

**RUDNICI BOKSITA A.D. NIKŠIĆ**

**Financial Statements For the  
Year Ended December 31, 2006  
and Independent Auditors' Report**

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## INDEPENDENT AUDITORS' REPORT

### To the Shareholders of the Rudnici boksita A.D., Nikšić, a Shareholding Company

We have audited the accompanying financial statements (pages 3 to 37) of Rudnici boksita A.D., Nikšić, a Shareholding Company ("BMN" or the "Company"), which comprise the balance sheet as of December 31, 2006, and the related statements of income and changes in equity for the year then ended, and a summary of the significant accounting policies and other explanatory notes. These financial statements are the responsibility of the Company's management.

#### *Management's Responsibility for the Financial Statements*

The management is responsible for the preparation and fair presentation of these financial statements in accordance with the accounting regulations of the Republic of Montenegro. This responsibility includes: designing, implementing and maintaining internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

#### *Auditor's Responsibility*

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing and Law on accounting and auditing of the Republic of Montenegro. 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 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 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 December 31, 2006, and the results of its operations, changes in equity and cash flows for the year then ended, in accordance with the accounting regulations prevailing in the Republic of Montenegro.

## INDEPENDENT AUDITORS' REPORT

### To the Shareholders of the Rudnici boksita A.D., Nikšić, a Shareholding Company (Continued)

#### *Emphasis of Matter*

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

- a) As disclosed in Note 6 and Note 33 to the financial statements, the Company applied IAS 14 and IAS 11 for the first time, however due to the nature of accounting records the Company did not disclose comparative data for the prior year.
- b) As disclosed in Note 25 to the financial statements, deferred income of EUR 7,745 thousand is comprised of the Company's debts that were assumed by the GoM. Deferred income is to be released to the income statement in the respective proportion and period as set out within the Company's Investment Program and as further delineated under the provisions of the SPA (Note 25). However, up to the date of issuance of these financial statements, the Company does not possess information records that describe the treatment of the interest payable attributable to the debts assumed by the GoM, and hence, that no material losses will be sustained by the Company as a result of the afore-described interest payable.
- c) Property, plant and equipment stated in the balance sheet as of December 31, 2006 include land and buildings stated at a net book value of EUR 12,722 thousand and EUR 2,004 thousand, respectively. However, the Company also uses certain land and buildings not included in the accompanying financial statements and for which it does not possess complete ownership documentation. Based on information received from the Company's management, the completion of the ownership documentation process is currently in the process.
- d) As disclosed in Note 34 to the financial statements, the Republic of Montenegro tax legislation is subject to varying interpretations and changes which occur frequently. The interpretation of tax legislation by tax authorities as applied to the transactions and activities of the Company may not be in line with that of the management. As a result, Company transactions may be challenged by tax authorities and the Company may be assessed additional taxes, penalties and interest, which could be material. The Company's tax statements may be reviewed or audited for a period of five years from the filing date of such statements.
- e) As disclosed in Note 36 to the financial statements, in the first quarter of 2007, the Tax Authorities completed tax audit of BMN. The object of the tax audit was the Company's tax compliance in the period 2004-2006. The draft Findings of the tax audit were presented to the Company for further comments. The Tax Authorities are expected to issue the Minutes from the audit, subsequently followed by the Findings Decision. However, they are ready to take the Company's view before issuing enforceable Findings Decision. The Company's management judges that no material losses shall arise as a result of the aforescribed matters.
- f) The Company in FY 2006 incurred loss of EUR 14,928 thousand. As of December 31, 2006, accumulated loss of the Company was EUR 51,942 thousand which materially decreased Company's equity. Management projects that the Company will operate without losses in the future. As per these management projections, the accompanying financial statements were prepared with going concern assumption and do not contain adjustments that would eventually be needed if the Company could not continue its operations as a going concern.

*Deloitte d.o.o.*

Deloitte d.o.o.

Podgorica

February 28, 2007

**INCOME STATEMENT**  
**Year Ended December 31, 2006**  
**(thousands of EUR)**

	<u>Notes</u>	<u>2006</u>	<u>2005</u>
<b>OPERATING INCOME</b>			
Sales of products and services	5	23,731	21,540
Other operating income	7	888	549
Work performed by the Company and capitalized		-	2
		<u>24,619</u>	<u>22,091</u>
<b>OPERATING EXPENSES</b>			
Changes in inventories of finished goods and work in progress		139	(2,000)
Raw materials and consumables used	8	(10,786)	(6,489)
Employee benefits	9	(17,620)	(15,061)
Depreciation	13	(3,218)	(2,171)
Other operating expenses	10	(7,223)	(5,778)
		<u>(38,708)</u>	<u>(31,499)</u>
<b>LOSS FROM OPERATIONS</b>		<u>(14,089)</u>	<u>(9,408)</u>
Financial income/(expenses), net	11	(1,000)	354
<b>LOSS BEFORE TAXES</b>		<u>(15,089)</u>	<u>(9,054)</u>
Income taxes	12	161	(79)
<b>LOSS FOR THE PERIOD</b>		<u>(14,928)</u>	<u>(9,133)</u>
<b>Earnings per share (EPS)</b>			
From continuing operations:			
Earnings for the purpose of basic earnings per share		(14,928)	(9,133)
Number of shares		<u>3,208,734</u>	<u>3,208,734</u>
<b>Basic EPS</b>		<u>(4.65)</u>	<u>(2.85)</u>

The accompanying notes on the following pages  
are an integral part of these financial statements

**BALANCE SHEET**  
**as of December 31, 2006**  
**(thousands of EUR)**

	<u>Notes</u>	<u>December 31, 2006</u>	<u>December 31, 2005</u>
<b>ASSETS</b>			
<b>Non-Current Assets</b>			
Intangible assets	13	109	112
Property, plant and equipment	13	19,284	20,736
Available-for-sale investments	14	472	320
Deferred tax assets	12	82	-
Other long-term investments	15	5,452	5,453
		<u>25,399</u>	<u>26,621</u>
<b>Current assets</b>			
Inventories	16	8,300	8,180
Accounts receivable	17	2,422	3,875
Other current receivables and accrued income	18	384	309
Cash and cash equivalents	19	18	12
		<u>11,124</u>	<u>12,376</u>
<b>Total assets</b>		<u><u>36,523</u></u>	<u><u>38,997</u></u>
<b>EQUITY AND LIABILITIES</b>			
<b>Capital and Reserves</b>			
Share capital	21	20,239	20,239
Legal reserves		475	475
Revaluation reserves		16,020	15,030
Accumulated loss		(51,942)	(37,208)
		<u>(15,208)</u>	<u>(1,464)</u>
<b>Non-current liabilities</b>			
Long-term liabilities	22	4,276	487
Retirement benefit obligation	23	2,624	3,316
Deferred taxes	12	-	79
Provisions	24	21,505	16,567
Deferred income	25	7,745	7,745
		<u>36,150</u>	<u>28,194</u>
<b>Current liabilities</b>			
Accounts payable	26	5,808	5,005
Advances received	27	6,165	2,049
Short-term financial liabilities	28	805	1,717
Other current liabilities	29	2,803	3,496
		<u>15,581</u>	<u>12,267</u>
<b>Total liabilities and equity</b>		<u><u>36,523</u></u>	<u><u>38,997</u></u>

The accompanying notes on the following pages  
are an integral part of these financial statements

Individual Responsible for  
Financial Statement Preparation

Certified Accountant

CFO

CEO

Miroslav Vuković

Đoko Krivokapić

Igor Kisenkov

**STATEMENTS OF CHANGES IN EQUITY**  
**Year Ended December 31, 2006**  
**(thousands of EUR)**

	<b>Share Capital</b>	<b>Legal Reserves</b>	<b>Accumulated Loss/ Retained Earnings</b>	<b>Revaluation Reserves</b>	<b>Total</b>
Balance, January 1, 2005	20,239	475	(923)	-	19,791
Adjustment of opening balance					
- Effects of changes in accounting policies and errors	-	-	(27,152)	13,475	(13,677)
As restated	20,239	475	(28,075)	13,475	6,114
Gain on the revaluation of property	-	-	-	1,555	1,555
Loss for the year	-	-	(9,133)	-	(9,133)
Total recognized income and expense for the year	-	-	(9,133)	1,555	(7,578)
Balance, December 31, 2005	<u>20,239</u>	<u>475</u>	<u>(37,208)</u>	<u>15,030</u>	<u>(1,464)</u>
Balance, January 1, 2006	20,239	475	(37,208)	15,030	(1,464)
Effect of valuations of PP&E	-	-	-	1,184	1,184
Transfer	-	-	194	(194)	-
Loss for the year	-	-	(14,928)	-	(14,928)
Balance, December 31, 2006	<u>20,239</u>	<u>475</u>	<u>(51,942)</u>	<u>16,020</u>	<u>(15,208)</u>

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are an integral part of these financial statements

