OKTA CRUDE OIL REFINERY A.D. - SKOPJE

Financial Statements

For the year ended 31 December 2011

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 2011, 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.

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

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 2010 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 2011, 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 Gjorgjievski
General Manager

Dragan Davitkov
Certified Auditor

PricewaterhouseCoopers REVIZIJA DOO - Skopje

29 February 2012
Skopje

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

Statement of comprehensive income

	Note	Year ended 31 December 2011	2010
Sales	5	40,156,610	30,525,408
Cost of sales	6	(39,664,888)	(29,959,423)
Gross profit		**491,722**	**565,985**
Administrative expenses	7	(201,465)	(225,218)
Sales and distribution expenses	8	(139,504)	(152,297)
Retail expenses	9	(32,972)	(38,660)
Other operating income	10	4,631	2,912
Other operating expenses	11	(23,440)	(20,655)
Operating profit		**98,972**	**132,067**
Finance income	12	1,105,827	935,503
Finance costs	12	(1,257,996)	(937,480)
Finance costs – net		(152,169)	(1,977)
(Loss)/ Profit before income tax		**(53,197)**	**130,090**
Income tax expense	13	(15,609)	(20,324)
(Loss)/ Profit for the year		**(68,806)**	**109,766**
Other comprehensive income/ (loss)			
Change in value of available-for-sale financial assets		(4,747)	(875)
Total other comprehensive loss		**(4,747)**	**(875)**
Total comprehensive (loss)/ income for the year		**(73,553)**	**108,891**

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

Statement of financial position

	Note	As at 31 December 2011	2010
ASSETS			
Non-current assets			
Intangible assets		1,085	1,775
Property, plant and equipment	14	2,992,371	3,147,283
Available-for-sale financial assets	15	6,901	11,648
Total non-current assets		**3,000,357**	**3,160,706**
Current assets			
Inventories	16	2,081,844	3,014,204
Trade receivables	17	3,519,221	2,908,606
Other receivables	17	1,047,435	839,990
Current income tax receivable		4,589	-
Cash and cash equivalents	18	121,385	216,745
Total current assets		**6,774,474**	**6,979,545**
TOTAL ASSETS		**9,774,831**	**10,140,251**
EQUITY AND LIABILITIES			
Equity			
Share capital		2,472,820	2,472,820
Statutory reserves		494,718	494,718
Revaluation and other reserves		398,740	403,308
Retained earnings		1,999,265	2,069,427
Total equity	19	**5,365,543**	**5,440,273**
Non-current liabilities			
Employee benefit obligations	20	18,300	18,300
Total non-current liabilities		**18,300**	**18,300**
Current liabilities			
Trade payables	21	4,101,541	4,318,251
Other current liabilities	21	289,447	353,341
Current income tax payable		-	10,086
Total current liabilities		**4,390,988**	**4,681,678**
TOTAL LIABILITIES AND EQUITY		**9,774,831**	**10,140,251**

The financial statements of OKTA Crude oil refinery A.D. – Skopje were authorised for issue by the Management and Board of Directors on 28 February 2012. These financial statements are subject to approval from Company's 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
Chief Executive Officer

Srecko Surkov
Director for Finance and Administration

(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 2010	**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**
Dividends paid	-	-	-	(1,356)	**(1,356)**
Comprehensive income	-	-	(4,747)	-	**(4,747)**
Net loss for 2011	-	-	-	(68,806)	**(68,806)**
Allocation of funds	-	-	179	-	**179**
Balance at 31 December 2011	**2,472,820**	**494,718**	**398,740**	**1,999,265**	**5,365,543**

