Grant Thornton

An instinct for growth™

Financial statements and independent auditors' report

Mermeren Kombinat AD, Prilep

31 December 2011

Contents

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Independent auditors' report

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To the Management and Shareholders of

Mermeren Kombinat AD, Prilep

We have audited the accompanying financial statements of Mermeren Kombinat AD, Prilep ("the Company") which comprise the Statement of financial position as at 31 December 2011, and the Statement of comprehensive income, Statement of changes in equity and Statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory notes, included on pages 3 to 35.

Management's responsibility for the financial statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with International Financial Reporting Standards and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance whether the financial statements are free from material misstatement. An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the 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 management, as well as evaluating the overall presentation of the financial statements.

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

Opinion
In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Company as of 31 December 2011, and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards.

Skopje,

30 March 2012

Grant Thornton DOO

Director
Ruza Filipceva

Certified Auditor
Maja Lazaroska

Statement of financial position

	Note	2011	(Amounts in Euro) At 31 December 2010
Assets			
Non-current assets			
Property, plant and equipment	5	13,204,427	12,818,194
Intangible assets	6	348,713	185,952
		13,553,140	**13,004,146**
Current assets			
Inventories	8	6,039,688	3,976,254
Trade and other receivables	9	5,749,035	20,063,655
Other short term financial assets	10	94	321
Cash and cash equivalents	11	717,267	2,310,334
		12,506,084	**26,350,564**
Total assets		**26,059,224**	**39,354,710**
Shareholders' equity			
Share capital	12	8,845,171	8,845,171
Other components of equity		9,101,005	9,147,266
Retained earnings		191,389	12,180,238
Total shareholders' equity		**18,137,565**	**30,172,675**
Liabilities			
Non – current liabilities			
Borrowings	13	1,750,027	3,532,029
		1,750,027	**3,532,029**
Current Liabilities			
Borrowings	13	1,869,347	2,789,130
Trade and other payables	14	3,446,513	2,676,658
Liabilities for taxes	15	855,772	184,218
		6,171,632	**5,650,006**
Total liabilities		**7,921,659**	**9,182,035**
Total liabilities and shareholders' equity		**26,059,224**	**39,354,710**

These financial statements have been approved by the Board of Directors on 29 March 2012 and signed on its behalf by,

Mr. Mark Richard Jacobson
Chairman

Mr. Goran Poposki
General Executive Director

Statement of comprehensive income

	Note	2011	2010
		(Amounts in Euro)	
		Year ended 31 December	
Sales	16	13,550,434	19,809,589
Cost of sales	17	(4,941,299)	(6,899,700)
Gross profit		**8,609,135**	**12,909,889**
Administrative and selling expenses	18	(13,156,723)	(6,666,006)
Other operating income	20	225,447	3,523,435
Operating loss /profit		**(4,322,141)**	**9,767,318**
Finance income	21	300,189	364,528
Finance (costs)	21	(447,668)	(815,459)
Finance (costs), net		(147,479)	(450,931)
Loss/ Profit before income tax		**(4,469,620)**	**9,316,387**
Income tax expense	22	(1,045,955)	(286,669)
Loss/ Profit for the year		**(5,515,575)**	**9,029,718**
Other comprehensive income for the year			
Translation differences		(10,042)	-
Other comprehensive income for the year		**(10,042)**	**-**
Total comprehensive income for the year		**(5,525,617)**	**9,029,718**
Loss/ Profit attributable to the holders of ordinary shares		**(5,515,575)**	**9,029,718**
Total comprehensive income attributable to the holders of ordinary shares		**(5,525,617)**	**9,029,718**
Earnings per share (expressed in Euros per share)	24	(1.18)	1.93

Statement of changes in equity

(Amounts in Euro)

	Share Capital	Other components of equity	Retained earnings	Total
At 1 January 2011 as stated	**8,845,171**	**9,147,266**	**12,180,238**	**30,172,675**
Dividends declared	-	-	(6,509,493)	(6,509,493)
Transactions with owners	-	-	**(6,509,493)**	**(6,509,493)**
Loss for the year	-	-	(5,515,575)	(5,515,575)
Other comprehensive income:	-	(46,261)	36,219	(10,042)
Total comprehensive income	**-**	**(46,261)**	**(5,479,356)**	**(5,525,617)**
At 31 December 2011	**8,845,171**	**9,101,005**	**191,389**	**18,137,565**
At 1 January 2010	**8,845,171**	**9,339,242**	**5,614,821**	**23,799,234**
Restatement	-	-	(357)	(357)
Restated opening balance as at 1 January 2010	**8,845,171**	**9,339,242**	**5,614,464**	**23,798,877**
Dividends declared	-	-	(2,655,920)	(2,655,920)
Transactions with owners	-	-	**(2,655,920)**	**(2,655,920)**
Profit for the year	-	-	9,029,718	9,029,718
Other comprehensive income	-	(191,976)	191,976	-
Total comprehensive income	**-**	**(191,976)**	**9,221,694**	**9,029,718**
At 31 December 2010	**8,845,171**	**9,147,266**	**12,180,238**	**30,172,675**

Statement of cash flows

	Note	At 31 December 2011	(Amounts in Euro) At 31 December 2010
Operating			
Net profit / loss before tax		(4,469,620)	9,316,387
Adjusted for:			
Depreciation and amortization	5,6	931,383	1,125,074
Write offs and allowances on trade and other receivables	18	10,134,098	19,018
Write offs of other receivables		644	-
Shortages	18	1,064	-
Write off of obsolete inventories	18	15,667	1,829,761
Loss from sold property, plant and equipment	5	36,899	3,261
Net carrying amount of equipment written off		22,280	858,865
Loss from sale of government bonds	18	1,439	-
(Gain) on tangible assets sold	5	-	(5,706)
Payables written off	20	(9,764)	(17,633)
Finance result, net	21	93,790	450,931
Operating profit before working capital changes		6,757,880	13,579,958
Changes in working capital:			
Inventories		(2,079,582)	(53,340)
Trade and other receivables		4,399,334	(7,169,015)
Trade and other payables		501,573	1,777,527
Cash from operations		9,579,205	8,135,130
Interest paid		(305,608)	(495,589)
Income tax paid		(760,734)	(446,683)
		8,512,863	**7,192,858**
Investing			
Purchase of equipment and intangibles, net of proceeds from sales		(1,540,127)	(1,049,249)
Proceeds from sold financial assets available – for – sale			-
Investments in government bonds, net		(1,212)	(321)
Interest received		4,798	13,624
		(1,536,541)	**(1,035,946)**
Financing			
Repayment of borrowings, net		(2,701,785)	(2,074,663)
Dividends paid		(5,857,550)	(2,390,298)
		(8,559,335)	**(4,464,961)**
Translation differences		(10,054)	73,064
Net change in cash and cash equivalents		**(1,593,067)**	**1,765,015**
Cash and cash equivalents at beginning	11	2,310,334	545,319
Cash and cash equivalents at end	11	**717,267**	**2,310,334**

Notes to the financial statements

1 General

Mermeren Kombinat AD, Prilep (the "Company") is a Shareholders' Company incorporated and domiciled in the Republic of Macedonia. The address of its registered head office is str. Krushevski Pat b.b., Prilep, Republic of Macedonia.

On 10 April 2009 Stone Works Holdings Cooperatief U.A. Nederland's acquired 88.4% of the Company's shares.

The Company's main business activities include mining, processing and distribution of marble and decorative stones. The Company operates in local and foreign markets and at 31 December 2011 employed 402 persons (2010: 386 persons).

2 Accounting policies

The principal accounting policies adopted in the preparation of these financial statements are set out below. These policies have been consistently applied to all the years presented, unless otherwise stated.

2.1 Basis of preparation

These financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS) as issued by the International Accounting Standards Board (IASB). The financial statements have been prepared using the measurement bases specified by IFRS for each type of asset, liability, income and expense. The measurement bases are more fully described in the accounting policies below.

The preparation of these financial statements in conformity with IFRS requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the Company's accounting policies. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the financial statements are disclosed in Note 4: Critical accounting estimates and judgements.

The financial statements have been prepared as of and for the years ended 31 December 2011 and 2010. Current and comparative data stated in these financial statements are expressed in Euros.

