidated income statement, consolidated statement of recognised income and expense and consolidated cash flow statement for the year then ended, and a summary of significant accounting policies and other explanatory notes.

#### **• Board of Directors' Responsibility for the Financial Statements**

The Company's Board of Directors is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with International Financial Reporting Standards as adopted by the European Union (EU) and International Financial Reporting Standards as issued by the International Accounting Standards Board (IASB) and the requirements of the Cyprus Companies Law, Cap. 113. This responsibility includes: designing, implementing and maintaining internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

#### **• Auditor's Responsibility**

Our responsibility is to express an opinion on these consolidated financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing. Those Standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements, in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the Board of Directors, as well as evaluating the overall presentation of the financial statements.

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



## Independent Auditor's Report

to the Members of Vassiliko Cement Works Public Company Ltd

*(continuation)*

### • Opinion

In our opinion, the consolidated financial statements give a true and fair view of the financial position of the Group as of 31 December 2006, and of its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted by the EU and International Financial Reporting Standards as issued by the IASB and the requirements of the Cyprus Companies Law, Cap. 113.

### Report on Other Legal Requirements

Pursuant to the requirements of the Companies Law, Cap. 113, we report the following:

- We have obtained all the information and explanations we considered necessary for the purposes of our audit.
- In our opinion, proper books of account have been kept by the Company.
- The Company's financial statements are in agreement with the books of account.
- In our opinion and to the best of the information available to us and according to the explanations given to us, the consolidated financial statements give the information required by the Companies Law, Cap. 113, in the manner so required.
- In our opinion, the information given in the report of the Board of Directors on pages 6 to 9 is consistent with the consolidated financial statements.

### Other Matter

This report, including the opinion, has been prepared for and only for the Company's members as a body in accordance with Section 156 of the Companies Law, Cap.113 and for no other purpose. We do not, in giving this opinion, accept or assume responsibility for any other purpose or to any other person to whose knowledge this report may come to.



Chartered Accountants

Lefkosia, 24 April 2007





## Consolidated Income Statement

For the year ended 31 December 2006

	Note	Additional Information (Note 33)			
		2006 £000	2005 £000	2006 €000	2005 €000
Revenue	3	<b>49.781</b>	45.870	<b>86.096</b>	79.332
Cost of sales		<b>(36.732)</b>	(33.998)	<b>(63.528)</b>	(58.800)
<b>Gross profit</b>		<b>13.049</b>	11.872	<b>22.568</b>	20.532
Other operating income	4	<b>4.180</b>	794	<b>7.229</b>	1.373
Distribution expenses		<b>(2.711)</b>	(2.278)	<b>(4.689)</b>	(3.940)
Administrative expenses		<b>(1.612)</b>	(1.434)	<b>(2.788)</b>	(2.480)
Other operating expenses		<b>(953)</b>	(975)	<b>(1.648)</b>	(1.686)
<b>Operating profit before financing costs</b>	5	<b>11.953</b>	7.979	<b>20.672</b>	13.799
Financial income	6	<b>270</b>	19	<b>467</b>	33
Financial expenses	6	<b>(31)</b>	(194)	<b>(54)</b>	(336)
<b>Net financing costs</b>		<b>239</b>	(175)	<b>413</b>	(303)
Share of profit from associate		<b>47</b>	47	<b>81</b>	81
<b>Profit before tax</b>		<b>12.239</b>	7.851	<b>21.166</b>	13.577
Income tax expense	7	<b>(1.569)</b>	(925)	<b>(2.714)</b>	(1.600)
<b>Profit for the financial year</b>		<b>10.670</b>	6.926	<b>18.452</b>	11.977
<b>Attributable to:</b>					
Equity holders of the parent		<b>10.795</b>	6.926	<b>18.668</b>	11.977
Minority interest	20	<b>(125)</b>	-	<b>(216)</b>	-
<b>Profit for the financial year</b>		<b>10.670</b>	6.926	<b>18.452</b>	11.977
Basic and diluted earnings per share (cents)	8	<b>20,1</b>	12,9	<b>34,8</b>	22,3

The notes of pages 27 to 48 form an integral part of the financial statements.



## Consolidated Statement of Recognised Income and Expense

For the year ended 31 December 2006

	Note	2006 £000	2005 £000
Unrealised surplus on revaluation of properties	19	433	-
Change in fair value of equity securities available for sale	14	4,097	570
(Decrease)/increase of deferred tax provision on revaluation of land	22	(46)	51
Special contribution for defence		(323)	(85)
<b>Net income recognised directly in equity</b>		<b>4,161</b>	536
<b>Profit for the year</b>		<b>10,670</b>	6,926
<b>Total recognised income and expense for the year</b>		<b>14,831</b>	7,462
<b>Attributable to:</b>			
Equity holders of the parent		14,831	7,462
Minority interest		-	-
<b>Total recognised income and expense for the year</b>		<b>14,831</b>	7,462

As from 1 January 2003, companies which do not distribute 70% of their profits after tax, as defined by the Special Contribution for the Defence of the Republic Law, during the two years after the end of the year of assessment to which the profits refer, will be deemed to have distributed this amount as dividend. Special contribution for defence at 15% will be payable on such deemed dividend to the extent that the shareholders (individuals and companies) at the end of the period of two years from the end of the year of assessment to which the profits refer are Cyprus tax residents. The amount of this deemed dividend distribution is reduced by any actual dividend paid out of the profits of the relevant year at any time. This special contribution for defence is paid by the company for the account of the shareholders.

The notes of pages 27 to 48 form an integral part of the financial statements.



## Consolidated Balance Sheet

As at 31 December 2006

	Note	Additional Information (Note 33)			
		2006 £000	2005 £000	2006 €000	2005 €000
<b>Assets</b>					
Property, plant and equipment	9	56.245	57.335	97.276	99.161
Intangible assets	11	1.110	673	1.920	1.164
Investment property	10	6.443	2.644	11.143	4.573
Investments in associates	13	796	751	1.377	1.299
Other investments	14	5.850	1.693	10.118	2.928
<b>Total non-current assets</b>		<b>70.444</b>	<b>63.096</b>	<b>121.834</b>	<b>109.125</b>
Inventories	15	9.379	8.146	16.221	14.089
Trade and other receivables	16	7.743	6.391	13.392	11.053
Cash and cash equivalents	17	7.813	2.674	13.513	4.625
<b>Total current assets</b>		<b>24.935</b>	<b>17.211</b>	<b>43.126</b>	<b>29.767</b>
<b>Total assets</b>		<b>95.379</b>	<b>80.307</b>	<b>164.960</b>	<b>138.892</b>
<b>Equity</b>					
Issued capital	18	13.434	13.434	23.234	23.234
Reserves	19	68.986	55.911	119.311	96.698
<b>Total equity attributable to equity holders of the parent</b>		<b>82.420</b>	<b>69.345</b>	<b>142.545</b>	<b>119.932</b>
<b>Total equity</b>		<b>82.420</b>	<b>69.345</b>	<b>142.545</b>	<b>119.932</b>
<b>Liabilities</b>					
Interest-bearing loans and borrowings	21	268	314	464	543
Deferred tax liabilities	22	4.604	4.095	7.963	7.082
<b>Total non-current liabilities</b>		<b>4.872</b>	<b>4.409</b>	<b>8.427</b>	<b>7.625</b>
Bank overdraft	17	189	216	327	374
Interest-bearing loans and borrowings	21	50	893	86	1.544
Income tax payable		925	187	1.600	323
Trade and other payables	23	6.683	5.207	11.560	9.008
Provisions	24	240	50	415	86
<b>Total current liabilities</b>		<b>8.087</b>	<b>6.553</b>	<b>13.988</b>	<b>11.335</b>
<b>Total liabilities</b>		<b>12.959</b>	<b>10.962</b>	<b>22.415</b>	<b>18.960</b>
<b>Total equity and liabilities</b>		<b>95.379</b>	<b>80.307</b>	<b>164.960</b>	<b>138.892</b>

The financial statements were approved by the Board of Directors on 24 April 2007.