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

Statement of cash flows

	Year ended 31 December	
	2011	**2010**
Operating activities		
(Loss)/ profit before tax	**(53,197)**	**130,090**
Adjustments for:		
Depreciation	251,803	220,890
Interest income	(42,789)	(51,354)
Interest expense and bank charges	14,650	11,627
Cash generated from operations before changes in working capital	**170,467**	**311,253**
Cash flow from operating activities		
Decrease/ (increase) in inventories	932,360	(642,133)
(Increase)/ decrease in receivables	(822,649)	(279,513)
(Decrease)/ increase in payables	(290,690)	914,109
Cash generated from operations	**(10,512)**	**303,716**
Interest and bank charges paid	(14,650)	(11,627)
Income taxes paid	(10,504)	(10,246)
Net cash generated from operating activities	**(35,666)**	**281,843**
Cash flow from investing activities		
Acquisition of property, plant and equipment	(103,512)	(249,106)
Proceeds from sale of property, plant and equipment	12,078	-
Interest received	33,096	51,354
Net cash used in investing activities	**(58,338)**	**(197,752)**
Cash flow from financing activities		
Dividends paid	(1,356)	(1,353)
Net cash used in financing activities	**(1,356)**	**(1,353)**
Net (decrease)/ increase in cash and cash equivalents	**(95,360)**	**82,738**
Cash and cash equivalents at 1 January	216,745	134,007
Cash and cash equivalents at 31 December (note 18)	**121,385**	**216,745**

(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 2011, the Company has 675 employees (2010: 728 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:

Chief Executive Officer	Lampros Zogopoulos
Director for Finance and Administration	Srecko Surkov

The financial statements of OKTA Crude oil refinery A.D. – Skopje were authorised for issue by the Management and Board of Directors on 28 February 2012. These financial statements are subject to approval from Company’s 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 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 August 2010, effective from 1 January 2011.

2. Summary of significant accounting policies

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 and available for sale financial assets.

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

2.2. Changes in accounting policies

Up to 01.01.2011 cost of crude oil was assigned by using the FIFO method. The Company has voluntary changed its accounting policy for method of valuation of crude oil and started to use weighted average method. Based on Company's assessment, retrospective application of new accounting policy does not have material effect on any prior period and consequently no reclassification was made within these financial statements.

2.3. 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 re-measured. 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 2011 and 31 December 2010 were as follows:

Exchange rate:	31 December 2011 MKD	31 December 2010 MKD
EUR	61.51	61.51
USD	47.53	46.31

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

2. Summary of significant accounting policies (continued)

2.4. 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.

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:

	2011	2010
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)

2.5. 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 life over which company's intangible assets are being amortised is 4 years.

2.6. 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 for impairment of an available for sale financial asset. 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.

2.7. 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 and cost of other raw materials, spare parts and tools and consumable stores, finished and trading goods is determined on a weighted average cost basis. Up to 01.01.2011 cost of crude oil was assigned by using the FIFO method. For the effect of this change in the accounting policy refer to Note 2.2.

2. Summary of significant accounting policies (continued)

2.7. 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.

2.8. 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.

2.9. 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.

2.10. Share capital

Ordinary and preference shares are classified as equity.

2.11. 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)

2.12. 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.

2.13. 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)

2.14. 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. These obligations are valued annually. 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.

2.15. 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. Summary of significant accounting policies (continued)

2.16. 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.

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.

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

3. Financial risk management (continued)

3.1 Financial risk factors (continued)

Foreign exchange risk (continued)

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

2011	**MKD**	**EUR**	**USD**
Assets			
Cash and cash equivalents	92,637	2,489	26,259
Trade receivables and other current financial assets	3,944,293	2,626	619,737
Total assets	**4,036,930**	**5,115**	**645,996**
Liabilities			
Trade payables	104,686	11,305	3,985,550
Other current liabilities	289,447	-	-
Total liabilities	**394,133**	**11,305**	**3,985,550**
Net balance sheet exposure	**3,642,797**	**(6,190)**	**(3,339,554)**

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)**

The Company realized more purchases in USD than sales. At 31 December 2011, if USD would have been 5% (2010: 5%) weaker or stronger against MKD profit would have been MKD 168,291 thousand (2010: MKD 8,552 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.

As of 31 December 2011 the Company has no deposits in banks (2010: nil).

3. Financial risk management (continued)

3.1 Financial risk factors (continued)

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.

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.