2.2 Changes in accounting policies and disclosures

a) Adoption of Improvements to IFRSs 2010

The Improvements to IFRSs 2010 made several minor amendments to a number of IFRSs. The only amendment relevant to the Company relates to IAS 1 Presentation of Financial Statements. The Company previously presented the reconciliations of each component of other comprehensive income in the statement of changes in equity. The Company now presents these reconciliations in the notes to the financial statements, as permitted by the amendment. This reduces duplicated disclosures and presents more clearly the overall changes in equity. Prior period comparatives have been restated accordingly.

b) Standards, amendments and interpretations to existing standards that are not yet effective and have not been adopted early by the Company

At the date of authorization of these financial statements, certain new standards, amendments and interpretations to existing standards have been published by the IASB but are not yet effective, and have not been adopted early by the Company.

Management anticipates that all of the relevant pronouncements will be adopted in Company's accounting policies for the first period beginning after the effective date of the pronouncement. Information on new standards, amendments and interpretations that are expected to be relevant to the Company's financial statements is provided below. Certain other new standards and interpretations have been issued but are not expected to have a material impact on the Company's financial statements.

IFRS 9 Financial Instruments (IFRS 9)

The IASB aims to replace IAS 39 Financial Instruments: Recognition and Measurement in its entirety. IFRS 9 is being issued in phases. To date, the chapters dealing with recognition, classification, measurement and de-recognition of financial assets and liabilities have been issued. These chapters are effective for annual periods beginning 1 January 2013. Further chapters dealing with impairment methodology and hedge accounting are still being developed. The Company's management has yet to assess the impact of this new standard on the Company's financial statements. However, they do not expect to implement IFRS 9 until all of its chapters have been published and they can comprehensively assess the impact of all changes.

Consolidation Standards

A package of consolidation standards are effective for annual periods beginning on or after 1 January 2013. Information on these new standards is presented below. The Company's management have yet to assess the impact of these new and revised standards.

IFRS 10 Consolidated Financial Statements (IFRS 10)

IFRS 10 supersedes IAS 27 Consolidated and Separate Financial Statements (IAS 27) and SIC 12 Consolidation – Special Purpose Entities. It revised the definition of control together with accompanying guidance to identify an interest in a subsidiary. However, the requirements and mechanics of consolidation and the accounting for any non-controlling interests and changes in control remain the same.

IFRS 11 Joint Arrangements (IFRS 11)

IFRS 11 supersedes IAS 31 Interests in Joint Ventures (IAS 31). It aligns more closely the accounting by the investors with their rights and obligations relating to the joint arrangement. In addition, IAS 31's option of using proportionate consolidation for joint ventures has been eliminated. IFRS 11 now requires the use of the equity accounting method, which is currently used for investments in associates.

Changes in accounting policies and disclosures (continued)

Standards, amendments and interpretations to existing standards that are not yet effective and have not been adopted early by the Company (continued)

IFRS 12 Disclosure of Interests in Other Entities (IFRS 12)
IFRS 12 integrates and makes consistent the disclosure requirements for various types of investments, including unconsolidated structured entities. It introduces new disclosure requirements about the risks to which an entity is exposed from its involvement with structured entities.

Consequential amendments to IAS 27 and IAS 28 Investments in Associates and Joint Ventures (IAS 28)
IAS 27 now only deals with separate financial statements. IAS 28 brings investments in joint ventures into its scope. However, IAS 28's equity accounting methodology remains unchanged.

IFRS 13 Fair Value Measurement (IFRS 13)
IFRS 13 does not affect which items are required to be fair-valued, but clarifies the definition of fair value and provides related guidance and enhanced disclosures about fair value measurements. It is applicable for annual periods beginning on or after 1 January 2013. The Company's management has yet to assess the impact of this new standard.

Amendments to IAS 1 Presentation of Financial Statements (IAS 1 Amendments)
The IAS 1 Amendments require an entity to group items presented in other comprehensive income into those that, in accordance with other IFRSs:
(a) will not be reclassified subsequently to profit or loss and
(b) will be reclassified subsequently to profit or loss when specific conditions are met. It is applicable for annual periods beginning on or after 1 July 2012. The Company's management expects this will change the current presentation of items in other comprehensive income; however, it will not affect the measurement or recognition of such items.

Amendments to IAS 19 Employee Benefits (IAS 19 Amendments)
The IAS 19 Amendments include a number of targeted improvements throughout the Standard. The main changes relate to defined benefit plans. They:

- eliminate the 'corridor method', requiring entities to recognize all gains and losses arising in the reporting period
- streamline the presentation of changes in plan assets and liabilities
- enhance the disclosure requirements, including information about the characteristics of defined benefit plans and the risks that entities are exposed to through participation in them.

The amended version of IAS 19 is effective for financial years beginning on or after 1 January 2013. The Company's management has yet to assess the impact of this revised standard on the Company's financial statements

2.3 Foreign currency translation

Functional and presentation currency
The Company maintains its accounting records and prepares its statutory accounts in local currency, i.e. in Macedonian Denars (MKD), which is the Company's "functional currency". These financial statements are presented in Euros, which is "presentation currency" of the Company's ultimate Parent.

Foreign currency translation (continued)

The results and financial position of the Company are translated into the presentation currency as follows:

- Assets and liabilities for each statement of financial position presented are translated at the closing rate at the date of that statement of financial position;
- Income and expenses for each statement of comprehensive income are translated at average exchange rates; and
- Resulting exchange differences are recognised as financial income or expense, respectively, in each statement of comprehensive income for the period they relate to.

Transactions and balances

Transactions denominated in foreign currencies have been translated into Macedonian Denars at the middle exchange rate at the date of the transaction. Assets and liabilities denominated in foreign currencies are translated into Macedonian Denars ("Denars") at the National Bank of the Republic of Macedonia middle exchange rate on the last day of the reporting period. All gains and losses resulting from foreign currency translation or exchange are included in the statement of comprehensive income as financial income or expense in the period in which they arose. The middle exchange rates used for conversion of the statement of financial position items denominated in foreign currencies are as follows:

	31 December 2011	**31 December 2010**
1 USD	47.5346 Denars	46.3140 Denars
1 EUR	61.5050 Denars	61.5050 Denars

2.4 Property, plant and equipment

Items of property, plant and equipment are recorded at their revalued cost, based on the valuation performed by independent authorized valuers, less subsequent accumulated depreciation and impairment losses. The increase in the carrying amount of property, plant and equipment due to their revaluation is taken to an asset revaluation surplus, which forms part of the total reserves included within the Company's equity. When revalued assets are disposed of or sold, the amounts included in the revaluation surplus are transferred to the retained earnings for the period.

Depreciation is charged to the statement of comprehensive income on a straight-line basis over the estimated useful lives of items of property, plant and equipment. Constructed assets are depreciated from the time they are put into use. Land and construction in progress are not depreciated.

The estimated useful lives are as follows:

Buildings	40 years
Machinery	10-20 years
Equipment and motor vehicles	4-8 years

The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at each statement of financial position date. An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount (note 2.6).

Gains and losses on disposals are determined by comparing the proceeds with the carrying amount and are recognized within other expenses or other income in the statement of comprehensive income.

Interest costs on borrowings used to finance the construction of property, plant and equipment are capitalized, during the period of time that is required to complete and prepare the asset for its intended use. Other borrowing costs are expensed.

Property, plant and equipment (continued)

The costs of regular maintenance and repairs are charged to operating expenses as incurred. Improvements to the existing assets are capitalized only when it increases the future economic benefits embodied in the item of property, plant and equipment.

2.5 Intangible assets

Research and development costs

Expenditure on research activities, undertaken with the prospect of gaining new scientific or technical knowledge and understanding, is recognized in the statement of comprehensive income as an expense as incurred. Expenditure on development activities, where by research findings are applied to a plan or design for the production of new or substantially improved products and processes, is capitalized if the product or process is technically or commercially feasible and the Company has sufficient resources to complete development. The expenditure capitalized includes the cost of materials, direct labour and an appropriate proportion of overheads. Other development expenditure is recognized in the statement of comprehensive income as an expense as incurred. Capitalized development expenditure is stated at cost less accumulated amortization and impairment losses. Amortization is charged to the statement of comprehensive income on a straight-line basis over the period of its expected benefit, which is estimated at five years.

Other intangible assets

Expenditure to acquire rights and licenses is capitalized and amortized using the straight-line method over a period of five years.