**ANDREAS PANAYIOTOU**, Director  
**MICHEL LEFEBVRE**, Director

The notes of pages 27 to 48 form an integral part of the financial statements.



## Consolidated Statement of Cash Flows

For the year ended 31 December 2006

	Note	Additional Information (Note 33)			
		2006 £000	2005 £000	2006 €000	2005 €000
<b>Cash flows from operating activities</b>					
Profit for the year		10,795	6,926	18,668	11,977
Adjustments for:					
Depreciation and amortisation charges		5,598	4,163	9,682	7,200
Fair value adjustment of investment property		(3,336)	-	(5,770)	-
Interest income		(180)	(19)	(311)	(33)
Dividends received		(60)	-	(104)	-
Interest expense		48	160	83	277
Exchange differences		(20)	34	(35)	59
Negative minority transferred to income statement		-	33	-	57
Share of profit of associates		(47)	(47)	(81)	(81)
Loss/(gain) on sale of property, plant and equipment		22	(34)	38	(59)
Income tax expense		1,569	925	2,714	1,600
<b>Operating profit before changes in working capital and provisions</b>		<b>14,389</b>	<b>12,141</b>	<b>24,884</b>	<b>20,997</b>
Increase in trade and other receivables		(2,256)	(1,171)	(3,903)	(2,025)
(Increase)/decrease in inventories		(1,233)	2,001	(2,132)	3,461
Increase in trade and other payables		2,012	1,168	3,481	2,022
Increase in provisions		190	50	329	86
<b>Cash generated from operations</b>		<b>13,102</b>	<b>14,189</b>	<b>22,659</b>	<b>24,541</b>
Interest paid		(48)	(160)	(83)	(277)
Income taxes paid		(690)	(1,097)	(1,193)	(1,897)
<b>Net cash inflow from operating activities</b>		<b>12,364</b>	<b>12,932</b>	<b>21,383</b>	<b>22,367</b>
<b>Cash flows from investing activities</b>					
Proceeds from sale of property, plant and equipment		181	42	313	73
Proceeds from repayments of loan to associate		200	-	346	-
Interest received		180	19	311	33
Dividends received		60	-	104	-
Acquisition of subsidiary company, net of cash acquired		(358)	(430)	(619)	(744)
Acquisition of property, plant and equipment	9	(4,539)	(4,388)	(7,850)	(7,589)
Acquisition of intangibles		(39)	(81)	(67)	(140)
Acquisition of investment property		(73)	-	(126)	-
Acquisition of other investments		(60)	-	(104)	-
Exchange differences		20	(34)	35	(59)
<b>Net cash used in investing activities</b>		<b>(4,428)</b>	<b>(4,872)</b>	<b>(7,657)</b>	<b>(8,426)</b>
<b>Cash flows from financing activities</b>					
Proceeds from new loans raised		-	1,003	-	1,735
Repayment of loans		(889)	(3,060)	(1,538)	(5,292)
Dividends paid	26	(1,881)	(1,881)	(3,253)	(3,253)
<b>Net cash used in financing activities</b>		<b>(2,770)</b>	<b>(3,938)</b>	<b>(4,791)</b>	<b>(6,810)</b>
Net increase in cash and cash equivalents		5,166	4,122	8,935	7,131
Cash and cash equivalents at 1 January		2,458	(1,664)	4,251	(2,880)
<b>Cash and cash equivalents at 31 December</b>	17	<b>7,624</b>	<b>2,458</b>	<b>13,186</b>	<b>4,251</b>

The notes of pages 27 to 48 form an integral part of the financial statements.



## Notes to the Consolidated Financial Statements

---

For the year ended 31 December 2006

---

### 1. Significant Accounting Policies

Vassiliko Cement Works Public Company Ltd (the "Company") is a company domiciled in Cyprus. The consolidated financial statements of the Company for the year ended 31 December 2006 comprise the Company and its subsidiaries (together referred to as the "Group") and the Group's interest in associates.

The financial statements were authorised for issue by the directors on 24 April 2007.

#### **Principal Activities**

*The Group principal activities are the production of clinker and cement, which are sold in the local and international markets. The Group also has a presence in the ready mix concrete market and aggregates quarrying through its subsidiary and associate companies.*

#### **a. Statement of Compliance:**

The consolidated financial statements have been prepared in accordance with International Financial Reporting Standards (IFRSs) as adopted by the European Union (EU) and International Financial Reporting Standards (IFRSs) as issued by the International Accounting Standards Board (IASB). The consolidated financial statements comply with both these reporting frameworks because at the time of their preparation all applicable IFRSs issued by the IASB have been adopted by the EU through the endorsement procedure established by the European Commission. In addition, the consolidated financial statements have been prepared in accordance with the requirements of the Cyprus Companies Law, Cap. 113.

#### **b. Basis of Preparation:**

The financial statements are presented in Cyprus Pounds, rounded to the nearest thousand. They are prepared on the historical cost basis, modified to include the revaluation to fair value of: Land and buildings, Vassiliko port, financial instruments classified as available for sale and investment property.

The preparation of financial statements in conformity with IFRSs requires management to make judgements, estimates and assumptions that affect the application of policies and reported amounts of assets and liabilities, income and expenses. The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances, the results of which form the basis of making the judgements about carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods.

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

The accounting policies have been applied consistently by Group entities.



## Notes to the Consolidated Financial Statements

For the year ended 31 December 2006

(continuation)

### **c. Adoption of New Revised IFRSs:**

As from 1 January 2006, the company adopted all the IFRSs and International Accounting Standards (IAS), which are relevant to its operations.

The adoption did not result in substantial changes to the company's accounting policies.

At the date of authorisation of these financial statements the following standards had been issued, but have not been applied by the Company because their first time adoption falls in future periods.

#### ***i. Adopted by the European Union***

**IAS 1 (Amendment), Presentation of Financial Statements-Capital Disclosures** (effective for annual periods beginning on or after 1 January 2007).

The standard will require increased disclosure in respect of the Company's capital. The application of this amendment is not expected to have a material effect on the financial statements of the Company.

