OKTA CRUDE OIL REFINERY A.D. - SKOPJE

Financial Statements

For the year ended 31 December 2010

With Report of the Auditors Thereon

Content

INDEPENDENT AUDITOR'S REPORT

To the Board of Directors and the Shareholders of
OKTA crude oil refinery A.D. - Skopje

We have audited the accompanying financial statements of OKTA crude oil refinery A.D. - Skopje (the Company), which comprise the statement of financial position as at 31 December 2010, and the statement of comprehensive income, statement of changes in equity and statement of cash flows for the year ended, and a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We have conducted our audit in accordance with International Standards of Auditing. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

PricewaterhouseCoopers Revizija doo, Oktomvriska Revolucija Blvd. bb. Hyperium Business Center, 2nd floor, 1000 Skopje, Republic of Macedonia, VAT No. MK4030008022586, T: +389 (02)31 40 900/901, F:+389 (02) 31 16 525, www.pwc.com/mk

Basis for Qualified opinion

Following the provisions of the Share Purchase and Concession Agreement dated 8 May 1999 concluded between EL.P.ET Balkanike S.A. (the parent company of OKTA crude oil refinery A.D. - Skopje) and the Government of the Republic of Macedonia, the Company has recognized receivables in the period from 2000 to 2004 in amount of MKD 769,497,000, relating to the period prior to the acquisition. We did not receive sufficient appropriate audit evidence to assess whether the Company will be able to recover the balance of MKD 769,497,000. Our report on the Financial Statements as of 31 December 2009 and for the year then ended was modified accordingly.

Opinion

In our opinion, except for the effect of matter referred to in the preceding paragraph, the financial statements give a true and fair view of the financial position of OKTA crude oil refinery A.D. - Skopje as of 31 December 2010, and of its financial performance and its cash flows for the year then ended in accordance with accounting Laws and Regulations of the Republic of Macedonia.

Ljube Georgievski
General Manager

Dragan Davitkov
Certified Auditor

PricewaterhouseCoopers REVIZIJA DOO - Skopje

05 April 2011
Skopje

(all amounts are in thousands of MKD unless otherwise stated)

Statement of comprehensive income

	Note	Year ended 31 December 2010	2009
Sales	5	30,525,408	24,608,225
Cost of sales	6	(29,959,423)	(24,160,478)
Gross profit		**565,985**	**447,747**
Administrative expenses	7	(225,218)	(220,291)
Sales and distribution expenses	8	(152,297)	(167,809)
Retail expenses	9	(38,660)	(42,436)
Other operating income	10	2,912	9,129
Other operating expenses	11	(20,655)	(16,309)
Operating profit		**132,067**	**10,031**
Finance income/(cost) - net	12	(1,977)	131,174
Profit before income tax		**130,090**	**141,205**
Income tax expense	13	(20,324)	(9,794)
Profit for the year		**109,766**	**131,411**
Other comprehensive income			
(Loss) / Income of the fair value of the investments available for sale		(875)	1,585
Total other comprehensive income		**(875)**	**1,585**
Total comprehensive income		**108,891**	**132,996**

(all amounts are in thousands of MKD unless otherwise stated)

Statement of financial position

	Note	As at 31 December 2010	2009
ASSETS			
Non-current assets			
Intangible assets		1,775	2,251
Property, plant and equipment	14	3,147,283	3,139,349
Available-for-sale financial assets	15	11,648	12,523
Total non-current assets		**3,160,706**	**3,154,123**
Current assets			
Inventory	16	3,014,204	2,372,071
Trade receivables	17	2,908,606	2,632,625
Other receivables	17	839,990	826,147
Cash and cash equivalents	18	216,745	134,007
Total current assets		**6,979,545**	**5,964,850**
TOTAL ASSETS		**10,140,251**	**9,118,973**
EQUITY AND LIABILITIES			
Equity			
Share capital		2,472,820	2,472,820
Statutory reserves		494,718	494,718
Revaluation and other reserves		403,308	403,887
Retained earnings		2,069,427	1,961,679
Total equity	19	**5,440,273**	**5,333,104**
Non current liabilities			
Employee benefit obligations	20	18,300	18,300
Total non-current liabilities		**18,300**	**18,300**
Current liabilities			
Trade payables	21	4,318,251	3,310,905
Other current liabilities	21	363,427	456,664
Total current liabilities		**4,681,678**	**3,767,569**
TOTAL LIABILITIES AND EQUITY		**10,140,251**	**9,118,973**

The financial statements of OKTA Crude oil refinery A.D. – Skopje were authorised for issue by the Management on 28 February 2011. These financial statements are subject to approval of the Board of Directors and the Company's Annual Shareholders Assembly.

Signed on behalf of the Management of OKTA Crude oil refinery A.D. - Skopje:

Рафинерија на нафта • OKTA • Скопје • Акционерско друштво

Lampros Zogopoulos
Executive Director

Srecko Surkov
Director for Finance
and Administration

Notes on pages 7 to 33 are integral part of these financial statements

(all amounts are in thousands of MKD unless otherwise stated)

Statement of changes in equity

	Capital	Statutory reserves	Revaluation and other reserves	Retained Earnings	Total
Balance at 1 January 2009	**2,472,820**	**494,718**	**1,182,262**	**1,049,480**	**5,199,280**
Transfer to retained earnings *1)	-	-	(779,960)	779,960	**-**
Comprehensive income	-	-	1,585	-	**1,585**
Net profit for 2009	-	-	-	131,411	**131,411**
Retirement benefits obligations	-	-	-	828	**828**
Balance at 31 December 2009	**2,472,820**	**494,718**	**403,887**	**1,961,679**	**5,333,104**
Dividends paid	-	-	-	(1,353)	**(1,353)**
Comprehensive income	-	-	(875)	-	**(875)**
Net profit for 2010	-	-	-	109,766	**109,766**
Allocation of funds	-	-	296	(665)	**(369)**
Balance at 31 December 2010	**2,472,820**	**494,718**	**403,308**	**2,069,427**	**5,440,273**

*1) Transfer from other reserves to retained earnings represented unused part of reinvested profit for year ended 31 December 2007, according to the Shareholder assembly's decision.