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

3. Financial risk management (continued)

3.1 Financial risk factors (continued)

(ii) Credit risk (continued)

The following table represents Company's exposure to credit risk as at 31 December 2011 and 31 December 2010:

	2011	**2010**
Cash and cash equivalents	121,126	216,437
Trade receivables	3,519,221	2,908,606
Other receivables	1,047,435	839,990
	4,687,782	**3,965,033**

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 2011		**31 December 2010**	
	Trade receivables - domestic	Trade receivables - foreign	Trade receivables - domestic	Trade receivables - foreign
Neither past due nor impaired	2,722,442	597,541	2,235,962	508,919
Past due but not impaired	174,416	24,822	140,439	23,286
Impaired	42,260	16,210	86,658	16,392
Gross	**2,939,118**	**638,573**	**2,463,059**	**548,597**
Less: allowance for impairment	(42,260)	(16,210)	(86,658)	(16,392)
Net	**2,896,858**	**622,363**	**2,376,401**	**532,205**

Trade receivables of MKD 199,238 thousands (2010: MKD 163,725 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.

(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.

The table below analyses Company's financial liabilities into relevant maturity groupings based on the remaining period at the balance sheet date to the contractual maturity date. The amounts disclosed are the contractual undiscounted cash flows.

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

3. Financial risk management (continued)

3.1 Financial risk factors (continued)

(iii) Liquidity risk (continued)

	Less than 3 month	Between 3 months and 1 year	Over 1 year
At 31 December 2011			
Trade payables	4,101,541	-	-
Other current liabilities	58,004	-	-
	4,159,545	**-**	**-**
At 31 December 2010			
Trade payables	4,318,251		
Other current liabilities	53,397	-	-
	4,371,648	**-**	**-**

The maturity analysis applies to financial instruments only and therefore statutory liabilities are not included.

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 2011:

	Carrying amount	Fair Value
Cash and cash equivalents	121,385	121,385
Trade receivables	3,519,221	3,519,221
Other current financial assets	1,047,435	1,047,435
	4,688,041	**4,688,041**

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**

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 25,180 thousand (2010: MKD 22,089 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

	2011	2010
Sales on domestic market	25,681,962	20,232,123
Sales on foreign market	14,474,648	10,293,285
	40,156,610	**30,525,408**

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

6. Cost of Sales

	2011	2010
Consumed crude oil	26,178,587	25,373,664
Cost of traded goods	11,097,710	4,052,476
Expenses for chemicals	137,861	271,827
Inventory movements	1,267,116	(706,614)
Gross salaries and wages	354,874	357,222
Electricity	166,602	170,709
Depreciation	208,668	178,743
Maintenance expenses	57,533	55,857
Insurance expenses	39,930	41,288
Personnel transportation expenses	23,472	21,946
Consumed food products	23,292	19,017
Miscellaneous expenses	11,373	14,741
Own consumption of fuel oil	37,573	39,756
Redundancy expenses	47,763	52,026
Telecommunication expenses	932	1,252
Office supplies expenses	548	826
Other fixed cost	11,054	14,687
	39,664,888	**29,959,423**

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

7. Administrative expenses

	2011	2010
Gross salaries and wages	77,888	90,757
Miscellaneous expenses	40,329	36,156
Depreciation	13,723	13,950
Public relation and advert expenses	16,442	12,735
Rental expenses	10,575	10,848
Redundancy expenses	12,872	29,882
Personnel transportation expenses	4,478	5,081
Insurance expenses	5,307	5,702
Consumed food products	5,396	5,146
Telecommunication expenses	2,744	3,139
Maintenance expenses	1,764	2,773
Business travel	1,540	1,437
Office supplies expenses	1,431	1,303
Management and allocated expenses	1,173	184
Other fixed cost	5,803	6,125
	201,465	**225,218**

8. Sales and distribution expenses

	2011	2010
Transportation of oil products - in the country	30,085	30,883
Transportation of oil products – abroad	20,232	18,316
Other variable expenses	18,362	23,958
Miscellaneous expenses	17,426	23,893
Depreciation	20,125	18,999
Gross salaries and wages	17,336	20,708
Insurance expenses	3,052	2,744
Consumed food products	1,809	1,781
Personnel transportation expenses	972	1,032
Redundancy expenses	5,484	5,152
Dues and subscriptions	1,420	1,716
Telecommunication expenses	803	914
Public relation and advert expenses	202	498
Office supplies expenses	178	189
Maintenance expenses	753	80
Other fixed cost	1,265	1,434
	139,504	**152,297**