**STATEMENT OF CASH FLOWS**  
**Year Ended December 31, 2006**  
**(thousands of EUR)**

	<u>2006</u>	<u>2005</u>
<b>Cash flow from operating activities</b>		
Cash receipts from customers	32,563	27,836
Cash paid to suppliers and employees	<u>(34,442)</u>	<u>(25,803)</u>
Cash generated from operating activities	(1,879)	2,033
Interest paid	<u>(184)</u>	<u>(216)</u>
Net cash (used in)/provided by operating activities	(2,063)	1,817
<b>Cash flow from investing activities</b>		
Proceeds from the sale of plant and equipment	34	20
Proceeds from the sale of investments	9	-
Interest received	-	145
Dividend received	3	-
Acquisitions of property, plant and equipment	<u>(594)</u>	<u>(615)</u>
Net cash used in investing activities	(548)	(450)
<b>Cash flow from financing activities</b>		
Proceeds from the collected, subscribed and not paid-in capital	6,280	10
Proceeds from short-term borrowings	-	10,862
Repayment of long-term assets – residential loans	-	4
Repayments of borrowings	(498)	(459)
Repayments of short-term borrowings	(3,165)	(11,613)
Repayments of residential housing borrowings for employees	-	(20)
Transaction costs	<u>-</u>	<u>(154)</u>
Net cash provided by/(used in) financing activities	2,617	(1,370)
<b>Net increase/(decrease) in cash and cash equivalents</b>	6	(3)
<b>Cash and cash equivalents at beginning of the year</b>	<u>12</u>	<u>15</u>
<b>Cash and cash equivalents at end of year</b>	<u><u>18</u></u>	<u><u>12</u></u>

The accompanying notes on the following pages  
are an integral part of these financial statements

**NOTES TO FINANCIAL STATEMENTS**  
**December 31, 2006**

**1. BUSINESS ACTIVITIES AND ORGANIZATION**

Until December 31, 1995, the Rudnici boksita A.D., Nikšić (hereinafter: “Bauxite Mines” or “BMN” or the “Company”) were legally organized and registered the Public Enterprise, J.P. Rudnici Boksita, Nikšić. Reconciliation and registration of the Company in accordance with the newly-enacted Companies Act (See “Official Gazette of the Republic of Montenegro,” numbered 6/2002), was registered in the Central Register of the Commercial Court of Podgorica, under registration number 4-0000106/001.

The Company’s principal business activities are involved in the mining and processing of bauxite and other non-metal minerals, as well as in metal processing, and in the provision of civil engineering and other construction services.

The Company is domiciled in Nikšić, in the Republic of Montenegro at the following street address: 13. jula 30. At December 31, 2006 the Company had 1,321 (fulltime – 1,285; temporary – 36) employees. (December 31, 2005: 1,455 employees).

At the beginning of 2005, the Government of the Republic of Montenegro (“GoM”) initiated the sale of the Company which was concluded on November 30, 2005. The resulting Agreement for the Sale and Purchase of the Shares of the Company Rudnici Boksita A.D., Nikšić, by Public Tender (“SPA”) dated October 17, 2005 has been entered into among the following counterparties:

- The Development Fund of the Republic of Montenegro,
- The Republic Fund for Pension and Disability Insurance,
- The Employment Bureau of the Republic of Montenegro, (hereinafter referred to collectively as: the “Sellers”)
- The Government of the Republic of Montenegro, (hereinafter: “GoM”), and
- Salamon Enterprises Limited, Nicosia, Cyprus (hereinafter: “Salamon”).

In accordance with the provisions of the SPA, Salamon is under an obligation, for a period of five years commencing on November 30, 2005, to not carry out, nor permit, nor allow any of the following actions to be performed or to occur otherwise, without the prior written consent of the presiding body authorized by the Government of the Republic of Montenegro, who is to supervise the satisfactory performance of the terms of the SPA, which is not to be unreasonably withheld. Under the provisions of the SPA, Salamon has agreed that:

- it will not permit the sale, transfer or disposal or otherwise, of any core assets of the Company;
- it will not permit the creation of any encumbrances over the core assets;
- it will not cause the Company to be placed into voluntary liquidation, bankruptcy or administration (or any similar proceedings);
- it will not permit the business activities of the Company to be reduced from those defined under the Company’s Statutes;
- it will not permit the sale of any of the Company’s non-core assets for a value or amount below the fair market value of such assets;
- it will not permit the Company’s annual production to be reduced by more than 30% in comparison to the Company’s total production in FY 2004; and lastly,
- it will not allow any delays of the Company’s material obligations towards its employees to remain outstanding and unpaid.

The terms mentioned in the preceding paragraphs are defined as follows:

**NOTES TO FINANCIAL STATEMENTS**  
**December 31, 2006**

**1. BUSINESS ACTIVITIES AND ORGANIZATION (Continued)**

- Core assets - represent any of the Company's tangible or intangible assets that (i) amount to 10% or more of the Company's total assets as of the most recent annual statutory balance sheet or, (ii) is of material importance to the business or operations of the Company;
- Fair Market Value - is the value of a particular asset calculated by an independent expert appointed by the Sellers and agreed by the Buyer. Such agreement is not to be unreasonably withheld, using customary techniques prevailing at the time for the valuation of such an asset on the basis of a willing buyer and a willing seller for such an asset, free from any compulsion to buy or sell, without influence from any transfer pricing schemes or other inter-related party arrangements, and based on true arm's-length negotiations taking into account the overall condition of the subject asset and the marketplace in which it is being sold;
- Material – relates to any fact, object, claim, liability or event which could cause or lead directly to a breach of any representation or warranty under this Agreement, one that would result in a significant adverse impact on the business, assets or operations of the Company which has, or may have an impact in money terms exceeding one million five hundred thousand Euro (EUR 1,500 thousands);
- Non-Core Assets – are any tangible or intangible assets of the Company which are not considered to be its core assets.

**Environmental Issues**

In accordance with the SPA, the Government of the Republic of Montenegro has assumed full liability for, and is to fully indemnify the Company against any and all liabilities, damages or penalties (including legal and court costs) which may be imposed on, incurred by or asserted by third parties against the Company, and which, may in any manner pertain to or arise out of any act or omission on the part of the Company occurring prior to November 30, 2005, and having a negative environmental impact associated with any such claim.

Salamon is under an obligation to notify the GoM of any third party notice or claim against the Company to which the indemnification set out in this section relates, in reasonable detail, within two calendar months of either Salamon or the Company becoming aware of such claim. Failure to notify the GoM will result in the Company's contractual obligation to compensate any loss potentially suffered by the GoM as a consequence of the delay in notification. The GoM exercises the right, at its option and at its own expense, to participate in or to take exclusive control of the defense, negotiation or settlement of any legal action, proceeding, claim or demand in connection with any such third party claim.

The Company chartered an independent environmental expert to prepare a due diligence assessment, determining the estimated necessary level of provision to be EUR15,500 thousands. Cost estimates for the key environmental liability issues at the Company are summarized below:

<u>Impact Segment</u>	<u>(thousands of EUR) 2005</u>
Environmental management	500
Waste management	
Hazardous waste and solid waste disposal collections and temporary storage	500
Secondary containment provisions- design and implementation	500
Mine closure provisions (re-cultivation)	<u>14,000</u>
Total cost estimate	<u><u>15,500</u></u>

**NOTES TO FINANCIAL STATEMENTS**  
**December 31, 2006**

**2. GOING CONCERN**

The Company operates with a material loss. The reported loss in the year ended December 31, 2006 Income statement amounted to EUR 13,788 thousands (year ended December 31, 2005: EUR 9,133 thousands). At December 31, 2006 the Company's accumulated losses were EUR 50,803 thousands (December 31, 2004: EUR 37,208 thousands). The Company's management anticipates to operate without a loss in the future periods. In the management assessment, the submitted financial statements for the year ended December 31, 2006 were prepared on the basis of the assumption of going concern and they do not contain any adjustments that might be required should the Company not be able to continue its operations as a going concern..

The Company's management judges that the new owner will cover the negative amount of working capital.

The Company has been conferred concession rights on the exploitation of red bauxite ore in the regions of: the Nikšićka Župa, in the deposits of the Biočki stan, the Đurakov Do – Blok I and II, the Zagrad and Borova brda and, effective as of January 1, 2006 also on the sites of the Štitovo II and Borovnik (Štitovo III). The Concession Agreement on the Rights to the Exploitation of Bauxite Pre in the Nikšićka Župa area stipulates that the aforementioned concession is to be effective for a period of ten years, commencing as of January 1, 1996 up to December 31, 2005. During 2005, the Company entered into another related Agreement that effectively extended the rights to the exploitation of red bauxite ore in the Nikšićka Župa region for a period of a twenty years, effective from January 1, 2006 through December 31, 2025.

In the previous years, the Company has sold its mined bauxite pursuant to the terms of an agreement entered into with its related party, the Kombinat aluminijuma A.D., Podgorica ("KAP") at preferential pricing arrangements. The management of the Company intends to continue sales of bauxite to KAP at such preferential prices, taking into consideration that both companies are currently majority-owned by the same entity.

**3. BASIS OF PREPARATION OF THE FINANCIAL STATEMENTS AND PRINCIPAL ACCOUNTING POLICIES**

**3.1. Basis of Preparation and Presentation of the Financial Statements**

The Company maintains its accounting records and prepares its financial statements in accordance with the Law on Accounting and Auditing of the Republic of Montenegro (See "Official Gazette of the Republic of Montenegro," numbered No 69/2005). In conformity with the previous regulations, the International Financial Reporting Standards ("IFRS") were applied for the first time as the primary accounting basis for the reporting year commencing January 1, 2003.

The accompanying financial statements have been prepared on the historical cost basis, with the exception of certain financial instruments and the appraisal of property, plant and equipment. In the year 2005, the Company had adopted all of the new and revised Standards and Interpretations issued by the International Accounting Standards Board (the IASB) and the International Financial Reporting Interpretations Committee (IFRIC) of the IASB that are relevant to its operations and effective for accounting periods beginning on January 1, 2005.

The adoption of these new and revised Standards and Interpretations has not resulted in changes to the Company's accounting policies, since they have not affected the amounts reported for the current or prior years.

The official currency in the Republic of Montenegro is the EUR.

