

# ACTIVITY & PERFORMANCE REVIEW 2006



GENERAL MINING &  
METALLURGICAL COMPANY



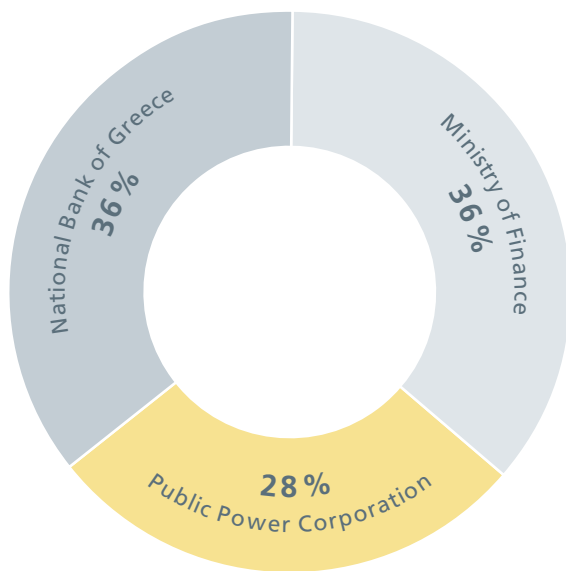
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“2006 was a milestone year for LARCO, with our financial results highlighting the success of the company's turnaround.”

## 2006 PERFORMANCE HIGHLIGHTS



LARCO ownership breakdown

- In 2006 despite technical production problems, we maintained a 40% market share in Europe. This places us among the top 5 leading ferronickel producers in the world, ranking globally as one of the most profitable in terms of return on equity over 2 years of both high and low prices
- We enjoyed a €346m turnover in 2006 (+46%) and EBT of €31m (+57%)
- We produced 17,737 tons of contained ferronickel
- We consolidated our 6-7% share of the European nickel market supplying leading steel makers
- We employ 1,300 staff - directly and indirectly - making LARCO one of the largest employers and contributors to GDP in Greece, with 4 main mining areas across Greece and a smelting facility
- We remained one of the largest investors (€35m) and exporters in Greece (2.1% of Greece's exports)
- Reserves and resources in excess of 1 million tons of contained nickel that stand at 50 years of production
- We are the largest metallurgical plant in Europe (excluding Russia)
- We have started to incorporate the principles of sustainable development in the procedures of decision-making of our company
- We are actively seeking more environmentally friendly technology and programming its implementation
- Our ambitious investment programme, in line with our long-term strategic vision and global positioning, is now moving to the second stage of growth through acquisitions



## CEO REVIEW

I am delighted to report that 2006 was a milestone year for LARCO, with our financial results highlighting the success of the company's turnaround, made possible thanks to the combined efforts of our management and employees. It has been a year of increasingly good financial results and a strong second financial year in which we built on the successes of 2005.

Until recently, LARCO's high cost structure - especially in terms of energy, production and high personnel costs - made it difficult for the underlying business to be profitable and globally competitive. Last year, however, our cost restructuring programme was brought into effect, resulting in substantially increased profit margins. Our management succeeded in securing adequate financial resources to expand the business, by building as well as establishing relationships with banks. We were helped in our efforts, too, by the fact that the 2006 nickel market condition was extremely healthy.

2006 was also a year in which the company laid the foundations for work, already underway at the time of writing, to address and resolve many of the other issues that once presented obstacles to LARCO's effort for restructuring and long-term growth.

LARCO's long-term business strategy has been upwardly revised to facilitate the company's expansion and diversification to other areas relevant to its core business activity, in order to maximise the exploitation of our resources and comparative advantages.

Given LARCO's high level of technical knowledge and expertise and our long history of operation as one of the greatest ferronickel producers in the world, we firmly believe that strong growth potential can and will be achieved through our carefully implemented expansion and diversification plan.

In conclusion, as a board and a company, we are supremely confident in LARCO's future being one of remarkable and consistent success.

**Constantine Thanassoulas**  
CEO



Positive change  
Respect for the best of the past  
Active and proactive  
Leadership  
Forward looking  
Outward facing  
Confident

## OUR BRAND

In 2005 we started a review of how we were seen in the market as well as by our stakeholders and other audiences. We then developed a strategy to improve the perception of LARCO as a brand. This included a definition of our values and strategy, together with a new identity which was introduced in 2006 and is being rolled out into 2007. This new identity is a key tool in helping transform how the company is seen both internally and externally.

Old brand LARCO was perceived as negative and backward thinking, with a local perspective. New brand LARCO reflects the passionate ethos of today's vibrant company; respectful of our heritage but positive, forward thinking and a proactive world player with a shared vision for the future.

### Sharing the vision

In the past, old LARCO had many different departments in different locations, with different functions, each working in different directions.

There was no common vision.

In order to achieve new LARCO's long-term goals, despite - or perhaps because of - our many diverse locations and functions, it was seen as essential to develop and provide a common unifying vision which we could share with our, labour unions and employees, our suppliers and customers, our shareholders, our local communities and our Government.

### Defining the vision

Today, the LARCO vision is clear: to be the preferred multi-national organization to deal with in our chosen markets, with a worldwide reputation for entrepreneurial, yet sustainable development.

Under this shared vision, our directors, managers and employees are being motivated to boost LARCO productivity and performance as never before.

Our ambition, of course, is to become one of the most profitable ferronickel producers in the world.

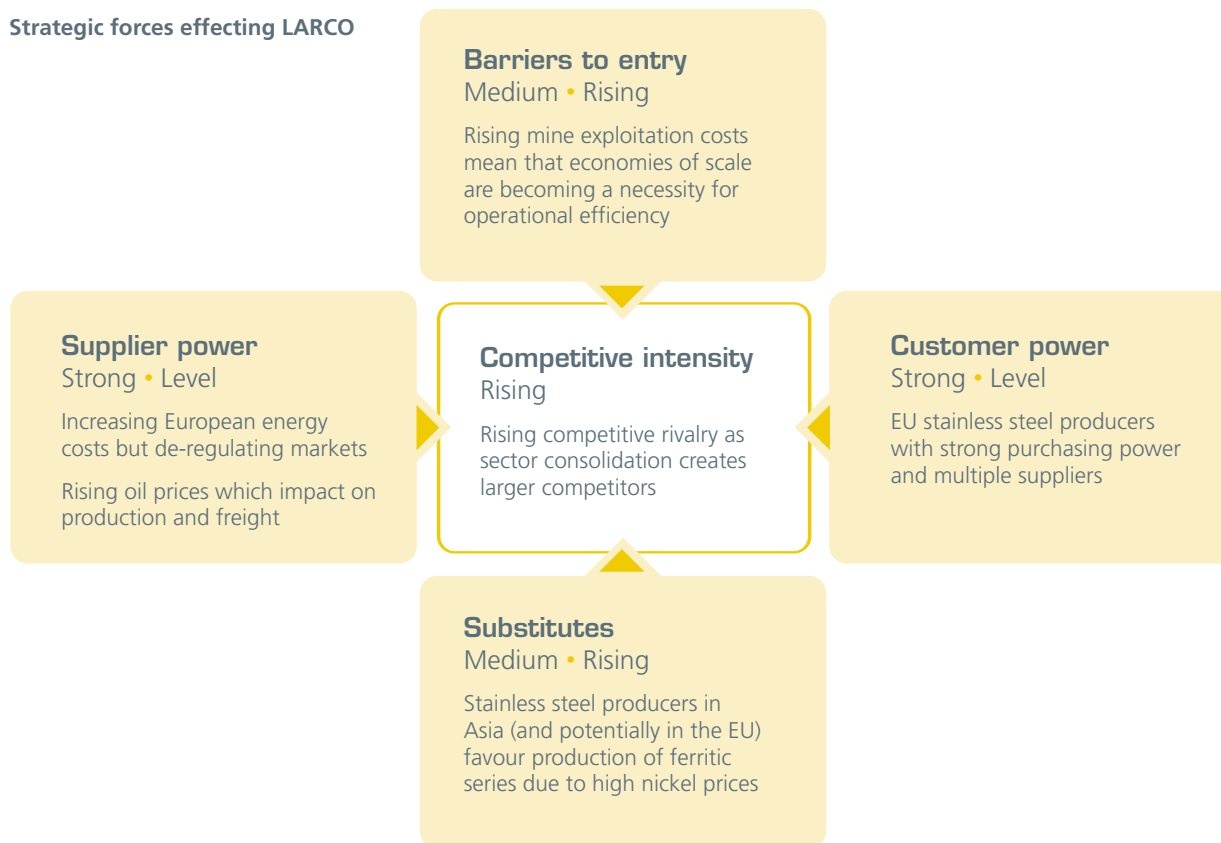
However, our mission is not to succeed at any cost. LARCO aims to provide a return to our shareholders and communities through the sensitive development of natural resources and by constantly updating investment in new technologies and human capital. The new LARCO way of working is with respect for our customers, partners, employees, shareholders, neighbours and for our environment to deliver mutual benefits.

In terms of our human and capital resources, we have never been better placed to fulfill our vision, financially, technologically and sustainably.



