

**FINANCIAL REVIEW  
OF THE BOARD OF DIRECTORS  
FOR THE FINANCIAL YEAR 1/1 - 31/12/2007  
S&B GROUP AND THE MOTHER COMPANY S&B INDUSTRIAL MINERALS S.A.**

2007 was a strong year for the Group of S&B Industrial Minerals S.A., in line with expectations. The industrial minerals-based businesses, in a robust market setting, had solid organic growth. Moreover, with a combination of acquisitions and expansionary investments, the Group was able to further strengthen its competitive position in most segments. Furthermore, in 2007 many opportunities have surfaced that will be addressed in 2008 with a streamlined organization, focused on the Group's natural resources based Purpose and Mission.

The global markets in which the Group is active continued to move upwards, offering significant opportunities for topline growth. Nevertheless, strong competitive pressures were also experienced, due to the more than doubling of sea freights compared to 2006, rising energy costs, particularly in the last quarter, and continuous weakening of the dollar versus the euro.

The S&B Group, taking advantage of the opportunities and facing up to the challenges, through its pricing policy, as well as improvements in productivity and in the value-in-use of its products, achieved healthy growth in both sales and profits.

During 2007 a number of significant strategic **acquisitions** were also concluded. More specifically:

On April 20, 2007, the acquisition of 50% stake in CEBO International B.V. (CEBO) was completed. CEBO owns a production facility in IJmuiden in the Netherlands and is active (through subsidiaries in The Netherlands and in Great Britain) in high value-added minerals based products (mainly on bentonite and barite), chemical products and services for the oil and gas industry in the North Sea, holding a leading position in this market. Furthermore, CEBO sells bentonite-based products for iron-ore pelletizing, civil engineering applications and pet litter absorbents. The purchase price stood at about €26.6 million. This acquisition enables S&B to strengthen its presence in the oil and gas drilling market and to further improve its leading position for bentonite products in other industrial markets.

In July 2007, the Group acquired from OMYA GmbH a bentonite processing plant situated in the Neuss port on the river Rhine in Germany. The purchase price of the assets, including inventories, was about €4.2 million. The new plant is utilized for processing white bentonites, enhancing S&B's competitive advantage for faster growth in the specialized and rapidly evolving uses of high value-added white bentonite products, such as for the production of paper, paint and detergents.

On October 3, 2007, the S&B Group acquired the bentonite and lustrous carbon activities of "The Hill & Griffith Company" in the U.S.A. This activity comprises the design and production - in four blending plants- of proprietary, bentonite-based sand binders used in the U.S. foundries for casting applications. The purchase price was \$13.4 million, including product inventories of

\$1.7 million. This acquisition, offering a complete production and logistics network in central U.S.A., represents one more step towards the Group's strategy for geographical expansion of bentonite related products.

In November 2007, S&B Industrial Minerals S.A. signed a Memorandum of Understanding (MOU) with Public Power Corporation (PPC) Renewables S.A. with the ultimate goal to jointly explore, operate, and utilize the geothermal field of the Milos - Kimolos - Polyaigos island complex. The MOU provides for an economic and technical study to evaluate the specific geothermal field, as well as the preparation of a long-term business plan for its exploitation that will consider all factors involved in such an activity. The final decision regarding the realization of the project and the partnership terms between the two companies will be determined when all the above have been completed. With this MOU an opportunity opens up for the Group to develop in a new environmentally important business activity, which will, to a very large extent, be based on S&B's deep know-how in the extraction industry and its long history and experience in cooperating with the local communities.

### **Discontinuing Operations**

The Board of Directors of the mother company in its meeting of December 20<sup>th</sup> 2007 decided to propose to an Extraordinary General Assembly called for January 11, 2008 the carve-out, directly to the S&B shareholders, of a participation interest held in Motodynamics S.A., belonging to the Commercial Activities segment of the Group. Pursuant to the approval of the proposal by the General Assembly, the necessary approval by the pertinent authorities was obtained within January 2008 and the carve-out was completed on February 21, 2008. The carve-out was carried out through the distribution to S&B's shareholders of 2,806,969 Motodynamics shares (out of the total 2,936,540 number of shares held by the Group), in the ratio of 1 Motodynamics share for every 11 S&B shares, while the remaining fractional balances were settled in cash.

With this action Motodynamics with an autonomous investment strategy can develop its full potential in activities which are very different from those of S&B's industrial minerals. For S&B, the carve-out brings the company closer to its core business focus and purpose: "to provide innovative industrial solutions by developing and transforming natural resources into value creating products".