**NOTES TO FINANCIAL STATEMENTS**  
**December 31, 2006**

**3. BASIS OF PREPARATION OF THE FINANCIAL STATEMENTS AND  
 PRINCIPAL ACCOUNTING POLICIES (Continued)**

**3.2. Comparative Figures**

In order to confirm the presentation of figures to the current reporting period, certain reclassifications have been made to the amounts reported in the financial statements for the year ended 2005.

The Company applied IAS 14 and IAS 11 for the first time, however due to the nature of accounting records the Company did not disclose comparative data for the prior year.

**3.3. Use of Estimates**

The presentation of the financial statements requires the Company's management to make best estimates and reasonable assumptions that affect the assets and liabilities amounts, as well as the disclosure of contingent liabilities and receivables as of the date of the preparation of the financial statements, and income and expenses arising during the accounting period. These estimations and assumptions are based on information available as of the date of preparation of the financial statements. However, actual results may vary from these estimates.

**4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

The principal accounting policies that have been adopted are set out in the paragraphs below:

**4.1. Income and Expense Recognition**

Income from sales is recognized when the risk and rewards associated with the right of ownership are transferred to the customer, which is considered to be upon the delivery of products to the customer.

The sale of construction services is stated at invoiced value.

Income is measured at the fair value of the consideration received or receivable, net of discounts and value added tax ("VAT").

At the time when income is recognized, the respective expenditure is also recognized according to the matching principle of cost accounting.

Interest income and interest expense is recognized on an accrual basis.

When it is probable that total contract costs will exceed total contract revenue, the expected loss is recognised as an expense immediately.

**4.2. Foreign Currency Translation**

Transactions denominated in foreign currencies are translated into EUR at the official exchange rates in effect at the date of each transaction.

Assets and liabilities denominated in foreign currencies are translated into EUR by applying the official exchange rates prevailing at the balance sheet date.

Foreign exchange gains or losses arising upon the translation of transactions, and assets and liabilities in foreign currencies are credited or charged to the Statement of Income.

**NOTES TO FINANCIAL STATEMENTS**  
**December 31, 2006**

**4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

**4.3. Government Grants**

Under the terms of the SPA, the Government of Montenegro has agreed to cause the Ministry of Finance to assume the Company's debts. Such debts are to be credited to deferred income, and released to the current income. Moreover, based on the SPA, the GoM is to forgive those debts which the Company owes in the proportion set out under the Company's Investment Program in accordance with the provisions of the SPA.

**4.4. Employee Benefits**

*Employee Taxes and Contributions for Social Security*

In accordance with the regulations prevailing in the Republic of Montenegro, the Company has an obligation to pay contributions to various State Social Security Funds. These obligations involve the payment of contributions on behalf of the employee, by the employer in an amount calculated by applying the specific, legally-prescribed rates. The Company is also legally obligated to withhold contributions from gross salaries to employees, and on behalf of the employees, to transfer the withheld portions directly to government funds. These contributions payable on behalf of the employee and employer are charged to expenses in the period in which they arise.

*Obligations for Employment Anniversary Awards and Retirement Benefits*

Pursuant to the Company's individual collective bargaining agreements ("CBAs"), the Company is obligated to pay retirement benefits in an amount equal to 20 minimal, monthly salaries earned in the Company in the payment month, and between 3 and 9 minimal, monthly salaries to be paid out as an employment anniversary award. The number of minimal monthly salaries to be paid out for employment anniversary awards corresponds to the total number of years of service of the employee in the Company, as presented in the table below:

<u>Years of Service</u>	<u>Minimal Salaries</u>
10	3
20	5
30	7
40	9

Provisions recognized for employment anniversary awards as well as severance pay, are stated at the present value of expected future cash payments towards the qualifying employees.

**Short-Term Compensated Absences**

Accumulating compensated absences may be carried forward and used in future periods if the current period's entitlement has not been fully used. The expected cost of accumulated compensated absences is recognized in the amount that is expected to be paid as a result of the unused entitlement that has accumulated as of the balance sheet date.

In the instance of non-accumulating compensated absences, no liability or expense is recognized until the time of the absence.

**NOTES TO FINANCIAL STATEMENTS**  
**December 31, 2006**

**4. SUMMARY OF THE SIGNIFICANT ACCOUNTING POLICIES (Continued)**

**4.5. Taxes and Contributions**

*a) Income taxes – Current taxes*

Effective as of January 1, 2005, income taxes are calculated and paid in accordance with Article 28 of the Income Tax Law of the Republic of Montenegro (See “Official Gazette of the Republic of Montenegro,” numbered 80/04). The enacted tax rate is computed on a straight-line basis and is defined to be 9 percent of tax base.

A tax-paying entity’s taxable income is determined based upon the income stated in its statutory income statement following certain adjustments of its income and expenses in accordance with the Law on the Taxation of Companies (See Articles 8 and 9 with regard to the adjustment of income, and Articles 10 to 20 pertaining to the adjustment of expenses).

The Republic of Montenegro tax regulations do not envisage that any tax losses of the current period be used to recover taxes paid within a specific carryback period. However, any current year losses reported in the annual corporate income tax returns may be carried forward and used to reduce or eliminate taxes to be paid in future accounting periods, but for a duration of a maximum of five ensuing years.

*b) Income Taxes – Deferred Tax Assets and/or Liabilities*

The tax effects with respect to temporary differences arising between the tax bases of assets and liabilities, as reported in the tax paying entity’s income tax returns, and their carrying values in the financial statements as expressed in accordance with the IFRS, have been stated as deferred tax assets or deferred tax liabilities.

*b) Taxes, Contributions and Other Duties Not Related to Operating Results*

Taxes, contributions and other duties that are not related to the Company’s operating results, include property taxes and various other taxes and contributions paid pursuant to republic and municipal regulations. All of the aforementioned types of taxes and contributions are included in the Income statement under Other operating expenses.

**4.6. Provisions**

Provisions are recognized and computed when the Company has a pending, present, legal or contractual obligation as a result of a past event, and when it is probable that an outflow of resources will be required to settle the obligation, and when a reliable estimate of the amount can be made. Provisions for legal proceedings represent the Company management’s best estimates of the expenditures required to settle such obligations.

During 2005 and 2006, the Company formed provisions for the housing needs of employees in accordance with Article 106 of the individual CBAs.

The Company formed provisions for contingent liabilities arising on the unequal treatment of regulations regarding the calculation of contributions with respect to other compensation arising from the sale of apartments under favorable terms.

The Company has, applied for the first time, IAS 19, “Employee Benefits,” and has formed provisions for employee anniversary awards and retirement benefit as of December 31, 2004.

**NOTES TO FINANCIAL STATEMENTS**  
**December 31, 2006****4. SUMMARY OF THE SIGNIFICANT ACCOUNTING POLICIES (Continued)****4.7. Intangible Assets**

Intangible assets represent intangible assets in progress that relate to the preparation of project documentation for bauxite ore exploitation.

**4.8. Property, Plant and Equipment**

Land and buildings held for use in the production or supply of goods or services, or for administrative purposes, are stated in the balance sheet at their revalued amounts; representing the fair value at the date of revaluation, less any subsequent accumulated depreciation and subsequent accumulated impairment losses. Revaluations are performed with sufficient regularity such that the carrying amount does not differ materially from that which would be determined using fair values at the balance sheet date.

Any revaluation increase arising on the revaluation of such land and buildings is credited to the properties' revaluation reserve, except to the extent that it reverses a revaluation decrease for the same asset previously recognized in profit or loss, in which case the increase is credited to profit or loss to the extent of the decrease previously charged. A decrease in the carrying amount arising on the revaluation of such land and buildings is charged to profit or loss to the extent that it exceeds the balance, if any, held in the properties' revaluation reserve relating to a previous revaluation of that asset.

All classes of property and equipment were valued as at December 31, 2004 and December 31, 2005 by independent appraisers. The appraisal is performed on the basis of three, basic valuation approaches to the extent that they are relevant and appropriate to the individual circumstances of each asset. These valuation approaches include: the income approach, the market approach and the cost approach. In accordance with the results of the performed appraisal, the Company elected to measure the appraised property and equipment at the December 31, 2004 and December 31, 2005 at its fair value. As of December 31, 2006 revaluation of Land and Buildings was performed by local independent appraiser.

The management judges that the results of changes in fair values of the equipment as of December 31, 2006 are not material and revaluations are unnecessary equipment.

The frequency of revaluations depends upon the changes in fair values of the items of property, plant and equipment being revalued. When the fair value of a revalued asset differs materially from its carrying amount, a further revaluation is required. Some items of property, plant and equipment experience significant and volatile changes in fair value, thus necessitating annual revaluation. Such frequent revaluations are unnecessary for items of property, plant and equipment with only insignificant changes in fair value.

If an asset's carrying amount is increased as a result of a revaluation, the increase shall be credited directly to equity under the item of revaluation surplus. However, the increase is recognized in profit or loss to the extent that it reverses a revaluation decrease of the same asset that was previously recognized in profit or loss.

If an asset's carrying value is decreased as a result of a revaluation, the decrease is recognized in profit or loss. However, the decrease is debited directly to equity under the item of revaluation surplus, to the extent that any credit balance remains in the revaluation surplus with regard to that asset.

**NOTES TO FINANCIAL STATEMENTS**  
**December 31, 2006**

**4. SUMMARY OF THE SIGNIFICANT ACCOUNTING POLICIES (Continued)**

**4.8. Property, Plant and Equipment (Continued)**

The gain or loss arising on the disposal or retirement of an item of property, plant and equipment is determined as the difference between the sales proceeds and the carrying amount of the asset, and is recognized in the Income statement.