PASSION, VISION  
AND EXPERTISE ARE  
AT THE HEART OF  
OUR NEW ETHOS

## Strategic forces effecting LARCO



# OUR STRATEGY

LARCO's spirit of innovation, together with the knowledge and expertise of our staff has seen the company overcome many difficulties to become the largest European nickel producer as well as suppliers' first choice for granulated ferronickel. This tradition of innovation continues today through our pioneering approach to sustainable development.

## LARCO's strategic objectives for continued and growing success in 2007 will be:

1. To increase our margins and profitability through developing lower costs options by:
  - Generating own power
  - Securing more supplies of ore, outside of Greece
  - New production methods
2. Building new income streams by:
  - Developing customers outside Europe
  - Finding markets for by-products
  - Finding new customers for shipping and logistics
  - Developing our environmental sustainability consultancy
3. To invest in human and technological capital to deliver on the above.
4. To be recognized as innovators and thought leaders in our chosen sectors.



## The 4 pillars of our new business model



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LARCO aims to move from being a 'sales organization' to a market-oriented entrepreneurial company.

### Our new business model

To facilitate the achievement of long-term goals, we have developed an exciting new business model to build-in continual improvement into the business as we move forward.

The four pillars of this are: operational efficiency, operational responsiveness, product differentiation and customer intimacy.

Product differentiation and customer intimacy are the pillars we aim to develop to increase our revenue, while operational efficiency and operational responsiveness will help us drive down costs.

# ASSET REVIEW



LARCO has a total of 8 operational surface mines, 1 underground mine, 1 lignite mine and a smelting plant.

Of our mines:

- Evia has proved reserves that are equivalent to 259,000 tons (or 259Kt) metallic nickel and a mine life of 23 years
- Agios Ioannis has a proven reserve of nearly 91,000 tons (or 91Kt) metallic nickel and a life of over 16 years
- Kastoria has a reserve of nearly 34,000 tons (or 34 Kt) metallic nickel and a mine life of around 12 years

The cost of nickel mining continues to rise year on year. Nonetheless, the 2006 nickel market condition was extremely healthy and we continue to seek and implement measures to reduce these costs.



## Kastoria Mines

Inferred resources	<b>0.5Mt</b>
Indicated resources	<b>1.7Mt</b>
Measured resources	<b>3.3Mt</b>
Total resources	<b>5.5Mt</b>
Resource grade	<b>1.32% Ni</b>
Mineable proven reserves	<b>2.9Mt</b>

## Servia Lignite Mine

### Larymna Smelting Plant

Nickeliferrous ore capacity	<b>2.5Mt</b>
Output per year	<b>18,000t - 20,000t</b>
Nickel content	<b>18% - 24%</b>

## Evia Mines

Inferred resources	<b>2.0Mt</b>
Indicated resources	<b>62Mt</b>
Measured resources	<b>164.3Mt</b>
Total resources	<b>228.3Mt</b>
Resource grade	<b>0.83% Ni</b>
Mineable proven reserves	<b>29.3Mt</b>

## Agios Ioannis Mines

Inferred resources	<b>16.8Mt</b>
Indicated resources	<b>15.3Mt</b>
Measured resources	<b>34.1Mt</b>
Total resources	<b>66.2Mt</b>
Resource grade	<b>0.77% Ni</b>
Mineable proven reserves	<b>9.4Mt</b>



+ 2 operational surface mines



+ 3 operational surface mines

+ 3 operational surface mines  
1 operational underground mine



2006 was the fourth successive year of global growth in excess of 4% and a performance not achieved since the period 1976-80.

## GLOBAL ECONOMIC CONDITIONS

### The global economic conditions for commodities

The 2006 global economy has coped well with notable shocks in oil, in politics and in finance. The impact of the US crisis caused by their banks over-lending to sub-prime economic groups seems manageable.

Global GDP growth volatility is low and growth is more highly synchronised. In 2006, global GDP, measured in purchasing power parity terms, grew by 5%. This was the fourth successive year of global growth in excess of 4% and a performance not achieved since the period 1976-80.

This sustained growth record has been a powerful driver of the current cyclical strength in commodity markets. Chinese growth was an important contributor to global growth. But it is important to recognise that China was not the only driver. Even when China is excluded from the statistics, global growth was strong over the four year period. Strong world growth and very strong resource-intensive Chinese growth continue to boost commodity demand.

During 2007, global economic activity is expected to slow compared with 2006, as the US economy loses speed. But overall growth is still expected to exceed 4%, with strong growth in China and solid growth expected in Japan and Europe. Historically, such a level has been sufficient to sustain good demand growth for most commodities.

### The global outlook

Demand-led growth has continued to drive the market since 2006. In 2007 to date, global growth surprised on the upside, with the notable exception of the US.

- Global GDP growth for 2006 was calculated at 5.2%
- Global GDP growth estimate for 2007 has been raised to 4.8% from 4.7%
- Chinese economy has continued to show impressive strength despite policy-induced slowing set in place by Government in second half of 2006
- China achieved GDP growth of 10.4% in 2006 and is forecasted to achieve 9.8% for 2007

In general, the past 12 months have been positive for global equity markets with only some sell-off due to fears of a China slowdown causing volatility in early 2007, especially among emerging markets. This now appears to have been no more than a minor bull-market correction, with markets having since stabilised and now approaching historic highs once again.



## Recent major economic themes have included:

### Continued strength

- Global equity markets have stabilised and are touching all time highs, particularly in the US, where the reporting season has been strong
- Oil is providing a boost. Although the situation in Iran is providing some upward pressure, crude oil has averaged around \$59 over the last six months, down from \$66 in 2006

### Inflation concerns

- Robust global growth has been accompanied by inflation concerns
- 2006 showed a slowing of upstream price pressures as a result of slowing US growth
- 2007 has shown industrial commodity prices moving higher and inflationary pressures starting to build again

### Interest rates still favorable

- Global interest rates are still below nominal income expansion, constituting a still favorable monetary stance
- Interest rates are expected to rise although, to date, increments have been widely anticipated and conservative

### Ongoing property market boom

- Sustained housing market boom for all major developed countries except the US
- Money supply growth driven by release of equity seen by some as inflationary pressure
- Deterioration in the US sub-prime mortgage market is an ongoing concern and may impact further on global growth

### Dollar and yen weakness

- Further US dollar and yen weakness could be ahead
- US economy is operating at near full capacity and core inflation is running above the Fed's preferred range
- Low domestic interest rates in Japan have reduced home bias resulting in strong capital outflows

In 2006, nickel outperformed all metals, driven by the unstoppable appetite of the hedge fund community and strong macroeconomic fundamentals.

## THE COMMODITIES MARKET

Inflows into the specialist commodity fund sector in January 2007 were just under \$US2b at \$1.85b. Inflows in February were very modest - at just \$33m.

Total funds under management is equal to \$54.8b. This is in addition to the passive money that has entered the sector via commodity linked notes (retail and institutional), but includes Exchange Traded Funds and commodity specialist fund managers.

The expectation is that there will be more allocations into the sector via less passive strategies going forward.

Total funds invested in the sector were roughly \$110b to \$120b which should grow around \$20b - \$30b this year.

### 2007 metals and mining sector performance

The metals and mining sector is currently experiencing a period of mergers and acquisitions, fuelled by major factors such as the need to diversify company portfolios and replace reserves. Headline-grabbing examples in the nickel industry, in the past year have included the acquisition of Inco by CVRD and Falconbridge by Xstrata.

### Metals and mining sector, then and now

The past four year period has seen an exponential growth in the number of single-region, single-commodity operators merging to create much larger multi-region, multi-commodity conglomerates. The market place today is becoming one of an ever shrinking number of ever larger operators.

In the current market environment, as well as through the cycle, diversified mining companies command a premium when compared to their single commodity competitors, with the notable exceptions of gold and aluminium producers.

LARCO IS ONE OF THE  
LARGEST EMPLOYERS  
AND CONTRIBUTORS  
TO GDP IN GREECE

+



During 2006, nickel prices rose to unprecedented levels, supported by the low stock inventories of nickel coupled with a higher investor appetite for commodities.

## THE NICKEL MARKET

### 2006 nickel demand

#### Stainless steel production increase

Nickel consumption was well supported by the increase in stainless steel production last year. This was expected given the de-stocking that had occurred in 2005 and the increasing demand by the BRICS alliance (Brazil, Russia, India, China, South Africa) - especially China.

#### Non-stainless nickel demand in upward trend

Nickel consumption was also strong in high-nickel alloys such as those required by aerospace and industrial gas turbines manufacturers, as well as in specialty products like hybrid electric vehicles and batteries. In nickel-plating, there is some substitution due to the high prices.

### The emergence of alternative sources

There was a limited rise in nickel demand for traditional producers such as LARCO, Inco, BHP and Eramet, due to losses for technical or social reasons (+31,000t versus 2005)

#### However, alternative sources kept this rise small:

- Opportunistic development of Chinese production of nickel pig iron of about 26,000t
- Low grade ore being imported and melted in blast furnaces
  - A product with a low nickel content of only 2% to 6%
  - Additional supply is provided by nickel pig iron, containing 1% to 2% nickel, as traditional producers have limited capacity to increase their production in the short-term





## The outlook for nickel

The high prevailing nickel prices could lead to substitution and a more moderate growth for austenitic stainless steel - which has a higher nickel content. This is despite the 'China' effect whereby China will need anything up to an estimated 240,000 additional tons of stainless steel per year by 2009.