(all amounts are in thousands of MKD unless otherwise stated)

Statement of cash flows

	Year ended 31 December 2010	2009
Operating activities		
Profit before tax for the year	**130,090**	**141,205**
Adjustments for:		
Depreciation	220,890	194,506
Interest income	(51,354)	(41,556)
Interest expense and bank charges	11,627	10,595
Dividend income	-	(207)
Gain on sale of equipment	-	(402)
Effect on foreign exchange rate changes	40,629	(100,264)
Cash generated from operations before changes in working capital	**351,882**	**203,877**
Cash flow from operating activities		
(Increase) / decrease in inventories	(642,133)	(1,664,889)
(Increase) / decrease in receivables	(279,513)	50,202
Increase / (decrease) in payables	914,109	1,831,887
Cash generated from operations	**344,345**	**421,076**
Interest and bank charges paid	(11,627)	(10,595)
Income taxes paid	(10,246)	(4,967)
Net cash generated from operating activities	**322,472**	**405,514**
Cash flow from investing activities		
Acquisition of property, plant and equipment	(249,106)	(739,282)
Proceeds from sale of property, plant and equipment	-	402
Interest received	51,354	41,556
Dividends received	-	207
Effect on foreign exchange rate changes	(40,629)	100,264
Net cash used in investing activities	**(238,381)**	**(596,853)**
Cash flow from financing activities		
Dividends paid	(1,353)	-
Net cash used in financing activities	**(1,353)**	**-**
Net increase/ decrease in cash and cash equivalents	**82,738**	**(191,339)**
Cash and cash equivalents at 1 January	134,007	325,346
Cash and cash equivalents at 31 December (note 18)	**216,745**	**134,007**

(all amounts are in thousands of MKD unless otherwise stated)

1. General information

OKTA Crude oil refinery A.D. - Skopje (hereinafter "the Company") is a joint stock company established on 26 March 1980. The Company is owned 81.51% by EL.P.ET Balkaniki S.A., a company jointly controlled - 63% by Hellenic Petroleum S.A. and 37% by Consortium of banks APE. The parent company is incorporated in Greece.

The Company's main activities involve refining of crude oil and distribution of oil derivatives. The Company is a hydro skimming type refinery with a nominal capacity of 2.5 million tons a storage capacity of 250,000 mC. The following products are part of the production range: oil, liquid gas, regular and unleaded petrol, diesel fuels, heating fuel, oils and other derivatives.

As at 31 December 2010, the Company has 728 employees (2009: 796 employees).

The address of the Company is as follows:
s. Miladinovci, bb
P.O. Box 66,
1000 Skopje
Macedonia

The names of the Directors of the Company serving during the financial year are as follows:

Executive Director	Lampros Zogopoulos
Director for Finance and Administration	Srecko Surkov

The financial statements of OKTA A.D. – Skopje were authorised for issue by the Management on 28 February 2011. These financial statements are subject to approval of the Board of Directors and the Company's Annual Shareholders Assembly.

2. Summary of significant accounting policies

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

2.1. Basis of preparation

These financial statements are prepared, in all material respects, in accordance with the Company Law (published in Official Gazette No. 28/04, 84/05, 25/07, 87/08, 42/10 и 48/10) and the Rule Book for Accounting (published in Official Gazette No.159/2009 and No.164/2010), whereby the International Financial Reporting Standards (IFRS) were published. This Rule Book of Accounting comprise International Financial Reporting Standards (IFRS) - IFRS 1 to IFRS 8, International Accounting Standards (IAS) - IAS 1 to IAS 41, International Financial Reporting Interpretations Committee (IFRIC) - IFRIC 1 to IFRIC 17 and Standing Interpretations Committee (SIC) Interpretations comprising SIC 1 to SIC 32. IFRS 9, IFRIC 18 and IFRIC 19 are not included in the Rule Book for Accounting and are not applied by the Company.

IFRS standards (including IFRS 1) were initially published in the Official Gazette in 1997, and since then several updates have followed. The last update was in 2009, effective from 1 January 2010.

2. Summary of significant accounting policies (continued)

2.1. Basis of preparation (continued)

The Company applies all relevant standards and the amendments and interpretations which were published in the Official Gazette.

The financial statements are prepared under the historical cost convention as modified by the revaluation of certain fixed assets and depreciation.

The financial statements are presented in thousands Macedonian Denars – MKD, unless otherwise stated.

2.2. Foreign currency translation

(a) Functional and presentation currency

Items included in the financial statements are measured using the currency of the primary economic environment in which the entity operates ('the functional currency') which is Macedonian denars (MKD).

(b) Transactions and balances

Foreign currency transactions are translated into Macedonian denars using the exchange rates prevailing at the dates of the transactions or valuation where items are remeasured. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation monetary assets and liabilities denominated in foreign currencies at year-end are recognised in the P&L. Monetary assets and liabilities denominated in foreign currencies at are translated according the middle exchange rates at the National Bank of the Republic of Macedonia valid at the date of the financial statements.

Foreign exchange gains and losses are presented in the P&L within "finance income/ costs (net)".

The foreign currencies deals of the Company are predominantly EURO (EUR) and United States Dollars (USD) based. The exchange rates used for translation at 31 December 2010 and 31 December 2009 were as follows:

Exchange rate:	31 December 2010 MKD	31 December 2009 MKD
EUR	61.51	61.17
USD	46.31	42.67

2.3. Property, plant and equipment

Items of property, plant and equipment are stated at cost less accumulated depreciation and impairment losses. Up to 2003 they have been revaluated at the year-end by applying official revaluation coefficients based on the general manufactured goods price index. Such coefficients have been applied to historical cost or later valuation and to accumulated depreciation. The effect of the revaluation of property, plant and equipment has been credited to the revaluation reserve.

2. Summary of significant accounting policies (continued)

2.3 Property, plant and equipment (continued)

Additions are recorded at cost. Cost includes the invoiced value and the expenditure that is directly attributable to the acquisition of the items.

Disposal of property, plant and equipment represents expense or technology obsoleteness or other type of elimination of property, plant and equipment, including the accumulated provision. Gains and losses on disposal of property, plant and equipment are recognised in the income statement.

Subsequent expenditure

Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Company and the cost of the item can be measured reliably.

The carrying amount of the replaced part is derecognised. All other repairs and maintenance are charged to the P&L, during the financial period in which they are incurred.

Depreciation

Depreciation of property, plant and equipment is charged using rates not lower than those prescribed by the law and is designed to allocate the cost or valuation of property, plant and equipment on the straight-line basis over their estimated useful lives.

The depreciation of property, plant and equipment shall start after expiration of the month of the start-up in the year in which the utilization of the property, plant and equipment has started.

The following are the ranges of the estimated useful lives applied to items of property, plant and equipment:

	2010	2009
Buildings	40 years	40 years
Computers	4 years	4 years
Equipment	20 years	20 years
Other equipment and vehicles	5 - 10 years	5 - 10 years

The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at the end of each reporting period.

Gains and losses on disposals are determined by comparing the proceeds with the carrying amount and are recognised within Other operating income/expense in the P&L.

Land is not depreciated.

2. Summary of significant accounting policies (continued)

2.4 Intangible assets

An intangible asset is measured initially at cost. Acquisition costs include acquisition price (including import duties and non-recoverable taxes, after deducting trade discounts and rebates) and all directly attributable costs which are incurred to prepare the asset for its intended use. After initial recognition, intangible assets are measured at cost less any accumulated amortisation and less any impairment loss. All intangible assets with a finite useful life are amortised over their useful lives using the straight-line method.

Amortisation begins when the asset is available for use and ends when the asset is classified as held for sale or is derecognised. Amortisation is recognised in the income statement as incurred. Estimated useful live over which company's intangible assets are being amortised is 4 years.

