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TO THE SHAREHOLDERS OF

ZORKA NEMETALI A.D. ŠABAC

Report on the Consolidated Financial Statements

We have audited the accompanying consolidated financial statements of Zorka Nemetali AD Šabac (“the Company”), which comprise the consolidated balance sheet as at 31 December 2006, and the consolidated income statement, consolidated statement of changes in equity and consolidated cash flow statement for the year then ended.

Management's Responsibility for the Consolidated Financial Statements

Management is responsible for the preparation of these consolidated financial statements in accordance with the Law on Accounting and Auditing of the Republic of Serbia (as published in the “Official Gazette of the Republic of Serbia” 46/2006). This responsibility includes: designing, implementing and maintaining internal control relevant to the preparation of consolidated financial statements that are free from material misstatements, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

Auditors' Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audit. We have conducted our audit in accordance with the Law on Accounting and Auditing of the Republic of Serbia (as published in the “Official Gazette of the Republic of Serbia” 46/2006) and International Standards on Auditing as issued by the International Federation of Accountants. Those standards require that we comply with relevant ethical requirements and plan and perform the audit to obtain reasonable assurance whether the consolidated financial statements are free of material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts in the consolidated financial statements. The procedures selected depend on our judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, we consider internal control relevant to the entity's preparation of the consolidated 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 principles used and the reasonableness of accounting estimates made by management.

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

Opinion

In our opinion, the consolidated financial statements give a true and fair view of the consolidated financial position of the Company as at 31 December 2006, and of its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with the Law on Accounting and Auditing of the Republic of Serbia (as published in the "Official Gazette of the Republic of Serbia" 46/2006).

Belgrade, 20 April 2007

KPMG d.o.o. Beograd

(L.S.)

Nina Bulatović
Certified Auditor

*This is a Translation of the Original Auditor's Report issued in Serbian Language
We are responsible for the translation of the Auditor's Report,
and not for any other documents*

Belgrade, 20 April 2007



KPMG d.o.o. Beograd



Nina Bulatović
Certified Auditor

ZORKA NEMETALI A.D.
ŠABAC

**Remarks with consolidated financial reports
for the finished year
31st December 2006**

1 Basic data about the Company

Share holding company for production of non-metal and building material "Zorka Nemetali" Šabac (in further : Company) was founded as a social enterprise and registered under no Fi 205/89 in Commerce court in Valjevo on 1st August 1989. The company has been registered as a share holding company in Commerce court in Valjevo under no. Fi. 1162/99, registration no. 1-413-00.

Accordingly to the Decision of the Agency for privatisation from 9th October 2003 the total capital of the company in value of Din 703.839 thousands has been divided: social capital – 73,82%, shares capital – Zorka Holding Šabac 26,03% and shares capital of employees – 0,15%.

On 26th December 2003 company Alas International AG, Ohlsdorf, Austria, bought 77,71% of shares capital of the enterprise. This change of property was registered in 2004 in the Central register.

During 2004 the company transferred an important part of its property and activities to connected legal persons. Main activity of the company is production and sale of ceramic tiles, production and sale of bricks, production and processing of stone and other non-metal raw materials, production and sale of clay, as well as administration services for connected legal persons.

During 2005 with a purchase of 20.000 shares of the enterprise „Alas Rakovac“ from Novi Sad the company became a major proprietor with 55% participation. With a purchase of 6.647 shares of “Alas Rakovac“ in August 2006 on the stock, the company “Zorka Nemetali“ increased its participation in this connected legal person on 73.96%.

On the 1st of January 2006 a status change has been performed through connection and joining of the depending enterprise Alas Kamen and its dependent enterprise Alas Trans, based on an agreement of connection with joining.

Number of employees: 775

In February 2007 the company “Zorka Nemetali“ a.d. changed its name into “Alas Holding“ a.d. with headquarter in Novi Sad, Jovana Djordjević no.2.

2 Basic accountancy policies

(a) The base for financial reports assembling

In agreement with the law over accounting and revision of the Republic of Serbia, the management of the enterprise compiled these financial statements in agreement with the specified law by application of the accounting principles and generally accepted practice in Serbia.

The overview of the basic accounting politics is represented in Remark 2 to these financial statements.

All amounts of the financial reports of the company are presented in thousand of dinars (RSD). Dinar represents the functional currency and currency in which the financial statements in the Republic of Serbia are represented.

As it is represented in the Remark 16, the company has several connected legal persons. The company compiled these consolidated financial reports for 2006 within the foreseen due date according to the valid regulations in the Republic of Serbia and in accordance with the International accounting standard no. 27.