**IFRS 7, Financial Instruments: Disclosures** (effective for annual periods beginning on or after 1 January 2007).

IFRS 7 introduces new disclosures to improve the information about financial instruments. It requires the disclosures of qualitative and quantitative information about exposure to risks arising from financial instruments, including specified minimum disclosures about credit risk, liquidity risk and market risk, including sensitivity analysis to market risk. It replaces IAS 30, Disclosures in the Financial Statements of Banks and Similar Financial Institutions, and disclosure requirements in IAS 32, Financial Instruments: Disclosure and Presentation. It is applicable to all entities that report under IFRS. The application of this standard is not expected to have a material effect on the financial statements of the Company.

**IFRIC 7, Applying the Restatement Approach under IAS 29 Financial Reporting in Hyperinflationary Economies** (effective for annual periods beginning on or after 1 March 2006).

The interpretation contains guidance on how an entity would restate its financial statements pursuant to IAS 29 in the first year it identifies the existence of hyperinflation in the economy of its functional currency. The application of this interpretation is not expected to have a material effect on the financial statements of the Company.

**IFRIC 8, Scope of IFRS 2** (effective for annual periods beginning on or after 1 May 2006).

The interpretation clarifies that the accounting standard IFRS 2 Share-based Payment applies to arrangements where an entity makes share-based payments for apparently nil or inadequate consideration. The application of this interpretation is not expected to have a material effect on the financial statements of the Company.

**IFRIC 9 Reassessment of embedded derivatives** (effective for annual periods beginning on or after 1 June 2006).

The interpretation addresses issues in relation to embedded derivatives. The application of this interpretation is not expected to have a material effect on the financial statements of the Company.



## Notes to the Consolidated Financial Statements

For the year ended 31 December 2006

(continuation)

---

### *ii. Not adopted by the European Union*

**IFRS 8, Operating Segments** (effective for annual periods beginning on or after 1 January 2009).

The standard sets out requirements for disclosure of information about an entity's operating segments and also about the entity's products and services, the geographical areas in which it operates and its major customers. The application of this standard is not expected to have a material effect on the financial statements of the Company.

**IFRIC 10 Interim Financial Reporting and Impairment** (effective for annual periods beginning on or after 1 November 2006).

The interpretation addresses the interaction between the requirements of IAS 34 and the recognition of impairment losses on goodwill in IAS 36 and certain financial assets in IAS 39, and the effect of that interaction on subsequent interim and annual financial statements. The application of this standard is not expected to have a material effect on the financial statements of the Company.

**IFRIC 11, Scope of IFRS 2 Group and Treasury Share Transactions** (effective for annual period beginning on or after 1 March 2007).

The interpretation addresses the following: (a) whether certain transactions should be accounted for as equity-settled or as cash-settled under the requirement of IFRS 2 and (b) issues concerning share-based payment arrangements that involve two or more entities within the same group. The application of this interpretation is not expected to have a material effect on the financial statements of the Company.

**IFRIC 12, Service Concession Arrangements** (effective for annual periods beginning on or after 1 January 2008).

The interpretation sets out general principles on recognizing and measuring the obligations and related rights in service concession arrangements. The application of this interpretation is not expected to have a material effect on the financial statements of the Company.

### **d. Basis of Consolidation:**

#### *i. Subsidiaries*

Subsidiaries are entities controlled by the Company. Control exists when the Company has the power, directly or indirectly, to govern the financial and operating policies of an entity so as to obtain benefits from its activities. In assessing control, potential voting rights that presently are exercisable or convertible are taken into account. The financial statements of subsidiaries are consolidated from the date that control is transferred to group until the date that control is transferred outside the group.



## Notes to the Consolidated Financial Statements

For the year ended 31 December 2006

(continuation)

### **ii. Associates**

Associates are those entities in which the Group has significant influence but no control, over the financial and operating policies. The consolidated financial statements include the Group's share of the total recognised gains and losses of associates on an equity accounted basis, from the date that significant influence commences until the date that significant influence ceases. When the Group's share of losses exceeds its interest in an associate, the Group's carrying amount is reduced to nil and recognition of further losses is discontinued except to the extent that the Group has incurred legal or constructive obligations or made payments on behalf of an associate.

### **iii. Transactions eliminated on consolidation**

Intragroup balances and any unrealised gains and losses or income and expenses arising from intragroup transactions, are eliminated in preparing the consolidated financial statements. Unrealised gains arising from transactions with associates are eliminated to the extent of the Group's interest in the entity. Unrealised losses are eliminated in the same way as unrealised gains, but only to the extent that there is no evidence of impairment.

### **e. Foreign Currency Transactions:**

Transactions in foreign currencies are translated at the foreign exchange rate ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies at the balance sheet date are translated to Cyprus Pounds at the foreign exchange rate ruling at that date. Foreign exchange differences arising on translation are recognised in the income statement.

### **f. Property, Plant and Equipment:**

#### **i. Owned Assets**

Items of property, plant and equipment are stated at cost, or deemed cost less accumulated depreciation and impairment losses (see accounting policy I). The cost of self-constructed assets includes the cost of materials, direct labour, the initial estimate, where relevant, of the costs of dismantling and removing the items and restoring the site on which they are located, and an appropriate proportion of production overheads.

Property that is being constructed or developed for future use as investment property is classified as property, plant and equipment and stated at cost until construction or development is complete, at which time it is reclassified as investment property.

Where parts of an item of property, plant and equipment have different useful lives, they are accounted for as separate items of property, plant and equipment.

#### **ii. Subsequent Costs**

The Group recognises in the carrying amount of an item of property, plant and equipment the cost of replacing part of such an item when that cost is incurred if it is probable that the future economic benefits embodied with the item will flow to the Group and the cost of the item can be measured reliably. All other costs are recognised in the income statement as an expense as incurred.





## Notes to the Consolidated Financial Statements

For the year ended 31 December 2006

(continuation)

### **iii. Depreciation**

Depreciation is charged to the income statement on a straight-line basis over the estimated useful lives of each part of an item of property, plant and equipment. Land is not depreciated. The estimated useful lives are as follows:

Buildings	20 - 50 years
Vassiliko Port	50 years (term of lease)
Machinery, plant and equipment	6 - 40 years

### **g. Intangible Assets:**

#### **i. Goodwill**

All business combinations are accounted for by applying the purchase method. Goodwill represents amounts arising on acquisition of subsidiaries and associates. Goodwill represents the difference between the cost of the acquisition and the fair value of the net identifiable assets acquired.

Goodwill is stated at cost less any accumulated impairment losses. Goodwill is allocated to cash-generating units and is no longer amortised but is tested annually for impairment (see note 11). In respect of associates, the carrying amount of goodwill is included in the carrying amount of the investment in the associate.

Negative goodwill arising on an acquisition is recognised directly in income statement.

#### **ii. Other Intangible Assets**

Other intangible assets that are acquired by the Group are stated at cost less accumulated amortisation and impairment losses (see accounting policy I).

Expenditure on internally generated goodwill and brands is recognised in the income statement as an expense as incurred.