2.6 Impairment of non – financial assets

Property, plant and equipment, as well as intangibles, are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows (cash-generating units). Non-financial assets other than goodwill that suffered impairment are reviewed for possible reversal of the impairment at each reporting date.

2.7 Financial assets

The Company classifies its financial assets in the following categories: at fair value through profit or loss, loans and receivables, and available for sale. The classification depends on the purpose for which the financial assets were acquired. Management determines the classification of its financial assets at initial recognition.

Financial assets at fair value through profit or loss

Financial assets at fair value through profit or loss include financial assets that are either classified as held for trading or that meet certain conditions and are designated at fair value through profit or loss upon initial recognition.

Assets in this category are measured at fair value with gains or losses recognised in profit or loss.

This category of financial assets consists of government bonds presented as "other short – term financial assets".

Financial assets (continued)

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They are included in current assets, except for maturities greater than 12 months after the statement of financial position date. These are classified as non-current assets.

The Company's loans and receivables comprise trade and other receivables and cash and cash equivalents as of the statement of financial position date.

Available-for-sale financial assets

Available-for-sale financial assets are non-derivatives that are either designated in this category or not classified in any of the other categories. They are included in non-current assets unless management intends to dispose of the investment within 12 months of the statement of financial position date.

Recognition and measurement of financial assets

Purchases and sales of financial assets are recognized on the trade-date – the date on which the Company commits to purchase or sell the asset.

All financial assets that are not carried at fair value through profit or loss are initially recognized at fair value plus transaction costs. Financial assets carried at fair value through profit or loss are initially recognized at fair value and transaction costs are expensed in the statement of comprehensive income. Financial assets are derecognized when the rights to receive cash flows from the investments have expired or have been transferred and the Company has transferred substantially all risks and rewards of ownership.

Available-for-sale financial assets and financial assets at fair value through profit or loss are subsequently carried at fair value. Loans and receivables are carried at amortised cost using the effective interest method.

Gains or losses arising from changes in the fair value of the 'financial assets at fair value through profit or loss' category are presented in the statement of comprehensive income within 'other (losses)/gains – net' in the period in which they arise. Changes in the fair value of monetary and non-monetary securities classified as available-for-sale are recognized in other comprehensive income.

When securities classified as available for sale are sold or impaired, the accumulated fair value adjustments recognized in equity are included in the statement of comprehensive income as 'gains and losses from investment securities'.

Interest on available-for-sale securities calculated using the effective interest method is recognised in the statement of comprehensive income as part of other income. Dividends on available-for-sale equity instruments are recognised in the statement of comprehensive income as part of other income when the group's right to receive payments is established.

The fair values of quoted investments are based on current bid prices. If the market for a financial asset is not active (and for unlisted securities), the Company establishes fair value by using valuation techniques.

Financial assets (continued)

The Company assesses at each statement of financial position date whether there is objective evidence that a financial asset or a group of financial assets is impaired. In the case of equity securities classified as available for sale, a significant or prolonged decline in the fair value of the security below its cost is considered as an indicator that the securities are impaired. If any such evidence exists for available-for-sale financial assets, the cumulative loss – measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that financial asset previously recognized in profit or loss – is removed from equity and recognized in the statement of comprehensive income. Impairment losses recognized in the statement of comprehensive income on equity instruments are not reversed through the statement of comprehensive income. Impairment testing of trade receivables is described further within Note 2.9.

2.8 Inventories

Inventories are stated at the lower of cost and net realisable value. Cost is determined using the weighted average method. The cost of finished goods and work in progress comprises design costs, raw materials, direct labour, other direct costs and related production overheads (based on normal operating capacity). It excludes borrowing costs. Net realisable value is the estimated selling price in the ordinary course of business, less applicable variable selling expenses.

2.9 Trade and other receivables

Trade receivables are recognized initially at fair value and subsequently measured at amortised cost using the effective interest method, less provision for impairment. A provision for impairment of trade receivables is established when there is objective evidence that the Company will not be able to collect all amounts due according to the original terms of the receivables.

Significant financial difficulties of the debtor, probability that the debtor will enter bankruptcy or financial reorganisation, and default or delinquency in payments (more than 90 days overdue) are considered indicators that the trade receivable is impaired.

The amount of the provision is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the original effective interest rate. Assets with a short maturity are not discounted. The carrying amount of the asset is reduced through the use of an allowance account, and the amount of the loss is recognized in the statement of comprehensive income within 'selling and marketing costs'. When a trade receivable is uncollectible, it is written off against the allowance account for trade receivables. Subsequent recoveries of amounts previously written off are credited against 'selling and marketing costs' in the statement of comprehensive income.

2.10 Cash and cash equivalents

Cash and cash equivalents includes cash in hand, deposits held at call with banks and other short-term highly liquid investments with original maturities of three months or less.

2.11 Share capital

Ordinary shares are classified as equity.
Incremental external costs directly attributable to the issue of new shares are shown in equity as a deduction from the proceeds.

Where the Company purchases its equity share capital, the consideration paid, including any directly attributable external costs is deducted from the total shareholders' equity as treasury shares. Where such shares are subsequently sold, any consideration received is included in shareholders' equity.

2.12 Trade payables

Trade payables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method.

2.13 Borrowings

Borrowings are recognised initially at fair value, net of transaction costs incurred. Borrowings are subsequently stated at amortised cost; any difference between the proceeds (net of transaction costs) and the redemption value is recognised in the statement of comprehensive income over the period of the borrowings using the effective interest method.

2.14 Current and deferred income tax

In accordance with the amendments of the legal regulations referring to the income tax which are effective as of 1 January 2009, income tax at 10% rate is paid to non – deductible items for tax purposes adjusted for tax credit, as on the distributed income for dividends to legal entities – non residents and to individuals. Undistributed profit (retained earnings) is free of taxation.

Deferred income tax is provided in full, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying values for financial reporting purposes. Currently enacted tax rates are used in determination of deferred income tax. Deferred tax is charged or credited in the statement of comprehensive income, except when it relates to items charged or credited directly to equity, in which case the deferred tax is also dealt with in equity.

Deferred tax assets are recognized to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilized.

The Company has not recognized any deferred tax assets or liability as at 31 December 2011 and 2010, as there are no temporary differences existing at these dates.

2.15 Employee benefits

Pension obligations

The Company has pension scheme as prescribed by the local social security legislation under which it contributes to its employees' post retirement plans. Contributions, based on salaries, are made to the first and second pension pillar responsible for the payment of pensions. There is no additional liability regarding these plans.

Post – retirement obligations

The Company provides its retirees an amount equal to two months average salary according to the related local provisions. No provision has been made at the statement of financial position date in respect of this post – retirement obligations, since that amount would not have a material effect on the financial statements.

2.16 Provisions

A provision is recognized when the Company has a present obligation as a result of a past event and it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation, and a reliable estimate can be made of the amount of the obligation. Provisions are reviewed at each statement of financial position date and adjusted to reflect the current best estimate. Where the effect of the time value of money is material, the amount of provision is the present value of the expenditures expected to be required to settle the obligation. Provisions are not recognised for future operating losses.

2.17 Revenue recognition

Revenue comprises revenue from sale of goods and the rendering of services. Revenue from major products and services is shown in note 16.

Revenue is measured by reference to the fair value of consideration received or receivable by the Company for goods supplied and services provided, excluding sales taxes, rebates, and trade discounts.

The Company applies the revenue recognition criteria set out below to each separately identifiable component of the sales transaction in order to reflect the substance of the transaction. The consideration received from these transactions is allocated to the separately identifiable component by taking into account the relative fair value of each component.

Revenue is recognized when the amount of revenue can be measured reliably, collection is probable, the costs incurred or to be incurred can be measured reliably, and when the criteria for each of the Company's different activities have been met. These activity-specific recognition criteria are based on the goods or solutions provided to the customer and the contract conditions in each case, and are described below:

Sales of goods – wholesale

Sales of goods are recognised when the products are delivered to the customer, when the amount of revenue can be reliably measured, it is probable that future economic benefits will flow to the entity and when specific criteria have been met for each of the Company’s activities. The amount of revenue is not considered to be reliably measurable until all contingencies relating to the sale have been resolved.

Sales of services

Sales of services are recognised in the period in which services are rendered, by reference to the stage of completion when can be measured reliably. The stage of completion is determined based on surveys of work performed.

