JUGOPETROL A.D., KOTOR

STANDALONE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2006

CONTENTS

General information

Board of Directors
Stanitsas Gerasimos – President of the Board
Athanasopoulos Konstantinos – Executive director
Bogdanović Vesna – Member
Panagopoulos Vassilis – Member
Radusinović Dragan – Member
Rajković Vuk – Member
Stylogiannis Georgios – Member

Company headquarters
Mata Petrovića 2
85330 Kotor
Montenegro

Lawyer
Raičević Radovan
Mata Petrovića 2
85330 Kotor
Montenegro

Banks
Crnogorska Komercijalna Banka
Hipotekarna Banka A.D. Podgorica
NLB Montenegro Banka
Prva banka Crne Gore (Nikšićka Banka)

Audit Company
PricewaterhouseCoopers doo
Brach office Podgorica
Rimski trg 50
81000 Podgorica
Montenegro

PricewaterhouseCoopers d.o.o.
Poslovni centar Kruševac
Cetinjski put bb
81000 Podgorica
Serbia and Montenegro
Telephone +381 (81) 234 890
+381 (81) 234 442
Facsimile +381 (81) 234 442

Independent Auditors Report

To the Shareholders and Board of Directors of Jugopetrol a.d., Kotor

1. We have audited the accompanying financial statements of Jugopetrol a.d., Kotor (the “Company”) standing alone, which comprise the balance sheet as of 31 December 2006 and the income statement, statement of changes in equity and cash flow statement for the year then ended and a summary of significant accounting policies and other explanatory notes.

Management’s Responsibility for the Financial Statements

2. Management is responsible for the preparation and fair presentation of these financial statements in accordance with International financial reporting standards and with the requirements of the Law on accounting and auditing of Montenegro. This responsibility includes: designing, implementing and maintaining internal controls relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

Auditor’s Responsibility

3. Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with International Standards on 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.

4. 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.

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

PRICEWATERHOUSECOOPERS

Basis for Qualified Opinion

6. Prior to 2006, IAS 39- “Financial instruments- Recognition and Measurement” permitted the Company to record increases in the market value of securities in the income statement. As discussed in Note 13 to the financial statements, the increase in market value of available for sale financial assets of Euro 746 thousand in 2006 was recorded as a fair value gain in the income statement. However, as of 1 January 2006 IAS 39 was amended and required such gains to be recognized in equity. Accordingly, fair value reserves are understated and current year profit is overstated by the above amount.

Qualified Opinion

7. In our opinion, except for the effect of the matter described in the Basis for Qualified Opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Company standing alone as of 31 December 2006, and of its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards and with the Law on Accounting and Auditing of Montenegro.

Emphasis of Matter

8. Without further qualifying our opinion, we draw attention to Note 24 to the financial statements, which disclose the fact that the Company is the defendant in a number of court proceedings. The ultimate outcome of these and other cases cannot presently be determined, and, other than described in that note, no provision for any liability that may result has been made in these financial statements.

9. As disclosed in Note 24 to the financial statements, the Company became liable to pay additional VAT and excise duty on supplies to international vessels of Euro 1,498 thousand and Euro 784 thousand, respectively based on the Tax authority decision dated June 2006. The Company appealed during July 2006 to the Ministry of Finance. The Ministry of Finance annulled both this and the subsequent decision issued by the Tax authorities during October 2006. The process has been returned to the first degree body for renewal of the procedure. It is not possible to forecast the outcome of the dispute or to assess additional liabilities for the periods not covered by this tax audit.

PricewaterhouseCoopers

PricewaterhouseCoopers d.o.o.
Poslovni centar Kruševac
Cetinjski put bb
81000 Podgorica
The Republic of Montenegro

PRICE WATERHOUSE COOPERS PREDUZEĆE ZA REVIZIJU, RAČUNOVODSTVENE, FINANSIJSKE I KONSALTING USLUGE D.O.O. PODGORICA

Maja Krstić
Maja Krstić
Statutory auditor
License No. 16 issued
by Ministry of Finance of
Montenegro on 7 April 2007

Podgorica, 24 May 2007

(All amounts expressed in Euro, unless otherwise stated)

Income statement for the year ended 31 December 2006

	Notes	2006	2005
Revenue	5	147,191,173	117,532,110
Other income	6	8,152,271	1,502,936
Fuel and other goods cost		(124,909,433)	(96,349,871)
Spare parts and other materials		(530,984)	(394,675)
Energy expense		(967,635)	(917,088)
Maintenance		(391,351)	(267,259)
Staff cost	7	(10,535,879)	(9,998,794)
Depreciation and amortization		(3,442,940)	(3,712,776)
Other expenses	8	(8,722,414)	(6,958,140)
Operating profit		**5,842,808**	**436,443**
Finance income		470,895	229,359
Finance expenses		(78)	(33)
Finance income, net		470,817	229,326
Profit before income tax		**6,313,625**	**665,769**
Income tax expense	9	(345,573)	-
Profit for the year		**5,968,052**	**665,769**
Earnings per share			
Basic and diluted earnings per share		1.28	0.14
Weighted average number of shares		4.653.971	4.653.971

(All amounts expressed in Euro, unless otherwise stated)