**4.9. Depreciation and Amortization**

The depreciation and amortization of property and equipment and intangible assets are provided at rates based on the estimated useful life of the property and equipment estimated by the Company's management. The depreciation and amortization of property and equipment and intangible assets are computed on a straight-line basis in order to fully write off the cost of the assets over their estimated useful lives.

The residual life for classes of property, plant and equipment are as listed below:

	<u>In Years</u>
Buildings	1 – 36
Facilities	2
Equipment	2-5

**4.10. Impairment of Tangible and Intangible Assets**

At each balance sheet date, the Company's management reviews the carrying values of the Company's tangible and intangible assets. If there is any indication that such assets have been impaired, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss. If the recoverable amount of an asset is estimated to be less than its carrying amount, the carrying value of the asset is reduced to its recoverable amount.

An impairment loss is recognized as an expense of the current period and is recorded under Other operating expenses, unless the relevant asset is carried at a revalued amount, in which instance, the impairment loss is treated as a revaluation decrease up to its revalued amount.

Where an impairment loss subsequently reverses, the carrying value of the asset is increased to the revised estimate of its recoverable value. However, this is performed so that the increased carrying amount does not exceed the carrying value that would have been determined had no impairment loss been recognized for the asset in prior years. A reversal of an impairment loss is recognized as income immediately, unless the respective asset is carried at a revalued amount, in which instance, the reversal of the impairment loss is treated as a revaluation increase.

**4.11. Inventories**

Inventories are primarily stated at the lower of cost and net realizable value. The net realizable value is the price at which inventories can be realized throughout the normal course of business, after allowing for the costs of realization.

Raw materials, spare parts and small inventory are determined using the weighted – average cost method. Cost includes the price invoiced by the supplier, and the costs of transportation and any attributable expenses.

Work in progress and finished goods inventories include all production-related costs and an attributable portion of production overhead.

**NOTES TO FINANCIAL STATEMENTS**  
**December 31, 2006****4. SUMMARY OF THE SIGNIFICANT ACCOUNTING POLICIES (Continued)****4.11. Inventories (Continued)**

Finished goods inventories stocks are stated at cost, whereas the goods for resale are stated at their selling price. At the end of the accounting period, their value is adjusted to cost by an apportionment of the related selling margin, calculated on an average basis, between the cost of goods sold and the inventories held at the year end.

Provisions that are charged to other expenses are made where appropriate (including the slow-moving, excessive and obsolete inventories) in order to reduce the value of inventories to management's best estimate of net realizable value. Inventories found to be damaged or of a substandard quality are written off in full.

**4.12. Financial Instruments**

Financial assets and financial liabilities are recognized in the Company's balance sheet on the date upon which the Company becomes a counterparty to the contractual provisions of a specific financial instrument.

Financial assets cease to be recognized when the Company loses control of the contractual rights governing such instruments; which occurs when the rights of use of such instruments have been realized, expired, abandoned, and/or ceded.

Financial liabilities cease to be recognized when the Company fulfills the respective obligations, or when the contractual repayment obligation has either been cancelled or has expired.

*Available-For-Sale Investments*

Available-for-sale investments consist of the Company's ownership interests in commercial banks and other domestic entities in which the Company possesses equity shares of less than 20 percent of the entity. Long-term investments available for sale are stated at market value. Market value is determined based on the published data listed on a financial stock exchange, and in the instance that market value is not available or reliable, it is determined by management's assessment of the replacement value.

*Other Long-Term Investments*

Other long-term investments include the long-term receivables from the Government of Montenegro and receivables from Company employees.

Other long-term investments are measured at amortized cost using the effective interest rate method, less any impairment loss recognized to reflect irrecoverable amounts. An impairment loss is recognized in profit or loss when there is objective evidence that the asset is impaired, and is measured as the difference between the investment's carrying value and the present value of estimated future cash flows discounted at the effective interest rate, as computed at initial recognition. Impairment losses are reversed in subsequent periods when an increase in the investment's recoverable amount can be related objectively to an event occurring after the impairment was recognized. This is subject to the restriction that the carrying value of an investment at the date upon which the impairment is reversed, is not to exceed what the amortized cost would have been had the impairment not been recognized.

*Accounts Receivable*

Accounts receivable and other current receivables are stated at their nominal values less any allowance for impairment, based on management's estimate as to the likelihood of their collectibility.

**NOTES TO FINANCIAL STATEMENTS**  
**December 31, 2006****4. SUMMARY OF THE SIGNIFICANT ACCOUNTING POLICIES (Continued)****4.12. Financial Instruments (Continued)***Cash and Cash Equivalents*

Cash and cash equivalents comprise cash on hand and demand deposits, as well as other short-term highly liquid investments that are readily convertible to a known amount of cash, and are subject to an insignificant risk of value change.

*Loans Received from Banks and Suppliers*

Loans received from banks and suppliers are initially measured at the amount of the loan disbursements received (i.e., nominal value), and are subsequently stated at the amortized cost that is computed based on the contractual interest rate. Loan transaction fees are not included in the amount at which the loans were initially measured, as required under IAS 39, "Financial Instruments: Recognition and Measurement," since in the view of the Company's management, such transaction costs are not of material significance to the financial statements, taken as a whole.

*Operating Liabilities*

Obligations towards suppliers are measured at the amount of the consideration received and are subsequently stated at the amortized cost that is computed based on the contractual interest rate, which approximates the effective interest rate.

Financial assets and liabilities are recognized on the Company's balance sheet when the Company has become counterparty to the contractual provisions of a particular financial instrument.

**4.13. Fair Value**

It is a policy of the Company to disclose the fair value information of those components of assets and liabilities for which published or quoted market prices are readily available, and of those for which the fair value may be materially different than their recorded amounts. In the Republic of Montenegro, sufficient market experience, stability and liquidity does not exist for the purchase and sale of receivables and other financial assets or liabilities, for which published market prices are presently not readily available. As a result of this, fair value cannot readily nor reliably be determined in the absence of an active market.

The Company's management assesses its overall risk exposure, and in instances in which it estimates that the carrying value of assets in its books may not be realizable, it recognizes an allowance for impairment. In the opinion of management, the reported carrying values are the most valid and useful reporting values under the present market conditions.

**NOTES TO FINANCIAL STATEMENTS**  
**December 31, 2006**

**5. SALES OF PRODUCTS AND SERVICES**

	(thousands of EUR)	
	<u>2006</u>	<u>2005</u>
Sales to related parties (Note 31)	14,477	11,768
Sales on the domestic market		
Services sales – Construction Department	6,853	3,999
Sales of other products and services	58	78
Sales of goods	9	255
	<u>6,920</u>	<u>4,332</u>
Sales on foreign markets	<u>2,334</u>	<u>5,440</u>
	<u><u>23,731</u></u>	<u><u>21,540</u></u>

**6. BUSINESS AND GEOGRAPHICAL SEGMENTS**

*Product and services within each business segment*

For management purposes, the Company is organized into two major operating divisions – Mining and Construction. These divisions are the basis on which the Company reports its primary segment information. The principal products and services of each of these divisions are as follows:

Mining - the exploitation and sale of bauxite within related party and overseas.

Construction - the construction and renovation of tunnels and roads.

	<u>Construction</u>	<u>Mining</u>	<u>Unallocate</u> <u>d</u>	<u>Total</u>
<b>OPERATING INCOME</b>				
Sales of goods and services	6,853	16,878	-	23,731
Changes in inventories of finished goods and work in progress	-	139	-	139
Other operating income	-	879	9	888
Work performed by the Company and capitalized	-	-	-	-
	<u>6,853</u>	<u>17,896</u>	<u>9</u>	<u>24,758</u>
<b>OPERATING EXPENSES</b>				
Raw materials and consumables used	(5,945)	(4,841)	-	(10,786)
Employee benefits	(2,134)	(12,121)	(3,365)	(17,620)
Depreciation	(1,060)	(1,991)	(167)	(3,218)
Other operating expenses	(2,969)	(2,670)	(1,584)	(7,223)
	<u>(12,108)</u>	<u>(21,623)</u>	<u>(5,116)</u>	<u>(38,847)</u>
<b>LOSS FROM OPERATIONS</b>	<u>(5,255)</u>	<u>(3,727)</u>	<u>(5,107)</u>	<u>(14,089)</u>
Financial income / (expenses), net	(58)	(775)	(167)	(1,000)
<b>LOSS BEFORE TAXES</b>	<u>(5,313)</u>	<u>(4,502)</u>	<u>(5,274)</u>	<u>(15,089)</u>
Income taxes	-	-	161	161
<b>NET LOSS FOR THE PERIOD</b>	<u><u>(5,313)</u></u>	<u><u>(4,502)</u></u>	<u><u>(5,113)</u></u>	<u><u>(14,928)</u></u>