Interest income

Interest income is recognized on a time proportion basis that reflects the effective yield on the assets.

Royalty income

Royalty income is recognized on an accrual basis in accordance with the substance of the relevant agreement.

Dividend income

Dividend income is recognized when the right to receive payments is established.

2.18 Dividend distribution

Distribution of dividends to the Company’s shareholders is recognised as a liability in the financial statements in the period when they are approved by the Company’s shareholders.

2.19 Commitments and contingencies

Contingent liabilities are not recognized in the financial statements. They are disclosed unless the possibility of an outflow of resources embodying economic benefits is remote. A contingent asset is not recognized in the financial statements but disclosed when an inflow of economic benefits is probable.

The amount of a contingent loss is recognized as a provision if it is probable that future events will confirm that, a liability incurred as at the statement of financial position date and a reasonable estimate of the amount of the resulting loss can be made.

2.20 Related party transactions

Related parties are those where one of the party is controlled by the other or has significant influence in making financial or business decisions of the other party.

2.21 Segment reporting

A segment is a distinguishable group of assets and operating activities that is engaged in providing products or services, subject to risks and rewards that are different from those of other segments. Geographical segment provides products and services within a defined economic surrounding exposed to risks different from those of other geographical segments.

2.22 Events after the reporting date

Post-year-end events that provide additional information about a Company's position at the statement of financial position date (adjusting events) are reflected in the financial statements. Post-year-end events that are not adjusting events are disclosed in the notes when material.

3 Financial risk management

3.1 Financial risk factors

The Company's activities expose it to a variety of financial risks, including credit risk and risks associated with the effects of changes in foreign currency exchange rates and interest rates. The Company's risk management focuses on unpredictability of markets and seeks to minimize potential adverse effects over the Company's business performance.

Risk management is carried out by the Board of Directors based on certain pre – approved written policies and procedures that cover overall risk management, as well as specific areas, such as foreign exchange risk, interest rate risk, credit risk, use of appropriate securities and investing excess liquidity.

3.2 Market risk

Foreign exchange risk

The Company operates internationally and is exposed to foreign exchange risk arising from various currency exposures primarily with respect to the Euro. The Company does not use any instrument to hedge the foreign exchange risk. The Company's Board of Directors is responsible to maintain adequate net position in each currency and in total and its operations are daily monitored by the Company's management.

The carrying value of the monetary assets and liabilities of the Company denominated in foreign currencies is as follows:

Assets		2011 In Euro	2010 In Euro
Cash and cash equivalents	EUR	684,781	2,266,076
Trade receivables – foreign debtors	EUR	5,127,175	16,821,763
		5,811,956	19,087,839
Liabilities			
Trade payables – foreign suppliers	EUR	(2,797,531)	(2,022,280)
Borrowings	EUR	(3,615,362)	(6,314,031)
		(6,412,893)	(8,336,311)

Foreign currency sensitivity analysis

	Net amount in Euro	+10%	-10%
31 December 2011			
Profit or loss	(600,937)	(60,094)	60,094
31 December 2010			
Profit or loss	10,751,528	1,075,153	(1,075,153)

The sensitivity analysis includes only monetary items denominated in foreign currencies at year end, and a correction of their value is made for a 10% change in foreign currency rates. The positive, i.e. negative amount indicates increase/decrease in profit or other equity, which occurs when the Denar weakens/strengthens its value against foreign currencies by +/- 10%.

Market risk (continued)

Interest rate risk

Interest rate risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates. The Company's exposure to the risk of changes in market interest rates relates primarily to the Company's long-term debt obligation with a floating interest rate. The Company's management is primarily responsible for daily monitoring of the net interest rate risk position and it sets limits to reduce the potential of interest rate mismatch.

The table below summarizes the Company's exposure to interest rate risk.

	2011 (In Euro)	2010 (In Euro)
Assets		
Non interest bearing:		
Non-current trade receivables	-	-
Trade and other receivables	5,651,596	20,063,655
Cash and cash equivalents	1,290	1,152
	5,652,886	20,064,807
with fixed interest rate:		
Investments in government bonds	94	321
Cash and cash equivalents	715,977	2,309,182
	716,071	2,309,503
	6,368,957	**22, 374,310**
Liabilities		
Non interest bearing:		
Trade and other payables	3,419,743	2,676,658
Liabilities for taxes	-	184,218
	3,419,743	2, 860,876
with fixed interest rate:		
Borrowings	4,012	7,128
	4,012	7,128
with variable interest rate:		
Borrowings	3,615,362	6,314,031
	3,615,362	6,314,031
Interest sensitivity gap	**7,039,117**	**9,182,035**

Nominal interest rates are 6 months Euribor + 4.5% (2010: 6 months Euribor + 5%)

Interest rate sensitivity analysis

At 31 December 2011	Net amount in Euro	2%	-2%
Borrowings with variable interest rate	(3,615,362)	(72,307)	72,307

At 31 December 2010	Net amount in Euro	2%	-2%
Borrowings with variable interest rate	(6,314,031)	(126,281)	126,281

3.3 Credit risk

Credit risk is the risk of financial loss to the Company if the customer or counterparty to a financial instrument fails to meet its contractual obligations and arises mainly from the Company's trade receivables. The Company's exposure to credit risk is principally influenced by the individual characteristics of each customer.

The Company has policies in place to ensure that sales of goods and services are made to customers with an appropriate credit history. The Company has policies that limit the amount of credit exposure to any counter party. The Company's maximum exposure to credit risk is represented by the carrying amount of each financial asset in the statement of financial position.

Credit risk (continued)

The Company establishes an allowance for impairment that represents its estimate of incurred losses in respect of the trade receivables based entirely on specific losses related to individually significant exposures. The Company's maximum exposure to credit risk is represented by the carrying amount of each financial asset in the statement of financial position as summarised below:

	2011	2010
Classes of financial assets – carrying amounts (in Euro):		
Non-current trade receivables	-	-
Investments in government bonds	94	321
Cash and cash equivalents	717,267	2,310,334
Trade and other receivables	5,651,596	20,063,655
	6,368,957	**22, 374,310**

The credit risk for cash and cash equivalents is considered negligible, since the counterparties are reputable banks with high quality external credit ratings.

As of the statement of financial position date the credit quality of Company's trade receivables and advances to suppliers is disclosed Note 9.

3.4 Liquidity risk

The Company manages its liquidity needs by carefully monitoring scheduled debt servicing payments for long-term financial liabilities as well as forecast cash inflows and outflows due in day-to-day business. Liquidity needs are monitored in various time bands. Net cash requirement are compared to available borrowing facilities in order to determine any shortfalls. This analysis shows if available borrowing facilities are expected to be sufficient over the lookout period. The Company maintains cash to meet its liquidity requirements for 30-day periods at a minimum. Funding for long-term liquidity needs is additionally secured by an adequate amount of committed credit facilities. As at 31 December 2011 and 2010, the Company's liabilities have contractual maturities (including interest payments where applicable) as summarised below:

	Current	Non – current	
	1 to 12 months	1 to 5 years	Later than 5 years
At 31 December 2011	(In Euro)	(In Euro)	(In Euro)
Interest – bearing borrowings	1,869,347	1,750,027	-
Trade and other payables	3,419,743	-	-
	5,289,090	**1,750,027**	**-**

	Current	Non – current	
	1 to 12 months	1 to 5 years	Later than 5 years
At 31 December 2010	(In Euro)	(In Euro)	(In Euro)
Interest – bearing borrowings	2,789,130	3,532,029	-
Trade and other payables	2,676,658	-	-
	5,465,788	**3,532,029**	**-**

The above amounts reflect the contractual undiscounted cash flows, which may differ to the carrying values of the liabilities at the reporting date.

3.5 Capital risk management

The Company's objectives when managing capital are to safeguard the Company's ability to continue as a going concern in order to provide returns for shareholders and benefits for other stakeholders and to maintain an optimal capital structure to reduce the cost of capital.

Capital risk management (continued)

In order to maintain or adjust the capital structure, the Company may adjust the amount of dividends paid to shareholders, return capital to shareholders, issue new shares or sell assets to reduce debt.