#### **iii. Subsequent Expenditure**

Subsequent expenditure on capitalised intangible assets is capitalised only when it increases the future economic benefits embodied in the specific asset to which it relates. All other expenditure is expensed as incurred.

#### **v. Amortisation**

Amortisation is charged to the income statement on a straight-line basis over the estimated useful lives of intangible assets unless such lives are indefinite. Goodwill and intangible assets with an indefinite useful life are systematically tested for impairment at each balance sheet date. Other intangible assets are amortised from the date they are available for use. The estimated useful lives are as follows:

Computer software	3 years
-------------------	---------



## Notes to the Consolidated Financial Statements

For the year ended 31 December 2006

(continuation)

---

### **h. Investments:**

#### ***i. Investments in Equity Securities***

Equity financial instruments held by the Group are classified as being available-for-sale and are stated at fair value, with any resultant gain or loss being recognised directly in equity, except for impairment losses and, in the case of monetary items such as debt securities, foreign exchange gains and losses. When these investments are derecognised, the cumulative gain or loss previously recognised directly in equity is recognised in profit or loss.

The fair value of financial instruments classified as held for trading and available-for-sale is their quoted bid price at the balance sheet date.

Financial instruments classified as held for trading or available-for-sale investments are recognised / derecognised by the Group on the date it commits to purchase / sell the investments. Securities held-to-maturity are recognised / derecognised on the day they are transferred to / by the Group.

#### ***ii. Investment Property***

Investment properties are properties which are held either to earn rental income or for capital appreciation or for both. Investment properties are stated at fair value. An external, independent valuation company, having an appropriate recognised professional qualification and recent experience in the location and category of property being valued, values the portfolio at regular intervals. The fair values are based on market values, being the estimated amount for which a property could be exchanged on the date of valuation between a willing buyer and a willing seller in an arm's length transaction after proper marketing wherein the parties had each acted knowledgeably, prudently and without compulsion.

Any gain or loss arising from a change in fair value is recognised in the income statement. Rental income from investment property is accounted for as described in accounting policy q.

When an item of property, plant and equipment is transferred to investment property following a change in its use, any differences arising at the date of transfer between the carrying amount of the item immediately prior to transfer and its fair value is recognised directly in equity if it is a gain. Upon disposal of the item the gain is transferred to retained earnings. Any loss arising in this manner is recognised immediately in the income statement.

If an investment property becomes owner-occupied, it is reclassified as property, plant and equipment and its fair value at the date of reclassification becomes its cost for accounting purposes of subsequent recording. When the Group begins to redevelop an existing investment property for continued future use as investment property, the property remains an investment property, which is measured based on fair value model, and is not reclassified as property, plant and equipment during the redevelopment.

#### ***i. Trade and Other Receivables***

Trade and other receivables are stated at their cost less impairment losses (see accounting policy l).



## Notes to the Consolidated Financial Statements

For the year ended 31 December 2006

(continuation)

---

### **j. Inventories:**

Inventories are stated at the lower of cost and net realisable value. Net realisable value is the estimated selling price in the ordinary course of business, less the estimated costs of completion and selling expenses.

The cost of other inventories is based on the average cost and includes expenditure incurred in acquiring the inventories and bringing them to their existing location and condition. In the case of manufactured inventories and work in progress, cost includes an appropriate share of overheads based on normal operating capacity.

### **k. Cash and Cash Equivalents:**

Cash and cash equivalents comprises cash in hand and at bank and call deposits. Bank overdrafts that are repayable on demand and form an integral part of the Group's cash management are included as a component of cash and cash equivalents for the purpose of the statement of cash flows.

### **l. Impairment of Assets:**

The carrying amounts of the Group's assets, other than investment property (see accounting policies f, g), inventories (see accounting policy j) and deferred tax assets (see accounting policy s), are reviewed at each balance sheet date to determine whether there is any indication of impairment. If any such indication exists, the asset's recoverable amount is estimated.

For goodwill, assets that have an indefinite useful life and intangible assets that are not yet available for use, the recoverable amount is estimated at each balance sheet date.

An impairment loss is recognised whenever the carrying amount of an asset or its cash-generating unit exceeds its recoverable amount. Impairment losses are recognised in the income statement.

Impairment losses recognised in respect of cash-generating units are allocated first to reduce the carrying amount of any goodwill allocated to cash-generating units (group of units) and then, to reduce the carrying amount of the other assets in the unit (group of units) on a pro rata basis.

When a decline in the fair value of an available-for-sale financial asset has been recognised directly in equity and there is objective evidence that the asset is impaired, the cumulative loss that had been recognised directly in equity is recognised in profit or loss even though the financial asset has not been derecognised. The amount of the cumulative loss that is recognised in profit or loss is the difference between the acquisition cost and current fair value, less any impairment loss on that financial asset previously recognised in profit or loss.

### **m. Interest-bearing Borrowings:**

Interest-bearing borrowings are stated at cost.

### **n. Employee Benefits:**

Obligations for contributions to defined contribution schemes are recognised as an expense in the income statement as incurred.



## Notes to the Consolidated Financial Statements

For the year ended 31 December 2006

(continuation)

---

### **o. Provisions:**

A provision is recognised in the balance sheet when the Group has a present legal or constructive obligation as a result of a past event, and it is probable that an outflow of economic benefits will be required to settle the obligation. If the effect is material, provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and, where appropriate, the risks specific to the liability.

### **p. Trade and Other Payables:**

Trade and other payables are presented at the nominal value outstanding at the balance sheet date.

### **q. Revenue:**

#### ***i. Goods sold***

Revenue from the sale of goods is recognised in the income statement when the significant risks and rewards of ownership have been transferred to the buyer. No revenue is recognised if there are significant uncertainties regarding recovery of the consideration due, associated costs or the possible return of goods.

#### ***ii. Rental Income***

Rental income from investment property is recognised in the income statement on a straight-line basis over the term of the lease.

#### ***iii. Government Grants***

Government grants are recognised in the balance sheet initially as deferred income when there is reasonable assurance that it will be received and that the Group will comply with the conditions attaching to it. Grants that compensate the Group for expenses incurred are recognised as revenue in the income statement on a systematic basis in the same periods in which the expenses are incurred. Grants that compensate the Group for the cost of an asset are deducted from the carrying amount of the asset.

### **r. Expenses:**

#### ***i. Operating Lease Payments***

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

#### ***ii. Net financing costs***

Net financing costs comprise interest payable on borrowings calculated using the effective interest rate method, interest receivable on funds invested, dividend income, foreign exchange gains and losses, and gains and losses on hedging instruments that are recognised in the income statement.

Interest income is recognised in the income statement as it accrues, using the effective interest method. Dividend income is recognised in the income statement on the date the entity's right to receive payments is established which in the case of quoted securities is usually the ex-dividend date.



## Notes to the Consolidated Financial Statements

For the year ended 31 December 2006

*(continuation)*

---

### s. Income Tax:

Income tax on the income statement for the year comprises current and deferred tax. Income tax is recognised in the income statement except to the extent that it relates to items recognised directly in equity.