**NOTES TO FINANCIAL STATEMENTS**  
**December 31, 2006**

**6. BUSINESS AND GEOGRAPHICAL SEGMENTS (Continued)**

*Segment assets and liabilities*

	<u>Construction</u>	<u>Mining</u>	<u>Unallocated</u>	<u>Total</u>
<b>ASSETS</b>				
<b>Non-Current Assets</b>				
Intangible assets	-	109	-	109
Property, plant and equipment	1,683	17,601	-	19,284
Available-for-sale investments	-	-	472	472
Deferred tax assets	-	-	82	82
Other long-term investments	6	5,446	-	5,452
	<u>1,689</u>	<u>23,156</u>	<u>554</u>	<u>25,399</u>
<b>Current assets</b>				
Inventories	235	8,065	-	8,300
Accounts receivable	2,258	164	-	2,422
Other current receivables and accrued income	166	218	-	384
Cash and cash equivalents	-	-	18	18
	<u>2,659</u>	<u>8,447</u>	<u>18</u>	<u>11,124</u>
<b>Total assets</b>	<u><u>4,348</u></u>	<u><u>31,603</u></u>	<u><u>572</u></u>	<u><u>36,523</u></u>
<b>LIABILITIES</b>				
<b>Non-current liabilities</b>				
Long-term liabilities	1,234	3,042	-	4,276
Retirement benefit obligation	1,136	1,488	-	2,624
Provisions	2,100	19,405	-	21,505
Deferred income	-	-	7,745	7,745
	<u>4,470</u>	<u>23,935</u>	<u>7,745</u>	<u>36,150</u>
<b>Current liabilities</b>				
Accounts payable	2,054	3,754	-	5,808
Advances received	898	5,267	-	6,165
Short-term financial liabilities	346	121	338	805
Other current liabilities	785	1,959	59	2,803
	<u>4,083</u>	<u>11,101</u>	<u>397</u>	<u>15,581</u>
<b>Total liabilities</b>	<u><u>8,553</u></u>	<u><u>35,036</u></u>	<u><u>8,142</u></u>	<u><u>51,731</u></u>

The Company's two divisions operate in five areas – KAP, Romania, Hungary, Bosnia and Herzegovina and Republic of Montenegro. The composition of each geographical segment is as follows:

	<b>(thousands of EUR)</b>	
	<u>2006</u>	<u>2005</u>
KAP	13,390	11,768
Romania	1,087	-
Hungary	2,334	3,591
Bosnia and Herzegovina	-	1,849
Republic of Montenegro	6,920	4,332
	<u><u>23,731</u></u>	<u><u>21,540</u></u>

**NOTES TO FINANCIAL STATEMENTS**  
**December 31, 2006**

**6. BUSINESS AND GEOGRAPHICAL SEGMENTS (Continued)**

The Company operates exploitation and sale of bauxite within related party (KAP and Romania), Hungary and Bosnia and Herzegovina.

The Company operates construction and renovation of tunnels and roads in Republic of Montenegro.

**7. OTHER OPERATING INCOME**

	(thousands of EUR)	
	<u>2006</u>	<u>2005</u>
Reconciliation with KAP	-	360
Write-off of liabilities	470	59
Changes in fair value of investments	138	-
Collected insurance premiums	-	59
Gains on the sales of equipment	2	10
Gains on the sales of investments	7	-
Gains on the sales of material	206	-
Surpluses	-	30
Other	65	31
	<u>888</u>	<u>549</u>

**8. RAW MATERIALS AND CONSUMABLES USED**

	(thousands of EUR)	
	<u>2006</u>	<u>2005</u>
Fuel and energy	3,975	3,596
Raw materials	2,876	1,718
Subcontractors' services	3,650	795
Cost of sales	186	282
Other materials	99	98
	<u>10,786</u>	<u>6,489</u>

**NOTES TO FINANCIAL STATEMENTS**  
**December 31, 2006**

**9. EMPLOYEE BENEFIT EXPENSES**

	(thousands of EUR)	
	2006	2005
Net salaries	7,372	6,201
Contributions on salaries and benefits paid by the employer	3,251	2,602
Contributions on salaries and benefits paid by the employee	2,570	2,150
Taxes on salaries and benefits	2,465	1,988
Field contributions	392	462
Winter allowances	413	413
Holiday allowances	405	406
Settlement of workers during field work	114	240
Employee transportation	217	240
Contribution for separated life	149	150
Employee meals	81	91
Per diems and travel expenses	37	73
Emoluments to the Board of Directors	95	21
Other payments	59	24
	<u>17,620</u>	<u>15,061</u>

**10. OTHER OPERATING EXPENSES**

	(thousands of EUR)	
	2006	2005
Losses on the sale and disposal of property, plant and equipment	48	1,675
Transportation	1,098	562
Provisions for the residential housing fund (Note 24)	697	498
Employees benefits	-	188
Contributions on salaries	-	29
Fair value adjustments-inventories	37	445
Bank charges	41	154
Maintenance	833	870
Loans to employees	-	144
Concession fee for the exploitation of red bauxite ore	100	144
Compensation for damages and litigation	182	137
Attorney professional services	22	126
Communication	114	111
Donations and sponsorships	26	85
Negative effects of the appraisal of property and equipment	-	85
Insurance premiums	89	82
Other republic taxes and contributions	162	62
Professional services	32	60
Vehicle registrations	41	46
Utilities	72	43
Entertainment	3	40
Usage of roads and utilities in Župa	-	38
Expropriation	-	28
Fair value adjustment- receivables	-	24
Write-off of receivables from employees	-	18
Provisions for interest bad debt	-	13
Other receivable write-offs	7	8
Expected loss on the construction contract (Note 24 and 33)	2,100	-
Provisions for litigations (Note 24)	1,366	-
Other	153	63
	<u>7,223</u>	<u>5,778</u>

**NOTES TO FINANCIAL STATEMENTS**  
**December 31, 2006**

**11. FINANCIAL INCOME/(EXPENSES), NET**

	(thousands of EUR)	
	<u>2006</u>	<u>2005</u>
Interest income	-	13
Foreign exchange gains	146	1,358
Dividends income	-	29
Other financial income	19	-
	<u>165</u>	<u>1,400</u>
Interest expenses	(1,053)	(208)
Foreign exchange losses	(112)	(838)
	<u>(1,165)</u>	<u>(1,046)</u>
	<u>(1,000)</u>	<u>354</u>

The composition of the Company's foreign exchange gains and/or losses is presented in the table below:

	(thousands of EUR)	
	<u>2006</u>	<u>2005</u>
Foreign exchange gains based on bank account	-	62
Foreign exchange gains based on accounts receivable	140	545
Foreign exchange gains based on accounts payables	-	6
Foreign exchange gains relating to debt restructuring agreement	-	692
Foreign exchange gains based on loans	-	30
Foreign exchange gains-other	6	23
	<u>146</u>	<u>1,358</u>
Foreign exchange losses based on bank account	-	(40)
Foreign exchange losses based on accounts receivable	(97)	(147)
Foreign exchange losses based on loans	-	(638)
Foreign exchange losses-other	(15)	(13)
	<u>(112)</u>	<u>(838)</u>
	<u>34</u>	<u>520</u>

**12. INCOME TAXES**

**a) Components of Income Taxes**

	(thousands of EUR)	
	<u>2006</u>	<u>2005</u>
Deferred income tax benefit / (expense)	161	(79)
	<u>161</u>	<u>(79)</u>

**NOTES TO FINANCIAL STATEMENTS**  
**December 31, 2006**

**12. INCOME TAXES (Continued)**

**b) Numerical Reconciliation of the Tax Expense and the Product of Accounting  
Results as Multiplied by the Statutory Income Tax Rate**

	(thousands of EUR)	
	<u>2006</u>	<u>2005</u>
Loss before tax	(15,089)	(9,054)
Income tax at the statutory rate of 9%	(1,358)	(815)
Tax effect of non-deductible expenses	9	1
Adjustment of tax losses	1,195	776
Unused mining works that were not included in tax depreciation	-	77
Fixed assets with a value of under 200 EUR, that do not qualify for the tax depreciation	-	12
Other	(7)	28
Income tax (benefit) / expense	<u>(161)</u>	<u>79</u>

**c) Deferred Tax Assets and Liabilities**

	(thousands of EUR)	
	<u>December 31, 2006</u>	<u>December 31, 2005</u>
<b>Deferred tax assets</b>		
Temporary differences arising on property and equipment	82	-
Tax loss carry forwards	937	937
Valuation allowance	(937)	(937)
	<u>82</u>	<u>-</u>
<b>Deferred tax liabilities</b>		
Temporary differences arising on property and equipment	-	(79)
<b>Deferred Tax Assets / (Liabilities), net</b>	<u>82</u>	<u>(79)</u>

Deferred tax liabilities relate to temporary differences arising between the tax base according to which property and equipment, and intangible assets are recognized in the corporate income tax return, and the carrying value of such assets, as recorded in the Company's financial statements.

**d) Components of Tax Losses**

Tax losses expire in the periods shown in the table below:

		(thousands of EUR)		
<u>Year of Origination</u>	<u>Year of Expiry</u>	<u>Total</u>	<u>Valuation Allowance</u>	<u>Net</u>
2003	2008	30	(30)	-
2004	2009	131	(131)	-
2005	2010	776	(776)	-
		<u>937</u>	<u>(937)</u>	<u>-</u>

**NOTES TO FINANCIAL STATEMENTS**  
**December 31, 2006**

**13. PROPERTY, PLANT AND EQUIPMENT AND INTANGIBLE ASSETS**

(thousands of EUR)

	Land	Buildings	Mining facilities	Equipment	Total
<b>Revaluation</b>					
Balance, January 1, 2006	11,985	2,016	2,788	6,202	22,991
Effect of valuation	737	447	-	-	1,184
Additions	-	-	-	646	646
Disposals	-	(1)	-	(176)	(177)
Balance, December 31, 2006	<u>12,722</u>	<u>2,462</u>	<u>2,788</u>	<u>6,672</u>	<u>24,644</u>
<b>Depreciation</b>					
Balance, January 1, 2006	-	203	724	1,328	2,255
Depreciation charge for the period	-	256	1,032	1,914	3,202
Disposals	-	(1)	-	(96)	(97)
Balance, December 31, 2006	<u>-</u>	<u>458</u>	<u>1,756</u>	<u>3,146</u>	<u>5,360</u>
<b>Net book value:</b>					
<b>at December 31, 2006</b>	<u>12,722</u>	<u>2,004</u>	<u>1,032</u>	<u>3,526</u>	<u>19,284</u>
<b>at December 31, 2005</b>	<u>11,985</u>	<u>1,813</u>	<u>2,064</u>	<u>4,874</u>	<u>20,736</u>

The Company transferred ownership titles on its properties registered under 135 KO Mokra njiva and 2755 KO Nikšić, Municipality Nikšić, stated at a net book value of EUR 364 thousands (December 31, 2005: EUR 370 thousands), in order to provide collateral for the regular settlement of liabilities based on a letter of credit issued by Crnogorska komercijalna banka A.D., Podgorica.