Balance sheet as of 31 December 2006

		31 December	
ASSETS	**Notes**	**2006**	**2005**
Non-current assets			
Intangible assets	10	4,910,805	4,875,389
Property, plant and equipment	11	37,591,051	40,421,237
Investment in subsidiary and joint ventures	12	3,522,991	3,547,254
Long-term financial investments	13	3,097,089	2,553,518
		49,121,936	51,397,398
Current assets			
Inventories	14	13,169,473	10,734,748
Trade and other receivables	15	14,504,330	14,798,940
Cash and cash equivalents	16	17,917,863	11,198,297
		45,591,666	36,731,985
Total assets		**94,713,602**	**88,129,383**
EQUITY			
Capital and reserves			
Share capital	17	67,986,605	67,986,605
Legal reserves	18	2,469,979	2,469,979
Other reserves	19	2,014,281	1,950,214
Retained earnings		1,742,960	(4,007,743)
		74,213,825	68,399,055
LIABILITIES			
Non-current liabilities			
Long-term employee related liabilities	20	3,251,665	2,927,108
Long-term provisions	21	2,876,228	1,376,228
		6,127,893	4,303,336
Current liabilities			
Trade and other payables	22	14,371,884	15,426,992
Total equity and liabilities		**94,713,602**	**88,129,383**

Authorized on behalf of the Board of Directors on 24 May 2007:

Stanitsas Gerasimos
President of the Board of Directors

(All amounts expressed in Euro, unless otherwise stated)

Statement of changes in shareholders' equity for the year ended 31 December 2006

	Share capital	**Reserves**	**Other reserves (Housing fund)**	**Retained earnings/ (Accumulated deficit)**	**Total**
Balance at 1 January 2005	67,986,605	2,123,012	1,956,465	(3,814,438)	68,251,644
Prior year errors	-	-	-	(512,107)	(512,107)
Balance at 1 January 2005 (as restated)	67,986,605	2,123,012	1,956,465	(4,326,545)	67,739,537
Write off of housing loans	-	-	(6,251)	-	(6,251)
Net expense recognised directly in equity	-	-	(6,251)	-	(6,251)
Profit for the year	-	-	-	665,769	665,769
Total recognised income for 2005	**-**	**-**	**-**	**665,769**	**665,769**
Allocation to statutory reserves	-	346,967	-	(346,967)	-
Balance at 31 December 2005	**67,986,605**	**2,469,979**	**1,950,214**	**(4,007,743)**	**68,399,055**
Balance at 1 January 2006	67,986,605	2,469,979	1,950,214	(4,007,743)	68,399,055
Other movements	-	-	-	(153,282)	(153,282)
Net expense recognised directly in equity	-	-	-	(153,282)	(153,282)
Profit for the year	-	-	-	5,968,052	5,968,052
Total recognised income for 2006	**-**	**-**	**-**	**5,968,052**	**5,968,052**
Allocation to employee housing fund	-	-	64,200	(64,200)	-
Employee payments	-	-	(133)	133	-
Balance at 31 December 2006	**67,986,605**	**2,469,979**	**2,014,281**	**1,742,960**	**74,213,825**

(All amounts expressed in Euro, unless otherwise stated)

Cash flow statement for the year ended 31 December 2006

	Notes	Year ended 31 December 2006	2005
Cash flows from operating activities			
Net income before income taxes		6,313,625	665,769
Adjustment for:			
Depreciation and amortization	10,11	3,442,940	3,712,775
Loss on disposal of PP&E and materials, net		388,062	226,004
Change in long-term provisions	20, 21	2,241,459	263,673
Bad-debt provision	8, 15	2,521,307	216,355
Write off of inventories change		-	(21,772)
Interest income		(397,578)	(140,395)
Operating profit before working capital changes		14,509,815	4,922,409
(Increase)/decrease in inventories	14	(2,434,725)	1,290,281
Decrease/(increase) in trade and other receivables	15	294,610	(762,309)
Decrease in trade and other payables	22	(956,783)	(2,997,880)
Cash generated from operations		11,412,917	2,452,501
Interest paid		(78)	(33)
Payments for retirements and jubilee awards		(647,887)	(509,491)
Net cash generated from operating activities		10,764,952	1,942,977
Cash flows from investing activities			
Purchase of property, plant and equipment	11	(2,830,186)	(684,151)
Purchase of intangible assets	10	(60,463)	(6,720)
Proceeds from disposal of PP&E and materials		15,148	8,215
Interest received		470,896	229,359
Net cash used in investing activities		(2,404,605)	(453,297)
Cash flows from financing activities			
Proceeds from/(payments) of housing loans		122,814	(205,000)
Long-term investment		24,264	-
Equity dividends paid		(381)	-
Other		(666,385)	60,566
Net cash used in financing activities		(519,688)	(144,434)
Net increase in cash and cash equivalents		**7,840,659**	**1,345,246**
Foreign exchange gains/(losses)		(1,121,093)	1,052,071
Cash and cash equivalents at 1 January	16	11,198,297	8,800,980
Cash and cash equivalents at 31 December	16	**17,917,863**	**11,198,297**

1. General information

Jugopetrol A.D. Kotor (hereinafter also referred to as “the Company”) was established in 1947 as a state-owned company based on the decision of the Government of the Socialistic Federal Republic of Yugoslavia. The registered Company’s address is Trg Mata Petrovica number 2, Kotor. On 1 January 1996, following the Company’s ownership transformation, the Company was re-registered as a shareholding company under its present name. In October 2002, Hellenic Petroleum International S.A. acquired 54.4% of the Company’s share capital from the Government and certain government agencies of the Republic of Montenegro.