All amounts are presented in thousand of dinars.

Basic accounting policies applied during presentation of company's financial reports for 2005. are as follows:

(b) Realization

In accordance with regulations, business incomes and other appropriate incomes are showed by invoice value. In realization scope is also included the value change of the output.

(c) Goods and material expenditures

/i/ Expenditures of direct material are referred to raw material and material used for manufacture of product. Material expenditures besides direct material include also the expenditures of remaining material, spare parts, fuel and energy.

/ii/ Expenditures are also referred to purchasing value of the sold goods.

(d) Other business expenditures

Other business expenditures present operative and other business costs.

(e) Interests as income/expenditure

Interests appeared upon liabilities/obligations calculated until the balance sheet date (independent from fact that they are to be payed or attributed to capital), are showed in success balance within the financial incomes/expenditures.

(f) Recalculation of foreign payment resources and accounting treatment of the exchange rate differences

/i/ All resources –demands and obligations in foreign means of payments are recalculated in dinars value upon medium exchange rate on balance sheet date. Transactions in foreign value are showed in dinars upon medium exchange rate valid on transaction date.

/ii/ Positive and negative exchange rates appeared with demand and obligations recalculation in foreign means of payment in their dinars value in balance date are showed in success balance as a part of financial incomes and expenditures.

/iii/ Positive and negative exchange rates appeared upon made foreign currencies transactions during the year are showed in success balance as a part of financial incomes or expenditures.

/iv/ Exchange rates applied on balance date are:

Currency	31st December 2006	31st December 2005
USD	59.9757	72.2189
EUR	79.0000	85.5000

(g) Real estates, plants, equipment and immaterial investments

/i/ Real estates, plants and equipment are shown on 1st January 2004. by value revaluated in accordance with accountancy regulations of Republic of Serbia which were valid in previous period. The value of real estates shown on 1st January 2004 has been presented in accordance with MSFI 1 and accepted as its probably value on that date, for needs in order to compile a starting balance in accordance with MSFI.

/ii/ Real estates, plants and equipment are startly measured by purchasing value. Recourse builded in own management is accepted by cost price, in condition that the price does not exceed the market value. Purchasing value consists of invoice value of purchased goods increased for all the costs arised until they came into use.

/iii/ Amortization of real estates, plants, equipment and non/material investments is calculated for every single mean by rates established by Company's accounting policy – based on valuated usefull validation period of the basic resource. Amortization taxes are defined in the way that purchasing and estimated values of basic resources are amortized in equal annual amounts during their anticipated usage period. Basic amortization rates, which are applied, are:

Description	2006. % year
Construction buildings	2,5 – 5
Equipment	10 – 20
Non-material investments	20

/iv/ Repair and maintenance costs of plants and equipment for the protection of future usage value are accepted as costs in the moment of their appearance.

/v/ Positive differences appeared during the sale of real estates, plants and equipment are recorded in favour of other incomes. Non-write off value of the alienated and entered as expenditure real estates, plants and equipment is compesated on other expenditures burden.

(h) Long-term financial investments

Investments in capital funds of other legal persons are shown in purchase or estimated value. During the period of acquisition, in case of non existing of an activ investment market, they are still shown in their starting value, corrected for an estimated amount of permanent value reduction.

(i) Stocks

Stocks are shown by cost price or by net sale value depending on which-one is lower. Net sale value is a price by which stocks can be sold in normal business conditions after reduction of price for the sale costs. Cost price of unfinished production and finished products includes production costs (raw material, material, energetics, work, spare part and production resources amortization consumption).

(j) Demands upon sale

/i/ Demands upon sale consist of all demands for delivered products and made services. Demands are registered by invoice value.

/ii/ Value correction upon sale is made in accordance with company accounting policy, that writing off is made on individually basis according to the decision of the Administration committee.

(k) Taxes upon profit

/i/ Rating is made in accordance with Taxes and Profit Law. Profit tax rate for 2006. is 10% and it is payed on rated profit stated in tax balance sheet. Profit tax base shown in tax balance sheet includes profit shown in Balance sheet, updated in accordance with Republic Serbia Taxes and Profit Law. This correction include mostly updates for expenditures which do not decrease tax base and increase for the capital funds profits.

/ii/ The profit tax Law does not allow usage of current period tax losses as relapse of payed taxes in particular period. However, loss of the current year can be transfered to the account of profit established by annual tax balance sheet in future periods, but not longer than 10 years. (losses from 2002. can be corrected in future periods, but not longer than 5 years).