As from 1 January 2003, companies which do not distribute 70% of their profits after tax, as defined by the Special Contribution for the Defence of the Republic Law, during the two years after the end of the year of assessment to which the profits refer, will be deemed to have distributed this amount as dividend. Special contribution for defence at 15% will be payable on such deemed dividend to the extent that the shareholders (individuals and companies) at the end of the period of two years from the end of the year of assessment to which the profits refer are Cyprus tax residents. The amount of this deemed dividend distribution is reduced by any actual dividend paid out of the profits of the relevant year at any time. This special contribution for defence is paid by the company for the account of the shareholders and is recognised directly in equity.

Current tax is the expected tax payable on the taxable income for the year, using tax rates enacted or substantially enacted at the balance sheet date, and any adjustment to tax payable in respect of previous years.

Deferred tax is provided using the balance sheet liability method, providing for temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. The following temporary differences are not provided for: goodwill not deductible for tax purposes, the initial recognition of assets or liabilities that affect neither accounting nor taxable profit, and differences relating to investments in subsidiaries to the extent that they will probably not reverse in the foreseeable future. The amount of deferred tax provided is based on the expected manner of realisation or settlement of the carrying amount of assets and liabilities, using tax rates enacted or substantively enacted at the balance sheet date.

A deferred tax asset is recognised only to the extent that it is probable that future taxable profits will be available against which the asset can be utilised. Deferred tax assets are reduced to the extent that it is no longer probable that the related tax benefit will be realised.

### t. Segmental Reporting:

A segment is a distinguishable component of the Group that is engaged either in providing products or services (business segment), or in providing products or services within a particular economic environment (geographical segment), which is subject to risks and rewards that are different from those of other segments.

No reportable segments that represented 10% or more of total revenue, or 10% of the combined results of all segments, or 10% of the total assets of all segments were identified during the year.



## Notes to the Consolidated Financial Statements

For the year ended 31 December 2006

(continuation)

### u. Financial Instruments:

The main monetary financial assets of the Group and the Company are the cash in hand and at bank, and the investments in securities and trade debtors. The main monetary financial liabilities are the bank overdrafts, loans and trade creditors.

#### **Interest rate risk:**

Interest rate risk results from changes in market interest rates. The Group's income and operating cash flows are not directly related to changes in market interest rates. The Group's management monitors the interest rate fluctuations on a continuous basis and acts accordingly.

The interest rate and repayment terms of the loans are disclosed in note 21.

#### **Credit risk:**

Credit risk arises when a failure by counterparties to discharge their obligations could reduce the amount of future cash inflows from financial assets on hand at the balance sheet date. The Group has policies in place to ensure that sales of products are made to customers with an appropriate credit history and monitors on a continuous basis the ageing profile of its receivables.

#### **Exchange rate risk:**

Exchange rate risk is the risk that the value of financial instruments will fluctuate due to changes in foreign exchange rates. Exchange rate risk arises when future commercial transactions and recognised assets and liabilities are denominated in a currency that is not the Group's functional currency. The Group is exposed to foreign exchange risk arising from various currency exposures primarily with respect to the US Dollar and the Euro.

#### **Fair values:**

The fair value of the investments in securities quoted on the Cyprus Stock Exchange is disclosed in note 14. The fair value of investment property is disclosed in note 10. The fair values of the other monetary assets and liabilities are approximately the same as their book values.

## 2. Significant Accounting Estimates and Judgements

Estimates and judgements are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

The Group makes estimates and assumptions concerning the future. The resulting accounting estimates will, by definition, seldom equal the related actual results. The estimates and assumptions 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:

### a. Income taxes:

Significant judgment is required in determining the provision for income taxes. There are transactions and calculations for which the ultimate tax determination is uncertain during the ordinary course of business. The Group recognises liabilities for anticipated tax audit issues based on estimates of whether additional taxes will be due. Where the final tax outcome of these matters is different from the amounts that were initially recorded, such differences will impact the income tax and deferred tax provisions in the period in which such determination is made.



## Notes to the Consolidated Financial Statements

For the year ended 31 December 2006

(continuation)

### b. Fair value of financial instruments:

The fair value of financial instruments that are not traded in an active market is determined by using valuation techniques. The Group uses its judgement to select a variety of methods and make assumptions that are mainly based on market conditions existing at each balance sheet date. The Group regularly evaluates the methods used to ensure their validity and appropriateness. Changes in the estimations and assumption used is possible to affect the fair value of the related financial instruments.

### 3. Revenue

Revenue represents amounts invoiced to third parties during the year, stated net of value added tax, as follows:

Revenue analysis:	2006 £000	2005 £000
Local cement sales	40.964	38.764
Export cement sales	5.523	4.516
Concrete sales	3.130	2.506
Other	164	84
	<u>49.781</u>	<u>45.870</u>

### 4. Other Operating Income

	2006 £000	2005 £000
Income from Vassiliko Port	614	432
Rental of investment property	169	191
Fair value adjustment of investment property	3.336	-
Gain on sale of property, plant and equipment	5	34
Other	56	137
	<u>4.180</u>	<u>794</u>

### 5. Operating Profit before Financing Costs

This is stated after charging:	2006 £000	2005 £000
Directors remuneration as directors	28	28
Directors remuneration as executives	116	134
Staff costs	6.767	6.139
Depreciation of property, plant and equipment	5.533	4.104
Amortisation of intangible fixed assets	65	59
Auditors' remuneration	18	16
	<u>238</u>	<u>215</u>
Average number of employees		
	<u>238</u>	<u>215</u>



## Notes to the Consolidated Financial Statements

For the year ended 31 December 2006

(continuation)

### 6. Net Financing Costs

	2006 £000	2005 £000
Interest income	180	19
Dividend receivable	90	-
Financial income	<u>270</u>	<u>19</u>
Interest expense	(50)	(160)
Net foreign exchange differences	19	(34)
Financial expenses	<u>(31)</u>	<u>(194)</u>
Net financing costs	<u>239</u>	<u>(175)</u>

### 7. Income Tax Expense

Recognised in the income statement	2006 £000	2005 £000
<b>Analysis of charge in year</b>		
Current year tax:		
Income tax on profits of the year	1,100	958
Special contribution to defence fund	4	54
Share of tax from associate	2	3
Deferred tax	463	(294)
	<u>1,569</u>	<u>721</u>
Adjustments for previous periods	-	204
	<u>1,569</u>	<u>925</u>

The Group is subject to income tax at 10%.

#### Factors affecting the income tax charge for period

	2006 £000	2005 £000
Profit before tax	12,239	7,851
Tax for the year at the applicable tax rates		
Income tax at 10%	1,232	785
Special contribution for defence	4	54
	<u>1,236</u>	<u>839</u>
Effects of:		
Effect of non-taxable income	331	(121)
	<u>1,567</u>	<u>718</u>
Adjustments to tax charge in respect of previous periods	-	204
Share of tax from associate	2	3
Current tax charge for period	<u>1,569</u>	<u>925</u>

### 8. Earnings Per Share

The calculation of earnings per share was based on the profit attributable to ordinary shareholders of £10,795,000 (2005: £6,926,000) and the weighted average number of ordinary shares outstanding during the year 53,736,153.