China is now effectively driving the metals market, having surpassed Japan as the biggest consumer of stainless steel in 2006. It is estimated to need around 180,000 to 240,000 additional tons of stainless steel each year by 2009. China is expected to account for 30% of world commodity demand by 2010.

Analysts are constantly reviewing their forecasts in nickel prices, with the duration and magnitude of the increase in nickel prices, as well as the restriction in supply, altering predictions more than a few times in the past 15 months.

## The future for global nickel supply

Nickel has been in restricted supply for the last year, as there have been significant losses of production for technical and social reasons. Producers are running at capacity and there have been significant delays in the development of new projects, adding further pressure to prices.

Forward prices, analysts' consensus and strong macro-economic fundamentals suggest that, due to its projected continuing restricted supply, strong nickel prices will also continue for the next 2 to 3 years.

Growth in global supply from concentrates will come from the Eastern bloc and especially China. The growth in this supply has been enhanced by the less technological demands of treating nickel concentrates. However, output of refined nickel from laterites looks set to continue to grow despite the limited success to date of High Pressure Acid Leach (HPAL) technology. This trend, in fact, looks set to accelerate.

# COMMERCIAL ACTIVITIES REVIEW

## Ferronickel

LARCO is among the largest ferronickel producers in the world, engaged in exploration, development, mining, smelting and marketing of its products globally. The company is producing ferronickel (FeNi), with 18-25% of contained nickel (Ni), in granulated form. The product is of outstanding quality, certified with ISO 9001:2002 since 1992, and is mainly used in the production of stainless steel alloys.

The total quantity of ferronickel LARCO produced in 2006 - 17.736Mt of contained nickel - was sold to Arcelor, ThyssenKrupp, Acerinox and Outokumpu based on long-term contracts. Profiting from the market boost, our total FeNi sales for 2006 were increased by 38.96%, compared to 2005. In 2006, we also added Glencore to our customer portfolio and entered into new liaisons with companies in India and China, the new emerging markets.

## Aggregates

During the mining of nickelferrous ores at LARCO's mining sites, a vast quantity of surface materials, mostly limestone, is excavated. These materials are the ideal source of aggregates, produced at low cost and in proximity to the national road network.

Our existing contracts with Lafarge continue. In addition, in early 2007, we created a joint venture with GEMACO and 'Latomia Stilidas' for the exploitation of overburden material and the development of a new, expanded sales network in the Greek market. We have started to secure strong relationships within the local market.

## By-products

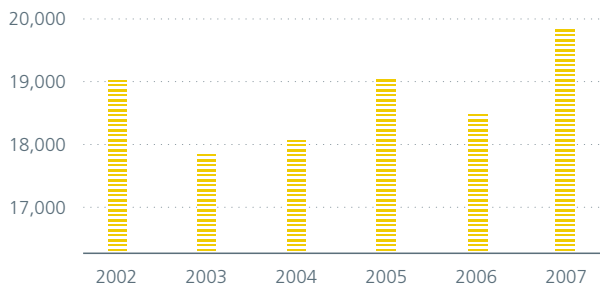
**Converters slag** is used as aggregate for the production of special type of concrete and for covering of oil tubes, or other similar works, in Europe, North Africa and Middle East. The total quantity produced in 2006 was used in projects in Nigeria, USA, Italy, Canada, UAE, Norway and long term contracts were secured, underlying the new corporate strategy of looking into potential new markets.

**Electric furnace slag (EFS)** is produced during reductive smelting (phase 3 of the production procedure) - and made up mainly of iron oxides and silicon dioxide at a content of about 35% each, the rest being oxides of calcium, magnesium, aluminum and chromium. It is used in sand blasting and as raw material in the cement industry. We participated in the ExxonMobil Adriatic Liquefied Natural Gas (LNG) Project, the major European project and pioneer in underwater ground-base structures, enhancing our liaisons and setting foundation for future practice and applications. During 2006, we made our first exports of EFS to North America in LARCO's history, as well as creating new liaisons with Opta Minerals, Canada, and with North American companies operating in the abrasive industry. In the Greek cement industry, local sales were enforced within the sand blasting sector.

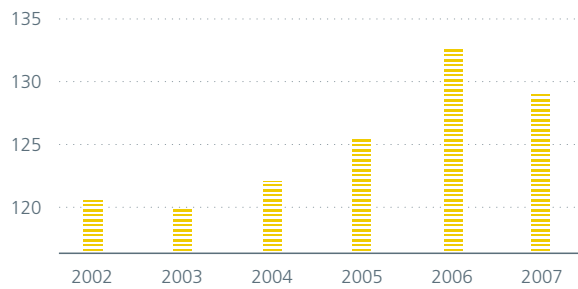
DIVERSIFICATION HAS  
ENABLED US TO ENTER  
INTO PROFITABLE  
NEW MARKETS



## Nickel production (tons)



## Recycled dust and others (tons)



# METALLURGY REVIEW

With metallurgical production about 1,800t Ni under target in 2006, production was a slight glitch in the ascending productivity of LARCO, ranking sixth in its 40 years of operation.

### The reasons for this were:

- The modification, renovation, reconstruction and increase of capacity from 50 to 60 MVA of Electric Furnace (ERF) V, which took about 20% more time than originally estimated. ERF V represents 30% of installed capacity in the area
- Reconstruction of one branch of the electro precipitator of Rotary Kiln (R/K) IV, which took 50% more time than estimated, reducing the capacity of the kiln by 35%. This missing capacity represents 10% of the total R/K.
- There were some 300 hours lost due to a subcontractors' strike for increased wages, representing 4% of the underproduction. New contracts with new subcontractors have been agreed.

## 2007 plan

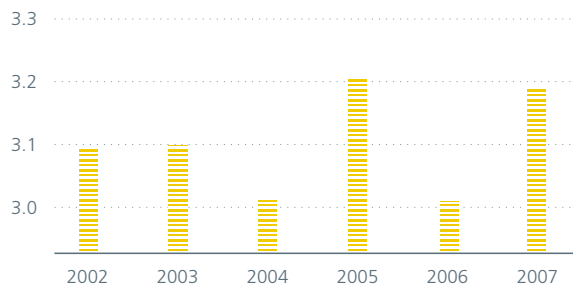
- To expedite an ambitious investment plan of over €40m

### Major endeavours that have started include:

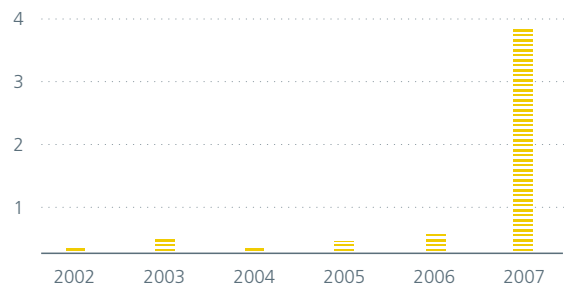
- Running under full capacity, but for regular maintenance time
- Reconstruct R/K II and increase its capacity from 60 to 100tph throughput mixture
- Increase Ni content in the ore by some 10% or more through imported ore
- Measures to stabilize Kastoria and Turkey deliveries
- Improve control and performance on smelter's units by increasing follow-up of downtime reasons
- Increasing production versus 2006 by 2,700t Ni and stabilizing production in the level of 20,000t Ni
- Improve dust recycling and increase control on raw materials mixing proportions for the benefit of Ni recovery and the environment
- The last of the five electric furnaces will be modified for increased productivity, energy saving and minimized emissions
- A new burner will be installed on R/K III offering higher efficiency, therefore energy saving and post burning gases friendly to the environment



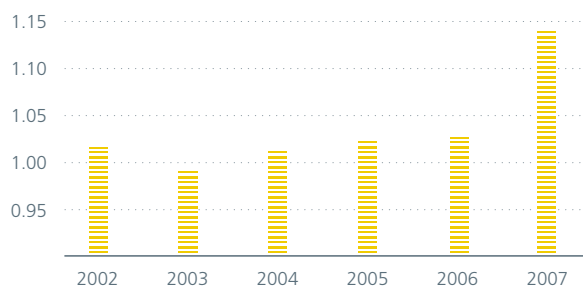
Metallurgical mixture (Mt)



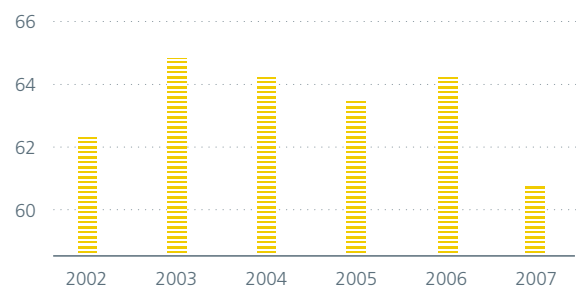
Imported laterite (Kt)



Feed Ni grade (%)



Mwh/Ni (tons)



The philosophy behind LARCO's strategic planning in relation to metallurgy is to take advantage of the currently booming nickel market and make investments to ensure that we remain among the world leaders of nickel production.