The Company is presently the main supplier of oil products in the Republic of Montenegro. Its main activities include wholesale of oil products through the operation of storage facilities at Bar and two airport fueling stations at Tivat and Podgorica as well as retail and distribution of oil products through the operation of thirty six petrol stations and three yachting fuel stations. The Company is also involved in the research and exploration for oil and natural gas through joint ventures with foreign partners. As of 31 December 2006, the Company employed 571 employees (2005: 579 employees).

The Company is listed on the Montenegrin Stock exchange.

2. Summary of significant accounting policies

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

2.1 Basis of preparation

The accompanying financial statements have been prepared on a historical cost basis, as modified by the revaluation of available-for-sale assets, and are presented in Euro, except when otherwise indicated.

The Company has prepared these stand-alone financial statements to file with in accordance with the Law on accounting and auditing of Montenegro. The Company has also prepared consolidated financial statements in accordance with IFRS for the Company and its 100% owned subsidiary Jugopetrol d.o.o., Trebinje (the "Group"). In the consolidated financial statements, subsidiary undertakings - which is the company in which the Group, directly or indirectly, has an interest of more than half of the voting rights or otherwise has power to exercise control over the operations - have been fully consolidated. The consolidated financial statements can be obtained from the Company. Users of these stand-alone financial statements should read them together with the Group's consolidated financial statements as at and for the year ended 31 December 2006 in order to obtain full information on the financial position, results of operations and changes in financial position of the Group as a whole.

2.2 Statement of compliance

The financial statements of the Company have been prepared in accordance with International financial reporting standards (IFRS) and the Law on accounting of Republic of Montenegro.

2. Summary of significant accounting policies (continued)

The preparation of financial statements in conformity with IFRS requires the use of certain critical accounting estimates. It also requires management to exercise its judgment in the process of applying the Company's accounting policies. The areas involving a higher degree of judgment or complexity, or areas where assumptions and estimates are significant to the financial statements are disclosed in Note 4.

(a) *Amendments to published standards effective in 2006*

IAS 19 (Amendment): Employee Benefits is mandatory for the accounting periods beginning on or after 1 January 2006. It introduces the option of an alternative recognition approach for actuarial gains and losses. It may impose additional recognition requirements for multi-employer plans where insufficient information is available to apply defined benefit accounting. It also adds new disclosure requirements. As the Company does not intend to change the accounting policy adopted for recognition of actuarial gains and looses and does not participate in any multi-employer plans, adoption of this amendment will only impact the format and extent of disclosures presented in the accounts.

(b) *Standards, amendments and interpretations effective in 2006 but not relevant*

The following standards, amendments and interpretations are mandatory for accounting periods beginning on or after 1 January 2006, but are not relevant to the Company's operations:

- IAS 21 (Amendment), Net Investment in a Foreign Operations
- IAS 39 (Amendment), Cash Flow Hedge Accounting of Forecast Intra-Company Transactions
- IAS 39 (Amendment), The Fair Value Option
- IAS 39 and IFRS 4 (Amendment), Financial Guarantee Contracts
- IFRS 1 (Amendment), First-time Adoption of International Financial Reporting Standards and IFRS 6 (Amendment), Exploration for and Evaluation of Mineral Resources
- IFRS 6 Exploration for and Evaluation of Mineral Resources
- IFRIC 4 Determining whether an Arrangement contains a Lease
- IFRIC 5 Rights to Interests arising from Decommissioning, Restoration and Environmental Rehabilitation Funds
- IFRIC 6 Liabilities arising from Participating in a Specific Market – Waste Electrical and Electronic Equipment.

(c) *Standards and Interpretations to existing standards that are not yet effective and have not been early adopted by the Company*

- IFRS 7 Financial Instruments: Disclosures and a complementary Amendment to IAS 1 Presentation of Financial Statements - Capital Disclosures (effective from 1 January 2007). The IFRS introduces new disclosures to improve the information about financial instruments. Specifically, it requires disclosure of qualitative and quantitative information about exposure to risks arising from financial instruments, including specified minimum disclosures about credit risk, liquidity risk and market risk including sensitivity analysis to market risk. It replaces some of the requirements in IAS 32, Financial Instruments: Disclosure and Presentation. The Amendment to IAS 1 introduces disclosures about level of an entity's capital and how it manages capital. The Company is currently assessing what impact the new IFRS and the amendment to IAS 1 will have on disclosures in its financial statements.

2. Summary of significant accounting policies (continued)

- IFRS 8, Business segments (effective from 1 January 2009). IFRS 8 replaces IAS 14 and adjusts segment reporting to internal reporting procedures of each entity. Management is currently assessing what impact the new Standard will have on the financial statements. The Company will apply IFRS 8 for annual periods after 1 January 2009.