The Company transferred ownership titles on its property registered under 782 KO Nikšić, Municipality Nikšić, stated at a net book value of EUR 2,105 thousands (December 31, 2005: EUR 2,159 thousands), in order to collateralize the regular settlement of liabilities arising on the bank guarantees issued by the Nikšićka banka A.D., Nikšić.

(thousands of EUR)

	<b>December 31, 2006</b>	<b>December 31, 2005</b>
<b>Intangible assets</b>		
<b>Cost</b>		
Balance, January 1	112	44
Additions	13	68
Depreciation charge for the year	<u>(16)</u>	<u>-</u>
<b>at December 31</b>	<u>109</u>	<u>112</u>

**NOTES TO FINANCIAL STATEMENTS**  
**December 31, 2006**

**14. AVAILABLE-FOR-SALE INVESTMENTS**

	Share %	(thousands of EUR)	
		December 31, 2006	December 31, 2005
Nikšićka banka A.D., Nikšić	3.4843	324	250
Hipotekarna banka A.D., Podgorica	0.7603	148	102
Lovćen osiguranje A.D., Podgorica		-	2
		<u>472</u>	<u>354</u>
Less: Adjustment to fair value		<u>-</u>	<u>(34)</u>
		<u>472</u>	<u>320</u>

**15. OTHER LONG-TERM INVESTMENTS**

	(thousands of EUR)	
	December 31, 2006	December 31, 2005
Receivables from the GoM	5,424	5,424
Residential loans and purchases of residential housing extended to employees	<u>28</u>	<u>29</u>
	<u>5,452</u>	<u>5,453</u>

Other long-term receivables from the GoM as of December 31, 2006 and December 31, 2005 in the amount of EUR 5,424 thousands relate to the receivables forgiven by the Government of the Republic of Montenegro in accordance with Clause 8.2 and Annex 12 of the Agreement For the Sale And Purchase of the Funds' Shares in the Kombinat aluminijuma Podgorica A.D., ("KAP") by Public Tender.

These receivables arose pursuant to the rescheduling of the Company's receivables from KAP as of December 31, 2000 in accordance with the Debt Rescheduling Agreement entered into on June 26, 2002.

The aforementioned agreement prescribes that a portion of the principal debt in the amount of EUR 3,899 thousands as of December 31, 2006 and December 31, 2005 is scheduled to be repaid in the period from September 30, 2013 to September 30, 2015 in equal semi-annual disbursements. The defined annual interest rate for this portion of debt will be equal to the lower of 6.5% or the LIBOR rate +2.5%. The other portion of principal in the amount of EUR 1,524 thousands as of December 31, 2006 and December 31, 2005 is scheduled to be repaid in the period from December 31, 2015 up to the end of the year 2019 in equal, semi-annual disbursements. The defined annual interest rate on the principal debt is 6.5% and is scheduled to be repaid concurrently with the repayments of principal.

The maturity of receivables from the Government of the Republic of Montenegro has not been defined.

Other long-term receivables as of December 31, 2006 in the amount of EUR 28 thousands (December 31, 2005: EUR 29 thousands) relate to receivables from employees for residential loans extended at 35-year maturities at an annual interest rate of 2 percent. The Company has not collateralized these residential loans with mortgages on the borrowers' residential structures.

**NOTES TO FINANCIAL STATEMENTS**  
**December 31, 2006**

**15. OTHER LONG-TERM INVESTMENTS (Continued)**

Movements in the receivables from employees during the year are summarized in the table below:

	(thousands of EUR)	
	<u>2006</u>	<u>2005</u>
Balance at the beginning of the period	29	31
New loans during the period	6	20
Collected during the period	(7)	(4)
Write-offs	-	(18)
	<u>28</u>	<u>29</u>

**16. INVENTORIES**

	(thousands of EUR)	
	<u>December 31, 2006</u>	<u>December 31, 2005</u>
Material	430	623
Fuel and lubricants	100	91
Work in progress - bauxite ore	6,683	6,938
Spare parts	1,076	1,186
Tools and small inventory	217	136
Finished products - bauxite ore	480	73
Finished products – other	31	44
Other	-	9
	<u>9,017</u>	<u>9,100</u>
Less: Allowance for impairment	(717)	(920)
	<u>8,300</u>	<u>8,180</u>

**17. ACCOUNTS RECEIVABLE**

	(thousands of EUR)	
	<u>December 31, 2006</u>	<u>December 31, 2005</u>
Related parties	16	2,116
Domestic customers	2,031	1,726
Foreign customers	454	404
Advances	334	80
	<u>2,835</u>	<u>4,326</u>
Less: Allowance for impairment	(413)	(451)
	<u>2,422</u>	<u>3,875</u>

**NOTES TO FINANCIAL STATEMENTS**  
**December 31, 2006**

**18. OTHER CURRENT RECEIVABLES AND ACCRUED INCOME**

	(thousands of EUR)	
	December 31, 2006	December 31, 2005
Other receivables	305	217
Penalty interest	110	112
Receivables from governmental institutions	52	37
Other accruals	27	55
	<u>494</u>	<u>421</u>
Less: Allowance for impairment	(110)	(112)
	<u>384</u>	<u>309</u>

**19. CASH AND CASH EQUIVALENTS**

	(thousands of EUR)	
	December 31, 2006	December 31, 2005
Current EUR account	-	1
Foreign currency accounts	13	11
Cash on hand	5	-
	<u>18</u>	<u>12</u>

**20. MOVEMENT IN PROVISIONS**

	(thousands of EUR)				
	Available-for -sale investments	Inventories	Accounts receivable	Other receivables and accrued income	Total
Balance, January 1, 2006	34	920	451	112	1,517
Charge for the year	-	37	-	-	37
Write-offs	(34)	(153)	-	-	(187)
Other	-	(87)	(38)	(2)	(127)
	<u>-</u>	<u>717</u>	<u>413</u>	<u>110</u>	<u>1,240</u>

**NOTES TO FINANCIAL STATEMENTS**  
**December 31, 2006**

**21. EQUITY**

	(thousands of EUR)					
	December 31, 2006			December 31, 2005		
	Number of shares	%	Amount	Number of shares	%	Amount
Salamon Enterprises Limited, Nicosia - Cyprus	2,041,687	63.63	12,878	2,041,687	63.63	12,878
Vektra Montenegro d.o.o., Podgorica	-	-	-	289,070	9.01	1,823
Hrvatska poštanska banka, Zagreb, Croatia	174,242	5.43	1,098	9,106	0.28	57
Related party - Shasta universal INVC	106,353	3.31	671	-	-	-
Other shareholders	114,183	3.56	720	330	0.01	2
	<u>2,436,465</u>	<u>75.93</u>	<u>15,367</u>	<u>2,340,193</u>	<u>72.93</u>	<u>14,760</u>
Citizens	<u>772,269</u>	<u>24.07</u>	<u>4,872</u>	<u>868,541</u>	<u>27.07</u>	<u>5,479</u>
	<u>3,208,734</u>	<u>100.00</u>	<u>20,239</u>	<u>3,208,734</u>	<u>100.00</u>	<u>20,239</u>

The individual par value of a Company share is EUR 6.3074 as of December 31, 2006 and December 31, 2005.

Company's shares are publicly listed on the stock-exchanges in Montenegro. The market price of an individual share as at December 31, 2006 equals EUR 4.5 (December 31, 2005: EUR 2.7).

At December 31, 2006 the share capital held by private individuals aggregately totaling EUR 20,239 thousands, includes 23,432 subscribed, but unpaid shares of individuals in the total value of EUR 148 thousands (at December 31, 2005 the share capital includes 27,028 subscribed, but unpaid shares of individuals totaling EUR 170 thousands).