## METALLURGY PLAN

### Investments

**Our main areas of investments include renovation and upgrades of existing:**

- Processing units
- Rotary kilns
- Electric furnaces
- De-dusting systems

**Installation of new units and systems such as:**

- OBM transformer
- Control and management systems

All these investments are based upon the adaptation of best available technology from both an energy-production efficiency and an environmentally friendly standpoint.

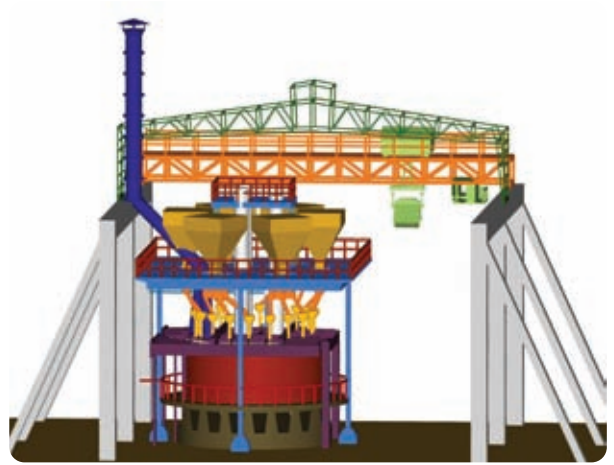
### Investing in our rotary kilns

LARCO operate four rotary kilns. Two are 90m long and 4.2m diameter, one 90m long and 5.2m diameter, while the fourth at 126m long and 6.1m diameter, is one of the largest in Europe. They can currently process material at 485tph which is equivalent to 3.8Mtpa. Temperatures are 400°C at the entrance and 850°C at the exit. As the crushed ore passes through them, the nickel and iron oxides are dried and pre-reduced.

**The proposed investments in upgrading, with a CAPEX of over €15m include:**

- Alterations (elongation)
- Installation of Fuzzy Logic control system
- Installation of a new transmission system
- Installation of new burner and power transformer
- Installation of side air vents

These investments in upgrading will lead to significant increase in power efficiency and an overall increase of the processing capacity of all our rotary kilns.



## Investing in our electric furnaces

The product of the rotary kilns is fed to five Submerged Arc Electric Furnaces.

The furnaces are each 6m high; four being 12m in diameter, while the fifth has an 18m diameter. During this process, temperatures reach 1600-1700°C. Oxygen and propane are blown through the bottom, oxidising some of the iron which helps enrich the ferronickel to the final desirable nickel concentration of around 20%. At the same time the product is refined, reducing sulphur and phosphorous concentrations to marketable values. When completed, the final smelted product is granulated to granule sizes ranging between 3mm to 40 mm.

**In order to take full advantage of the resulting increased processing capacity of rotary kilns, the following investments, with an estimated CAPEX of over €17m, will be made to improve the Electric Furnace (E/F) facilities:**

- Upgrades and alterations to the structure of the E/Fs
- Adaptation of Tieffassung technology for all E/Fs
- Power capacity increase of the E/F 3 & 5
- Installation of a new power supply transformer

These upgrades are estimated to increase the overall processing capacity of the Electric Furnace division by 10%.

## Investing in our OBM transformers

Within our smelting plant in Larymna, the basic production line currently consists of 4 rotary kilns, 5 electrical furnaces and our 2 OBM-type converters, with a capacity of 50 tons of metal each.

**We are reviewing an estimated CAPEX of €5m to upgrade the OBM Transformers Division. This will result in:**

- The installation of a third OBM Transformer unit
- The renovation/ upgrade of the existing cranes and cast product transportation vehicles, along with the replacement of one with one with greater capacity

The main benefit of these investments will be the increase of our annual nickel production to 21,500 Mt (without taking into consideration the improved feed Ni grade).

# MINING PLAN

## Our 2007 plan includes:

- The continuation of operations throughout our mines in Greece, in 8 different pits, with an average nickel content of 1.03%
- Over 22 metres of excavation of overburden rock, mostly in Evia
- Stripping ratios remaining at high levels, with an average of approximately 1:10. However, we plan to optimize our mining through the efficient use of 50% of overburden material as aggregates for the construction and cement industry. Towards this end, our joint venture, Larkodomi, will endeavour to develop further commercial opportunities
- Small scale selective mining through improved beneficiation; the processes whereby extracted ore is reduced to particles that can be separated into mineral and waste
- Site clearance improved blending and homogenization of ore
- Exploration and mine development of new land already acquired

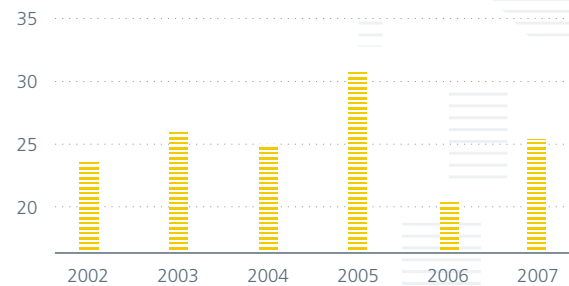
## Investing in our Control Systems and Systems Management

With an estimated CAPEX of approximately €3,400,000, we propose to invest in the introduction/installation of modern cutting-edge SCADA and ERP systems for:

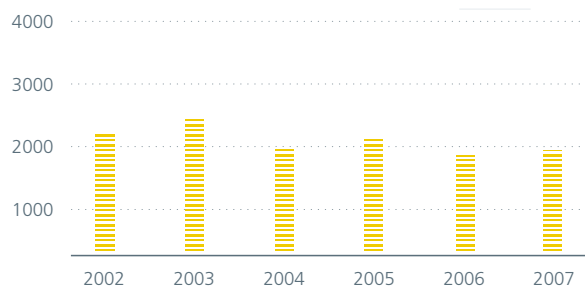
- Better resource planning
- Improved inventory and forecasting
- Faster response times
- Immediate communication and online monitoring of operating parameters

The overall benefit of the installation of these systems will be our improved ability for accurate, speedy, fully informed decision making.

## Waste stripping (Mt)



## Ore production (Kt)

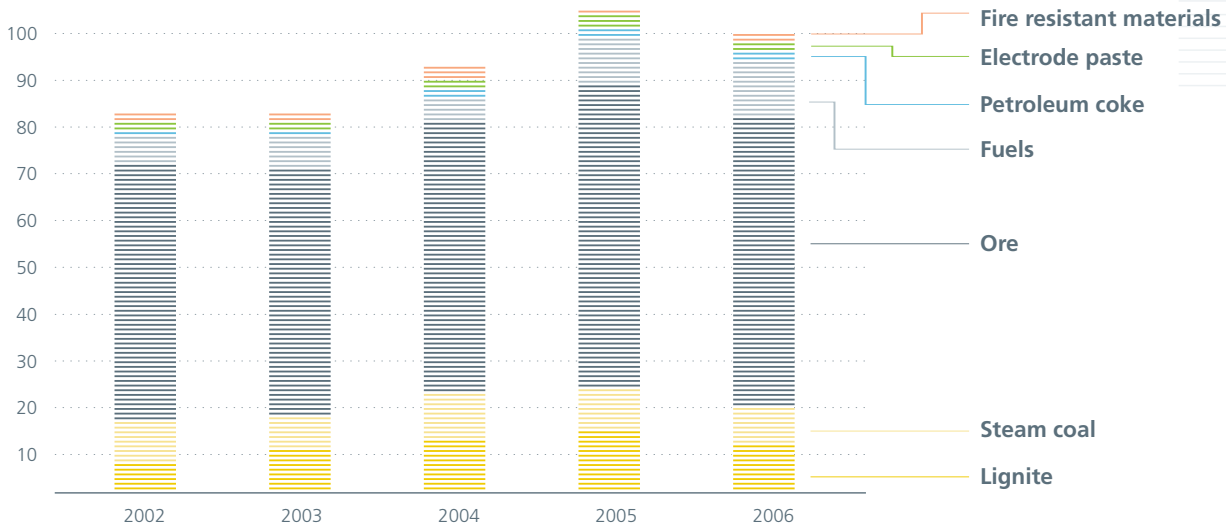






EUROPE'S LONGEST  
CONVEYOR BELT, LIMITS  
THE NEED FOR TRUCKS  
IN ORE TRANSPORTATION,  
THEREFORE REDUCING  
CARBON EMISSIONS

### Raw material management and key supplies (Million €'s)



# SUPPLY CHAIN

## Changing our supply chain management

The compelling reasons for changing how we manage our supply chain include our desire to:

- Decrease costs
- Increase productivity
- Improve efficiency of processes
- Re-organize in view of international expansion

### THEN

- Purchasing just a function
- Only purchasing function
- Lowest bidder criteria
- Paper tracking system
- No standardized payment terms
- Purchasing diversification based on source of supply
- Separate chartering department
- Middlemen considered a usual practice

### NOW

- Newly acquired engineering staff
- Cost awareness approach
- Purchasing integrated with logistics function
- Cost effectiveness of supply
- Electronic online workflow system
- Standardized payment terms
- Purchasing and ordering diversification
- Chartering function integrated within the supply chain
- Direct purchases without middlemen



# RISK MANAGEMENT

## LARCO faces many risks

- ▶ • Nickel ore sources of supply
- Demand for nickel
- Raw materials and energy
- Competition in the industry
- ▶ • Human resources management
- Property damage and business interruptions
- Political and employee/union relations
- Local community relations
- ▶ • Nickel market prices
- Foreign exchange
- Interest rates
- Oil, lignite and energy prices
- CO<sup>2</sup> and freight prices

LARCO's risk management infrastructure aims to manage risk within approved tolerances to ensure stability, which enables the company to solve past problems and build a less cyclical business.