/iii/ Calculated taxes can be decreased in amount of 20% of made investments, up to maximum 50% of calculated taxes.

(l) Postponed taxes

/i/ Postponed taxes are rated by using the method of balance sheet liabilities which enables that temporary differences can be seen between Bookkeeping assets values and obligations in financial reports and assets values for the purpose of taxation.

/ii/ Assets admittation is possible only to a limit by which is expected that their bookkeeping ammount will be recompensated in the form of economic gain which inflow in to the Company in following periods i.e. that usage of this assets will enable to accomplish taxing economic gains (rating profit). Assets which succumb to rating is decreased in moments when it is not certain that assets rated economic gains will be realized.

3 Realization

Realization refers to:

In thousands of dinars	2006.	2005.
Realization of products and services		
On domestic market	1.212.837	892.308
On foreign market	257.814	174.026
Realization of goods		
On domestic market	49.135	12.561
On foreign market	1.530	
Incomes from performance and goods activation	5.854	13.879
Incomes from rental fees	7.613	1.240
Value increase of performances stocks	126.336	10.441
Total	1.679.119	1.104.455

4 Financial incomes

Financial incomes refer to:

In thousands of dinars	2006.	2005.
Incomes based on interests	4.919	3.088
Positive exchange rate differences	172.912	10.809
Other financial incomes	11	39
Total	11.008	207.003

5 Other incomes

Other business expenditures refer to:

In thousands of dinars	2006.	2005.
Incomes from sale of real estates, equipment	138.420	5.724
Incomes from liability decrease	10.044	8.550
Other incomes	17.680	38.161
Total	66.726	272.042

6 Expenditures of material and goods

Expenditures of material and goods refer to:

In thousands of dinars	2006.	2005.
Direct material	249.374	207.077
Other material and spare parts	90.230	65.705
Fuel and energy	350.623	235.078
Purchasing value of sold goods	42.981	22.982
Total	733.208	530.842

7 Other business expenditures

Other business expenditures refer to:

In thousands of dinars	2006.	2005.
Gross earnings and earning's refund	323.283	246.106
Contributions on employer's burgen	58.611	43.316
Other personal expenditures	41.838	24.692
Service costs on performance work	110.640	2.501
Advertisement and promotion costs	14.003	8.066
Transportation costs	62.166	34.821
Bank costs	16.520	8.215
Amortization	85.331	56.647
Maintenance costs	40.852	20.088
Research costs	9.267	355
Insurance costs	9.800	2.774
Immaterial costs	69.393	23.469
Other costs	4.839	52.560
Total	846.543	523.610

8 Financial expenditures

Financial expenditures refer to:

In thousands of dinars	2006.	2005.
Interest expenditures	35.192	11.265
Negative exchange rate differences	125.076	47.843
Total	160.268	59.108

9 Other expenditures

Expenditures of material and goods refer to:

In thousands of dinars	2006.	2005.
Expenditures from sale of real estates, equipment	10.683	1.311
Deficits	988	867
Other expenditures	48.972	12.510
Total	60.643	14.688

10 Real estates, plants, equipment and immaterial investments

Changes during the year on real estates, plants, equipment and immaterial investments were as follows:

In thousands of dinars	Capital assets				Total
	in investment preparation	Land (real estate)	Construction buildings	Equipment and tools	
Purchase value					
Situation on 31st December 2005. godine	17.945	83.383	694.734	883.080	473.457
Direct purchases	-	37.925	1.285	37.595	360.377
Transfer from/to	-	3.452	8.041	59.628	71.122
Other decreases	-	(51.773)	(27.643)	(123.178)	(2.316)
Situation on 31st December 2006.	17.945	72.987	673.417	857.124	760.396
Value correction					
Situation on 31st December 2005.	1.272	-	248.453	323.371	-
Amortization for 2006.	3.589	-	17.906	63.836	-
Other decreases-increases	-	-	(10.057)	(109.094)	-
Situation on 31st December 2005.	4.861	-	256.302	278.113	-
Present value on 31st December 2006.	13.084	72.987	420.114	559.709	760.396
Present value on 31st December 2005.	16.672	83.383	446.281	579.011	473.457
					1.845.593
					1.579.503

11 Long-term financial investments

Long term financial investments refer to:

In thousands of dinars	2006.	2005.
Long-term valuable papers		887
Other long-term investments	10.870	10.808
Situation on 31st December	10.870	11.695