2.5. Available-for-sale financial assets

Available-for-sale financial assets are non-derivatives that are either designated in this category or not classified in any of the other categories. They are included in non-current assets unless the investment matures or management intends to dispose of it within 12 months of the end of the reporting period. Available-for-sale financial assets are initially recognised at fair value plus transaction costs. Available-for-sale financial assets are derecognised when the rights to receive cash flows from the investments have expired or have been transferred and the Company has transferred substantially all risks and rewards of ownership. Available-for-sale financial assets are subsequently carried at fair value. Changes in the fair value of available for sale investments are recognised in other comprehensive income. When available-for-sale financial assets are sold or impaired, the accumulated fair value adjustments recognised in equity are included in the Statement of comprehensive income as 'gains and losses from investment securities'.

Dividends on available-for-sale financial assets are recognised in the P&L as part of other income when the Company's right to receive payments is established.

The Company assesses at the end of each reporting period whether there is objective evidence that a available for sale financial asset is impaired. Significant or prolonged decline in the fair value of the security below its cost is also evidence that the assets are impaired. If any such evidence exists for available-for-sale financial assets, the cumulative loss – measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that financial asset previously recognised in P&L – is removed from equity and recognised in the P&L. If, in a subsequent period, the fair value of a debt instrument classified as available for sale increases and the increase can be objectively related to an event occurring after the impairment loss was recognised in P&L, the impairment loss is reversed through the P&L.

2.6. Inventories

Inventories are stated at lower of cost and net realisable value. Cost comprises all costs of purchase, costs of conversion and other costs incurred bringing the inventories to their present location and condition. Cost of crude oil is assigned by using the FIFO method, whereas the cost of other raw materials, spare parts and tools and consumable stores, finished and trading goods is determined on a weighted average cost basis.

2. Summary of significant accounting policies (continued)

2.6 Inventories (continued)

The cost of purchase of inventories comprises of the purchase price, import duties, other non-recoverable taxes and other costs, which can be directly attributed to the procurement of the inventories (e.g. transportation costs). Trade discounts, rebates and other similar items are deducted in determining the purchase cost of inventories.

The costs of conversion of inventories comprise those costs that are directly related to the units of production, such as direct labour and a systematic allocation of fixed and variable production overheads. The allocation of fixed production overheads to the cost of conversion is based on the normal capacity of the production facilities. Any unallocated fixed production overheads are recognised as an expense in the period in which they are incurred. Variable production overheads are allocated to each unit of production on the basis of the actual use of the production facilities.

Net realisable value is the estimated selling price in the ordinary course of business, less applicable variable selling expenses.

2.7. Trade and other receivables

Trade and other receivables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method, less provision for impairment.

A provision for impairment of trade receivables is established when there is objective evidence that the Company will not be able to collect all amounts due according to the original terms of the receivables. Significant financial difficulties of the debtor, probability that the debtor will enter bankruptcy or financial reorganisation, and default or delinquency in payments are considered indicators that the trade receivable is impaired. The amount of the provision is the difference between the asset's carrying amount and the present value of the estimated future cash flows discounted at the financial asset's original effective interest rate. The carrying amount of the asset is reduced through the use of an allowance account, and the amount of the loss is recognised in the P&L. When a trade receivable is uncollectible, it is written off against the allowance account for trade receivables.

2.8. Cash and cash equivalents

Cash and cash equivalents comprise bank balances in local and foreign currency, cash in hand and deposits in banks with original maturity with less than 3 months.

2.9. Share capital

Ordinary and preference shares are classified as equity.

2.10. Trade and other payables

Trade payables are obligations to pay for goods or services that have been acquired in the ordinary course of business from suppliers. Accounts payable are classified as current liabilities if payment is due within one year or less. If not, they are presented as non-current liabilities.

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

2. Summary of significant accounting policies (continued)

2.11. Provisions and contingent liabilities

Provisions are recognized when the Company has a present legal or constructive obligation as a result of past events and it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation, and a reliable estimate of the amount of the obligation can be made.

Provisions are measured and recorded as the best estimate of the expenditure required to settle the present obligation at the balance sheet date. The provision charge is recognized in the Income statement within the expense corresponding to the nature of the provision.

No provision is recognized for contingent liabilities. A contingent liability is a possible obligation that arises from past events and whose existence will be confirmed only by the occurrence or non-occurrence of one or more uncertain future events not wholly within the control of the entity; or a present obligation that arises from past events but is not recognized because it is not probable that an outflow of resources embodying economic benefits will be required to settle the obligation or the amount of the obligation cannot be measured with sufficient reliability.

2.12. Income taxes

Until 1 January 2009, the basis for computation of corporate income tax was the realised profit, reconciled for the amount of the non-deductible expenses incurred in the fiscal year.

As of 1 January 2009 Companies do not have to pay income tax on their profit before tax until the profit is distributed in a form of dividend or other forms of profit distributions regardless of whether in monetary or non-monetary form. 10% income tax is payable on the distributed part of the profit at the moment of the dividend payment. Dividends distributed by Macedonian companies to resident legal entities are exempt from corporate income tax at the level of the distributing entity. Dividends distributed to individuals and foreign legal entities are not exempt from corporate income tax and are subject to 10% income tax at the level of the distributing entity and the corporate income tax liability arises at the time of the dividend payment.

Corporate income tax is also levied on non-deductable expenses incurred in the fiscal year, decreased by the amount of tax credits and other tax relief's. Corporate income tax on non-deductible expenses is payable regardless the companies have generated profit or loss.

Deferred income tax

Due to the changes in the Macedonian tax legislation effective from 1 January 2009, the tax rate for undistributed profits was effectively reduced to zero, as tax is only payable when profits are distributed only to foreign legal entities. According IAS 12.52A and SIC 25, deferred tax assets and liabilities should be measured using the undistributed rate. This resulted in reversal of the deferred tax asset and all deferred tax liability balances as of 31 December 2009, and reversal of all deferred tax assets as of 31 December 2010, if any.

2. Summary of significant accounting policies (continued)

2.13. Employees Benefits

a) Pension

The Company, in the normal course of business, makes payments on behalf of its employees for pensions, health care, employment and personnel tax which are calculated on the basis on gross salaries and wages according to the legislation. The Company makes these contributions to the Governmental health and retirement funds as well to private retirement funds. The cost of these payments is charged to the income statement in the same period as the related salary cost.

The Company does not operate any other pension scheme or post retirement benefits plan and consequently, has no obligation in respect of pensions.

b) Termination benefits

Termination benefits are payable whenever an employee's employment is terminated before the normal retirement date or whenever an employee accepts voluntary redundancy in exchange for these benefits. The Company recognises termination benefits when it is demonstrably committed to either terminate the employment of current employees according to a detailed formal plan without possibility of withdrawal or to provide termination benefits as a result of an offer made to encourage voluntary redundancy.

c) Retirement benefits and jubilee awards

Pursuant to the Labour law prevailing in the Republic of Macedonia, the Company is obliged to pay retirement benefits in an amount equal to two average monthly salaries, at their retirement date, for which appropriate liability is recognized in the balance sheet measured at the present value of two average monthly salaries with adjustments incorporated in the actuarial calculation.