Investing in our people lies at the heart of our strategy of profitable lasting and harmonious growth.

## INVESTMENT

### Investing in people

**New LARCO has made lasting changes to the way we recruit, manage and care for our staff. These include:**

- Our newly setup Human Resources department which aims to organising all staff under one umbrella with a common vision and strategic objective
- Recruitment of highly skilled and educated staff, during first half of 2007

**The implementation of various internal projects with the aim of:**

- Unifying, simplifying and improving how we manage employees, their meritocracy, assessment, performance and pay
- Motivating value, customer and supplier consideration, team work, decompartmentalization, initiative and straight talking
- Systematising forward looking management of knowledge and skills that ensure our technical leadership
- Strong emphasis on training and increasing the budget five-fold through:
  - Creation of a training centre at our HQ
  - Postgraduate scholarships
  - Training programmes for health and safety and fire safety
  - Programmes to improve management skills for engineers and foremen
  - Creating a Centre of Education in our factory
  - Development programmes for Intermediate executives and technical seminars.

### Investing in IT

In order to meet the demands of new LARCO, we are investing over €3m in designing a state of the art technology solution, able to support our present and future business model, its strategies and processes.

**Our new IT department will support our current and future business model and strategies and is charged with:**

- Comprehending and recognizing all business, industry and technology variables (currently in place and planned)
- Performing analysis and evaluation of complex business functions and processes, specifications and/or user requirements
- Taking advantage of various tools and technologies and their appropriate usage, in order to design and implement a totally new system configuration, including hardware, software, and communications
- Combining multiple technologies to provide alternative physical solutions, evaluating complex business functions and processes, IT development methodologies, infrastructure technologies, operational requirements and procedures
- Integrating these to form a set of comprehensive and coherent plans to support our businesses



## Investing in exploration

### Greece

We have extended our exploration - geological reconnaissance, geological mapping and drilling programmes - in areas of mining interest in Greece, Kastoria, Fthiotida, Viotia, Euboea, Kozani, Imathia and Grevena. We have also acquired new mining concessions in Trikala and are carrying out environmental, geochemical, geotechnical and hydrogeological studies, reserves and resources estimations. We are further exploring Greek lignite deposits, including geological reconnaissance, geological mapping and drilling programmes in Kozani and Fthiotida.

### Abroad

We are carrying geological/mining research activities in:

- Brazil, in the states of Bahia, Minas Gerais and Pará
- Albania, in Pogradec, Kukes, Devoll and Librazhd
- Turkey, in the Manisa region

## Investing in a strong internal audit and control department

In 2006, corporate governance imposed the modernization of the Internal Audit Division and the transformation of its character. Old operations and responsibility areas were ended and the following plan was implemented:

- The creation of a new operational structure with proportional staffing
- The establishment of a close relationship between Internal and Financial Control in keeping with the law and management decisions
- The modernization of the existing audit procedure manual
- Auditing and control procedures to follow international standards
- The creation of an Annual Audit Plan
- The creation of follow-up procedures for all controlled areas
- Continuous visits into production units



We recognize that sustainable development is hugely important for society and accept our role in achieving it. We are committed to the continuous improvement of our performance in the economic, environmental and social sector.

## SUSTAINABLE DEVELOPMENT

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2006 and the subsequent years indicate LARCO's strong and lasting commitment to sustainable development.

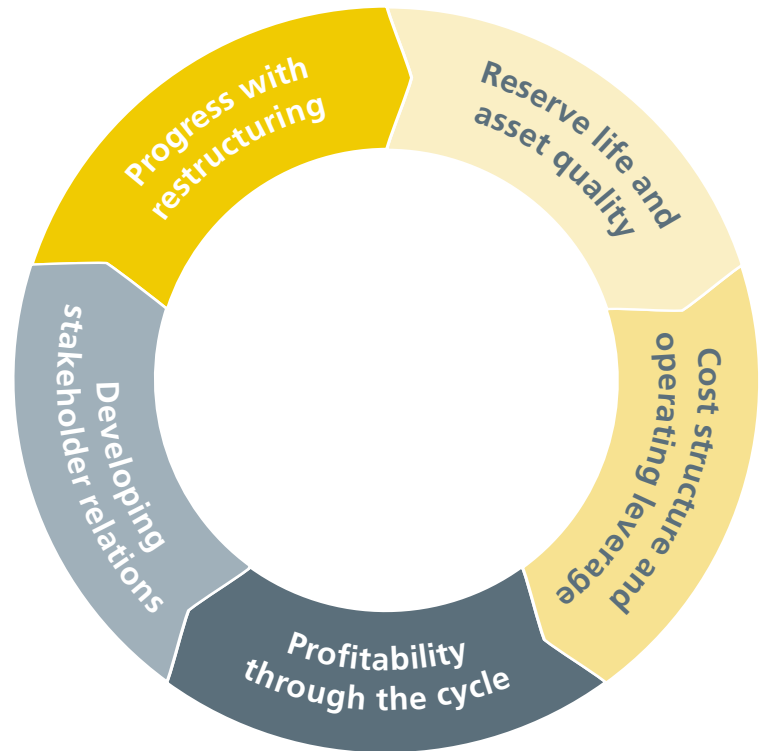
**Sustained development in LARCO is accomplished by:**

- Incorporating the principles of sustainable development in the procedures of decision-making of our company
- Initiating the development of a new Corporate Social Responsibility (CSR) strategy for LARCO and the first CSR report will be released next year
- Reliably fulfilling our legal liabilities and providing transparent information and data to those who are affected by or influence the activities of our company
- Pursuing communication with those influencing or affecting the activities of our companies, in a frame of mutual understanding
- Adopting the development and the implementation of methods of designing mining activities which efficiently protect the environment and preserve bio-diversity
- Accommodating and encouraging the design of products and production procedures, the use and recycling of our products and the disposal of waste in responsible manner
- Investing in natural, technological, economic and human resources, aimed at the continuous improvement of our effectiveness and efficiency
- Pursuing continuous improvement of our performance in the health and safety of our employees
- Publishing evidence on our progress in the economic, environmental, and social sectors, with particular concern for health and safety
- Contributing as 'active citizens' to the social, economic, cultural and statutory development of the local societies where we work and live
- Holding a strong financial position with capital resources in place. Aiming to finance an ambitious investment plan of over €50m throughout 2007, and into the future

## Drivers of value

In driving forward future strategies, we will always consider these key drivers of value:

- ▶ • Appetite to drive 'difficult decisions' to create profitability through the cycle
- Ability to incentivise management and employees
- ▶ • Implied life of mine(s)
- Quality of current price environment
- Requirement for imports/external raw materials
- ▶ • Maintenance, expansion and environmental capex requirement
- Energy cost structure post-subsidies
- Relative cash cost positioning
- Cost creep in current environment
- ▶ • Potential to generate returns at average prices
- Residual hedge book exposure and funding requirements
- ▶ • Employee and union relations
- Ongoing political support for management
- Restructuring of debtor regime



- Being focused on operational delivery to maximize the benefit from the current very strong nickel market.
- Improving our operating margins and asset productivity through better sourcing and plant efficiencies. A new plant management team is in place. Expected operating margins and returns are in line with our upward revisions
- Continuing to restructure, cost-cut, drive the group commitment to excellence
- Being a member of EFQM (European Foundation for Quality Management) and endorsing principles of sustainable excellence
- Our production plant is certified with the ISO 9001:2002 quality management system.
- Our production expansion in 2007 from Turkish and Indonesian ore is expected to exceed 20,000t of nickel
- Allocating resources in the areas where they have earned the right to grow
- New ventures abroad and technology investments are on track for implementation
- A strong management culture and shareholder support is laying the foundations for healthy growth
- Our core management and financing team is experienced in project development, operations, manufacturing and marketing
- Systems control and finance is progressing on schedule with corporate re-engineering
- The implementation of Human Resources programmes, systems and programme controls is building leadership competencies and giving a focus on differentiation and rewarding performance
- We are carefully disciplined in the execution of our strategy and sustained investment, while always alert to opportunities

At LARCO, we understand the impact our business has on our neighbours and the environment. We have identified and are implementing best practices to act responsibly in caring for both.

## Environmental developments

At LARCO, we understand the impact our business has on our neighbours and the environment. We have identified and are implementing best practices to act responsibly in caring for both. Of course, as we have been operating for decades, we are also implementing measures to deal responsibly with this legacy and mitigate major adverse environmental impacts from operations. We ensure we meet and surpass what is expected of us over and above legal requirements.

**We are considering the creation of a new subsidiary company, LARCO ENVIRONMENT, to help us:**

- Benefit from better waste management systems and knowledge transfer
- Raise our profile as an environmentally concerned company
- Ensure that the nickel production process is in accordance with current and future environmental regulations

The experience and knowledge we gain from this consultancy could be sold to other domestic heavy industries and demand should be high given that environmental regulations are becoming stricter and there is increasing pressure, both social and political, for industries to revise their production methods.