## Notes to the Consolidated Financial Statements

For the year ended 31 December 2006

(continuation)

	Land and Buildings	Vassiliko Port	Plant and Machinery	Total
	£000	£000	£000	£000
<b>9. Property, Plant and Equipment</b>				
<b>Cost</b>				
Balance at 1 January 2005	16.442	14.164	66.237	96.843
Acquisitions	365	18	4.005	4.388
Acquisitions through business combinations	350	-	-	350
Disposals	(7)	-	(20)	(27)
Balance at 31 December 2005	17.150	14.182	70.222	101.554
Balance at 1 January 2006	<b>17.150</b>	<b>14.182</b>	<b>70.222</b>	<b>101.554</b>
Acquisitions	921	-	3.618	4.539
Revaluation of assets	498	-	-	498
Transfer to investment property	(390)	-	-	(390)
Disposals	-	-	(348)	(348)
Balance at 31 December 2006	<b>18.179</b>	<b>14.182</b>	<b>73.492</b>	<b>105.853</b>
<b>Depreciation</b>				
Balance at 1 January 2005	1.061	913	38.159	40.133
Charge for the year on historical cost	385	305	3.071	3.761
Additional charge on revalued amounts	187	156	-	343
Disposals	-	-	(18)	(18)
Balance at 31 December 2005	1.633	1.374	41.212	44.219
Balance at 1 January 2006	<b>1.633</b>	<b>1.374</b>	<b>41.212</b>	<b>44.219</b>
Charge for the year on historical cost	163	178	4.484	4.825
Additional charge on revalued amounts	427	283	-	710
Disposals	-	-	(146)	(146)
Balance at 31 December 2006	<b>2.223</b>	<b>1.835</b>	<b>45.550</b>	<b>49.608</b>
<b>Carrying amounts</b>				
At 1 January 2005	15.381	13.251	28.078	56.710
At 31 December 2005	15.517	12.808	29.010	57.335
At 1 January 2006	<b>15.517</b>	<b>12.808</b>	<b>29.010</b>	<b>57.335</b>
At 31 December 2006	<b>15.956</b>	<b>12.347</b>	<b>27.942</b>	<b>56.245</b>

### Property, plant and equipment under construction.

During the year ended 31 December 2006, the property plant and equipment under construction were £431.000 (2005: £1.160.000).

The construction of the Vassiliko Port was paid for by the Company. The Cyprus Ports Authority, which according to the Cyprus Ports Authority Law is the owner of the port, leased it to the Company for a period of 50 years as from 1 January 1984.

The last revaluation of land and buildings and the Vassiliko port was performed in December 2002 by independent professional appraisers Messrs Antonis Loizou & Associates.

The net book value of the revalued property, plant and equipment that would have been included in the accounts had the assets not been revalued are £3.843.000 (2005: £4.083.000) for land and buildings and £3.381.000 (2005: £3.558.000) for Vassiliko port.



## Notes to the Consolidated Financial Statements

For the year ended 31 December 2006

(continuation)

<b>10. Investment Property</b>	<b>2006</b>	<b>2005</b>
	<b>£000</b>	<b>£000</b>
Balance at 1 January	<b>2,644</b>	2,644
Acquisitions	<b>73</b>	-
Transfer from property, plant and equipment	<b>390</b>	-
Fair value adjustments	<b>3,336</b>	-
Balance at 31 December	<b>6,443</b>	2,644

The carrying amount of investment property is the fair value of the property as determined by an independent appraiser having an appropriate recognised professional qualification and recent experience in the location and category of the property being valued. Fair values were determined having regard to recent market transactions for similar properties in the same location as the Group's investment property. The last revaluation of investment property was performed in December 2006.

Investment property comprises a number of commercial properties that are leased to third parties or land held for capital appreciation.

## 11. Intangible Assets

	<b>Goodwill</b>	<b>Leasehold Property</b>	<b>Software</b>	<b>Total</b>
	<b>£000</b>	<b>£000</b>	<b>£000</b>	<b>£000</b>
<b>Cost</b>				
Balance at 1 January 2005	142	350	539	1,031
Acquisitions	80	-	81	161
Balance at 31 December 2005	<u>222</u>	<u>350</u>	<u>620</u>	<u>1,192</u>
Balance at 1 January 2006	<b>222</b>	<b>350</b>	<b>620</b>	<b>1,192</b>
Acquisitions	<b>463</b>	-	<b>39</b>	<b>502</b>
Balance at 31 December 2006	<b>685</b>	<b>350</b>	<b>659</b>	<b>1,694</b>
<b>Amortisation and impairment charge</b>				
Balance at 1 January 2005	-	-	460	460
Amortisation for the year	-	-	59	59
Balance at 31 December 2005	<u>-</u>	<u>-</u>	<u>519</u>	<u>519</u>
Balance at 1 January 2006	-	-	<b>519</b>	<b>519</b>
Amortisation for the year	-	<b>11</b>	<b>54</b>	<b>65</b>
Balance at 31 December 2006	<u>-</u>	<u>11</u>	<u>573</u>	<u>584</u>
<b>Carrying amounts</b>				
At 1 January 2005	142	350	79	571
At 31 December 2005	<u>222</u>	<u>350</u>	<u>101</u>	<u>673</u>
At 1 January 2006	<b>222</b>	<b>350</b>	<b>101</b>	<b>673</b>
At 31 December 2006	<b>685</b>	<b>339</b>	<b>86</b>	<b>1,110</b>



## Notes to the Consolidated Financial Statements

For the year ended 31 December 2006

(continuation)

### Impairment tests for cash-generating units containing goodwill

The recoverable amount of the ready mix concrete units is based on value in use calculations. Those calculations use cash flow projections based on actual operating results and the ten-year business plan. Cash flows for a further 20-year period are extrapolated using a two per cent growth rate and are appropriate because the ready mix concrete is a long-term business. This growth rate is consistent with the long-term average growth rate for the industry. A pre-tax discount rate of nine per cent has been used in discounting the projected cash flows.

## 12. Group Entities

	Principal Activity	Ownership 2006	Ownership 2005
Vassiliko (Building Materials) Ltd	Investment company	100%	100%
AES Atlas Etimo Skirodema Ltd	Concrete production	100%	51%
Estia Etimo Skirodema Ltd	Concrete production	100%	-
Vassiliko Energy Ltd	Electricity generation	100%	-
Venus Beton Ltd	Dormant company	51%	51%

## 13. Investments in Associates

The Group has the following investments in associates:

	Ownership 2006	Ownership 2005
Pyrga Quarry Ltd	30%	30%
ENERCO - Energy Recovery Limited	50%	50%

The Group's share of post-acquisition total recognised profit or loss in the above associates for the year ended 31 December 2006 was £47,000 (2005: £47,000).