The present value of the defined benefit obligation is determined by discounting the estimated future cash outflows using interest rates of high quality bonds that are denominated in the currency in which the benefits will be paid. In addition, the Company is not obligated to provide further benefits to current and former employees.

According to the Collective bargaining agreement, the Company is obliged to pay jubilee anniversary awards that correspond to the total number of years of service of the employee.

2. Summary of significant accounting policies (continued)

2.14. Revenue

Revenue comprises the fair value of the consideration received or receivable for the sale of products, retail goods and services net of value-added tax, excise, rebates and discounts. Sales of products and retail goods are recognised when the Company has delivered it to the customer, the customer has full discretion over the channel and price to sell the products, and there is no unfulfilled obligation that could affect the customer's acceptance of the products. Delivery does not occur until the products or retail goods have been shipped to the specified location, the risks of obsolescence and loss have been transferred to the customer, and either the customer has accepted the products in accordance with the sales contract, the acceptance provisions have lapsed or the Company has objective evidence that all criteria for acceptance have been satisfied.

Interest income is recognized in the P&L on a time proportion basis using the effective interest method.

Dividend income is recognised when the right to receive payment is established.

2.15. Dividend distribution

Dividend distribution to the Company's shareholders is recognised as a liability in the Company's financial statements in the period in which the dividends are approved by the Company's shareholders.

3. Financial risk management

3.1 Financial risk factors

The Company does not apply hedge accounting for its financial instruments, all gains and losses are recognized in the income statement. The Company is exposed in particular to risks from movements in exchange rates and market prices that affect its assets and liabilities. Financial risk management aims to limit these market risks through ongoing operational and finance activities.

(i) Market risk

Market risk is defined as the 'risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices' and includes interest rate risk, currency risk and other price risk. The majority of the revenues of the Company are generated in MKD and the remaining part mainly in USD.

Expenses of the Company arise are mainly connected to USD and the remaining part in MKD. As a result, the Company objective is to minimize the level of its financial risk in MKD terms. For the presentation of market risks according IFRS 7 sensitivity analyses that show the effects of hypothetical changes of relevant risk variables on profit or loss and shareholders' equity are required. The periodic effects are determined by relating the hypothetical changes in the risk variables to the balance of financial instruments at the balance sheet date. The balance at the balance sheet date is representative for the year as a whole.

(all amounts are in thousands of MKD unless otherwise stated)

3. Financial risk management (continued)

3.1 Financial risk factors (continued)

Foreign exchange risk

The Company's functional currency is the MKD. The foreign exchange risk exposure of the Company is related to holding foreign currency cash balances, and operating activities through revenues from and payments to international companies as well as capital expenditure contracted with vendors in foreign currency.

The currency giving rise to this risk is primarily USD. The Company manages the foreign exchange risk exposure by striving to lower the number of contracts in USD as relatively unstable currency in the period. The Company has very small cash reserves in USD currency. The Company uses cash deposits in MKD or cash deposits in MKD indexed to EUR, to economically manage its foreign currency risk as well as local currency risk in accordance with the available banks offers.

However, the purchase of main raw material – crude oil from related parties is denominated in USD and connected to the price movement on the global movement, which is denominated in USD. Therefore there is associated inherent business risk with such transactions.

The Company's exposure to foreign currency risk was as follows:

2010	**MKD**	**EUR**	**USD**
Assets			
Cash and cash equivalents	179,142	33	37,570
Trade Receivables and other current financial assets	3,216,391	16,483	515,722
Total assets	**3,395,533**	**16,516**	**553,292**
Liabilities			
Trade payables	79,088	13,569	4,225,594
Other current liabilities	363,427	-	-
Total liabilities	**442,515**	**13,569**	**4,225,594**
Net balance sheet exposure	**2,953,018**	**2,947**	**(3,672,302)**

2009	**MKD**	**EUR**	**USD**
Assets			
Cash and cash equivalents	111,639	3,890	18,478
Trade receivables and other current financial assets	3,055,293	7,871	395,608
Total assets	**3,166,932**	**11,761**	**414,086**
Liabilities			
Trade payables	167,312	38,319	3,105,274
Other current liabilities	456,664	-	-
Total liabilities	**623,976**	**38,319**	**3,105,274**
Net balance sheet exposure	**2,542,956**	**(26,558)**	**(2,691,188)**

3. Financial risk management (continued)

3.1 Financial risk factors (continued)

The Company realized more purchases in USD than sales. At 31 December 2010, if USD would have been 5% (2009: 5%) weaker or stronger against MKD profit would have been MKD 8,552 thousand (2009: MKD 135,483 thousand) after tax in net balance higher or lower, respectively.

Interest rate risk

Interest rate risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates. Change in the interest rates and interest margins may influence financing costs and returns on financial investments. The Company has no interest bearing liabilities. Changes in market interest rates affect the interest income on deposits with banks.

The Company had MKD 30,456 thousands deposits as of 31 December 2009, therefore 1 percentage point rise in market interest rate would have caused (ceteris paribus) the interest received to increase with approx. MKD 305 thousands annually after tax, while similar decrease would have caused the same decrease in interest received. As of 21 December 2010 the Company has no deposits in banks.

Price risk

The Company's primary activity as a crude oil refinery creates two types of commodity price exposures: crude oil and oil products price levels which affect the value of inventory and sales margins which in turn affect the future cash flows of the business. In the case of price risk the level of exposure is determined by the amount of priced inventory carried at each balance sheet date. The Company policy is to report its inventory at the lower of historic cost and net realisable value and the results are affected by the reduction in the carrying value of the inventory.

The extent of the exposure relates directly to the level of stocks and rate of price decrease. Sales margin exposure relates to the absolute level of margin generated by the operation of the refineries mainly driven by the regulated prices for domestic market by the Government Authorities and the Platts prices for foreign market. The Company is managing the risk of margin exposure with production optimisation in order to have favourable inventory level in order to control the sales margin.

(ii) Credit risk

Credit risk is defined as the risk that one party to a financial instrument will cause a financial loss for the other party by failing to discharge an obligation. The Company is exposed to credit risk from its operating activities and certain financing activities. The process of managing the credit risk from operating activities includes preventive measures such as creditability checking and prevention barring, corrective measures during legal relationship for example reminding and disconnection activities, collaboration with collection agencies and collection after legal relationship as litigation process, court proceedings, involvement of the executive unit and factoring. The overdue payments are followed through a debt escalation procedure based on customer's type, credit class and amount of debt. The credit risk is controlled through credibility checking – which determines that the customer is not indebted and the customer's credit worthiness and through preventive barring – which determinates the credit limit based on the customer's previous revenues. The Company has no significant concentration of credit risk with any single counter party or Company of counter parties having similar characteristics.