- IAS 23 (revised) - Borrowing costs - (effective from 1 January 2009). The Standard removes the option of immediately recognising as an expense borrowing cots that are directly attributable to the acquisition, construction or production of a qualifying asset. Management is currently assessing what impact the new Standard will have on the financial statements. The amendment to IAS 23 will be applied for annual periods after 1 January 2009.

- IFRIC 8, Scope of IFRS 2 (effective for annual periods beginning on or after 1 May 2006). IFRIC 8 requires consideration of transactions involving the issuance of equity instruments – where the identifiable consideration received is less than the fair value of the equity instruments issued – to establish whether or not they fall within the scope of IFRS 2. The Company apply IFRIC 8 from 1 January 2007, but it is not expected to have any impact on its accounts; and

- IFRIC 10, Interim Financial Reporting and Impairment (effective for annual periods beginning on or after 1 November 2006). IFRIC 10 prohibits the impairment losses recognised in an interim period on goodwill, investments in equity instruments and investments in financial assets carried at cost to be reversed at a subsequent balance sheet date. The Company will apply IFRIC 10 from 1 January 2007, but it is not expected to have any impact on its accounts.

(d) *Interpretations to existing standards that are not yet effective and not relevant for the Company's operations*

The following interpretations to existing standards have been published that are mandatory for the Company's accounting periods beginning on or after 1 May 2006 or later periods but are not relevant for the Company's operations:

- IFRIC 7, Applying the Restatement Approach under IAS 29, Financial Reporting in Hyperinflationary Economies (effective from 1 March 2006). IFRIC 7 provides guidance on how to apply requirements of IAS 29 in a reporting period in which an entity identifies the existence of hyperinflation in the economy of its functional currency, when the economy was not hyperinflationary in the prior period. As Company has not a currency of a hyperinflationary economy as its functional currency, IFRIC 7 is not relevant to the Company's operations; and

- IFRIC 9, Reassessment of embedded derivatives (effective for annual periods beginning on or after 1 June 2006). IFRIC 9 requires an entity to assess whether an embedded derivative is required to be separated from the host contract and accounted for as a derivative when the entity first becomes a party to the contract. Subsequent reassessment is prohibited unless there is a change in the terms of the contract that significantly modifies the cash flows that otherwise would be required under the contract, in which case reassessment is required. As Company has changed the terms of their contracts, IFRIC 9 is not relevant to the Company's operations.

2. Summary of significant accounting policies (continued)

- IFRIC 11, IFRS 2 – Group and Treasury share transactions (effective from 1 March 2007). IFRIC 11 is not relevant since the Group does not have payment arrangements involving its' own equity instruments.

- IFRIC 12, Service Concession Arrangements (effective for annual periods beginning on or after 1 January 2008). IFRIC 12 is not relevant since the Group is not an operator of a public-to-private service concession arrangement.

2.3 Approval of financial statements

The financial statements were authorized for issue on 24 May 2007 by the Company's Board of Directors.

2.4 Going concern

The financial statements of the Company have been prepared on a going concern basis, which foresees that the Company will continue its operations in unlimited time period, and predictable future.

2.5 Foreign currency translation

(a) *Functional and presentation currency*

Items included in the financial statements of the Company are measured using the currency of the primary economic environment in which the Company operates ("the functional currency"). The financial statements are presented in Euro, which is the Company's functional and presentation currency.

(b) *Transactions and balances*

Foreign currency transactions are translated into the functional currency using the exchange rate prevailing at the date of the transaction. Foreign exchange gains and losses resulting from the settlement of such transactions in foreign currency and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in the income statement.

2.6 Investments in subsidiaries and joint ventures

Investments in subsidiaries and joint ventures are recognised at cost less accumulated impairment losses, if any.

2.7 Property, plant, and equipment

Property, plant and equipment are stated at cost less accumulated depreciation and provision for impairment, where required. Cost is based on independent appraisal performed in 1994, in connection with the Company's transformation from a public enterprise to a shareholding company, which was used as a deemed cost at transition to IFRS.

2. Summary of significant accounting policies (continued)

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. All other repairs and maintenance are charged to the income statement under operating expenses during the financial period in which they are incurred.

The Company does not borrow any funds and does not yet have an accounting policy regarding these costs.

The gain or loss on disposal of an asset is determined with comparison of proceeds with carrying amount and are recognized within other (expenses)/income, in the income statement.

Depreciation

Depreciation on other assets is calculated using the straight-line method to allocate their cost to residual values over their estimated useful lives, as follows:

Oil & gas storage installations	5%
Office buildings	5%
Petrol stations	5%
Trucks & automobiles	15%
Office furniture and equipment	20-30%

No depreciation is provided on land, as it is deemed to have an infinite life.

The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at each balance sheet date.

Impairment of property, plant and equipment

The carrying values of property, plant and equipment are reviewed for impairment when events or changes in circumstances indicate the carrying value may not be recoverable. If any indication exists and where the carrying values exceed recoverable amount, the assets are written down to their recoverable amount. The recoverable amount of property, plant and equipment is the greater of net selling price and value in use. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows (cash - generating units), being the individual petrol stations and installations. Impairment losses are recognized in the income statement. If the circumstances that caused the impairments have been changed, previously recognized impairment losses are cancelled for previous years.