## ***Consolidated (Group) Results***

### **Total results**

In 2007 the total consolidated sales of the S&B Group reached €535.4 million, up by 17.5% from the previous financial year 2006. EBITDA (earnings before taxes, financial and investment results and depreciation) reached €72.1 million reflecting an increase of 9.0%. Operating profits (earnings before taxes, financial and investment results) increased by 12.9% reaching €45.4 million. Pre-tax profits went up by 9.5% to €37.5 million, while net profits reached €26.7 million, up by 13.3% from the previous year. Net profits after minority rights were higher by 16.2%, amounting to €25.67 million, and earnings per share stood at €0.84, up by 15.2% from the €0.73 of 2006.

The Return on Equity (ROE), which results from net Group profit (after tax and minorities) divided by the shareholders equity, was 12.7% for 2007, versus 12% for 2006.

Significant changes in the consolidated Balance Sheet are related to capital expenditures, investment expenses and acquisitions effected within the year, as well as increased working capital requirements. Net debt on December 31, 2007 stood at €210.5 million, higher by €52.4 million from the beginning of the year.

Net cash flow of Industrial Minerals activities, on account of €38.8 million for acquisitions and €26.0 million for capex was a negative €35.9 million versus a positive €16.1 million in 2006. It is noted that in 2006 investments for subsidiaries and capex were €0.8 million and €21.1 million respectively.

Adding to the above the Commercial Activities, in 2007 there was a net cash outflow of €51.7 million versus a net cash inflow of €13.8 million for 2006.

### **Continuing Operations Results**

As a result of the carve-out of Motocynamics S.A., its assets and liabilities as of December 31<sup>st</sup> 2007 along with its income statements for the financial years 2007 and 2006 were reclassified and thus, for comparison purposes, the results of the S&B Group are published with and without the Discontinuing Operations.

For the Continuing operations, which are the basis of comparison for the future, consolidated sales in 2007 were €448.7 million, higher by 19.8% versus 2006. EBITDA and operating profits of these operations stood at €65.7 million and €39.8 million, reflecting increases of 9.4% and 14.0% respectively. Similarly, profits before taxes and after taxes were €32.3 million and €23.0 million, up by 11.3% and 15.9% respectively. Net profits after minority rights were higher compared to 2006 by 18.4%, at €23.1 million and profits per share amounted to €0.75 versus €0.64 in the previous year (+17.2%).

On the basis of the 2007 results, the Board of Directors of S&B Industrial Minerals S.A. will propose to the General Assembly Meeting of shareholders (May 14, 2008) a dividend of €0.31 per share versus €0.30 per share given in the previous year. The proposed dividend implies a pay-out ratio, on the profits of the Continuing Operations, of 41.5% and, based on the March 12, 2008 closing share price (€10.30) a yield of 3.0%. Moreover, as a result of the carve-out, S&B shareholders have received 1 Motodynamics share for every 11 S&B shares. Based on the price of the Motodynamics share on the day of the carve-out (€5.10), the value of this transaction represents € 0.46 per S&B share.

### **Industrial Minerals Activities (IMA)**

The Industrial Minerals Activities of the Group, after the carve-out of Motodynamics S.A. represent 94.3% of the sales of Continuing Operations. In 2007, total consolidated sales of Industrial Minerals reached €423.3 million, showing an increase of 19.1% in comparison to 2006. EDITDA profits rose to €64.5 million and operating profits to €39.4 million, reflecting increases of 9.5% and 14.3% respectively. Profits before taxes were higher by 12.2%, at €32.1 million. Net profits, favored by a lower effective tax rate, were higher by 17.3%, at €23.3 million, while after minorities the net profits of these Activities reach €23.4 million, up by 19.7% from the previous financial year.

The robust sales and profits growth of Industrial Minerals Activities is the result of: (a) Healthy organic top line growth by 10.2%, the pricing policy followed, improvements in productivity and a more favorable product mix of sales. (b) The incorporation (from May 1, 2007) of CEBO's acquired share (50%) which contributed about €18 million in sales and €2 million in profits before taxes, and (c) The, for the first time, proportional consolidation of accounts of the continuous fluxes activities (Stollberg) in Asia (China and S. Korea).

In **Bentonite**, sales increased by 26.9% reaching €173.0 million, as a result of healthy organic growth in all markets and the incorporation of CEBO's sales. The strong efforts made in the last few years for further geographical expansion and promotion of new products and applications of bentonite, on the basis of its "market to mine" strategy, brought very positive results in 2007.

The CEBO acquisition, in combination with the leveraging of S&B's extensive bentonite reserves, further strengthens the presence of the bentonite division with high value added products in the oil and gas drilling market, and it also enhances its leading position in the other industrial applications. The acquisition of the Hill & Griffith activity allows this division to offer to the American foundry market broader customized industrial solutions close to its new customer base in the U.S.A. The acquisition of the OMYA plant at the Neuss port in Germany, is combined with the decision to construct a bentonite processing plant in the Nador region of Morocco, intended for the processing of white bentonite coming from the new reserves identified and developed in Morocco by S&B. These new links in the "market-to mine" chain of white bentonite products opens new prospects of development in the rapidly growing specialized value-added white bentonite product applications worldwide. Moreover, the new reserves and production base in Morocco adds a significant advantage to the already existing ones in Greece, Germany, Bulgaria, Hungary, Georgia and the USA.