## Best available technology

We are also actively seeking more environmentally friendly technology and programming its implementation.

**These measures include:**

- A new bag house filter is under review for a more efficient cleaning of the converters gases replacing the existing one
- A new approach for processing the dust coming from the rotary kiln flue gases, allowing a better nickel recovery and minimizing dust emission, as well as expanding the potential of dust treatment, meaning no more land disposal and eliminating the existing stock pile as well
- Replacement of sludge producing venture scrubber for cleaning flue gases is under investigation
- A better control on the raw materials handling for saving fuel and eventually minimizing CO<sup>2</sup> emissions
- Seeking a new solution for cleaning the electric furnace gases

**Our already traditional and successful practices:**

- Emissions and waste disposal are under constant control
- Re-vegetation on industrial and mining areas is common procedure. The impact of mining operations can cause severe damage to the environment, include morphological changes, loss of biodiversity and ecosystem disturbance. We are committed to restoring mining sites in use or no longer in use. We research to determine the optimal use of the post-mine site. We put in place long-term rehabilitation plans which are monitored regularly. These involve mainly appropriate replanting to achieve successful land and ecosystem renewal





## Health and safety remains key

Health and safety is at the core of our strategy as born out by both our actions and the figures. Proactive environmental and social management is gradually turning LARCO into a more sustainable business. Labour risks management has been reassessed and policy documents put in place to mitigate operational risk issues. We carry out continuous safety training and have increased our high quality medical checks. This has produced excellent results in reducing accident gravity, in comparison to similar industries.

## Other practical health and safety measures we have instituted include:

- Provision of medical and pharmaceutical equipment and apparatus for the clinic including a new modern ambulance
- Regular Tetanus immunization of our personnel
- Weekly visit of doctor and nurse to all mining sites
- Dispensing protective equipment and attire such as uniforms, masks, glasses, boots, ear plugs, gloves and waterproof overalls
- Installation of new fire extinguishers
- Health and safety seminars to all employees
- Installation of special devices to alert truck drivers to operate with caution
- Installation of air cleaners-ventilators, to eliminate dust in working sites and regular dust measurements
- All building/working sites enclosed with protective fence
- Placing of safety signs
- Regular checks of health and safety committees
- Improvement of mechanical equipment
- A new health and safety manual is ahead

LARCO is both a producer and large consumer of a variety of energy products at the different stages of the production chain, with electricity being the major component in the processing of nickel containing ores.

## LARCO ENERGY

We consume around 1.2Gwh of electricity each year, with peak load in the order of 190Mw, making us the second largest consumer of electricity in Greece. This position creates both challenges and opportunities for the company.

We are addressing our energy needs within the context of a long term equipment upgrade and expansion, new energy initiatives and strategic partnerships, taking into account future developments in the rapidly evolving energy sector.

It is envisaged that, in the longer term, LARCO will expand in the liberalised energy sector through organic growth, as well as through the acquisition of other energy projects, in line with our strategic plan.

## Latest developments

### LARCO ENERGY S.A.

The establishment of the new subsidiary has been approved by Board of Directors and legal papers are under preparation.

The new subsidiary company's objective is to organise and develop all new energy related initiatives.

### Strategic partnership

Initial feasibility studies have been completed on a proposal to build a natural gas power plant, where we believe LARCO and its energy development partners, can take advantage of potential economies of scale and synergies.

### Photovoltaic project

Sites for a pilot solar energy project have been selected. Feasibility studies and the application for the Power Production Permit are well under way.

### Wind power projects

Carefully selected sites are currently having wind measurement systems installed to monitor potential output to assess the potential wind power farms.

An aerial photograph of a large, deep blue reservoir surrounded by a lush green forest. The terrain is rugged and rocky, with some areas showing signs of erosion or mining. The text is overlaid in the upper left quadrant.

WE HELPED RESTORE  
BIODIVERSITY BY  
PLANTING OVER  
35,000 TREES  
IN 2006

+

## Albania

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## Turkey

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## Cuba

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## Indonesia

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## Brazil

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## Philippines

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# NEW VENTURES

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## The foundation for LARMET

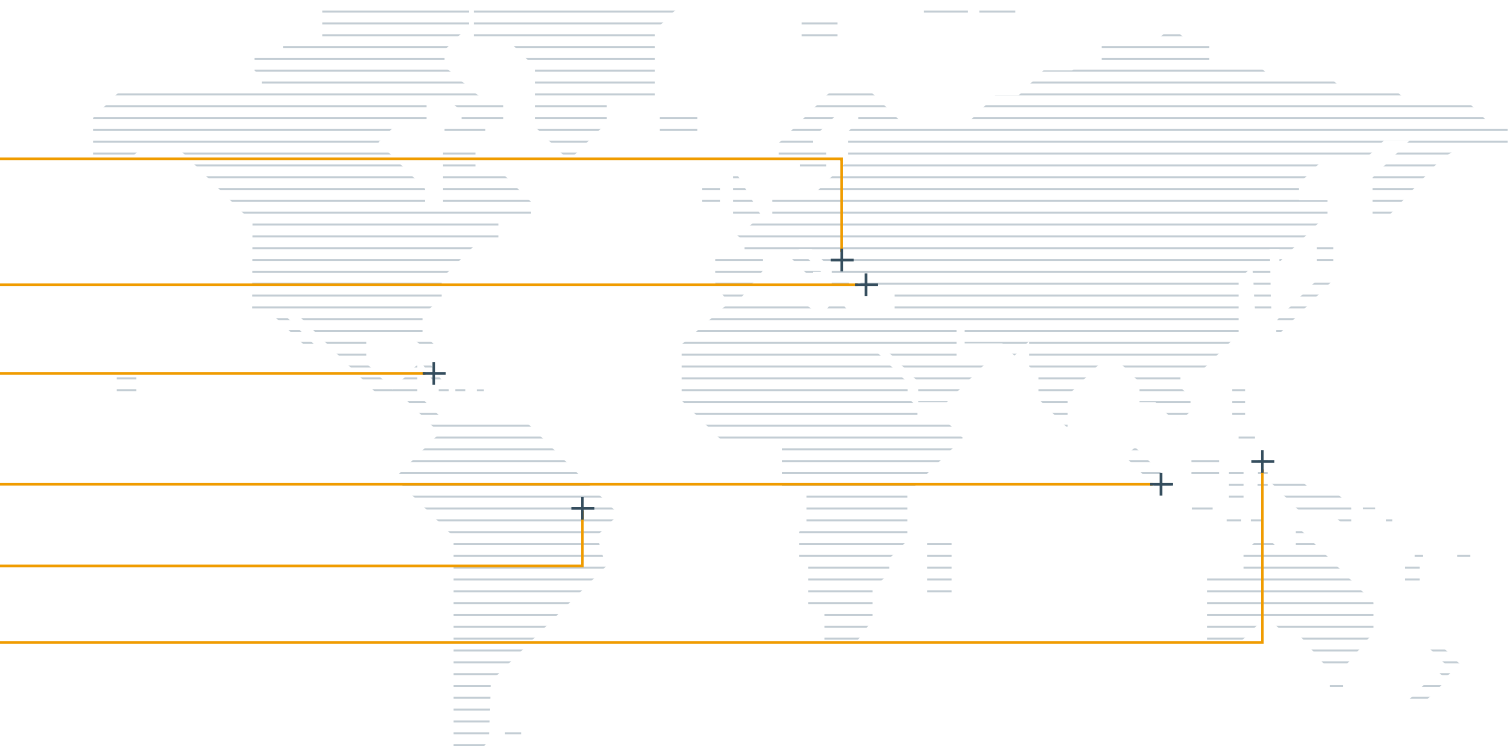
We continued our Private Sales & Purchase Agreement with META to buy ferronickel ore in bulk. Around 50,000Mt of ore were shipped to Larymna port. This was interrupted temporarily in January 2006 due to excessive humidity and relative high arsenic levels. Pursuant to changes in mine planning, META identified new pits with high quality nickel and extremely low arsenic levels. The ore currently stands at approx 1.5% nickel grade, low humidity (20%), and comes -25mm crushed. LARCO and META have also identified a new exploration target near Gordes which will be developed during 2007.

## Turkey

European nickel has signed a contract with LARCO to deliver 200,000t of ore from Çaldag, containing about 2,500t of nickel, to Greece. Shipments started in September 2006 and will continue throughout 2007 with expanded deliveries. The ore is transported from Çaldag to Aliaga (near Izmir) and then shipped in vessels of about 8,000DWT to Larymna. The ore is of approx. 1.3% nickel grade, relatively low humidity (16-19%), low arsenic content and comes -50mm crushed. We aim to increase the tonnage of the ore purchased over the next few years. In fact, Çaldag previously supplied us with 33,000t of ore in 2003 during an earlier period of trial mining with successful results.

## Brazil

We are currently exploring business opportunities in Brazil.



---

## New ventures...

### ...in Albania

- We are at the stage of implementing technical due diligence on Albanian nickel ores.
- We signed a Memorandum of Understanding with a major nickel miner in the beginning of 2007

### ...in Cuba

- We have produced a joint development letter with Caribbean Cuban nickel
- We have performed technical due diligence
- We are negotiating a joint development project with Caribbean Cuban Nickel

### ...in Indonesia

- We have procured foreign ore
- We are in negotiations for a joint development agreement for investment
- We are considering a sales and purchase agreement with a smelting payoff return with a major nickel producer

### ...in the Philippines

- We are procuring ore
- We are examining opportunities for development

# PLANNED DEVELOPMENTS

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## Electrofurnace VI

A critical part of our modernisation at our smelting plant in Larymna is a €50m investment in a sixth electrofurnace.