2. Summary of significant accounting policies (continued)

2.8 Intangible assets

Acquired patents, trademarks and software licenses are shown at historical cost. They have a finite useful life and are carried at cost less accumulated amortisation. Amortisation is calculated using the straight-line method to allocate the cost over their estimate useful lives (do not exceed 5 years).

Where an indication of impairment exists, the carrying amount of any intangible asset is assessed and written down immediately to its recoverable amount. Impairment losses are recognized in the income statement.

2.9 Long-term financial assets

The Company classified its financial assets in the following categories: loans and receivables and available-for-sale. The classification depends on the purpose for which the financial assets were acquired. Management determines the classification of its financial assets at initial recognition and re-evaluates this designation at every reporting date.

(a) *Loans and receivables*

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They are included in current assets, except for maturities greater than 12 months after the balance sheet date. These are classified as non-current assets.

(b) *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 management intends to dispose of the investment within 12 months of the balance sheet date.

Regular purchases and sales of the investments are recognised on trade-date – the date on which the Company commits to purchase or sell the asset. Investments are initially recognised at fair value plus transaction costs. 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 substantially carried at fair value. Loans and receivables are carried at amortised cost using the effective interest method.

When securities classified as available-for-sale are sold or impaired, the accumulated fair value adjustments recognised in equity are included in the income statement as gains and losses from investment securities.

The fair values of quoted investments are based on current bid prices.

2. Summary of significant accounting policies (continued)

The Company assesses at each balance sheet date whether there is objective evidence that a financial asset or a group of financial assets is impaired. In the case of equity securities classified as available-for-sale, a significant or prolonged decline in the fair value of the security below its cost is considered as an indicator that the securities 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 profit or loss – is removed from equity and recognised in the income statement. Impairment losses recognised in the income statement on equity instruments are not reversed through the income statement.

2.10 Inventories

Cost of inventories of materials, spare parts and fixtures and fittings are stated at purchase cost determined on a weighted average method.

Inventories of goods for resale are stated at the lower of cost or net realizable value. Cost is determined on the basis of the average purchase cost of oil and other products, including other costs incurred in bringing the inventories to their present location and condition, such as transportation, insurance, import duties and forwarding costs. Net realizable value is the estimated selling price in the ordinary course of business less selling and distribution expenses.

The write off of inventories is done at the end of each month based on the results of the inventory counts and is presented under operating expenses.

2.11 Cash and cash equivalents

Cash and cash equivalents comprise cash at bank and in hand and short-term deposits with original maturity of three months or less.

2.12 Trade receivables

Trade 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 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 estimated future cash flows, discounted at the 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 income statement impairment expenses. When a trade receivable is uncollectible, it is written off against the allowance account for trade receivables. Subsequent recoveries of amount previously written off are credited to other income in the income statement.

2. Summary of significant accounting policies (continued)

2.13 Provisions

Provisions are recognized when the Company has a present obligation (legal or constructive) as a result of a past event, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and reliable estimate can be made of the amount of the obligation. If the effect of the time value of money is material, provisions are determined by discounting the expected future cash flows at a pre-tax rate. The increase in the provision due to passage of time is recognised as interest expense.

2.14 Trade payables

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

2.15 Employee benefits

(a) *Pension obligations*

The Company operates a defined contribution pension plan. The Company pays contributions to publicly administered pension insurance plans on a mandatory basis. The Company has no further payment obligations once the contributions have been paid. The contributions are recognised as employee benefit expense when they are due. Prepaid contributions are recognised as an asset to the extent that a cash refund or a reduction in the future payments is available.

(b) *Other post-employment benefits- retirement indemnities*

The Company provides a retirement employee benefit schemes. The entitlement to these benefits is usually conditional on the employee remaining in service up to retirement age and/or the completion of a minimum service period. The expected costs of these benefits are accrued over the period of employment. The defined benefit obligation is valued annually by independent qualified actuaries using the projected unit credit method. The present value of the defined benefit obligation is determined by discounting the estimated future cash outflows using interest rates of high-quality corporate bonds that are denominated in the currency in which the benefits will be paid and that have terms to maturity approximating to the terms of the related pension liability. Actuarial gains and losses arising from experience adjustments, and changes in actuarial assumptions in excess of the greater of 10% of the value of plan assets or 10% of the defined benefit obligation, are charged or credited to income over the expected average remaining working lives of the related employees.

(c) *Other long-term employee benefits - jubilee awards*

The Company provides jubilee awards. The entitlement to these benefits is usually conditional on the employee remaining in service up to the completion of a minimum service period. The expected costs of these benefits are accrued over the period of employment using the same accounting methodology as used for other post-employment benefit schemes. Actuarial gains and losses arising from experience adjustments, and changes in actuarial assumptions are immediately charged or credited to income statement.

2. Summary of significant accounting policies (continued)

(d) *Termination benefits*

Termination benefits are payable when 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: terminating the employment of current employees according to a detailed formal plan without possibility of withdrawal; or providing termination benefits as a result of an offer made to encourage voluntary redundancy. Benefits falling due more than 12 months after balance sheet date are discounted to present value.

2.16 Income taxes

Income taxes currently due are calculated and paid in accordance with the Montenegrin Tax Law (Official Gazette of Republic of Montenegro no.80/04), by applying the tax rate of 9%. The estimated tax on monthly profit is paid in advance as determined by the tax authorities.