In **Perlite**, sales reached €76.3 million showing an increase of 3.2%. For perlite 2007 was a difficult year as more than 30% of its sales are directed to the American market, which had to deal with the continuous weakening of the dollar and the sharply increased sea freights, along with the downturn in the American building materials market. The unfavorable developments in the American market were counterbalanced with the steady development in the European markets where the Group's market share was further increased, particularly in the construction and building materials applications. Also, the dynamic growth of expanded perlite continued, with sales in Spain and Bulgaria reaching new record levels, while expanded perlite sales in Greece were affected by the slow-down in housing construction. Finally, in 2007 efforts to develop new innovative value-added perlite products and applications were intensified and are expected to bring positive results within 2008.

For **Bauxite**, 2007 was a year of significant developments which provide new opportunities for dynamic development in the future. Sales were increased by 12.3%, reaching €48.6 million, with bauxite coming from the alternative sources of supply developed by S&B in Sardinia and Turkey, while production in Greece remained at about the 2006 levels, due to a pending decision by the Council of State.

At the end of July, the final decision of the Council of State was issued allowing the continuation of exploitation of S&B bauxite deposits in accordance with the environmental terms determined by the pertinent Common Ministerial Decree, with the exception of certain, specifically designated, deposits. Following this decision, the production and investment programs of the Fokis mines are gradually restored to the required levels, allowing the Company to pursue significant new opportunities in the international bauxite market.

In November 2007, a preliminary agreement was signed with the Western Way for Industrial Development Co. Ltd Saudi Arabia for the supply of 1.1 million tons of Greek bauxite annually, and for a period of 10 years, to an alumina refinery to be constructed south of the city of Jeddah near the Red Sea in Saudi Arabia. The final agreement, the basic terms of which have been agreed, is expected to be signed in 2008.

Finally, in 2007, in its effort to further develop international bauxite mining activities, S&B acquired a temporary license from Sardinia's Local Government to exploit bauxite reserves in the area of Alghero in northwest Sardinia. Finalization of formal procedures to obtain the full concession for this 3.000 hectar mining area is expected within 2008.

In **Continuous Casting Fluxes (Stollberg)** sales grew by 25.7% reaching €87.4 million, as a result of robust organic growth and the full consolidation, for the first time, of this division's subsidiaries in Asia (China and S. Korea), which added approximately €10.7 million in sales. Stollberg took advantage of the continuing favorable conditions in world steel production, particularly in the rapidly developing markets of Russia and China and, in parallel, succeeded in further promoting new innovative customized solutions for the steel industry. Production

capacity, particularly for the granulated materials, was significantly increased, with a new spray dryer that started operations in June at the Oberhausen plant in Germany, which added more than 30% of new capacity. It was also decided to double the production capacity of the China plant, in response to the continuing rapid development of the world steel industry.

The **Otavi** division, which processes and trades or sells a variety of specialty minerals either from its own sources -such as wollastonite- or from worldwide supply partnerships, increased its sales by 17.7% up to €37.5 million, with emphasis on the ceramics and metallurgy markets. Otavi's reliability as a provider of specialty minerals, such as wollstonite, spodumene and alumina containing materials for refractories allows this division to further penetrate the ceramics, refractories, metallurgy and foundry markets where prospects are particularly positive.

### **Commercial Activities**

Commercial Activities had a total sales increase of 11.9% reaching €112,4 million. More specifically, the Discontinuing operations of Motodynamics S.A. had consolidated sales of €86.7 million, up by 7% from the previous year. The corresponding operating profits were higher by 6.3%, at €4.6 million, and the net profits after minority rights stood at €2.6 million. The Continuing operations of Ergotrak S.A. achieved a sales increase of 32.3%, reaching €25.8 million. Operating profits stood at €0.7 million and net profits (after minorities) at €0.1 million.

### **Real Estate**

In 2007, the Real Estate sector had an EBITDA contribution from rents of €0.3 million compared to €0.2 million in 2006. All appropriate real estate properties of S&B are rented and new opportunities are being continuously examined for the further development of the Company's investment properties.

### ***Mother Company results***

The mother company of the Group, S&B Industrial Minerals S.A., realized sales of €153.0 million, up by 9.7% versus the previous financial year. Operating profits (before taxes, financial and investment results) stood at €6.5 million, lower from the corresponding €14.9 million of 2006, due mainly to the sharply increased freights and higher extraordinary expenses. Profits before taxes amounted to €18.2 million, showing an increase of 43.4% from the previous year, part of which is due to considerably increased dividends from subsidiaries recognized in the financial statements of 2007. Net profits after taxes were higher by 25.1% reaching €13.2 million.