This will be designed to recover nickel from by-product streams, minimise environmental impact and therefore increase recovery rates of nickel and improve the operational indexes of the existed production lines.

The project has been through a consultancy and preliminary scoping study including reviewing whether it should be an AC or DC design. Technical trials with a contractor MEFOS have shown a 92% Ni recovery yield.

The aim is to award a turnkey tender to Engineering Procurement Construction Management contractor within the next 6 months.

## Larymna Port

As a part of our current strategic business plan, it has been decided that an expansion of the existing port and a development of a logistics centre near the port are necessary. The project will be financed through a BOT structure.

Port expansion will mean we can cater for the needs of the smelting facility as higher grade ores come from Brazil, Indonesia, Philippines and other remote countries. It will also positively impact on shipping costs, which demand larger weight capabilities above the current limitation of 30,000 DWT.

Improving the efficiency of the port's operations, as well as the current facility's coordination with LARCO's supply chain management and sales/exports activity, will solve traffic issues as well as problems in loading and unloading and demurrages. During 2006 we have completed technical due diligence and secured the first environmental license. Further licenses will be granted in 2007.





## Hydrometallurgy developments

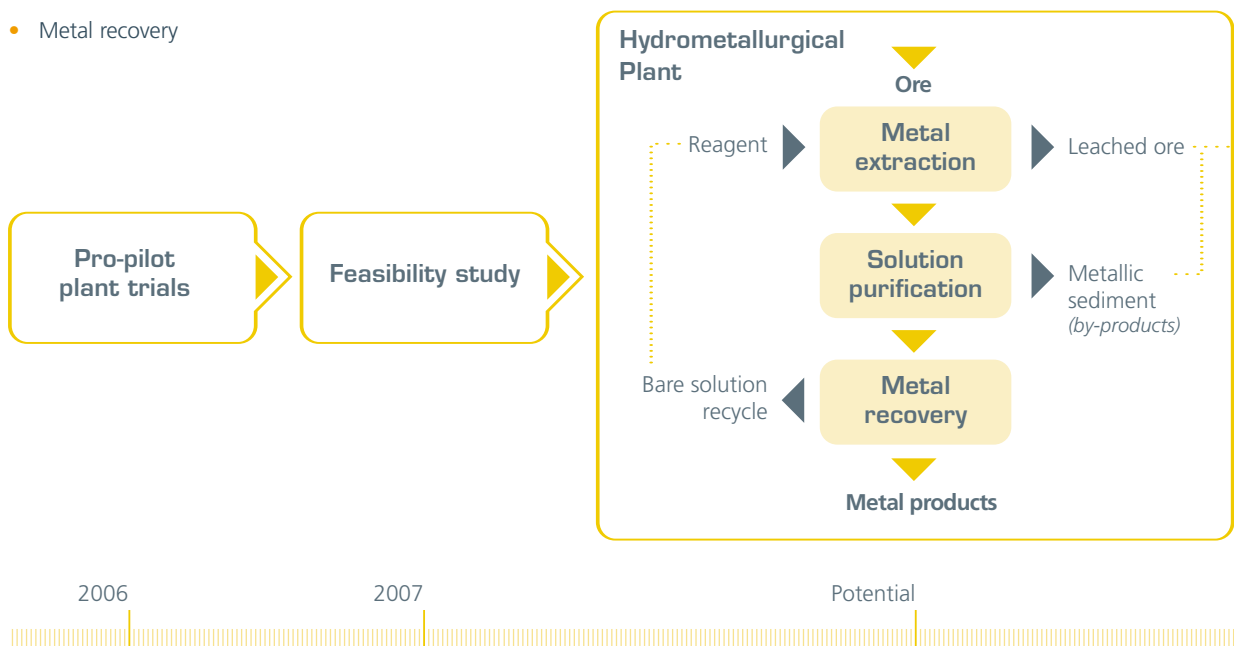
The nickel laterite deposits of Greece are different in their setting to most other laterites, a fact which is considered positive for nickel extraction. Hydrometallurgy differs from traditional pyrometallurgical methods in that laterite is treated using an acid leaching process instead of energy smelting. It has the advantage of being suitable for the exploitation of low-nickel content laterite reserves. It therefore adds value to LARCO's assets.

**Its scope is to recover metals from ores, concentrates, and recycled or residual materials by:**

- Leaching
- Solution concentration and purification
- Metal recovery

### Progress to date incorporates:

- A feasibility study in progress
- Sites for industrial sized application selected
- Heap leaching pilot plant trials, achieving nickel recovery of  $\geq 75\%$  in 24 weeks
- A review of proposals from leading global mining players for a joint development project in Agios Ioannis and Evia

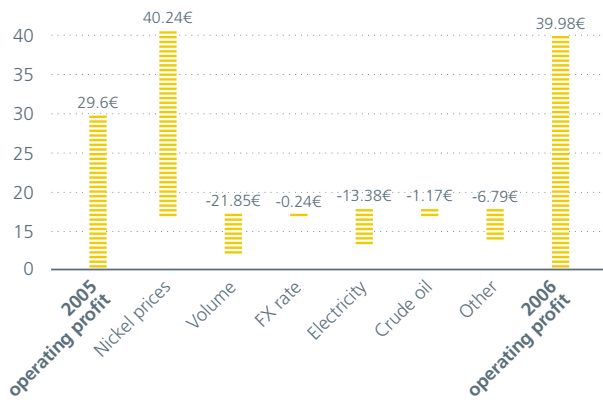


# FINANCIAL RESULTS

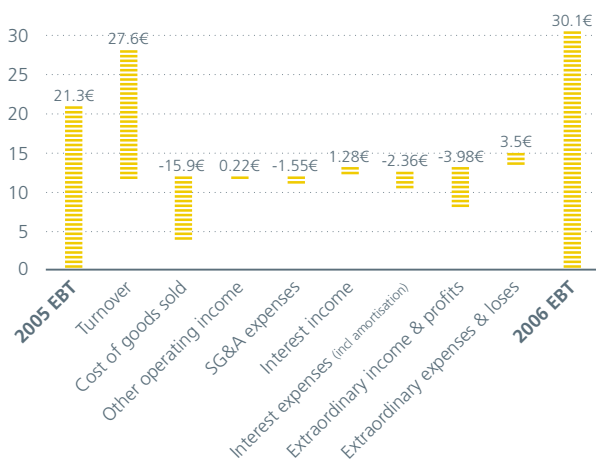
LARCO continues its steady increase of Return on Equity (ROE). In fact, in terms of ROE, we are the number one ferronickel producer in the world.

2006 operating income was up 35%, despite lower production and a spike in electricity prices.

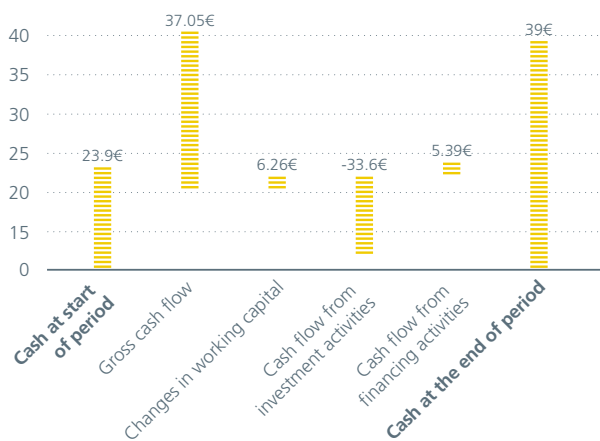
## Operating income evolution (000's €) up 35%



## EBT evolution (000's €) up 50%



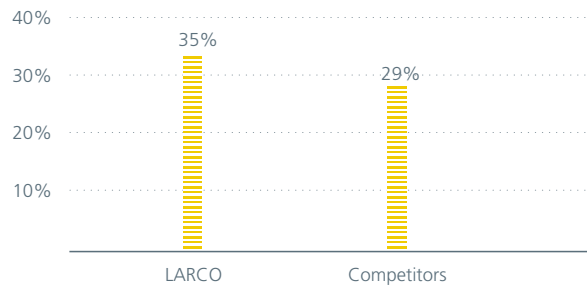
## 2006 strong cash flow (000's €)