Deferred income tax is provided in full, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the financial statements. However, if the deferred income tax, if it is not accounted for, arises from initial recognition of an asset or liability in a transaction other than a business combination that at the time of the transaction affects neither accounting nor taxable profit or loss. Deferred income tax is determined using tax rates (and laws) that have been enacted or substantially enacted by the balance sheet date and are expected to apply when the related deferred income tax asset is realised or the deferred income tax liability is settled.

Deferred income tax assets are recognised to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilised.

2.17 Revenue recognition

Revenue comprises the fair value of the consideration received or receivable for the sale of goods and services in the ordinary course of the Company's activities. Revenue is shown net of value-added tax, returns, rebates and discounts.

The Company recognises revenue when the amount of revenue can be reliably measured, it is probable that future economic benefits will flow to the entity and specific criteria have been met for each of the Company's activities as describe below. The amount of the revenue is not considered to be reliably measurable until all contingences relating to the sale have been resolved. The Company bases its estimates on historical results, taking into consideration the type of customer, the type of transaction and the specifics of each arrangement.

The following specific recognition criteria must also be met before revenue is recognized:

2. Summary of significant accounting policies (continued)

(a) *Sales of goods – wholesale*

The Company sells fuel in the wholesale market. Sales of goods are recognised when the Company has delivered products to the wholesaler, the wholesaler has full discretion over the channel and price to sell the products, and there is no unfulfilled obligation that could affect the wholesaler's acceptance of the products. Delivery does not occur until the products have been shipped to the specified location, the risks of obsolescence and loss have been transferred to the wholesaler, and either the wholesaler 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.

(b) *Sales of goods – retail*

Sales of goods are recognised when a Company sells a product to the customer. Retail sales are usually in cash or by credit card. The recorded revenue is the gross amount of sale, including credit card fees payable for the transaction. Such fees are included in other expenses.

It is the Company's policy to sell its products to the end customer with a right of return. Accumulated experience is used to estimate and provide for such returns at the time of sale.

(c) *Sales of services*

Rent income is generally recognised in the period the services are provided, using a straight-line basis over the term of the contract.

(d) *Interest income*

Interest income is recognised on a time-proportion basis using the effective interest method. When a receivable is impaired, the Company reduces the carrying amount to its recoverable amount, being the estimated future cash flow discounted at original effective interest rate of the instrument, and continues unwinding the discount as interest income. Interest income on impaired loans is recognised using the original effective interest rate.

2.18 Leases

(a) *Where the Company is the lessor*

When assets are leased out under an operating lease, the asset is included in the balance sheet based on the nature of the asset. Lease income is recognised over the term of the lease on a straight-line basis.

(b) *Right of use of land*

Right of use of land acquired as a part of either acquisition or a separate transaction through payment to a third party is treated as an intangible asset. The intangible asset has an indefinite useful life and is subject to annual impairment testing.

2. Summary of significant accounting policies (continued)

2.19 Changes in presentation

Where necessary, corresponding figures have been adjusted to conform with the changes in the presentation of the current year. The effect of reclassifications is as follows:

	31 December 2005
Increase in:	
Intangible assets	4,852,604
	4,852,604
Decrease in:	
Property, plant and equipment	(4,852,604)
	(4,852,604)

The Company reclassified the right of use of land from property, plant and equipment to intangibles (Note 10).

2.20 Prior year restatement

While preparing the financial statements for the year ended 31 December 2005 the Company has discovered the errors in its accounting for deferred income tax assets (Euro 376,409) and capitalization of consulting fees (Euro 208,045). In order to adjust for these and other errors identified, the Company restated the opening balance of retained earnings as of 1 January 2005 by Euro 512,107.

3. Financial risk management

3.1 Financial risk factors

The Company's activities expose it to a variety of financial risks: market risk (including currency risk, fair value interest rate risk and price risk), credit risk, liquidity risk and cash flow interest rate risk. The Company's overall risk management program focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on the Company's financial performance.

Risk management is carried out by management under policies pre-approved by the Board of Directors and its parent. The management identifies and evaluates financial risks in close co-operation with the Company's operating units. The Board provides written principles for overall risk management, as well as written policies covering specific areas, such as foreign exchange risk, interest rate risk, credit risk and investment of excess liquidity.

(a) *Market risk*

(i) *Foreign exchange risk*

The Company operates and sells mainly in Montenegro and neighboring countries. The Company is exposed to foreign currency risk in purchases and sales and on its short-term liabilities. The Company purchases oil products in US dollars and sell them mainly in Euro and US dollar denominated prices. The Company does not hedge its foreign exchange exposure risk.

3. Financial risk management (continued)

(ii) *Price risk*

The Company has significant exposure on the commodity prices of oil. The Company largely offsets this exposure by passing on price increase to customers.

(iii) *Cash flow and fair value interest rate risk*

The Company's exposure to market risk for changes in interest rates relates primarily to the Company's short-term investments included within cash and cash equivalents. The Company does not hedge its investments. Investments consist mainly of short-term bank deposits and government bonds to ensure liquidity.