Gearing ratio

The structure of the Company's equity comprises of liabilities, cash and cash equivalents and equity, which comprises of share capital, reserves, revaluation surplus and retained earnings. The Management reviews the capital structure on annual basis as a relation between the net loan liabilities and the total capital.

The net loan liabilities are calculated as total liabilities for borrowings less the amount for cash and cash equivalents.

The debt indicator at year end is as follows:

	2011 (In Euro)	2010 (In Euro)
Interest-bearing borrowings	3,619,374	6,321,159
Cash and cash equivalents	(717,267)	(2,310,334)
Net liabilities	2,902,107	4,010,825
Shareholders' equity	18,137,565	30,172,675
Gearing ratio	0.16	0.13

3.6 Fair value estimation

Fair value represents the amount at which an asset could be replaced or a liability settled on an arms length basis. Fair values have been based on management assumptions according to the profile of the asset and liability base.

3.6.1 Financial instruments presented at fair value

The financial assets measured according to the fair value in the statement of financial position in accordance with the hierarchy of the fair value are shown in the next table. This hierarchy groups the financial assets and liabilities into three levels that are based on the significance of the incoming data used during the measurement of the fair value of the financial assets. Fair value hierarchy is as follows:

- **Level 1**: quoted prices (not adjusted) on the active markets for identical assets or liabilities;
- **Level 2**: other incoming data, aside from the quoted prices, included in Level 1 which are available for asset or liability observing, directly (i.e. as prices), or indirectly (i.e. made of prices) and
- **Level 3**: incoming data on the asset or liability that are not based on data available for market observing.

31 December 2011	Level 1 (In Euro)	Level 2 (In Euro)	Level 3 (In Euro)	Total (In Euro)
Assets				
Government bonds	94	-	-	94
Total	**94**	**-**	**-**	**94**

31 December 2010	Level 1 (In Euro)	Level 2 (In Euro)	Level 3 (In Euro)	Total (In Euro)
Assets				
Government bonds	321	-	-	321
Total	**321**	**-**	**-**	**321**

Fair value estimation (continued)

3.6.2 Financial instruments that are not presented at fair value

The following table summarizes the carrying amounts and fair values to those financial assets and liabilities that are not presented in the Statement of financial position at their fair value:

	Carrying value		Fair value	
	2011	2010	2011	2010
	(In Euro)	(In Euro)	(In Euro)	(In Euro)
Assets				
Trade and other receivables	5,651,596	19,880,909	5,651,596	19,880,909
Cash and cash equivalents	717,267	2,310,334	717,267	2,310,334
Total assets	**6,368,863**	**22,191,243**	**6,368,863**	**22,191,243**
Liabilities				
Borrowings	3,619,374	6,321,159	3,619,374	6,321,159
Trade and other payables (without law liabilities)	3,419,743	2,676,658	3,419,743	2,676,658
	7,039,117	**8,997,817**	**7,039,117**	**8,997,817**

Loans and receivables

Loans and receivables are carried at amortized cost, minus the provisions for impairment. Their fair value corresponds to their carrying value.

Other financial assets

Fair value of monetary assets that include cash and cash equivalents is considered to approximate their carrying value due to their maturity of less than 3 months.

Trade and loans payable

Carrying value of trade and loans payable approximates their fair value.

4 Critical accounting estimates and judgements

In the application of the Company's accounting policies, which are described in Note 2, management is required to make judgements, estimates and assumptions about the carrying amounts of assets and liabilities that are not readily apparent from other sources. The estimates and associated assumptions are based on historical experience and other factors that are considered to be relevant. Actual results may differ from these estimates.

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

Uncertainty in judgments

Impairment of non- financial assets

Impairment losses are recognized in the amount for which the carrying value of the asset or the cash generating unit exceeds the recoverable amount. When determining the recoverable amount, the Management evaluates expected prices and cash flows from each cash generating unit and determines an appropriate interest rate when calculating the present value of such cash flows.

Impairment of financial assets

Impairment of trade and other receivables

Company calculates impairment for trade and other receivables based on estimated losses resulting from the inability of customers to make required payments. The estimation is based on the ageing of account receivables balance and historical write-off experience, customer credit-worthiness and changes in customer payment terms when evaluating the adequacy of the impairment loss for doubtful accounts. These involve assumptions about future customer behaviour and the resulting future cash collections. If the financial condition of customers were to deteriorate, actual write-offs of currently existing receivables may be higher than expected and may exceed the level of the impairment losses recognized so far.

Useful life of amortised assets

Management regularly reviews the useful lives of amortised assets as at the statement of financial position date. Management estimates that the determined useful life of assets represents the expected usefulness (utility) of assets. The carrying values of such assets are analyzed in Note 5 and 6. However, the factual results may differ due to the technological obsoleteness.

Inventories

Inventories are stated at the lower of cost and net realisable value. When determining the net realisable value, the most objective evidence / data available at the making of assessments are taken.

(All amounts expressed in Euros, unless otherwise stated)

5 Property, plant and equipment

	Land & Buildings	Machinery & equipment	Construction in progress	Total
At 1 January 2010				
Cost or valuation	6,061,973	17,099,175	115,228	23,276,376
Accumulated depreciation	(2,215,599)	(7,068,160)	-	(9,283,759)
Net carrying amount	**3,846,374**	**10,031,015**	**115,228**	**13,992,617**
Year ended 31 December 2010				
Opening net carrying amount	**3,846,374**	**10,031,015**	**115,228**	**13,992,617**
Translation differences	(19,697)	(52,065)	(753)	(72,515)
Additions, net of transfers from C.I.P.	8,918	837,296	49,658	895,872
Disposals-net	(61,315)	(800,811)	-	(862,126)
Transfer to intangibles	(27,372)	-	-	(27,372)
Depreciation charge for the year	(310,781)	(797,501)	-	(1,108,282)
Closing carrying amount	**3,436,127**	**9,217,934**	**164,133**	**12,818,194**
At 31 December 2010 / 1 January 2011				
Cost or valuation	4,899,878	15,592,293	164,133	20,656,304
Accumulated depreciation	(1,463,751)	(6,374,359)	-	(7,838,110)
Net carrying amount	**3,436,127**	**9,217,934**	**164,133**	**12,818,194**
Year ended 31 December 2011				
Opening net carrying amount	**3,436,127**	**9,217,934**	**164,133**	**12,818,194**
Translation differences	8	(3)	-	5
Additions, net of transfers from C.I.P.	205,678	1,126,959	28,265	1,360,902
Disposals-net	(6,768)	(85,302)	(741)	(92,811)
Depreciation charge for the year	(106,897)	(774,966)	-	(881,863)
Closing carrying amount	**3,528,148**	**9,484,622**	**191,657**	**13,204,427**
At 31 December 2011				
Cost or valuation	5,098,796	16,633,947	191,657	21,924,400
Accumulated depreciation	(1,570,648)	(7,149,325)	-	(8,719,973)
Net carrying amount	**3,528,148**	**9,484,622**	**191,657**	**13,204,427**

Construction in progress

As at 31 December 2011, the balance of construction in progress in the amount of Euro 191,657 consists of the cost of building part of filtering station and purchased computer equipment.

(All amounts expressed in Euros, unless otherwise stated)

Property, plant and equipment (continued)

Sale and disposal of machinery and equipment

During 2011 the Company disposed off and sold property and equipment the net carrying value of which amounts Euro 92,811(2010: Euro 862,126). The sales value of those which were sold amounts Euro 33,049 (2010: Euro 5,706) and their net carrying value – Euro 69,948 (2010: Euro 8,967). Write off of assets was made with net carrying amount of Euro 22,280 (cost of valuation Euro 166,232 and accumulated depreciation Euro 143,952). As of 31 December 2011 shortages of assets were identified in net carrying value Euro 583. Revaluation surplus transferred into retained earnings that results from the assets carried at valuation that were sold and/or disposed off amounts Euro 36,219 (2010: Euro 191,976).

Release of pledge over property, plant and equipment

As of 31 December 2011, the Company has pledged part of its property, plant and equipment to secure borrowings (see Note 13). As of the statement of financial position date, their appraised value is in the amount of 8,400,000 Euros (see Note 25).