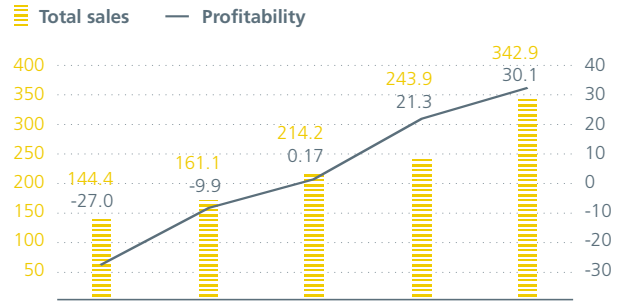




### Average ROE 2005-06 (%)

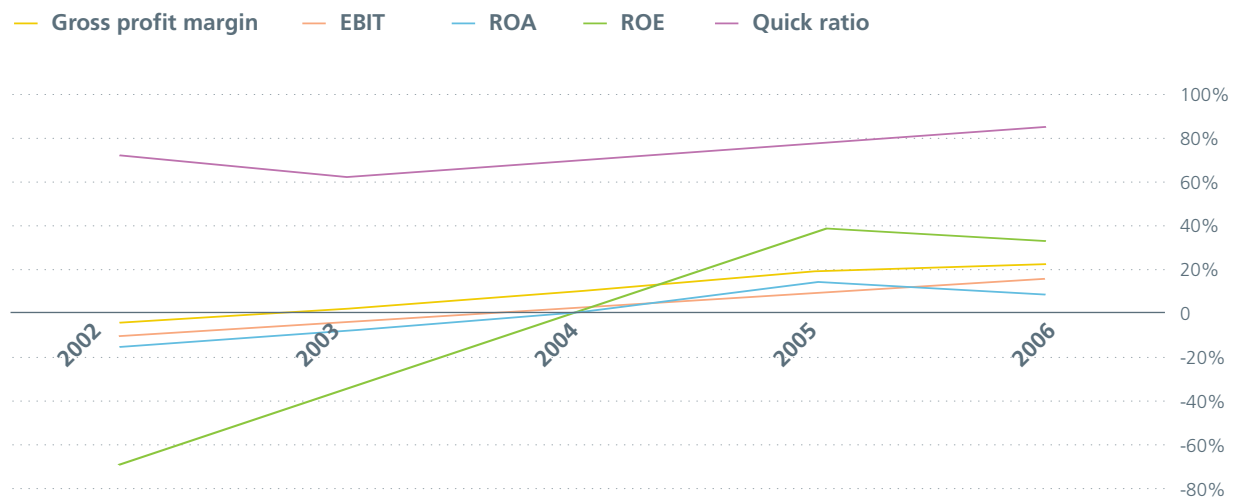


### 2006 Turnover (000's €) the upward trend continues



Figures in €'s	2002	2003	2004	2005	2006
<b>Fixed assets</b>	100,135,192	89,210,294	89,889,006	93,722,935	113,221,001
<b>Shareholders equity</b>	39,624,728	28,398,981	38,994,009	60,706,224	88,735,459
<b>Cash</b>	20,682,230	11,520,650	11,801,504	23,965,168	39,067,547
<b>Bank debt</b>	13,349,861	8,867,774	4,111,298	0	836,121

### Performance ratios



# FINANCIAL RESULTS

## Record-level Investments continued

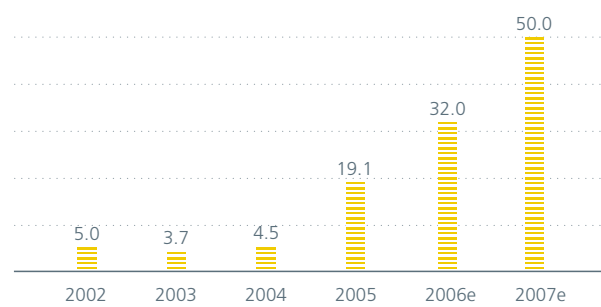
LARCO took advantage of the strong market conditions in order to continue its investment programme of ongoing as well as new capital expenditure.

## Production cuts affected profitability

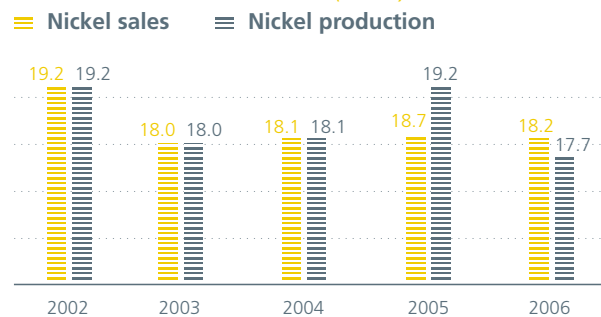
Unavoidable production cuts (and hence reduced sales volume) in 2006 had a strong impact on expected profitability of around €30m.

- A reduction of 1800t of nickel was due to production facilities upgrades
- Disputes at subcontractors carrying out maintenance operations in Larymna and for reasons unconnected with the company, together with a delay in the re-opening of Electricfurnace V during the summer months, also led to reduced production
- However, end-of year sales were at 2003-2006 average levels, thanks to a reduction in inventories

## Investments (million €)

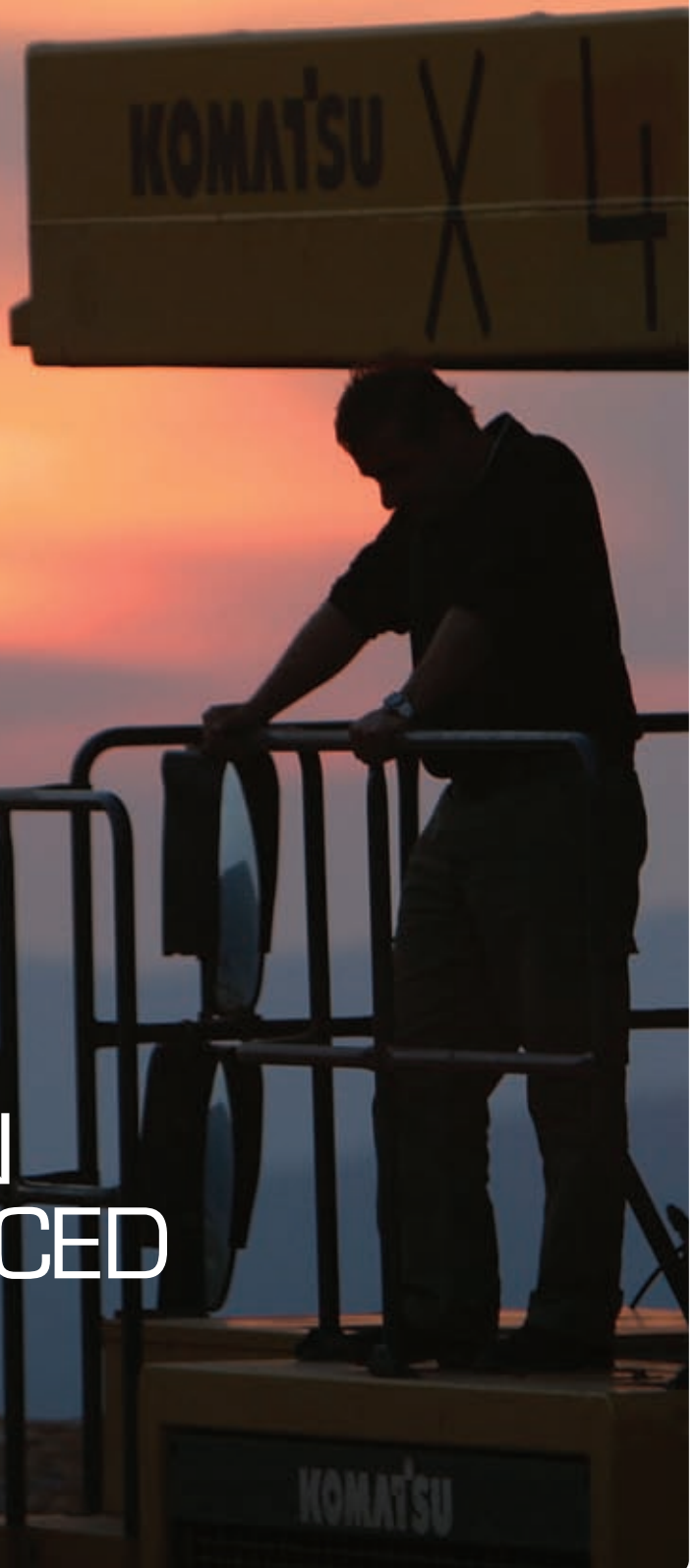


## Production and sales (tons)





WE HAVE  
NEVER BEEN  
BETTER PLACED  
TO FULFILL  
OUR VISION



# BOARD OF DIRECTORS

## President

Vasilios Tsipras Lawyer

## Vice-President

Ioannis Kiriakopoulos Economist

## Chief Executive Officer

Costantinos Thanassoulas Economist

## Members of the Board

Costantinos Agelou	Ex-Mayor
Christina Madafouni Cosma	Topographer Engineer
Costantinos Melas	Metallurgist Engineer
Andonios Bazotis	Veterinary
George Nikezis	Economist
Costantinos Sakas	Geologist
Costantinos Polizois	Employee Representative
Andreas Stamatakis	Employee Representative

We are looking forward to your thoughts on our 2006 Activity and Performance Review. Please send your comments and suggestions to:

George Nikezis  
Director of Communication and Public Relations  
LARCO General Mining and Metallurgical Company S.A,  
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# NOTES



A series of horizontal dotted lines for writing notes, arranged in two columns. The lines are evenly spaced and extend across the width of the page.





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LARYMNA PLANT Lokridos, GR350 12 Fthiotida, Greece

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AGIOS IOANNIS MINES GR 322 00 Neo Kokkino, Thiva Boeotia, Greece

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GENERAL MINING &  
METALLURGICAL COMPANY