(b) *Credit risk*

The Company's maximum exposure to credit risk (not taking into account the value of any collateral or other security held) in the event the counterparties fail to perform their obligations as of 31 December 2006 in relation to each class of recognized financial assets is the carrying amount of those assets as indicated in the balance sheet less any mortgages or guaranties required from customers.

(c) *Liquidity risk*

Prudent liquidity risk management implies maintaining sufficient cash and marketable securities, the availability of funding through an adequate amount of committed credit facilities and the ability to close out market positions.

3.2 Fair value estimation

The fair value of financial instruments traded in active markets (such as available-for-sale securities) is based on quoted market prices at the balance sheet date. The quoted market price used for financial assets held by the Company is the average quoted price.

The carrying value less impairment provision of trade receivables and payables are assumed to approximate their fair values. The fair value of financial liabilities for disclosure purposes is estimated by discounting the future contractual cash flows at the current market interest rate that is available to the Company for similar financial instruments.

4. Critical accounting estimates and judgments

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.

4.1 Critical accounting estimates and assumptions

The Company makes estimates and assumptions concerning the future. The resulting accounting estimates will, by definition, rarely equal the related actual results. The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amount of assets and liabilities within the next financial year are outlined below.

4. Critical accounting estimates and judgments (continued)

(a) *Useful lives of property, plant and equipment*

The Company's management determines the estimated useful lives and related depreciation charges for its property, plant and equipment. Management will amend the depreciation charge where useful lives are changed than previously estimated lives, or it will write-off or write-down technically obsolete or non-strategic assets that have been abandoned or sold.

(b) *Other employee benefit schemes*

This applies where the Company's accounting policy is to recognise any actuarial gains or losses immediately through the income statement.

The present value of the obligations depends on a number of factors that are determined on an actuarial basis using a number of assumptions. The assumptions used in determining the net cost (income) for other employee benefits include the expected discount rate. Any changes in these assumptions will impact the carrying amount of the obligations.

The Company determines the appropriate discount rate at the end of each year. This is the interest rate that should be used to determine the present value of estimated future cash outflows expected to be required to settle the obligations for other employee benefits. In determining the appropriate discount rate, the Company considers the interest rates of high-quality corporate bonds that are denominated in the currency in which the benefits will be paid, and that have terms to maturity approximating the terms of the related liability.

Other key assumptions for obligations for other employee benefits are based in part on current market conditions. Additional information is disclosed in Note 20.

(c) *Tax legislation*

Montenegrin tax and customs legislation is subject to varying interpretations *Note 24).

Deferred income tax asset recognition

The net deferred tax asset represents income taxes recoverable through future deductions from taxable profits and is recorded on the balance sheet. Deferred income tax assets are recorded to the extent that realisation of the related tax benefit is probable. In determining future taxable profits and the amount of tax benefits that are probable in the future Management makes judgements and applies estimation based on last three years taxable profits and expectations of future income that are believed to be reasonable under the circumstances.

Value added tax

The Company assumes that all VAT reclaimable from the Tax authorities will be received within one year, unless specific impairment provision is created.

(All amounts expressed in Euro, unless otherwise stated)

4. Critical accounting estimates and judgments (continued)

4.2. Critical judgments in applying the accounting policies

(a) *Impairment of fixed assets*

The Company tests fixed assets for impairment at least annually. The recoverable amounts of cash-generating units have been determined based on value-in-use calculations. These calculations require the use of estimates which are determined based on a historical data corrected for the projected changes in the market conditions (Note 11).

(b) *Impairment of available - for sale financial assets*

The Company follows the guidance of IAS 39 to determine when an available-for-sale financial asset is impaired. This determination requires significant judgment. In making this judgment, the Company evaluates, among other factors, the duration and extent to which the fair value of an investment is less than its cost; and the financial health of and near-term business outlook for the investee, including factors such as industry and sector performance, changes in technology and operational and financing cash flow.

5. Revenue

The Company operates under one business and geographical segment.

	31 December 2006	31 December 2005
Sales of goods on domestic market	110,951,280	96,619,840
Sales of goods abroad	35,794,263	20,354,620
Services rendered	445,630	557,650
	147,191,173	**117,532,110**

Sales of goods on domestic markets comprise retail sale of Euro 61,816,220 (2005: Euro 49,593,311) and wholesale of Euro 49,135,060 (2005: Euro 47,026,529). Income from services mainly relates to the storage services of Euro 435,001 (2005: Euro 544,115).

6. Other income

	31 December 2006	31 December 2005
Reversed provision for doubtful debtors (Note 15)	4,970,220	168,197
Foreign exchange gains	1,684,056	720,163
Fair value gains on available for sale financial assets	745,935	-
Inventory surpluses	409,877	481,373
Write off of liabilities	-	21,772
Other income	342,183	111,431
	8,152,271	**1,502,936**

Reversed provision against doubtful debts of Euro 4,913,816 relates to collected debt from Kombinat Aluminijuma Podgorica.