6 Intangible assets

	Trade marks and development expenditure	Intangibles in progress	Total
At 1 January 2010			
Cost or valuation	29,042	-	29,042
Accumulated depreciation	(12,204)	-	(12,204)
Net carrying amount	**16,838**	**-**	**16,838**
Year ended 31 December 2010			
Opening net carrying amount	**16,838**	**-**	**16,838**
Translation differences	(379)	(170)	(549)
Additions, net of transfers from intangibles in progress	96,138	62,945	159,083
Transfer from property, plant and equipment	27,372	-	27,372
Depreciation charge for the year	(16,792)	-	(16,792)
Closing carrying amount	**123,177**	**62,775**	**185,952**
At 31 December 2010 / 1 January 2011			
Cost or valuation	157,499	62,775	220,274
Accumulated depreciation	(34,322)	-	(34,322)
Net carrying amount	**123,177**	**62,775**	**185,952**
Year ended 31 December 2011			
Opening net carrying amount	**123,177**	**62,775**	**185,952**
Translation differences	(2)	9	7
Additions, net of transfers from intangibles in progress	205,892	6,382	212,274
Depreciation charge for the year	(49,520)	-	(49,520)
Closing carrying amount	**279,547**	**69,166**	**348,713**
At 31 December 2011			
Cost or valuation	363,389	69,166	432,555
Accumulated depreciation	(83,842)	-	(83,842)
Net carrying amount	**279,547**	**69,166**	**348,713**

As of 31 December 2011 the balance of intangibles in progress in the amount of Euro 69,166 relates to acquisition of software from Login Sistemi doo Skopje, a local software supplier.

Out of the total depreciation and amortization for the year ended 31 December 2011 amounting Euro 931,383 (2010: Euro 1,125,074), the amount of Euro 885,129 (2010: Euro 970,345) has been charged in cost of sales and the remaining amount of Euro 46,254 (2010: Euro 154,729) – into administrative and selling expenses.

(All amounts expressed in Euros, unless otherwise stated)

7 Financial instruments by categories

The carrying amounts of the Company's financial assets and liabilities as recognised at the statement of financial position date may also be categorised as follows.

31 December 2011	Loans and receivables	Assets at fair value through profit and loss	Available – for – sale	Total
Assets according to the Statement of financial position				
Other short term financial assets	-	94	-	94
Trade and other receivables	5,651,596	-	-	5,651,596
Cash and cash equivalents	717,267	-	-	717,267
	6,368,863	**94**	**-**	**6,368,957**

	Liabilities at fair value through profit and loss	Other financial liabilities	Total
Liabilities according to the Statement of financial position			
Interest bearing borrowings	-	3,619,374	3,619,374
Trade and other payables	-	3,419,743	3,419,743
	-	**7,039,117**	**7,039,117**

31 December 2010	Loans and receivables	Assets at fair value through profit and loss	Available – for – sale	Total
Assets according to the Statement of financial position				
Other short term financial assets	-	321	-	321
Trade and other receivables	19,880,909	-	-	19,880,909
Cash and cash equivalents	2,310,334	-	-	2,310,334
	22,191,243	**321**	**-**	**22,191,564**

	Liabilities at fair value through profit and loss	Other financial liabilities	Total
Liabilities according to the Statement of financial position			
Interest bearing borrowings	-	6,321,159	6,321,159
Trade and other payables	-	2,676,658	2,676,658
	-	**8,997,817**	**8,997,817**

8 Inventories

	2011	2010
Work in progress	3,657,933	3,497,458
Spare parts	327,138	315,916
Raw materials	151,654	134,026
Finished products	1,815,979	12,060
Trade goods	80,178	8,692
Other	6,806	8,102
	6,039,688	**3,976,254**

During 2011 obsolete inventories in the amount of Euro 15,667 (2010: Euro 1,829,761) have been written off against current profit and loss (see Note 18).

(All amounts expressed in Euros, unless otherwise stated)

9 Trade and other receivables

	2011	2010
Current trade receivables		
Local debtors	559,978	359,689
Foreign debtors	7,565,654	7,271,098
Related party's receivables (see Note 23)	4,693,929	9,550,665
	12,819,561	**17,181,452**
Less: provision for impairment	(7,210,091)	(83,299)
	5,609,470	**17,098,153**
Prepayments		
Prepaid VAT	49,669	175,496
Deferred expenses	15,240	7,250
Advances to suppliers	32,530	14,042
Other current receivables	3,004,582	2,768,714
	3,102,021	**2,965,502**
Less: provision for impairment	(2,962,456)	-
	139,565	**2,965,502**
Current trade and other receivables, net	**5,749,035**	**20,063,655**

On 24 March 2009, the Company entered into a settlement agreement with Phalerco LTD Cyprus for determining the payment schedule of the outstanding receivables. According to the agreement, the receivables of Phalerco LTD Cyprus in the amount of Euro 7,115,288 became due for payment on 31 December 2011. No payment was made before, on or after 31 December 2011. Management proceeded with all appropriate steps in order to collect the said receivables, including the necessary preparatory steps for legal action under Cypriot law. However, based on the steps already taken and the lack of response from Phalerco LTD Cyprus, management estimates that the amount of receivables cannot be recovered. Consequently, the Company included an impairment provision for the whole amount of the receivables as of 31 December 2011.

At 31 December 2011 the age structure of trade receivables and advances to suppliers is as follows:

	Domestic trade receivables	Foreign trade receivables	Advances	Total
Amount not due	-	4,905,461	-	4,905,461
Overdue up to 1 year	288,928	7,273,502	30,998	7,593,428
Overdue more than 1 year	271,050	80,620	1,532	353,202
	559,978	12,259,583	32,530	12,852,091
Less: provision for impairment	(77,683)	(7,132,408)	-	(7,210,091)
	482,295	**5,127,175**	**32,530**	**5,642,000**

At 31 December 2010 the age structure of trade receivables and advances to suppliers is as follows:

	Domestic trade receivables	Foreign trade receivables	Advances	Total
Amount not due	-	16,663,904	-	16,663,904
Overdue up to 1 year	84,308	74,923	12,449	171,680
Overdue more than 1 year	275,381	82,936	1,593	359,910
	359,689	16,821,763	14,042	17,195,494
Less: provision for impairment	(83,299)	-	-	(83,299)
	276,390	**16,821,763**	**14,042**	**17,112,195**

(All amounts expressed in Euros, unless otherwise stated)

Trade and other receivables (continued)

At 31 December 2011 the credit quality of Company's trade receivables and advances to suppliers can be analysed as follows:

	Neither past due nor impaired	Past due but not impaired	Impaired	Total
Cost	4,905,461	736,539	7,210,091	12,852,091
Less: Impairment provision	-	-	(7,210,091)	(7,210,091)
	4,905,461	**736,539**	**-**	**5,642,000**

At 31 December 2010 the credit quality of Company's trade receivables and advances to suppliers can be analysed as follows:

	Neither past due nor impaired	Past due but not impaired	Impaired	Total
Cost	16, 835,584	276,611	83,299	17,195,494
Less: Impairment provision	-	-	(83,299)	(83,299)
	16, 835,584	**276,611**	**-**	**17,112,195**

Following table provides for the movement of impairment provision account for the years ended 31 December 2011 and 2010:

	2011	2010
At 1 January	**83,299**	**97,327**
Write off of previously impaired receivables	(5,647)	(13,539)
Impairment provision (see note 18)	7,132,439	-
Translation differences	-	(489)
At 31 December	**7,210,091**	**83,299**

During 2011 the Company set off receivables from FHL from the breach of certain provisions of the Distribution Agreement between the Company and FHL currently standing in the amount of 2,962,456 Euros against liabilities owed to FHL in the amount of 1,980,000 Euros, resulting in receivable in the amount of 982,456 Euros as of 31 December 2011. However, in view of the current state of the negotiations between the Company, Castleblock Limited and FHL as regards the solution of their dispute (part of which the above-mentioned breach of the Distribution Agreement comprises) and the regulation of their contractual relationships (see note 29) and the probable state of affairs as regards those matters that will arise, should final agreements be concluded, the Company proceeded to include as regards the receivables of 2,962,456 Euros a provision for an impairment for the entire amount.

At 31 December 2011, based on the assessment of the collectability of the current trade receivables the Company wrote-off uncollected receivables on current losses account in the amount of Euro 39,203 (see note 18).

(All amounts expressed in Euros, unless otherwise stated)

10 Other short term financial assets

Other short term financial assets consist entirely of bonds issued by the Government of the Republic of Macedonia, the majority of which were used to settle the Company's concession liabilities towards the Ministry of Economy of the Republic of Macedonia. Government bonds are carried at fair value.