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

9. Retail expenses

	2011	2010
Gross salaries and wages	8,675	13,388
Depreciation	9,287	7,489
Miscellaneous expenses	2,346	3,799
Maintenance expenses	6,255	3,969
Public relation and advert expenses	2,530	1,520
Rental expenses	810	1,770
Insurance expenses	76	129
Telecommunication expenses	432	581
Consumed food products	229	246
Personnel transportation expenses	178	299
Office supplies expenses	24	132
Redundancy expenses	-	3,284
Other fixed cost	2,037	1,773
Other variable expenses	93	281
	32,972	**38,660**

10. Other operating income

	2011	2010
Collected written off receivables	54	2,411
Additionally determined income	4,210	191
Other income	367	310
	4,631	**2,912**

11. Other operating expenses

	2011	2010
Net book value of disposed fixed assets	19,546	-
Impairment of bad and doubtful debts	-	14,826
Additionally determined expenses	3,305	2,514
Other expenses	589	3,315
	23,440	**20,655**

12. Finance income and costs

	2011	2010
Foreign exchange gain	1,063,038	884,149
Interest income	42,789	51,354
Finance income	**1,105,827**	**935,503**
Foreign exchange loss	(1,243,346)	(924,778)
Interest expenses	(635)	(1,075)
Bank charges	(14,015)	(11,627)
Finance costs	**(1,257,996)**	**(937,480)**
Net finance costs	**(152,169)**	**(1,977)**

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

13. Income tax expense

	2011	2010
(Loss) / income before tax	(53,197)	130,090
Tax calculated at a tax rate of 10%	-	-
Expenses non tax deductible according to local regulations	15,609	20,324
Tax credit	-	-
Tax charge	**15,609**	**20,324**

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 2010					
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**
Year ended 31 December 2011					
Opening net book amount	144,259	537,925	2,251,164	213,935	3,147,283
Additions	-	-	-	121,192	121,192
Transfer from construction in progress	24	5,792	190,220	(196,036)	-
Disposals (net book value)	-	(3,948)	(4,643)	(16,400)	(24,991)
Depreciation charge	-	(34,923)	(216,190)	-	(251,113)
Closing net book amount	**144,283**	**504,846**	**2,220,551**	**122,691**	**2,992,371**
At 31 December 2011					
Cost	144,283	3,105,052	6,368,718	122,691	9,740,744
Accumulated depreciation	-	(2,600,206)	(4,148,167)	-	(6,748,373)
Net book amount	**144,283**	**504,846**	**2,220,551**	**122,691**	**2,992,371**

Out of total depreciation and amortisation expense (of the tangible and intangible assets) amount of MKD 208,668 thousands (2010: MKD 178,743 thousands) has been charged in cost of sales, MKD 13,723 thousands (2010: MKD 13,950 thousands) in administrative costs and MKD 29,412 thousands (2010: MKD 28,197 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

	2011	2010
At 1 January	11,648	12,523
Additions	-	-
Disposals	-	-
Net losses transfer to revaluation reserves	(4,747)	(875)
At 31 December	**6,901**	**11,648**

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

	2011	2010
Investments in companies	3,933	4,926
Investments in banks	2,968	6,722
	6,901	**11,648**

16. Inventories

	2011	2010
Raw materials - crude oil	797,235	1,113,909
Raw materials	70,609	58,723
Work in progress	94,212	378,896
Finished goods	428,194	1,410,627
Trade goods	647,575	17,503
Spare parts and tools and consumables stores	44,019	34,546
	2,081,844	**3,014,204**

17. Trade and other receivables

Carrying amount of trade receivables is presented as follows:

	2011	2010
Trade receivables domestic	2,939,118	2,463,059
Trade receivables foreign	638,573	548,597
Trade receivables – gross	**3,577,691**	**3,011,656**
Provision for impairment of trade receivables	(58,470)	(103,050)
	3,519,221	**2,908,606**

(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:

	2011	2010
Trade receivables - domestic	2,939,118	2,463,059
Trade receivables - foreign	610,086	535,856
Foreign receivables from related parties (note 24)	28,487	12,741
Less: Provision for impairment	(58,470)	(103,050)
Trade receivables – net	**3,519,221**	**2,908,606**
Receivable from Escrow account	769,497	769,497
VAT receivable	253,420	-
Prepaid expenses	6,120	51,338
Advance payments	7,646	4,321
Receivables from employees	682	1,089
Other short term receivables	10,070	13,745
Other receivables	**1,047,435**	**839,990**
	4,566,656	**3,748,596**

Receivables from related parties represent receivables from Hellenic Petroleum S.A. Greece, EKO Serbia - Belgrade, EL.P.ET. Balkaniki S.A.Greece, Global Petroleum Albania Sh.p.k. Albania, Jugopetrol AD Kotor and Vardax S.A. Greece (Note 24). Receivables in amount of MKD 7,917 thousands (2010: MKD 7,917 thousands) from Hellenic Petroleum S.A. Greece are included under other short term receivables.