(all amounts are in thousands of MKD unless otherwise stated)

3. Financial risk management (continued)

3.1 Financial risk factors (continued)

The Company's procedures ensure on a permanent basis that sales are made to customers with an appropriate credit history and not exceed an acceptable credit exposure limit.

The Company has bank guarantees from the customers in order to ensure their collectability and does not allow exceeding this limit. The Company does not guarantee obligations of other parties. The maximum exposure to credit risk is represented by the carrying amount of each financial asset in the balance sheet. Consequently, the Company considers that its maximum exposure is reflected by the amount of debtors net of provisions for impairment recognized and the amount of cash deposits in banks at the balance sheet date. Management is focused on dealing with most reputable banks in foreign and domestic ownership on the domestic market.

The following table represents Company's exposure to credit risk as at 31 December 2010 and 31 December 2009:

	2010	**2009**
Cash and cash equivalents	216,437	133,044
Trade receivables	2,908,606	2,632,625
Other receivables	839,990	826,185
	3,965,033	**3,591,854**

Cash and cash equivalents in the table above exclude cash on hand and as no credit risk exists for this category.

The receivables are summarized as follows:

	31 December 2010		**31 December 2009**	
	Trade receivables - domestic	Trade receivables - foreign	Trade receivables - domestic	Trade receivables - foreign
Neither past due nor impaired	2,235,962	508,919	2,134,968	341,162
Past due but not impaired	140,439	23,286	109,215	47,280
Impaired	86,658	16,392	79,559	15,037
Gross	**2,463,059**	**548,597**	**2,323,742**	**403,479**
Less: allowance for impairment	(86,658)	(16,392)	(79,559)	(15,037)
Net	**2,376,401**	**532,205**	**2,244,183**	**388,442**

Trade receivables of MKD 163,725 thousands (2009: MKD 156,495 thousands) were past due but not impaired. Main part of these receivables is matured up to 30 days, with no recent history of default and is secured with collaterals. Further details are presented in Note 17.

(all amounts are in thousands of MKD unless otherwise stated)

3. Financial risk management (continued)

3.1 Financial risk factors (continued)

(iii) Liquidity risk

Liquidity risk is defined as the risk that the Company could not be able to settle or meet its obligations on time. The Company's policy is to maintain sufficient cash and cash equivalents to meet its commitments in the foreseeable future. Any excess cash is mostly deposited in commercial banks. The Company's liquidity management process includes projecting cash flows by major currencies and considering the level of necessary liquid assets, considering business plan, historical collection and outflow data. Regular cash projections are prepared and updated by the Accounting Department. All trade payables have maturity within one year.

3.2. Capital risk management

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

3.3. Fair value estimation

Cash and cash equivalents, trade receivables and other current financial assets mainly have short term maturity. For this reason, their carrying amounts at the reporting date approximate their fair values.

The table below shows the categorisation of financial assets as at 31 December 2010:

	Carrying amount	Fair Value
Cash and cash equivalents	216,745	216,745
Trade receivables	2,908,606	2,908,606
Other current financial assets	839,990	839,990
	3,965,341	**3,965,341**

The table below shows the categorisation of financial assets as at 31 December 2009:

	Carrying amount	Fair Value
Cash and cash equivalents	134,007	134,007
Trade receivables	2,632,625	2,632,625
Other current financial assets	826,147	826,147
	3,592,779	**3,592,779**

4. Critical accounting estimates and judgments

Estimates and judgements are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

4.1. Critical accounting estimates and assumptions

The Company makes estimates and assumptions concerning the future. Estimates and judgments are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. The most critical estimates and assumptions are discussed below.

(i) Useful lives of assets

The determination of the useful lives of assets is based on historical experience with similar assets as well as any anticipated technological development and changes in broad economic or industry factors. In addition, as general guidance the Rule Book for depreciation rates prescribed by tax authorities is followed. The appropriateness of the estimated useful lives is reviewed annually, or whenever there is an indication of significant changes in the underlying assumptions.

Further, due to the significant weight of depreciable assets in our total assets, the impact of any changes in these assumptions could be material to our financial position, and results of operations. If depreciation cost is decreased/increased by 10%, this would result in change of annual depreciation expense of approximately MKD 22,089 thousand (2009: MKD 19,450 thousand)

(ii) Potential impairment of property, plant and equipment and intangibles

The Company (with support from the ultimate parent company) is assessing the impairment of identifiable property, plant, equipment and intangibles whenever there is a reason to believe that the carrying value may materially exceed the recoverable amount and where impairment in value is anticipated. The recoverable amounts are determined by value in use calculations, which use a broad range of estimates and factors affecting those. Among others, the Company typically considers future revenues and expenses, macroeconomic indicators, technological obsolescence, discontinuance of operations and other changes in circumstances that may indicate impairment. If impairment is identified using the value in use calculations, the Company also determines the fair value less cost to sell (if determinable), to calculate the exact amount of impairment to be charged (if any). As this exercise is highly judgmental, the amount of potential impairment may be significantly different from that of the result of these calculations.

(iii) Impairment of trade and other receivables

The Company calculates impairment for doubtful accounts based on estimated losses resulting from the inability of its customers to make required payments. For customers in bankruptcy and liquidation, impairment is calculated on an individual basis, while for other customers it is estimated on a portfolio basis, for which the Company base its estimate on the aging of its account receivables balance and its historical write-off experience, customer credit-worthiness and changes in its customer payment terms. These factors are reviewed periodically, and changes are made to calculations when necessary. The estimates involve assumptions about future customer behaviour and the resulting future cash collections. If the financial condition of its customers were to deteriorate, actual write-offs of currently existing receivables may be higher than expected and may exceed the level of the impairment losses recognized so far.

(all amounts are in thousands of MKD unless otherwise stated)

4. Critical accounting estimates and judgments (continued)

4.1. Critical accounting estimates and assumptions (continued)

(iv) Provisions

Provisions in general are highly judgmental, especially in the cases of legal disputes. The Company assesses the probability of an adverse event as a result of a past event to happen and if the probability is evaluated to be more than fifty percent, the Company fully provides for the total amount of the liability. The Company is rather prudent in these assessments, but due to the high level of uncertainty, in some cases the evaluation may not prove to be in line with the eventual outcome of the case.

5. Sales

	2010	2009
Sales on domestic market	20,232,123	16,045,633
Sales on foreign market	10,293,285	8,562,592
	30,525,408	**24,608,225**

The sales on domestic and foreign market represent sale of oil derivatives.