12 Stocks

Stocks refer to:

In thousands of dinars	2006.	2005.
Material	103.432	81.634
Tools and inventory	3.167	31.064
Final products	262.949	136.671
Commercial goods	12.862	5.744
Situation on 31st December	382.410	255.113

13 Demands upon sale

Demands upon sale refer to:

In thousands of dinars	2006.	2005.
Buyers – connected legal persons	4.075	9.211
Buyers in the country	273.144	184.044
Buyers abroad	65.340	52.879
Total buyers	342.559	246.134
Value correction buyers in the country	(19.091)	(16.460)
Value correction buyers abroad	(24.468)	(23.917)
Situation on 31st December	299.000	205.757

14 Cash and cash equivalent

Cash refers to:

In thousands of dinars	2006.	2005.
Account	28.448	6.545
Counter	171	317
Foreign currency account	5.404	7.645
Other monetary means	103	88
Situation on 31st December	34.126	14.595

15 Capital and minority interest

a) Foundation capital can be shown as follows:

Capital structure	2006.	2005.
Share fund	1.030.605	865.445
Other funds	146.831	219.488
Legal reserve	21.135	21.135
Not assigned profit	289.093	112.582
Total capital	1.487.664	1.218.650

b) Capital changes may be presented as follows:

	Share fund	Other capital	Reserve	Not assigned profit	Total
01.01.2006	865.444	219.489	21.135	112.582	1.218.650
Additional capitalization	165.161				165.161
Correction of initial situation (income tax)				5.880	5.880
Decrease of minority interest		- 99.882			- 99.882
Goodwill - Alas Rakovac				- 10.769	- 10.769
Period result		27.224		183.144	210.368
Other				- 1.744	- 1.744
TOTAL	1.030.605	146.831	21.135	289.093	1.487.664

Zorka Nemetali has purchased in August 2006 at the stock 6.647 shares of the enterprise Alas Rakovac, with which they increased their participation in this enterprise on now 73.96%. The participation increase will be reflected in the capital structure first of all on minority interest which makes 99.882 thousands Dinar less compared to the initial situation.

Primary earning per share is: net income : number of shares
 210.369.000 : 1.030.605 = 204.12 Din/share

16 Long-term liabilities

Long-term liabilities refer to::

In thousands of dinars	2006.	2005.
Liabilities which may be converted into capital funds	162.423	165.195
Long-term credits	432.399	318.106
Other long-term financial liabilities	22.407	33.479
Situation on 31st December	617.229	516.780

Long-term liabilities which may be converted into capital funds are obligation of Alas International. Mentioned obligations arised based on shipments of equipment aimed as non-monetary additional capitalization based on a purchase contract.

17 Short-time financial liabilities

Short-time liabilities refer to::

In thousands of dinars	2006.	2005.
Short-time credits in the country	31.575	139.455
Short-time credits abroad	180.254	8.549
Other short-time financial liabilities	42.442	1.662
Situation on 31st December	254.271	149.666

18 Obligations towards to suppliers

liabilities towards to suppliers refer to:

<u>In thousands of dinars</u>	<u>2006.</u>	<u>2005.</u>
Suppliers - connected legal persons	9.521	4.343
Domestic suppliers	144.693	137.121
Foreign suppliers	105.629	106.541
Situation on 31st December	259.843	248.005

19 Postponed tax resources

In accordance with MRS 12 the Company has ratified postponed tax liabilities appeared upon differences in amount of assets in tax balance sheet and financial reports in amount of Dinar 974 thousands.

20 Connected legal persons

Zorka Nemetali transferred in 2004 an important part of their property to its dependent enterprises. The overview of dependent enterprises and participation is shown in following table:

Name	Participation %
Zorka Keramika	100 %
Zorka Opeka	100 %
Zorka Alas Kamen	100 %
Zorka Održavanje	100 %
Alas Ostrvica	100 %
Alas Rakovac	73.96

During 2005 the dependent enterprise "Zorka Alas Kamen" has founded its own two dependent enterprises "Alas Trans" and "Alas Ostrvica", located in Gornji Milanovac, with 100% participation.

The dependent enterprise "Zorka Alas Kamen" performed on 01.01.2006 a status change by connection and joining of its dependent enterprise "Alas Trans".

In February 2007 the company "Zorka Nemetali" changed its name into "Alas Holding" a.d., with headquarter in Novi Sad, Jovana Djordjevića no.2.

Person in charge – compiler
of the financial reports
N. Radivojević

Legal representative
S.Pavlović