**22. LONG-TERM LIABILITIES**

	Interest rate p.a.	Currency	Period (in Years)	(thousands of EUR)		
				Initial amount	December 31, 2006	December 31, 2005
<b>Domestic long-term liabilities for goods</b>						
Atlas Copco A.D., Beograd	8 %	EUR	2	1,016	-	55
Crnogorska komercijalna banka A.D., Podgorica	8 %	EUR	4	540	521	-
Crnogorska komercijalna banka A.D., Podgorica	8 %	EUR	3	3,000	3,000	-
Crnogorska komercijalna banka A.D., Podgorica	8.10 %	EUR	3	735	735	-
<b>Foreign long-term liabilities for goods</b>						
Volvo, Sweden	8%	EUR	46 months	241	60	120
Volvo, Sweden	8%	EUR	3	437	202	337
Atlas Copco, Sweden	7.75% p.a.	EUR	2	309	78	227
Adriano Corsi, Italy	CIRR 3.23%	EUR		221	147	221
					<u>4,743</u>	<u>960</u>
Less: Current portion (Note 28)					<u>(467)</u>	<u>(473)</u>
					<u>4,276</u>	<u>487</u>

**NOTES TO FINANCIAL STATEMENTS**  
**December 31, 2006**

**22. LONG-TERM LIABILITIES (Continued)**

The maturities of the Company's long-term liabilities are shown in the table below:

	(in u 000 EUR)	
	<u>December 31, 2006</u>	<u>December 31, 2005</u>
in one year or less	467	473
in more than one year but not more than two years	4,007	346
in more than two years but not more than three years	141	141
in more than three years but not more than four years	128	-
	<u>4,743</u>	<u>960</u>

Long-term domestic liabilities stated at December 31, 2006 of EUR 4,256 thousands relate to the 4 long-term loans issued by Crnogorska komercijalna banka A.D., Podgorica. Long-term loan stated at December 31, 2006 of EUR 521 thousands relate to the value of equipment delivered by the domestic supplier Teicom. Other three long-term loans stated at December 31, 2006 of EUR 3,735 thousands are for the purpose of financing current liquidity requirements. As collateral for the regular repayment of these liabilities, related party KAP A.D., Podgorica has provided the deposit to Crnogorska komercijalna banka A.D., Podgorica in the full amount of the loan.

Long-term foreign liabilities stated at December 31, 2006 of EUR 262 thousands (December 31, 2005: EUR 457 thousands) relate to the value of mining equipment delivered by the foreign supplier, Volvo Construction Equipment AB International, Sweden. These liabilities are to be repaid in sixteen, quarterly installments. As collateral for the regular repayment of these liabilities, the Company has provided a covered accessory Nostro non-transferable guarantee issued on behalf of the Company by the Hipotekarna banka A.D., Podgorica.

Long-term foreign liabilities stated at December 31, 2006 amounting to EUR 78 thousands (December 31, 2005: EUR 227 thousands), are associated with the value of mining equipment delivered by the supplier, Atlas Copco Consumer Finance AB, Sweden. Pursuant to the terms of the equipment purchase agreement, an advance payment has been made in the amount of EUR 78 thousands, whereas the repayment of the liabilities and interest will be performed in eight equal quarterly installments, commencing as of September 2005. To collateralize the regular repayment of this loan, the Company provided a guarantee issued by the Nikšićka banka A.D., Nikšić.

Long-term foreign liabilities at December 31, 2006 amounting to EUR 147 thousands (December 31, 2005: EUR 221 thousands) relate to the value of equipment and spare parts delivered by the supplier, Adriano Corsi S.p.A., Italy. In accordance with the terms of the equipment purchase agreement, an advance payment was made in the amount of EUR 39 thousands, whereas the repayment of the remaining liabilities and interest will be performed in six equal installments to be remitted every six months, commencing in February 2006. To collateralize this loan, the Company provided a documentary letter of credit issued by the Crnogorska komercijalna banka A.D., Podgorica, as confirmed by the Banca Agricola Mantovana, Italy.

**NOTES TO FINANCIAL STATEMENTS**  
**December 31, 2006**

**23. RETIREMENT BENEFIT OBLIGATION**

The principal assumptions used for the purpose of the actuarial valuations were as follows:

	<u>December 31,</u> <u>2006</u>	<u>December 31,</u> <u>2005</u>
Discount rate	3%	3%
Expected rate of salary increases	2%	2%

The amount recognized in the balance sheet with regard to the Company's defined retirements benefit plan is as follows:

	<b>(thousands of EUR)</b>	
	<u>2006</u>	<u>2005</u>
Balance at beginning of the year	3,316	-
Adjustment to the balance at the beginning of the year	-	3,316
Release	(426)	-
Benefits paid to the employees	(266)	(188)
Additional charge for the year, net (Note 10)	-	188
	<u>2,624</u>	<u>3,316</u>

Provisions for employee retirement benefits and anniversary awards were computed based on the report of an independent actuary who calculated the amount of the discounted present value of future retirement benefit payments.

**24. PROVISIONS**

	<b>(thousands of EUR)</b>	
	<u>December 31,</u> <u>2006</u>	<u>December 31,</u> <u>2005</u>
Provisions for the residential housing fund	1,195	498
Provisions for contributions on benefits	569	569
Expected loss on the construction contract	2,100	-
Provisions for litigations	1,366	-
Provision for environmental costs	16,275	15,500
	<u>21,505</u>	<u>16,567</u>

Provisions at December 31, 2006 in the amount of EUR 1,195 thousands (December 31, 2005: EUR 498 thousands) were made in accordance with Article 106 of the CBAs, under which the Company is obligated to set aside 5% of gross employee pay for the purposes of addressing the housing needs of employees.

Due to the uneven treatment with respect to the application of regulations related to the computation of contributions on salaries, in connection with the sale of residential housing under favorable terms and conditions, the Company has formed provisions for potential liabilities in the amount of EUR 569 thousands.

**NOTES TO FINANCIAL STATEMENTS**  
**December 31, 2006**

**24. PROVISIONS (Continued)**

Provisions at December 31, 2006 of EUR 16,275 and December 31, 2005 of EUR 15,500 thousands were made in accordance with the law regulating environmental issues effective in the Republic of Montenegro, and with the Concession Agreement conferring Rights to the Exploitation of Bauxite Ore in the Nikšićka Župa which was in the effect during the period from January 1, 1996 through December 31, 2005. The provision for environmental costs is based on an Environmental Due Diligence assessment performed by an independent expert from the RSK ENSR Group. The carrying amount of a provision recognized on a discounted basis increases in each period to reflect the passage of time. The increase is recognized as borrowing cost and the appropriate discount rate is 5%.

Movements in such provisions during the year are shown in the table below:

	(thousands of EUR)	
	2006	2005
Balance at the beginning of the period	16,567	-
Adjustments to opening balance for:		
- contributions on benefits	-	540
- environmental	-	15,500
Provisions charged during the period for:		
- borrowing costs – interest expense	775	-
- expected loss on the construction contract (Note 10)	2,100	-
- litigations (Note 10)	1,366	-
- contributions on benefits	-	29
- residential housing fund (Note 10)	697	498
Balance at the end of the period	21,505	16,567

Expected non-discounted outflow is as follows:

Year	2007	2008	2009	2010	2011	2012	2013	2014	2019	2020	2021	2022	2023	2024	Total
Expected non-discounted outflow	1,300	1,300	1,300	1,300	1,300	1,000	1,000	1,000	300	1,000	1,000	1,000	1,000	1,000	15,500

**25. DEFERRED INCOME**

At December 31, 2006 and December 31, 2005, deferred income of EUR 7,745 thousands represents the Company's total long-term liabilities which, as of December 31, 2004 amounted to EUR 7,156 thousands. In accordance with Annex 8 to the Sale and Purchase Agreement of the Rudnici boksita A.D., Nikšić, these liabilities are to be assumed by the Ministry of Finance of the Republic of Montenegro in proportion to the level of the performed investment program provisions, as specified under the terms of the aforesaid SPA.

Long-term liabilities are associated with the refinanced loans in accordance with the sovereign agreement of the Federal Republic of Yugoslavia entered into with the Paris and London Club of Creditors. In accordance with the Law on the Settlement of Mutual Receivables and Payables Arising on Foreign Debt and Public Savings, the Ministry of Finance of the Republic of Montenegro assumed the liabilities of the Company towards its foreign creditors and the receivables from the original debtors.

**NOTES TO FINANCIAL STATEMENTS**  
**December 31, 2006**

**25. DEFERRED INCOME (continued)**

The composition of the Company's former liabilities that were assumed by the Ministry of Finance of the Republic of Montenegro as of December 31, 2006 is as follows:

(thousands of EUR)						
	Annual interest rate %	Currency	Period	Initial amount	December 31, 2006	December 31, 2005
<b>Paris Club of Creditors</b>						
Jugobanka A.D., Podgorica	8.0 -9.97	USD	3-10 years	3,539	1,883	1,883
<b>London Club of Creditors</b>						
Jugobanka A.D., Beograd	various	various	18 years	-	4,214	4,214
Meaden Bank, Kuwait	*	USD	3 years	2,001	1,648	1,648
					<u>7,745</u>	<u>7,745</u>

\* Variable, LIBOR as increased by 1 and 5/8 percent or at the contractual "prime rate" as increased for 1 and 1/2 percent.

The Company did not calculate and accrue the related interest up to December 31, 2006.

**26. ACCOUNTS PAYABLE**

	(thousands of EUR)	
	December 31, 2006	December 31, 2005
Related parties	1	181
Domestic accounts payable	5,807	4,112
Foreign accounts payable	-	712
	<u>5,808</u>	<u>5,005</u>

**27. ADVANCES RECEIVED**

	(thousands of EUR)	
	December 31, 2006	December 31, 2005
Related parties	5,214	-
Domestic accounts payable	951	1,565
Foreign accounts payable	-	484
	<u>6,165</u>	<u>2,049</u>

**NOTES TO FINANCIAL STATEMENTS**  
**December 31, 2006**

**28. SHORT-TERM FINANCIAL LIABILITIES**

	Interest rate	Period	Initial amount	(thousands of EUR)	
				December 31, 2006	December 31, 2005
<b>Short-term domestic borrowings</b>					
Crnogorska komercijalna banka A.D., Podgorica	10% p.a.	12 months	1,034	-	1,034
Crnogorska komercijalna banka A.D., Podgorica	7% p.a.	9 months	675	338	-
				338	1,034
Nikšićka banka A.D., Nikšić	1% p.m.	10 months	300	-	60
Nikšićka banka A.D., Nikšić	1% p.m.	10 days	100	-	100
				-	160
Samostalni sindikat Rudnika boksita [Labor Union]	5% p.a.	12 months	50	-	50
				338	1,244
Current portion of long-term liabilities (Note 22)				467	473
				805	1,717

Short-term borrowings stated at December 31, 2006 of EUR 338 thousands were extended for purposes of financing current liquidity requirements.