6. Cost of Sales

	2010	2009
Consumed crude oil	25,373,664	19,522,493
Cost of traded goods	4,052,476	3,942,213
Expenses for chemicals	271,827	715,699
Inventory movements	(706,614)	(965,082)
Gross salaries and wages	357,222	362,688
Electricity	170,709	235,132
Depreciation	178,743	154,380
Maintenance expenses	55,857	56,285
Insurance expenses	41,288	39,987
Personnel transportation expenses	21,946	21,675
Consumed food products	19,017	17,160
Miscellaneous expenses	14,741	8,469
Own consumption of fuel oil	39,756	8,021
Redundancy expenses	52,026	28,134
Telecommunication expenses	1,252	1,262
Office supplies expenses	826	775
Other fixed cost	14,687	11,187
	29,959,423	**24,160,478**

(all amounts are in thousands of MKD unless otherwise stated)

7. Administrative expenses

	2010	2009
Gross salaries and wages	90,757	100,540
Miscellaneous expenses	36,156	44,810
Depreciation	13,950	13,190
Public relation and advert expenses	12,735	11,803
Rental expenses	10,848	9,953
Redundancy expenses	29,882	9,783
Personnel transportation expenses	5,081	5,533
Insurance expenses	5,702	5,472
Consumed food products	5,146	4,833
Telecommunication expenses	3,139	3,362
Maintenance expenses	2,773	2,602
Business travel	1,437	1,474
Office supplies expenses	1,303	1,271
Management and allocated expenses	184	180
Other fixed cost	6,125	5,485
	225,218	**220,291**

8. Sales and distribution expenses

	2010	2009
Transportation of oil products - in the country	30,883	39,797
Transportation of oil products – abroad	18,316	26,790
Other variable expenses	23,958	23,299
Miscellaneous expenses	23,893	26,353
Depreciation	18,999	19,404
Gross salaries and wages	20,708	21,082
Insurance expenses	2,744	2,958
Consumed food products	1,781	1,255
Personnel transportation expenses	1,032	1,052
Redundancy expenses	5,152	1,827
Dues and subscriptions	1,716	1,041
Telecommunication expenses	914	911
Public relation and advert expenses	498	437
Office supplies expenses	189	407
Maintenance expenses	80	48
Electricity	99	2
Other fixed cost	1,335	1,146
	152,297	**167,809**

(all amounts are in thousands of MKD unless otherwise stated)

9. Retail expenses

	2010	2009
Gross salaries and wages	13,388	24,262
Depreciation	7,489	5,855
Miscellaneous expenses	3,799	2,537
Electricity	1,060	1,600
Maintenance expenses	3,969	2,375
Public relation and advert expenses	1,520	1,265
Rental expenses	1,770	1,506
Insurance expenses	129	146
Telecommunication expenses	581	607
Consumed food products	246	338
Personnel transportation expenses	299	542
Office supplies expenses	132	167
Redundancy expenses	3,284	304
Other fixed cost	713	510
Other variable expenses	281	422
	38,660	**42,436**

10. Other operating income

	2010	2009
Collected written off receivables	2,411	-
Additionally determined income	191	7,614
Income from sale of fixed assets	-	402
Other income	310	1,113
	2,912	**9,129**

11. Other operating expenses

	2010	2009
Impairment of bad and doubtful debts	14,826	2,701
Additionally determined expenses	2,514	8,264
Other expenses	3,315	5,344
	20,655	**16,309**

12. Finance income and costs

	2010	2009
Foreign exchange gain	884,149	555,815
Foreign exchange loss	(924,778)	(455,551)
Interest income	51,354	41,556
Interest expenses	(1,075)	(258)
Income from dividends received	-	207
Bank charges	(11,627)	(10,595)
	(1,977)	**131,174**

(all amounts are in thousands of MKD unless otherwise stated)

13. Income tax expense

	2010	**2009**
Income/ (loss) before tax	130,090	141,205
Tax calculated at a tax rate of 10%	-	-
Expenses non tax deductible according to local regulations	20,324	10,459
Tax credit	-	(665)
Tax charge	**20,324**	**9,794**

Commencing from 1 January 2010 the Government of the Republic of Macedonia has introduced modifications and changes in the Profit Tax Law. According to these changes the profit tax shall apply at the moment of distribution of the profits in a form of dividends. In addition, official amendments were made in Income Tax Manual, published on 18 December 2010. According these changes the base for computation of profit tax are non-deductible expenses incurred during the fiscal year. Subsequently, as long as the undistributed profits are retained within the Company the profit tax would not be applied.

The tax authorities may at any time inspect the books and records within 5 to 10 years subsequent to the reported tax year, and may impose additional tax assessments and penalties. The Company's management is not aware of any circumstances, which may give rise to a potential material liability in this respect.

(all amounts are in thousands of MKD unless otherwise stated)

14. Property Plant and Equipment

	Land	Buildings	Machinery and equipment	Construc-tion in progress	Total
At 1 January 2009					
Cost	126,876	3,031,950	5,327,219	261,153	**8,747,198**
Accumulated depreciation	-	(2,507,568)	(3,642,962)	-	**(6,150,530)**
Net book amount	**126,876**	**524,382**	**1,684,257**	**261,153**	**2,596,668**
Year ended 31 December 2009					
Opening net book amount	126,876	524,382	1,684,257	261,153	**2,596,668**
Additions	-	-	-	739,282	**739,282**
Transfer from construction in progress	-	35,879	119,627	(155,506)	**-**
Disposals (net book value)	-	-	(7)	-	**(7)**
Transfers to intangible assets	-	-	-	(2,570)	**(2,570)**
Depreciation charge		(31,374)	(162,650)	-	**(194,024)**
Closing net book amount	**126,876**	**528,887**	**1,641,227**	**842,359**	**3,139,349**
At 31 December 2009					
Cost	126,876	3,067,829	5,438,279	842,359	**9,475,343**
Accumulated depreciation	-	(2,538,942)	(3,797,052)	-	**(6,335,994)**
Net book amount	**126,876**	**528,887**	**1,641,227**	**842,359**	**3,139,349**
Year ended 31 December 2010					
Opening net book amount	126,876	528,887	1,641,227	842,359	**3,139,349**
Additions	1,959	-	-	227,216	**229,175**
Transfer from construction in progress	15,424	46,325	793,703	(855,452)	**-**
Disposals (net book value)	-	-	(826)	-	**(826)**
Transfers to intangible assets	-	-	-	(188)	**(188)**
Depreciation charge	-	(37,287)	(182,940)	-	**(220,227)**
Closing net book amount	**144,259**	**537,925**	**2,251,164**	**213,935**	**3,147,283**
At 31 December 2010					
Cost	144,259	3,114,154	6,235,800	213,935	**9,708,148**
Accumulated depreciation	-	(2,576,229)	(3,984,636)	-	**(6,560,865)**
Net book amount	**144,259**	**537,925**	**2,251,164**	**213,935**	**3,147,283**

Out of total depreciation expense (of the tangible and intangible assets) amount of MKD 178,743 thousands (2009: MKD 154,380 thousands) has been charged in cost of sales, MKD 13,950 thousands (2009: MKD 13,190 thousands) in administrative costs and MKD 28,197 thousands (2009: MKD 26,936 thousands) in retail, selling and distribution expenses.