## 14. Other Investments

	2006 £000	2005 £000
At 1 January	1,693	1,123
Additions	60	-
Disposals	-	-
Fair value adjustment at 31 December	4,097	570
At 31 December	<u>5,850</u>	<u>1,693</u>
<b>Valuation</b>	<b>2006 £000</b>	<b>2005 £000</b>
<b>Non-current investments</b>		
Equity securities available for sale	5,825	1,668
Unquoted equity investments	25	25
	<u>5,850</u>	<u>1,693</u>



## Notes to the Consolidated Financial Statements

For the year ended 31 December 2006

(continuation)

---

<b>15. Inventories</b>	<b>2006</b>	<b>2005</b>
	<b>£000</b>	<b>£000</b>
Raw materials and work in progress	<b>2.576</b>	2.412
Finished goods	<b>853</b>	963
Fuel stocks	<b>1.731</b>	1.132
Spare parts and consumables	<b>4.219</b>	3.639
	<b>9.379</b>	8.146

---

<b>16. Trade and Other Receivables</b>	<b>2006</b>	<b>2005</b>
	<b>£000</b>	<b>£000</b>
Trade debtors	<b>7.431</b>	5.851
Amount owed by associate companies	<b>409</b>	620
Amount owed by related companies	<b>18</b>	-
	<b>7.858</b>	6.471
Less impairment	<b>(115)</b>	(80)
	<b>7.743</b>	6.391

Amounts owed by associate companies bear no interest. All other debit balances are receivable within one year and bear no interest.

---

<b>17. Cash and Cash Equivalents</b>	<b>2006</b>	<b>2005</b>
	<b>£000</b>	<b>£000</b>
Bank balances	<b>7.813</b>	2.674
Cash and cash equivalents	<b>7.813</b>	2.674
Bank overdrafts	<b>(189)</b>	(216)
Cash and cash equivalents in the statement of cash flows	<b>7.624</b>	2.458

The bank overdrafts are secured by fixed charges on plant and machinery.

---

<b>18. Share Capital</b>	<b>2006</b>	<b>2005</b>
	<b>000</b>	<b>000</b>
Authorised:		
Ordinary shares of £0,25 each	<b>60.000</b>	60.000
	<b>2006</b>	<b>2005</b>
	<b>Shares</b>	<b>Shares</b>
	<b>£000</b>	<b>£000</b>
Allotted, called up and fully paid:		
Ordinary shares of £0,25 each	<b>53.736.153</b>	53.736.153
	<b>13.434</b>	13.434

---



## Notes to the Consolidated Financial Statements

For the year ended 31 December 2006

(continuation)

### 19. Reserves

Share premium	2006 £000	2005 £000
At 1 January	488	488
At 31 December	488	488
<b>Revaluation reserve</b>		
At 1 January	17,391	17,340
Arising on revaluation during the year	433	-
Transfer to deferred tax	(46)	51
Transfer to retained earnings	(710)	-
At 31 December	17,068	17,391
<b>Revaluation of investments available for sale</b>		
At 1 January	(1,042)	(1,612)
Revaluation of investments	4,097	570
At 31 December	3,055	(1,042)
<b>Retained earnings</b>		
At 1 January	39,074	34,114
Profit for the year	10,795	6,926
Dividends	(1,881)	(1,881)
Defence fund on deemed distribution	(323)	(85)
Transfer from revaluation reserve	710	-
At 31 December	48,375	39,074
<b>Total reserves at 31 December</b>	<b>68,986</b>	<b>55,911</b>

The share premium, revaluation and revaluation of investments available for sale reserves are not available for distribution.

The transfer from revaluation reserve to the retained earnings represents the additional depreciation with which the income statement was charged as a result of the revaluation of property, plant and equipment, net of deferred taxation.



## Notes to the Consolidated Financial Statements

For the year ended 31 December 2006

(continuation)

### 20. Minority Interest

	2006 £000	2005 £000
At 1 January	-	(33)
Profit for the year	(125)	-
Transfer to income statement of year	-	33
Acquisition of minority interest in subsidiary	125	-
At 31 December	-	-

Minority interest as shown in the consolidated balance sheet represents the share of net assets or liabilities of each of the subsidiary companies, which is attributed to shareholders other than those of the Group.

### 21. Interest Bearing Loans and Borrowings

	2006 £000	2005 £000
<b>Non-current liabilities</b>		
Secured bank loans	268	314
<b>Current liabilities</b>		
Current portion of unsecured bank loans	-	843
Current portion of secured bank loans	50	50
	<b>50</b>	<b>893</b>
Analysis of maturity of debt:		
Within one year or on demand	50	893
Between one and two years	50	50
Between two and five years	150	150
After five years	68	114
	<b>318</b>	<b>1.207</b>

The rate of interest payable on the above loans is floating and is determined for periods of three months based on the London Interbank Offered Rate and the Central Bank of Cyprus base rate. At 31 December 2006 the prevailing rate of interest for these loans was on average 5,73% (2005: 3,47%).

### 22. Deferred Taxation

	2006 £000	2005 £000
Accelerated capital allowances	1.152	3.118
Revaluation of fixed assets	3.381	975
Tax losses carried forward	71	2
	<b>4.604</b>	<b>4.095</b>
At 1 January	4.095	4.440
Deferred tax charge in income statement	463	(294)
Transfer to revaluation reserve	46	(51)
At 31 December	<b>4.604</b>	<b>4.095</b>



## Notes to the Consolidated Financial Statements

For the year ended 31 December 2006

(continuation)

---

<b>23. Trade and Other Payables</b>	<b>2006</b>	2005
	<b>£000</b>	£000
Trade creditors	<b>6.380</b>	5.171
Amounts owed to related companies	<b>191</b>	3
Other creditors	<b>112</b>	33
	<b>6.683</b>	<b>5.207</b>

---

<b>24. Provisions for Liabilities and Charges</b>	<b>2006</b>	2005
	<b>£000</b>	£000
Provision for quarry environmental restoration	<b>240</b>	50

---

The provision for environmental restoration of quarries relates to the estimated cost of work required to be carried out for environmental restoration of the sites currently exploited by the Group.

### 25. Transactions with Related Companies

The Company has entered into an agreement with Hellenic Mining Company, the scope of which is the provision of consultancy services and other services. The fees payable by the Company for these services are £120,000 per annum. The duration of the agreement is 5 years and expires on 30 June 2009. Further, the Company enters into various other transactions with the Hellenic Mining Company Group. These transactions, which are entered into at mutually agreed prices, include the provision of port facilities, hiring of machinery and the purchase and sale of spare parts and other goods. The total trading transactions supplied and purchased during 2006 including the above agreement amounted to £437,000 (2005: £551,000).

The Company has entered into an agreement with Italcementi, S.p.A Italy, holding company of Italmec Cement Company Ltd and Compagnie Financiere et de Participations (Cofipar), the scope of which is the provision by Italcementi to the Company of consultancy services of technical nature. The duration of the agreement is 5 years and expires on 31 December 2010. The fees payable by the Company for these services are 600,000 Euro per annum. Apart from this agreement, during 2006, the Company purchased from Italcementi equipment and spare parts and other services and further sold cement and clinker of 5,401,000 (2005: £3,043,000).

During 2006, the Company conducted trading transactions concerning the purchase of goods with KEO group, amounting to £32,000 (2005: £29,000).