**29. OTHER LIABILITIES**

	(thousands of EUR)	
	December 31, 2006	December 31, 2005
Taxes on salaries payable	592	756
Contributions payable – Pension Fund	677	563
Contributions payable – Health Fund	385	359
Contributions payable – Employment Fund	9	17
Other contributions payable	-	163
Concession fee for exploitation of red bauxite ore payable	-	72
Value Added Tax payable	109	137
Liabilities for net salaries	661	665
Other liabilities to employees	72	492
Liabilities to The Development Fund of GoM arising on the purchase of preferential shares	127	121
Liabilities arising on loans to employees	98	144
Liabilities for interest	68	2
Liabilities for dividends	5	5
	2,803	3,496

The liabilities arising on the loans extended to Company employees are stated at December 31, 2006 in the amount of EUR 98 thousands and December 31, 2005 in the amount of EUR 144 thousands, and represent the portion of liabilities with respect to extended loans, for which it is necessary to reduce the future receivables in accordance with Article 19 of the Regulation of the Fulfillment of the Residential Housing Requirements of Company Employees.

**NOTES TO FINANCIAL STATEMENTS**  
**December 31, 2006**

**30. CONTINGENT LIABILITIES**

At December 31, 2006, the Company is involved in various litigation throughout the normal course of business as both a plaintiff and as a defendant. According to the estimates of Company management, the total amount of potential damage claims based on litigation filed against the Company, not including any related potential penalty interest, totals EUR 5,357 thousands (December 31, 2005: EUR 4,801 thousands). For now, because the Company can not assess the final outcome of these litigations. The Company did not record any provisions regarding these potential liabilities.

The total value of the Company's claims sought under litigation that it has initiated December 31, 2006, in is EUR 471 thousands (December 31, 2005: EUR 450 thousands). This litigation has been filed against customers in an attempt to force the collection of the Company's outstanding receivables.

**31. RELATED PARTY TRANSACTIONS**

**i) Sales**

	(thousands of EUR)	
	<u>2006</u>	<u>2005</u>
Kombinat aluminijuma A.D., Podgorica		
– Bauxite ore	12,943	11,223
– Transportation services	447	545
– Rent	12	-
	<u>13,402</u>	<u>11,768</u>
Torrington Universal Corp., British Virgin Islands		
– Bauxite ore	93	-
	<u>93</u>	<u>-</u>
Cemtrade, Romania		
– Bauxite ore	994	-
	<u>994</u>	<u>-</u>
	<u>14,489</u>	<u>11,768</u>

**ii) Purchases**

	(thousands of EUR)	
	<u>2006</u>	<u>2005</u>
Kombinat aluminijuma A.D., Podgorica		
– Material	-	-
– Oil	-	365
– Cost of goods - Al "T" ingots	-	46
	<u>-</u>	<u>411</u>

**NOTES TO FINANCIAL STATEMENTS**  
**December 31, 2006**

**31. RELATED PARTY TRANSACTIONS (Continued)**

**iii) Accounts receivable**

	(thousands of EUR)	
	December 31, 2006	December 31, 2005
Kombinat aluminijuma A.D., Podgorica	1	2,116
Torrington Universal Corp., British Virgin Islands	15	-
	16	2,116

**iv) Accounts payable**

	(thousands of EUR)	
	December 31, 2006	December 31, 2005
Kombinat aluminijuma A.D., Podgorica	1	181
	1	181

**v) Advances received**

	(thousands of EUR)	
	December 31, 2006	December 31, 2005
Kombinat aluminijuma A.D., Podgorica	5,214	-
	5,214	-

**32. NON-CASH TRANSACTIONS**

The Company's Statement of cash flows for the year ended December 31, 2006 has been adjusted to account for the increase of property and equipment financed from long-term loans, as well as the set-off of receivables from the Government of the Republic of Montenegro in connection with tax liabilities. These non-monetary transactions are presented in the table below:

	(thousands of EUR)	
	2006	2005
Property, plant and equipment	-	416
Inventories	-	108
Receivables from domestic customers	679	-
Receivables from the Directorate For Public Works of Montenegro	-	1,040
Long-term liabilities	-	(524)
Domestic accounts payable	(679)	(1,040)
	-	-

**NOTES TO FINANCIAL STATEMENTS**  
**December 31, 2006**

**33. CONSTRUCTION CONTRACTS**

	Contracts				Total
	Tunel "Vrmac"	Tunel "Velika Plijes"	Put "Vinici - Ostrog"	Tunel "Bakovici"	
Contract revenue recognized in accordance with paragraph 22	5,856	324	113	560	6,853
Contract expenses recognized in accordance with paragraph 22	(6,188)	(1,812)	(1,111)	(955)	(10,066)
Expected losses expenses recognized in accordance with paragraph 36	(1,827)	(237)	(6)	(30)	(2,100)
Recognized profits less recognized losses	<u>(2,159)</u>	<u>(1,725)</u>	<u>(1,004)</u>	<u>(425)</u>	<u>(5,313)</u>
Contract costs incurred in the period	(6,188)	(1,812)	(1,111)	(955)	(10,066)
Contract expenses recognized in accordance with paragraph 22	<u>(6,188)</u>	<u>(1,812)</u>	<u>(1,111)</u>	<u>(955)</u>	<u>(10,066)</u>
Contractual costs related to future activities recognized as an assets in accordance with paragraph 27	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Contract revenue	5,856	324	113	560	6,853
Progress billings (paragraph 41)	5,856	324	113	560	6,853
Unbilled contract revenue	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Advances (paragraph 41)	<u>553</u>	<u>342</u>	<u>3</u>	<u>-</u>	<u>898</u>

	Contracts				Total
	Tunel "Vrmac"	Tunel "Velika Plijes"	Put "Vinici - Ostrog"	Tunel "Bakovici"	
Contract costs incurred	(6,188)	(1,812)	(1,111)	(955)	(10,066)
Recognized profits less recognized losses	<u>(2,159)</u>	<u>(1,725)</u>	<u>(1,004)</u>	<u>(425)</u>	<u>(5,313)</u>
Progress billings	<u>(8,347)</u>	<u>(3,537)</u>	<u>(2,115)</u>	<u>(1,380)</u>	<u>(15,379)</u>
Due to customers	<u>5,856</u>	<u>324</u>	<u>113</u>	<u>560</u>	<u>6,853</u>
	<u>14,203</u>	<u>3,861</u>	<u>2,228</u>	<u>1,940</u>	<u>22,232</u>

**34. TAXATION RISKS**

The Republic of Montenegro tax legislation is subject to varying interpretations and changes which occur frequently. The interpretation of tax legislation by tax authorities as applied to the transactions and activities of the Company may not be in line with that of the management. As a result, Company transactions may be challenged by tax authorities and the Company may be assessed additional taxes, penalties and interest, which can be significant. A Company's tax statements may be reviewed or audited for a period of five years from the filing date of such statements.

**NOTES TO FINANCIAL STATEMENTS**  
**December 31, 2006**

**35. FINANCIAL RISK MANAGEMENT**

The main risks exposures on financial instrument transactions, are associated with foreign currency risks, interest rate risk and credit risk.

*Foreign Currency Risk*

The Company enters into transactions denominated in foreign currencies in connection with its operating activities. As a result of outstanding balances at the balance sheet date, the accounts receivable and payable in US Dollars, and the Company's balance sheet figure can be impacted by movements in foreign currency exchange rates. The Company does not enter into any special financial arrangements to hedge against these risks.

*Credit Risk*

At December 31, 2006 significant concentrations of credit risk exist with respect to the following counterparties, and primarily are attributable to the Company's accounts receivable and long-term receivables:

	(thousands of EUR)	
	December 31, 2006	December 31, 2005
Strabag AG Austria glavna podružnica u Podgorici	1,388	1,192
Government of the Republic of Montenegro	5,424	5,424
	<u>6,812</u>	<u>6,616</u>

*Interest Rate*

The Company's principal exposure to movements in interest rates relates to the Company's interest-bearing loans and borrowings, payable to its parent company, which were extended at fixed and floating interest rates.

**36. POST BALANCE SHEET EVENTS**

In January, 2007 the Company entered into new commercial agreement with KAP A.D., Podgorica regarding sale price of bauxite ore. The new agreement is valid for twelve months effective, commencing as of January 1, 2007. The new price according to this agreement is increased. The company stated it's inventories on December 31, 2006 using the new sale price since it is lower than the cost. The effect of using the new higher sale price on the inventory amount stated on December 31, 2006 is EUR 1,649 thousands.

In the first quarter of 2007, the Tax Authorities completed tax audit of BMN. The object of the tax audit was the Company's tax compliance in the period 2004-2006. The Findings of the tax audit were presented to the Company for further comments. The Tax Authorities are expected to issue the Minutes from the audit and followed by the Decision. However, they are ready to take the Company's view before issuing enforceable Decision.

**NOTES TO FINANCIAL STATEMENTS**  
**December 31, 2006****37. EXCHANGE RATES**

The official exchange rates for major currencies used in the translation of balance sheet components denominated in foreign currencies, into EUR as at December 31, 2006 and December 31, 2005 were as follows:

	<b>December 31, 2006</b>	<b>December 31, 2005</b>
USD	0.7593	0.8477
RSD	0.0127	0.0117