The Company has recognised land in the financial statement which is in state ownership and the Company has right of use. The procedure for obtaining the legal titles over the land is in process.

(all amounts are in thousands of MKD unless otherwise stated)

15. Available-for-sale financial assets

	2010	2009
At 1 January	12,523	11,220
Additions	-	-
Disposals	-	-
Net gains/(losses) transfer to revaluation reserves	(875)	1,303
At 31 December	**11,648**	**12,523**

Available-for-sale financial assets are denominated in Macedonian denars and include the following:

	2010	2009
Investments in companies	4,926	7,659
Investments in banks	6,722	4,864
	11,648	**12,523**

16. Inventory

	2010	2009
Raw materials - crude oil	1,113,909	1,081,091
Raw materials	58,723	75,324
Work in progress	378,896	51,322
Finished goods	1,410,627	1,031,585
Trade goods	17,503	94,622
Spare parts in storage	31,152	37,927
Tools and consumables stores	17,943	19,100
Less: Provision for tools and consumable stores	(14,549)	(18,900)
	3,014,204	**2,372,071**

17. Trade and other receivables

Carrying amount of trade receivables is presented as follows:

	2010	2009
Trade receivables domestic	2,463,059	2,323,742
Trade receivables foreign	548,597	403,479
Trade receivables - gross	**3,011,656**	**2,727,221**
Provision for impairment of trade receivables	(103,050)	(94,596)
	2,908,606	**2,632,625**

(all amounts are in thousands of MKD unless otherwise stated)

17. Trade and other receivables (continued)

Carrying amount of trade and other receivables is presented as follows:

	2010	**2009**
Trade receivables - domestic	2,463,059	2,323,742
Trade receivables - foreign	535,856	398,717
Foreign receivables from related parties (note 24)	12,741	4,762
Less: Provision for impairment	(103,050)	(94,596)
Trade receivables - net	**2,908,606**	**2,632,625**
Receivable from Escrow account	769,497	769,497
Prepaid expenses	51,338	33,478
Advance payments	4,321	13,901
Receivables from employees	1,089	628
Other short term receivables	13,745	8,643
Other receivables	**839,990**	**826,147**
	3,748,596	**3,458,772**

Receivables from related parties represent receivables from Hellenic Petroleum S.A, EKO Ku Belgrade, EL.P. ET. Balkaniki S.A. and Vardax S.A. (Note 24).

Following the provisions of the Share Purchase and Concession Agreement dated 8 May 1999 concluded between EL.P.ET Balkaniki S.A. (the parent company of OKTA crude oil refinery AD Skopje) and the Government of the Republic of Macedonia, the Company has recognized receivables in the period from 2000 to 2004 in the amount of approximately MKD 769,497 thousands which arise from liabilities relating to the period prior to the acquisition.

The ageing analysis of trade receivables is as follows:

	2010	**2009**
Not past due	2,744,881	2,476,130
less than 30 days	127,217	93,254
30 to 90 days	8,364	22,013
90 days to 1 year	5,265	17,259
Over 1 year	125,929	118,565
Total gross receivables	**3,011,656**	**2,727,221**

Movements on the provision for impairment of trade receivables are as follows:

	2010	**2009**
At 1 January	94,596	92,876
Provision for receivables impairment	14,826	2,405
Unused amounts reversed	(6,372)	(685)
At 31 December	**103,050**	**94,596**

Amounts charged to the allowance account are generally written off when there is no expectation of recovering additional cash.

(all amounts are in thousands of MKD unless otherwise stated)

17. Trade and other receivables (continued)

The ageing analysis of provision for impairment is as follows:

	2010	**2009**
Over 1 year	103,050	94,596
	103,050	**94,596**

Movement in allowance for impairment for the separate categories of receivables is as follows:

Domestic	**2010**	**2009**
Opening balance at 1st of January	79,559	78,141
Charged to expenses	13,471	2,103
Collected receivables recognised as income	(6,372)	(685)
	86,658	**79,559**

Export	**2010**	**2009**
Opening balance at 1st of January	15,037	14,735
Charged to expenses	1,355	302
Collected receivables recognised as income	-	-
	16,392	**15,037**

Amounts charged to the allowance account are generally written-off when there is no expectation of recovering additional cash. According the Company's policies the following factors are taking into consideration when assessing the impairment of receivables: receivables above 90 days, frequent late payments, high risk customers and customer with financial difficulties, except for the related parties. Trade receivables are secured with bank guarantees and mortgage.

The carrying amounts of the Company's trade receivables are denominated in the following currencies:

	2010	**2009**
MKD	2,376,401	2,229,146
EUR	16,483	7,871
USD	515,722	395,608
	2,908,606	**2,632,625**

The carrying amounts of the Company's other receivables are denominated in the following currencies:

	2010	**2009**
MKD	839,990	826,147
	839,990	**826,147**

The fair value of the trade receivables and the other receivables at the balance sheet date is the same as their carrying value.

(all amounts are in thousands of MKD unless otherwise stated)

18. Cash and cash equivalents

	2010	**2009**
Bank accounts in domestic currency	169,798	72,498
Bank accounts in foreign currency	14,382	9,138
Letter of credit	23,157	13,156
Cash on hand	308	963
Other cash and cash equivalents	8,644	7,796
Bank deposits	456	30,456
	216,745	**134,007**

The carrying amounts of the cash and cash equivalents are denominated in the following currencies:

	2010	**2009**
MKD	179,142	111,639
EUR	33	3,890
USD	37,570	18,478
	216,745	**134,007**

Bank deposits in 2009 represent cash deposits in the reputable domestic banks, Stopanska Banka A.D. - Skopje (NBG Group) and Alpha Banka A.D. - Skopje (Alpha Bank Group). Deposits are denominated in domestic currency with maturity up to one month and interest rate of 7.5% p.a..

19. Capital and reserves

Shares

The total authorised number of ordinary shares is 824,799 shares (2009: 824,799) with par value of EUR 51.12 per share (2009: EUR 51.12) and 21,561 preference shares (2009: 21,561) with par value of EUR 51.12 per share (2009: EUR 51.12). All issued shares are fully paid.

For the year 2010 there was no change in the ownership structure of the Company and the shareholders structure as at 31 December 2010 is as follows:

	Number of ordinary shares	**Number of preference shares**	**Total shares**	**% of total share capital**
EL.P.ET Balkaniki S.A.	689,875	-	689,875	81.5 %
Pension and Disability Fund of the Republic of Macedonia	72,317	21,561	93,878	11.1 %
Other 1)	62,607	-	62,607	7.4 %
	824,799	**21,561**	**846,360**	**100 %**

1) Shareholders which individually hold less than 0.4% in share capital.

(all amounts are in thousands of MKD unless otherwise stated)

19. Capital and reserves (continued)

Dividends

There are no dividend payments during 2010 except dividends for preference shares amounted MKD 1,353 thousands, recognised as expense in 2010.