---

<b>26. Dividends</b>	<b>2006</b>	2005
	<b>£000</b>	£000
Interim dividend paid at 1,5 cents per share	<b>806</b>	806
Additional dividend paid at 2 cents per share	<b>1.075</b>	1.075
	<b>1.881</b>	<b>1.881</b>

---

Dividends are subject to defence fund contribution at the rate of 15% when the beneficiary is a physical person resident of Cyprus.



## Notes to the Consolidated Financial Statements

For the year ended 31 December 2006

(continuation)

### 27. Directors' Shareholdings

At 31 December 2006 the proportions of shares held directly or indirectly by the directors and their spouses were as follows:

	Fully paid shares
P. Hadjipantelis	0,0005%
G.A. Sideris	0,0055%
	<u>0,0060%</u>

There were no fluctuations in the above shareholdings during the period from 31 December 2006 to the date 30 days prior to the date of the notice of the annual general meeting of the Company.

At 31 December 2006 the Company had no material agreements in which directors of the Company, or their spouses or minor children, had a direct or indirect interest.

### 28. Shareholders holding at least 5% of the issued share capital

At 31 December 2006 and during the period of 30 days prior to the date of the notice of the annual general meeting the following shareholders were holding at least 5% of the nominal value of the issued share capital.

	Fully paid shares
Hellenic Mining Company Ltd (Related company)	17,50%
KEO Ltd (Related company)	8,62%
Gypsum and Plasterboards Company Ltd (Related company)	6,40%
Italmed Cement Company Ltd (Related company)	20,00%
Compagnie Financiere et de Participations (Related company)	13,00%
Anastasios G. Leventis Foundation	7,15%
	<u>72,67%</u>

### 29. Capital Commitments

	2006	2005
	£000	£000
Amounts contracted for but not provided in the accounts	<u>4,405</u>	1,580

### 30. Employee Contribution Schemes

The Company has two schemes, the Vassiliko Cement Works Ltd Employees' Provident Fund and the Vassiliko Cement Works Ltd Employees' Medical Fund. The two schemes are funded separately and prepare their own financial statements. According to these schemes, the employees are entitled to payment of certain benefits upon retirement, prior termination of service or sickness. These are defined contribution schemes and the contributions of the Company for the year were £418.000 (2005: £379.000).





## Notes to the Consolidated Financial Statements

For the year ended 31 December 2006

(continuation)

### 31. Operating Leases

#### Leases as lessee

Non-cancellable operating lease rentals are payable as follows:

	2006 £000	2005 £000
Less than one year	44	77
Between one and five years	110	163
More than five years	286	365
	<u>440</u>	<u>605</u>

The Group leases a number of properties under operating leases. The leases typically run for periods up to 50 years, with options to renew the lease after that date. The leases provide for rental increases to reflect market rentals. None of the leases includes contingent rentals.

#### Leases as lessor

The Group leases out its investment property under operating leases (see note 10). The future minimum lease payments under non-cancellable leases are as follows:

	2006 £000	2005 £000
Less than one year	225	224
Between one and five years	470	566
More than five years	389	118
	<u>1.084</u>	<u>908</u>

During the year ended 31 December 2006, £169,000 was recognised as rental income in the income statement (2005: £191,000) and £58,000 in respect of repairs and maintenance was recognised as an expense in the income statement relating to investment property (2005: £153,000).

### 32. Post Balance Sheet Events

The Group and Cyprus Cement Public Company Limited ('CCC') have signed a Heads of Agreement for the purpose of placing, on completion of certain conditions of which this agreement is subject to, and which are referred to below, under a common management of their cement production and distribution operations as well as those of the quarry and ready mix sectors.

As from the completion of the above agreement:

(1) The Group will assume the management of CCC's operations in relation to the production and distribution of cement.

(2) The Group will acquire through C.C.C. Building Materials Limited, which will be a wholly owned subsidiary, all the direct and indirect investments that CCC has in Latouros Quarries Ltd, C.C.C. Aggregates Limited, Athinodorou Beton-Transport Limited, Athinodorou Beton-Estates Limited and Athinodorou Beton Ltd as well as in ELMENI Quarries Ltd.

(3) The above agreement provides for, at a future date and under certain conditions, the termination or substantial decrease in the production of cement at the Moni cement factory in conjunction with the operation of a new, state-of-the-art, cement production line of the Group at Vassiliko. With this, it is expected that the environmental pollution from the operation of the Moni cement factory will be eliminated.



## Notes to the Consolidated Financial Statements

For the year ended 31 December 2006

(continuation)

(4) The above Heads of Agreement are subject to the following conditions:

(i) The approval of an Extraordinary General Meeting of the Company for the increase of the company's share capital and for the issue of the new shares, that are referred to below, to CCC.

(ii) The approval, if this is required by any applicable law or regulation, of the terms and conditions of the Heads of Agreement by an Extraordinary General Meeting of CCC.

(iii) The approval or the issue of a declaration by the Commission for the Protection of Competition that there is no objection on their part.

(iv) The approval of the Cyprus Stock Exchange and Securities & Exchange Commission, if needed.

(v) The approval by any other competent authority that may have jurisdiction in any of the matters affecting these Heads of Agreement.

If any and all of the above conditions are not met or any approval is not obtained then the above agreement will be cancelled.

As consideration for the acquisition of the above rights and investments by the Group, the Company will issue and allot as fully paid 18.199.794 shares to CCC, which after their issue will represent the 25,3% of the issued share capital of VCW and will be traded at the Cyprus Stock Exchange. These shares will be issued and accounted at a price equal to the weighted average of the closing traded price of the shares of the Company during the last three months prior to the 9th March 2007. This price is equal to €2,89 (£1,67) per share and the total value of the shares to be issued based on the above price equals to €52.597.405 (£30.474.936). The Cyprus Pounds values were calculated using the Cyprus Pounds / Euro exchange rate on 9th March 2007 which is equal to £0,5794 = €1.

### 33. Supplementary Information

The balance sheet of the Group as at 31 December 2006 and 31 December 2005 and the income statement and the cash flow statement of the Group for the years ended 31 December 2006 and 31 December 2005 presented in Euro (€), represent supplementary information. This supplementary information is presented in accordance with paragraph 57 of IAS21 "The Effects of Changes in Foreign Exchange Rates". The rate of exchange used for the purpose of preparing this supplementary information (both for the current year as well as for the comparative figures) is the official exchange rate issued by the Central Bank of Cyprus at the date of the balance sheet of the current year of £1 = €1,7295.



**VASSILIKO CEMENT WORKS**  
PUBLIC COMPANY LTD

**Registered Office:** 1A Kyriakos Matsis Avenue, 1082 Nicosia, Cyprus

**Correspondence Address:** P.O.Box 22281, 1519 Nicosia, Cyprus

**Factory & Port:** Vassiliko Area, Larnaca, Cyprus, Tel: (+357) 24 845 555, Fax: (+357) 24 332 651, Email: [info@vassiliko.com](mailto:info@vassiliko.com)

[www.vassiliko.com](http://www.vassiliko.com)