### ***Entrepreneurial Risks***

In an effort to systematize the corporate risk management processes of the Group, in 2006 a special report was compiled, in cooperation with a specialized external firm, for the risks which could possibly have a significant negative impact on the operational activities, the financial statements, the profitability and the cash flows of the S&B Group, and the way these are managed. The full Risk Report of the S&B Group was attached in last year's Board of Directors Financial Review and forms the basis on which measures are being taken for managing the main risks that arise and which are: Transport risks, Energy Price risks, Raw Material risks, Environmental risks, risks of Health, Safety, and Quality, Insurance risks, Legal risks, risks of Permit Rights and Financial risks.

Moreover, the Company recently absorbed Parnassos S.A., the subsidiary handling insurance coverage for operations in Greece. With the incorporation of the Parnassos activities in the

Financial Management Division of the Group, the Company will be able to have a complete and comprehensive insurance coverage management approach for the whole Group, aiming at cost reductions and a more effective insurance coverage of related risks.

### *Prospects*

2008 has started with macro economic uncertainty characterized by the credit crisis, affecting many financial institutions, turmoil in the capital markets and recessionary prospects for the United States. Despite this uncertainty and instability, we believe that the current year offers many opportunities for continued profitable growth of our Group's activities worldwide. Demand for materials remains strong in the markets of our minerals-based businesses, but, at the same time, inflationary challenges are increasing. We believe that our strong positions in the world markets we serve, combined with our continued and concerted efforts at all levels to counterbalance the challenges through improvements in productivity and value-in-use of our products will allow us to achieve further dynamic growth along with steady profitability

Our strategy to expand and extend our businesses continues with determination. We believe that the current environment presents us with suitable opportunities for further acquisitions, consistent with our strategy.

In November of 2007, we announced a realignment of our leadership team, which has been implemented since 1/1/2008. This realignment, aside from providing development opportunities for our executive team, enables us to focus on our natural resources growth strategy to accomplish the goals of our Mission.

**EXPLANATORY REPORT  
OF THE BOARD OF DIRECTORS OF  
“S&B Industrial Minerals S.A.”  
ACCORDING TO ARTICLE 11a, Par. 1, LAW 3371/2005**

The present explanatory report of the Board of Directors provides all information required by the provisions of paragraph 1 of article 11a of Law 3371/2005.

**1. Shareholders Capital Structure**

The company's shareholders capital amounts to €30,876,660, divided into 30,876,660 shares with nominal value of €1.00 each. All company shares are common registered ones with voting right and they are traded on the main market of the Athens Exchange.

**2. Limitations in the transfer of company stock**

Stock transfers and trading in general is executed according to the law with no limitations arising from the Articles of Association.

**3. Important direct or indirect participations according to the provisions of Presidential Decree 51/1992.**

As is evident in the records of the company's Shareholders Book as of February 28, 2008, Mrs Catherine-Kitty Kyriacopoulos owns 49.891% of the voting rights, and the company "Lansdowne Partners Limited Partnership" owns 11.114%, through five different funds registered under the name of "Morgan Stanley & Co International Plc" as custodia. Apart from the above-mentioned, no other person or corporate entity owns a percentage higher than 5% of the company's voting rights.

**4. Share owners with special controlling rights**

Non-existent

**5. Limitations in voting rights**

Non-existent

**6. Agreements between shareholders of the company**

The company is not aware of the existence of agreements between its shareholders that entail limitations in stock transfers or in voting rights derived from their shares.

**7. Rules of appointment and replacement for members of Board of Directors**

There is no differentiation from what is foreseen in the provisions of Law 2190/1920.

**8. Authority of the Board of Directors or of certain BoD members for the issue of new shares or buy-back of own stock**

According to article 3, paragraph 2, of the company's Article of Association, during the first 5 years from the company's foundation or within 5 years from the relevant decision of the General Assembly, the Board of Directors has the right, with a decision based on the majority of 2/3 of its total members, to increase the Shareholders Capital by issuing new stocks. The amount of the capital increase cannot exceed the initial paid-in Shareholders Capital, or the Shareholders Capital already paid-in at the date on which the General Assembly made the relevant decision. The above authority of the Board of Directors may be renewed by the General Assembly for a time period that cannot exceed five years for every renewal.

**9. Significant agreement which the company has signed and which comes into operation, is amended, or expires due to a change in the company's ownership structure following a Public Offer and the results from such an agreement.**

There is no such agreement.

**10. Agreements between the company and members of Board of Directors or employees that anticipate compensation in case of resignation or discharge without a well founded cause, or termination of service or employment due to the Public Offer.**

There is no such agreement.

Kifissia, March 13, 2008

For the BoD

The Chief Executive Officer

**Efthimios O. Vidalis**