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:

	2011	2010
Not past due	3,319,983	2,744,881
less than 30 days	178,739	127,217
30 to 90 days	12,756	8,364
90 days to 1 year	2,961	5,265
Over 1 year	63,252	125,929
Total gross receivables	**3,577,691**	**3,011,656**

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

	2011	2010
At 1 January	103,050	94,596
Provision for receivables impairment	-	14,826
Unused amounts reversed	(44,580)	(6,372)
At 31 December	**58,470**	**103,050**

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

17. Trade and other receivables (continued)

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

The ageing analysis of provision for impairment is as follows:

	2011	2010
Over 1 year	58,470	103,050
	58,470	**103,050**

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

Domestic	2011	2010
Opening balance at 1st of January	86,658	79,559
Charged to expenses	-	13,471
Collected receivables recognised as income	(44,398)	(6,372)
	42,260	**86,658**

Foreign	2011	2010
Opening balance at 1st of January	16,392	15,037
Charged to expenses	-	1,355
Collected receivables recognised as income	(182)	-
	16,210	**16,392**

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:

	2011	2010
MKD	2,896,858	2,376,401
EUR	2,626	16,483
USD	619,737	515,722
	3,519,221	**2,908,606**

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

	2011	2010
MKD	1,047,435	839,990
	1,047,435	**839,990**

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

	2011	2010
Bank accounts in domestic currency	91,643	169,798
Bank accounts in foreign currency	28,646	14,382
Letter of credit	1	23,157
Cash on hand	259	308
Other cash and cash equivalents	836	9,100
	121,385	**216,745**

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

	2011	2010
MKD	92,637	179,142
EUR	2,489	33
USD	26,259	37,570
	121,385	**216,745**

19. Capital and reserves

Shares

The total authorised number of ordinary shares is 824,799 shares (2010: 824,799) with par value of EUR 51.12 per share (2010: EUR 51.12) and 21,561 preference shares (2010: 21,561) with par value of EUR 51.12 per share (2010: EUR 51.12). All issued shares are fully paid.

For the year 2011 there was no change in the ownership structure of the Company and the shareholders structure as at 31 December 2011 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.

Dividends

There are no dividend payments during 2011 except dividends for preference shares in amount of MKD 1,356 thousands (2010: MKD 1.353 thousands). There are no other declared dividends.

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

19. Capital and reserves (continued)

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 2011 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

	2011	2010
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:

	2011	2010
Domestic trade payables	102,432	75,567
Foreign trade payables	3,996,855	4,239,163
Payables for non-invoiced goods	2,254	3,521
	4,101,541	**4,318,251**

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

	2011	2010
Domestic trade payables	102,432	75,567
Foreign trade payables	160,152	150,827
Foreign payables from related parties (note 24)	3,836,703	4,088,336
Payables for non-invoiced goods	2,254	3,521
Trade payables	**4,101,541**	**4,318,251**
Advances received	33,464	32,709
Excise taxes payable	222,362	285,287
Salaries and wages	19,572	20,097
Personal income tax and contributions	9,081	9,157
VAT payables	-	5,441
Withholding tax	-	59
Accrued liabilities	4,968	591
Other current liabilities	**289,447**	**353,341**
	4,390,988	**4,671,592**