Reserves

Statutory reserves

According to Macedonian regulations, the Company is required to have compulsory statutory reserve established through appropriation of its net profits. The annual contribution to the statutory reserve may not be less than fifteen percent (15%) of the profit, unless or until the Company's reserves reach an amount equal to one-fifth of its basic capital. The Company has achieved the required minimum in prior years and consequently no appropriation of net profit for 2010 has been made.

Revaluation reserve

The revaluation reserve relates to: (i) property, plant and equipment and comprises the cumulative increased carrying value based on the increase of the producers' price index on the date of revaluation that was performed up to 2003; and (ii) effects of revaluation of available for sale financial assets.

20. Employee benefit obligations

	2010	2009
Retirement benefit obligations and jubilee awards	18,300	18,300
	18,300	**18,300**

21. Trade and other payables

Carrying amount of trade payables is presented as follows:

	2010	2009
Domestic trade payables	75,567	166,475
Foreign trade payables	4,239,163	3,143,593
Payables for non-invoiced goods	3,521	837
	4,318,251	**3,310,905**

(all amounts are in thousands of MKD unless otherwise stated)

21. Trade and other payables (continued)

Carrying amount of trade and other payables is presented as follows:

	2010	2009
Domestic trade payables	75,567	166,475
Foreign trade payables	150,827	181,646
Foreign payables from related parties (note 24)	4,088,336	2,961,947
Payables for non-invoiced goods	3,521	837
Trade payables	**4,318,251**	**3,310,905**
Advances received	32,709	19,825
Excise taxes payable	285,287	319,168
Income taxes payable	10,246	4,988
Salaries and wages	20,097	20,965
Personal income tax and contributions	9,157	10,033
VAT payables	5,441	81,073
Withholding tax	59	612
Accrued liabilities	431	-
Other current liabilities	**363,427**	**456,664**
	4,681,678	**3,767,569**

Liabilities to related parties represent liabilities to Hellenic Petroleum S.A., Vardax S.A. and Asprofos S.A (Note 24).

The carrying amounts of the trade payables are denominated in the following currencies:

	2010	2009
MKD	79,088	167,312
USD	4,225,594	3,105,274
EUR	13,569	38,319
	4,318,251	**3,310,905**

The carrying amounts of the other payables are denominated in the following currencies:

	2010	2009
MKD	363,427	456,664
	363,427	**456,664**

(all amounts are in thousands of MKD unless otherwise stated)

22. Expenses by nature

	2010	2009
Consumed raw materials	25,373,664	19,522,493
Cost of trading goods sold	4,052,476	3,942,213
Changes in inventories	(706,614)	(965,082)
Calculated salaries	480,368	506,894
Consumed chemicals	271,827	715,811
Depreciation	220,890	194,506
Consumed energy	172,345	236,885
Redundancy expenses	90,344	40,393
Remaining non-material expenses	78,589	82,168
Transport services	74,087	90,932
Maintenance services	62,678	57,981
Allowance for the expenses of the employees	54,549	52,869
Insurance premiums	49,863	48,563
Own consumption	39,756	8,021
Other services	19,694	15,999
Rental fees	15,927	13,950
Promotion, advertising, entertainment and sponsorship	15,090	14,007
Telecommunication expenses	5,885	6,141
Office supply expenses	2,450	2,621
Dues and subscriptions	1,949	1,316
Daily allowance for business trips and travel expenses	1,844	2,153
Remaining expenses	184	180
	30,377,845	**24,591,014**

23. Employee related expenses

	2010	2009
Salaries and wages	302,988	313,725
Contributions and taxes	144,015	157,843
Other benefits	33,365	35,326
	480,368	**506,894**

	2010	2009
Average number of employees	754	844

(all amounts are in thousands of MKD unless otherwise stated)

24. Related party transactions

The Company is controlled by EL.P.ET Balkaniki, which owns 81.51% of the Company's shares. Ultimate parent is Hellenic Petroleum S.A, incorporated in Greece. The remaining 7.41% of the shares are held by the minor shareholders and 11.08% of shares are held by the Pension and Disability Fund.

The following transactions were carried out with related parties:

i) Sales of goods and services

Sales of goods	**2010**	**2009**
EKO JU Belgrade	1,808	-
Hellenic Petroleum S.A.	383	630
	2,191	**630**

Sales of services	**2010**	**2009**
EL.P.ET Balkaniki S.A.	3,074	-
Hellenic Petroleum S.A.	51	-
Vardax S.A.	1,541	-
	4,666	**-**

ii) Purchases of raw material, goods and services

Purchases of raw material and goods	**2010**	**2009**
Hellenic Petroleum S.A.	28,483,066	23,597,897
Asprofos S.A.	12,001	62,440
Eko ABEE	2,095	663
	28,497,162	**23,661,000**

Purchases of services	**2010**	**2009**
Vardax S.A.	744,984	827,293
ELPE – International Consulting S.A.	-	5,506
	744,984	**832,799**

iii) Outstanding balances arising from sale of goods/services

Receivables arising from sale of goods	**2010**	**2009**
Hellenic Petroleum S.A	49	54
Jugopetrol A.D. Kotor	-	4,267
Global Petroleum Albania Sh. A.	2	2
	51	**4,323**

Receivables arising from sale of services	**2010**	**2009**
Hellenic Petroleum S.A	8,461	439
Vardax S.A.	3,642	-
EL.P.ET Balkaniki S.A.	3,150	-
	15,253	**439**

(all amounts are in thousands of MKD unless otherwise stated)

24. Related party transactions (continued)

iv) Outstanding balances arising from purchase of goods/services

Payables arising from purchase of raw materials and goods	**2010**	**2009**
Hellenic Petroleum S.A.	3,829,103	2,823,959
Asprofos S.A.	8,611	1,346
Eko ABEE	-	(4,285)
	3,837,714	**2,821,020**

Payables arising from purchase of services	**2010**	**2009**
Vardax S.A.	250,622	135,421
ELPE – International Consulting S.A.	-	5,506
	250,622	**140,927**

Key management compensation

Key management includes members of the Board of Directors and Directors within the Company. The compensation paid or payable to key management for services is shown below:

	2010	**2009**
Salaries	19,725	15,880
Taxes and contributions	4,455	3,943
Other benefits	2,808	704
	26,988	**20,527**

25. Contingences and commitments

a) Bank guarantees

The Company has contingent liabilities in respect of bank guarantees arising in the ordinary course of business. It is not anticipated that any material liabilities will arise from the contingent liabilities. The Company has bank guarantees in the amount of MKD 727,500 thousands as at 31 December 2010 (2009: MKD 611,547 thousands). No additional payments are anticipated at the date of the financial statements.

b) Legal proceedings

From time to time and in the normal course of the business, claims against the Company may be received. On the basis of its own estimates and both internal and external professional advice, the management of the Company is of the opinion that no material losses will be incurred in respect of claims and accordingly no provision has been made in these financial statements.

26. Subsequent events

No subsequent events.