	2011	2010
At 1 January	**321**	**-**
Investment in held to maturity government bonds	96,765	197,958
Sold government bonds	(45,802)	-
Settlement of liabilities for concession	(49,749)	(198,355)
Loss from sale of government bonds (see note 18)	(1,439)	-
Translation differences	(2)	718
At 31 December	**94**	**321**

11 Cash and cash equivalents

	2011	2010
Bank accounts	715,977	2,309,182
Cash on hand	1,290	1,152
	717,267	**2,310,334**

12 Share capital

Shares issued

Authorized, issued and fully paid ordinary shares 1 Euro at par	Number of shares	Ordinary shares (Euros)	Share premium (Euros)	Total (Euros)
At 31 December 2011 and 2010	**4,686,858**	**4,686,858**	**4,158,313**	**8,845,171**

The structure of share capital at 31 December 2011 and 2010 is as follows:

	Number of shares	Amount in Euros	%
Stone Works Holdings Cooperatief U.A. Netherlands	4,143,357	4,143,357	88.40
Piraeus Bank S.A. [1]	468,700	468,700	10.00
Other – minority	74,801	74,801	1.60
	4,686,858	**4,686,858**	**100.00**

Other components of equity

	Translation reserve	Statutory reserves	Revaluation reserve	Total
At 1 January 2011	**-**	**7,528,471**	**1,618,795**	**9,147,266**
Revaluation surplus on property, plant and equipment sold	-	-	(36,219)	(36,219)
Translation differences	(10,042)	-	-	(10,042)
At 31 December 2011	**(10,042)**	**7,528,471**	**1,582,576**	**9,101,005**
At 1 January 2010	-	**7,528,471**	**1,810,771**	**9,339,242**
Revaluation surplus on property, plant and equipment sold	-	-	(191,976)	(191,976)
Translation differences	-	-	-	-
At 31 December 2010	**-**	**7,528,471**	**1,618,795**	**9,147,266**

Revaluation reserve

Revaluation surplus, which at 31 December 2011 amounts Euro 1,582,576 (31 December 2010: Euro 1,618,795) was initially created during 2002, based upon the independent valuation of groups of Company's property, plant and equipment. Subsequent changes (transfers into retained earnings) relate to surpluses of those assets sold.

[1] In its capacity of the issuer of the ELPIS certificates

(All amounts expressed in Euros, unless otherwise stated)

Share capital (continued)

Statutory reserve

Reserves, which at 31 December 2011 amounts Euro 7,528,471 (31 December 2010: Euro 7,528,471), are created during the years by allocation of parts of the net income after tax. According to the prevailing local legal regulations, the Company is required to set aside each year, 15% from its annual net income after tax, until the level of such reserves reach 20% of the registered capital. With an assembly decision reserves can be distributed for dividends to the shareholders and/or for purchase of its own shares.

Dividends

At 18 April 2011 and according to the Shareholders' Assembly Decision no. 02-40, part of the prior years retained earnings amounting Euro 6,509,493 (2010: Euro 2,655,920) were allocated for dividends. During 2011 the Company paid dividends to its shareholders in the total amount of Euro 6,508,470 (2010: Euro 2,655,920) out of which Euro 650,920 relates to taxes on dividends (2010: Euro 265,622).

13 Borrowings

	2011	2010
Long – term interest bearing loans from banks		
Komercijalna Bank ad, Skopje (original amount: Euro 14,220,000; interest rate 6m.eurib.+4,5%)	3,532,029	6,314,031
	3,532,029	**6,314,031**
Less: current maturity of long term loans	(1,782,002)	(2,782,002)
Total long – term loans	**1,750,027**	**3,532,029**
Short – term interest bearing loans from banks		
Komercijalna Bank ad, Skopje (original amount: Euro 200.000; interest rate 6m.Libor+4,5%)	83,333	-
Komercijalna Bank ad, Skopje, visa credit card	4,012	7,128
	87,345	**7,128**
Add: current maturity of long term loans	1,782,002	**2,782,002**
Total short-term loans	**1,869,347**	**2,789,130**

Total loan additions during the year ended 31 December 2011 amounts Euro 200,000 (2010: Euro 253,897). Total loans repaid during the same period amounts Euro 2,898,671 (2010: Euro 2,335,858).

The long-term borrowings repayments schedule is as follows:

	2011	2010
Due within 12 months	1,782,002	2,782,002
Due within 1 – 2 years	1,434,238	1,782,002
Due within 2 – 5 years	315,789	1,750,027
	3,532,029	**6,314,031**

Loans from local financial institutions are secured by mortgage over part of the Company's properties (see also Notes 5 and 25).

(All amounts expressed in Euros, unless otherwise stated)

14 Trade and other payables

	2011	2010
Trade creditors		
Local suppliers	360,899	228,230
Foreign suppliers	2,764,531	2,022,280
Related parties (see Note 23)	33,000	-
	3,158,430	**2,250,510**
Other current liabilities		
Liabilities to employees and management	237,130	374,659
Accrued expenses	18,096	-
Interest payable	12,434	20,411
Customers' prepayments	8,674	15,245
Dividends payables (net of local taxes)	1,371	778
Other	10,378	15,055
	288,083	**426,148**
	3,446,513	**2,676,658**

15 Liabilities for taxes

	2011	2010
Corporate income tax liabilities	783,706	105,341
Concession fees and other levies	56,903	77,802
Tax on dividends distributed to non – residents	12,284	104
Personal income tax liabilities	2,879	971
	855,772	**184,218**

16 Sales

	2011	2010
Local market	892,029	204,163
Foreign markets:		
- Cyprus	10,911,329	19,044,590
- United Arab Emirates	400,346	-
- China	226,589	-
- Creece	186,141	-
- Other markets	934,000	560,836
Sub- total – sales on foreign markets	12,658,405	19,605,426
Total sales	**13,550,434**	**19,809,589**

17 Cost of sales

	2011	2010
Stock of finished products and W.I.P. at 01 January	3,509,518	5,129,689
Add: Total production for the year ended 31 December	6,905,693	5,279,529
Less: Stock of finished products and W.I.P. at 31 December	(5,473,912)	(3,509,518)
	4,941,299	**6,899,700**

(All amounts expressed in Euros, unless otherwise stated)

18 Administrative and selling expenses

	Year ended 31 December 2011 Administrative	Selling	Year ended 31 December 2010 Administrative	Selling
Impairment on bad and doubtful receivables	-	10,134,098	-	19,018
Impairment of doubtful other receivables	-	644	-	-
Consulting services	595,708	-	631,766	-
Staff costs	438,613	60,124	251,735	94,463
Services	95,367	225,623	75,172	200,526
Taxes and other levies	65,718	-	39,896	147,763
Marketing and promotion	54,152	15,677	54,247	1,078
Depreciation	45,754	500	148,325	6,404
Materials, supplies and utilities	23,995	24,316	30,988	43,691
Write off of obsolete inventories (Note 8)	-	15,667	-	1,829,761
Impairment loss on investments	-	1,439	-	-
Customers' discounts	-	-	-	1,985,355
Present value of assets sold and written off	-	92,228	-	854,113
Shortages	-	1,064	-	-
Other expenses and provisions	393,839	872,197	247,568	4,137
	1,713,146	**11,443,577**	**1,479,697**	**5,186,309**

In view of the current state of the negotiations between the Company, Castleblock Limited and FHL Manufacturing & Trading Co. I.Kyriakidis Granites & Marbles SA as regards the solution of their dispute and the regulation of their contractual relationships (see note 29) and the probable state of affairs as regards those matters that will arise, should final agreements be concluded, the Company proceeded to include a provisions for a customer discount revision concerning the period before 31 December 2011.