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

21. Trade and other payables (continued)

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

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

	2011	2010
MKD	104,686	79,088
USD	3,985,550	4,225,594
EUR	11,305	13,569
	4,101,541	**4,318,251**

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

	2011	2010
MKD	289,447	353,341
	289,447	**353,341**

22. Expenses by nature

	2011	2010
Consumed raw materials	26,181,155	25,373,664
Cost of trading goods sold	11,097,710	4,052,476
Changes in inventories	1,267,116	(706,614)
Employee related expenses	458,773	480,368
Consumed chemicals	137,861	271,827
Depreciation	251,803	220,890
Consumed energy	166,819	172,345
Redundancy expenses	66,119	90,344
Remaining non-material expenses	88,169	78,589
Transport services	51,071	74,087
Maintenance services	66,304	62,678
Allowance for the expenses of the employees	60,804	54,549
Insurance premiums	48,365	49,863
Own consumption	43,901	39,756
Other services	7,534	19,694
Impairment of bad and doubtful debts	-	15,927
Rental fees	13,914	14,826
Promotion, advertising, entertainment and sponsorship	19,523	15,090
Net book value of disposed fixed assets	19,546	-
Telecommunication expenses	4,911	5,885
Office supply expenses	2,182	2,450
Dues and subscriptions	1,650	1,949
Daily allowance for business trips and travel expenses	1,922	1,844
Additionally determined expenses	3,306	2,514
Remaining expenses	1,811	1,252
	40,062,269	**30,396,253**

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

23. Employee related expenses

	2011	2010
Salaries and wages	289,162	302,988
Contributions and taxes	136,682	144,015
Other benefits	32,929	33,365
	458,773	**480,368**

	2011	2010
Average number of employees	701	754

24. Related party transactions

The Company is controlled by EL.P.ET Balkaniki S.A. Greece, 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.

All transactions with related parties are conducted under normal trading and commercial terms on an arm's length basis.

The following transactions were carried out with related parties:

i) Sales of goods and services

Sales of goods	2011	2010
EKO Serbia	240,652	1,808
Hellenic Petroleum S.A.	186	383
	240,838	**2,191**

Sales of services	2011	2010
EL.P.ET Balkaniki S.A.	216	3,074
Hellenic Petroleum S.A.	13	51
Vardax S.A.	5,319	1,541
	5,548	**4,666**

ii) Purchases of raw material, goods and services

Purchases of raw material and goods	2011	2010
Hellenic Petroleum S.A.	36,848,567	28,483,066
Asprofos S.A.	-	12,001
Eko ABEE	2,297	2,095
	36,850,864	**28,497,162**

Purchases of services	2011	2010
Vardax S.A.	577,795	744,984
	577,795	**744,984**

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

24. Related party transactions (continued)

iii) Outstanding balances arising from sale of goods/services

Receivables arising from sale of goods	**2011**	**2010**
EKO Serbia	27,845	-
Hellenic Petroleum S.A	42	49
Jugopetrol A.D. Kotor	5	-
Global Petroleum Albania Sh.p. Albania	2	2
	27,894	**51**

Receivables arising from sale of services	**2011**	**2010**
Hellenic Petroleum S.A	8,473	8,461
Vardax S.A.	86	3,642
EL.P.ET Balkaniki S.A.	5	3,150
	8,564	**15,253**

iv) Outstanding balances arising from purchase of goods/services

Payables arising from purchase of raw materials and goods	**2011**	**2010**
Hellenic Petroleum S.A.	3,691,781	3,829,103
Asprofos S.A.	-	8,611
	3,691,781	**3,837,714**

Payables arising from purchase of services	**2011**	**2010**
Vardax S.A.	144,922	250,622
	144,922	**250,622**

v) 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:

	2011	**2010**
Salaries	19.147	19,725
Taxes and contributions	4.613	4,455
Other benefits	1.533	2,808
	25.293	**26,988**

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

25. Contingencies

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 736,714 thousands as at 31 December 2010 (2010: MKD 727,500 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. Commitments

a) Operating lease commitments

The Company leases motor vehicles under operating lease agreements. The lease expenditure charged to the Statement of comprehensive income during the year is disclosed in Note 6,7,8 and 9.

The future aggregate minimum lease payments under operating leases are as follows:

	2011	**2010**
No later than 1 year	9,393	9,651
Later than 1 year and no later than 5 years	4,979	9,115
Later than 5 years	-	-
	14,372	**18,766**

27. Events after the reporting period

There are no events after the reporting period that would have impact on the 2011 Statement of comprehensive income, Statement of financial position or Statement of cash flow.