19 Staff costs

	2011	2010
Net salaries	2,088,896	2,077,355
Personal tax and mandatory contributions	928,886	941,247
Other allowances	237,911	110,752
	3,255,693	**3,129,354**

20 Other operating income

	2011	2010
Income from tangible assets sold	33,049	5,460
Raw materials sold	12,640	4,022
Payables write offs and stock count surplus	9,764	17,633
Income from investments in government bonds	5,991	37,490
Income from breach of provisions of distribution agreement (Note 9)	-	2,553,168
Distributor commitment fee revenue	-	854,049
Income from rents	-	41,148
Other income	164,003	10,465
	225,447	**3,523,435**

21 Finance income and costs

	2011	2010
Income		
Interest income	224,254	217,173
Foreign exchange gains	75,935	147,355
	300,189	**364,528**
Expense		
Interest (expense)	(318,044)	(491,019)
Bank (charges)	(55,189)	(41,409)
Foreign exchange (losses)	(74,435)	(283,031)
	(447,668)	**(815,459)**
Finance costs, net	**(147,479)**	**(450,931)**

(All amounts expressed in Euros, unless otherwise stated)

22 Income tax expense

	2011	2010
Current tax expense	1,045,955	286,669
Deferred tax expense	-	-
	1,045,955	**286,669**

Following is the reconciliation of the total income tax expense to the profit as per statement of comprehensive income for the years ended 31 December 2011 and 2010:

	2011	2010
Loss / profit before tax	**(4,469,620)**	**9,316,387**
Tax at rate of 10%	-	-
Adjusted for:		
Non – deductible expenses	1,045,955	286,669
Non – taxable income	-	-
Income tax expense for the year	**1,045,955**	**286,669**

23 Related party transactions

The table below provides for the volume and balances from the related party transactions as of and for the years ended 31 December 2011 and 2010:

31 December 2011	Cash	Receivables	Payables	Revenues	Purchases
Stone Works Holding Cooperatief U.A Netherlands	-	-	-	-	400,371
Castleblock Limited Nicosia Cyprus	-	4,644,056	-	10,911,329	109,158
NBGI Private Equity London	-	49,873	-	107,473	65,991
Ethemba Capital No.8 NV Curacao Netherlands Antilles	-	-	33,000	-	32,997
Stopanska Banka AD Skopje	3,295	-	-	-	-
Key management remuneration	-	-	-	-	315,068
	3,295	**4,693,929**	**33,000**	**11,018,802**	**923,585**

31 December 2010	Cash	Receivables	Payables	Revenues	Purchases
Stone Works Holding Cooperatief U.A Netherlands	-	-	-	-	401,242
Castleblock Limited Nicosia Cyprus	-	9,550,665	-	19,044,590	224,226
NBGI Private Equity London	-	-	-	-	116,212
Ethemba Capital No.8 NV Curacao Netherlands Antilles	-	-	-	-	58,103
Stopanska Banka AD Skopje	1,583	-	-	-	-
Key management remuneration	-	-	-	-	325,519
	1,583	**9,550,665**	**-**	**19,044,590**	**1,125,302**

24 Earnings per share

Basic earnings per share are calculated by dividing the profit attributable to equity holders by the weighted average number of ordinary shares in issue during the year.

	2011	2010
(Loss)/Profit attributable to equity holders of the Company	(5,515,575)	9,029,718
Weighted average number of ordinary shares	4,686,858	4,686,858
Basic earnings per share (Euro per share)	**(1.18)**	**1.93**

(All amounts expressed in Euros, unless otherwise stated)

25 Contingent liabilities

Mortgages

Mortgages provided are as follows:

	2011	2010
Business premises	2,600,000	-
Machinery & equipment	5,800,000	-
	8,400,000	-

Guarantees

Guarantee provided is as follows:

	2011	2010
Issued by Komercijalna Banka AD Skopje	130,071	65,035
	130,071	**65,035**

The beneficiary of the guarantee is Company's supplier. The guarantee serve as security that the Company will pay its liabilities on time towards the beneficiary.

Litigations

No significant liabilities have been anticipated from existing proceedings, as professional advice indicates that it is unlikely that any significant loss will arise.

Tax inspections

For the period up to 31 December 2011 the Company was subject of the following tax inspections by tax authorities:

- for VAT till 30 June 2009;
- for Personal Income tax and Corporate Income tax for period from 1 January 2007 until 31 December 2008;
- for tax on concessions for the period until 31 December 2011 .

For the unaudited tax periods of the Company, for VAT – period from 1 July 2009 till 31 December 2011 and for Personal Income tax and Corporate Income tax – years 2006, 2009, 2010 and 2011 there is a possibility for additional taxes and penalties. The Company is conducting regular assessment for potential liabilities which are expected to arise from tax inspections of past years. The management is considering that such amounts which might occur will not have any material effect on the financial results and cash flows.

26 Commitments

Operating lease liabilities

As of 31 December 2011 the operating lease liabilities relates to lease of vehicles. Repayment schedule of operating lease liabilities is as follows:

	2011	2010
Operating lease liabilities		
Present value of payment:		
Due within 1 year	31,400	31,400
Due between 1 – 5 years	45,773	77,173
	77,173	**108,573**

(All amounts expressed in Euros, unless otherwise stated)

27 Concession agreements

During 2000 and 2001, the Company and the Ministry of Economy of the Republic of Macedonia have signed several concession agreements for the purpose of research and exploitation of local marble resources. Under the initial provisions, the Company is awarded with concession on the above-mentioned activities for a period of 30 years.

Following are the basic provisions as set out in the concession agreements under which, the Company is liable on:

- Annual fee for use of territory on which the concession has been granted in the amount of Euro 5,742, and
- Concession fee on sold quantities of commercial marble according to the Methodology established by the Ministry of Economy of RM for:
  - blocks at 5% of the value of the material determined at 294 Euros /m3 and
  - tombolons at 5% of the value of material determined at 147 Euros /m3.

28 Information on operating segments

At 31 December 2011 and 2010, the Company is organized into the following operating segments:

- quarry;
- factory.

Operating results per segments for the years ended 31 December 2011 and 2010, are as follows:

	Quarry	Factory	Total
Year ended 31 December 2011			
Sales	11,349,523	2,200,911	13,550,434
Profit / loss from operating activities	(3,054,722)	(1,267,419)	(4,322,141)
Financial result, net			(147,479)
Profit / loss before tax			**(4,469,620)**
Income tax			(1,045,955)
Profit / loss for the year			**(5,515,575)**
Other comprehensive income / loss			(10,042)
Total comprehensive income / loss for the year			**(5,525,617)**
Year ended 31 December 2010			
Sales	15,157,385	4,652,204	19,809,589
Profit from operating activities	9,009,811	757,507	9,767,318
Financial result, net			(450,931)
Profit before tax			**9,316,387**
Income tax			(286,669)
Profit for the year			**9,029,718**
Other comprehensive income			-
Total comprehensive income for the year			**9,029,718**

(All amounts expressed in Euros, unless otherwise stated)

Information on operating segments (continued)

Segment assets and liabilities as of 31 December 2011 and 2010 are as follows:

	Quarry	Factory	Total
31 December 2011			
Total assets	15,781,926	10,277,298	26,059,224
Liabilities	7,222,866	698,793	7,921,659
Capital expenditures	1,369,547	203,629	1,573,176
31 December 2010			
Total assets	26,123,650	13,231,060	39,354,710
Liabilities	8,510,300	671,735	9,182,035
Capital expenditures	1,008,761	43,369	1,052,130

Sales per geographical regions are as follows:

	2011	2010
Macedonia	892,029	204,163
Cyprus	10,911,329	19,044,590
United Arab Emirates	400,346	-
China	226,589	-
Creece	186,141	-
Other markets	934,000	560,836
	13,550,434	**19,809,589**

29 Events after the reporting date

On 5 March 2012, the Company held an extraordinary meeting of the Shareholders' Assembly; one of the decisions approved by this extraordinary shareholders' meeting was the distribution of a dividend out of the retained earnings and reserves accumulated in the years before 1 January 2009, for the gross amount of Euros 0.85 per share. The commencement date for dividend payment was set at 21 March 2012.

In addition, as of 12 March 2012 the Company concluded an long-term loan agreement in the amount of Euro 4,7 million with Komercijalna Banka AD Skopje under the existing revolving credit-limit agreement dated 30 March 2011.

Within the context of the arbitral proceedings between on the one hand the Company and Castleblock Limited (as Respondents and Counterclaimants) and on the other hand FHL Manufacturing & Trading Co. I.Kyriakidis Granites & Marbles SA (as Claimant) the parties have been conducting negotiations since February 2012 in order to solve their dispute and regulate their contractual relationships. Specifically, on 28 March .2012 the parties reached an agreement in principle and have set a time limit of 30 days to conclude their negotiation of the final agreements.

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