(All amounts expressed in Euro, unless otherwise stated)

7. Staff costs

	31 December 2006	31 December 2005
Gross salaries and wages	5,521,334	5,624,767
Social security contributions – employer' portion	1,219,978	1,232,423
Food allowances	690,416	733,626
Transportation allowances	294,061	307,433
Winter food allowances	495,720	510,000
Holiday allowances	508,685	560,830
Humanitarian assistance to employees	112,200	175,579
Unused holidays	98,327	-
Retirement indemnities and jubilee awards	1,351,047	630,516
Temporary staff' costs	54,729	63,908
Board of Directors' compensation	37,623	78,146
Other personnel expenses	151,759	81,566
	10,535,879	**9,998,794**

8. Other expenses

	31 December 2006	31 December 2005
Provision for bad debts (Note 15)	2,353,186	127,501
Provision for legal cases (Note 21)	1,500,000	-
Indirect taxes and contributions	839,469	825,901
Inventory and fixed assets shortages	571,066	509,263
Foreign exchange losses	562,963	1,856,439
Bank commissions and fees	452,761	425,397
Transportation cost	256,671	463,903
Marketing and advertising	240,597	166,630
Operating license expenses	194,491	183,527
Loss on sale of materials	186,207	139,677
Loss on sale and disposal of fixed assets	185,993	86,326
Telecommunications and postal expenses	184,785	191,873
Scholarships	172,682	203,260
Third party' services	166,743	363,975
Insurance	155,749	174,871
Travel expenses	130,724	160,309
Donations and sponsorships	129,291	93,053
Impairment of financial assets	98,735	-
Discounts	73,240	91,488
Representation expenses	38,372	80,465
Rental cost	29,700	46,900
Training and seminars	26,710	28,878
Penalties	12,110	-
Financing expenses-VK Primorac	-	185,977
Miscellaneous expenses	160,169	552,527
	8,722,414	**6,958,140**

(All amounts expressed in Euro, unless otherwise stated)

9. Income tax expense

The tax on the Company's profit before tax differs from the theoretical amount that would arise using the weighed average tax rate applicable to the Company's profits as follows:

	2006	**2005**
Profit before income taxes	6,313,625	665,769
Tax calculated at statutory tax rate – 9%	568,226	59,919
Expenses not deductible for tax purposes	104,019	931
Utilisation of previously unrecognised tax losses	(326,672)	(60,850)
Tax charge	**345,573**	**-**

Deferred income tax assets and liabilities have not been recognized as no temporary difference arose and there have been no tax losses carried forward. As of 31 December 2006 the Company has completely used previously unrecognized tax losses.

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

10. Intangible assets

	Total
At 1 January 2005	
Cost	5,040,843
Accumulated amortisation and impairment	(113,686)
Net book amount	4,927,157
Year ended 31 December 2005	
Opening net book amount	4,927,157
Additions	6,720
Amortisation charge	(58,488)
Closing net book amount	4,875,389
At 31 December 2005	
Cost	5,047,563
Accumulated amortisation and impairment	(172,174)
Net book amount	4,875,389
Year ended 31 December 2006	
Opening net book amount	4,875,389
Additions	60,463
Restatement of opening balance	2,133
Amortisation charge	(27,180)
Closing net book amount	4,910,805
At 31 December 2006	
Cost	5,108,026
Accumulated amortisation and impairment	(197,221)
Net book amount	**4,910,805**

(All amounts expressed in Euro, unless otherwise stated)

10. Intangible assets (continued)

Intangibles of Euro 4,852,604 relate to the right of use of land located along the Adriatic coast in the towns of Bar, Tivat and Lipci, which according to the Law on Land Ownership, is state owned. Other intangible assets comprise of software and licenses acquired from 2002.

11. Property, plant and equipment

	Land	Buildings	Machinery & equipment	Construction in progress	Total
At 1 January 2005					
Cost	16,708,431	47,321,344	22,105,832	562,295	86,697,902
Accumulated depreciation	-	(26,926,695)	(15,699,101)	-	(42,625,796)
Net book amount	16,708,431	20,394,649	6,406,731	562,295	44,072,106
At 31 December 2005					
Opening net book amount	16,708,431	20,394,649	6,406,731	562,295	44,072,106
Additions	-	222,201	147,428	315,722	685,351
Transfer from CIP	-	-	371,599	(371,599)	-
Disposals	-	-	(473,887)	-	(473,887)
Write off of capitalized exp.	-	-	-	(208,045)	(208,045)
Depreciation charge	-	(2,375,989)	(1,278,299)	-	(3,654,288)
Closing net book amount	16,708,431	18,240,861	5,173,572	298,373	40,421,237
At 31 December 2005					
Cost	16,708,431	47,543,545	21,521,631	298,373	86,071,980
Accumulated depreciation	-	(29,302,684)	(16,348,059)	-	(45,650,743)
Net book amount	16,708,431	18,240,861	5,173,572	298,373	40,421,237
At 31 December 2006					
Opening net book amount	16,708,431	18,240,861	5,173,572	298,373	40,421,237
Additions	-	-	-	788,503	788,503
Transfer from CIP	-	354,799	158,990	(513,789)	-
Disposals	-	(8,469)	(194,329)	-	(202,798)
Other movements	-	241	(372)	-	(131)
Depreciation charge	-	(2,373,272)	(1,042,488)	-	(3,415,760)
Closing net book amount	16,708,431	16,214,160	4,095,373	573,087	37,591,051
At 31 December 2006					
Cost	16,708,431	47,660,180	20,352,356	573,087	85,294,054
Accumulated depreciation	-	(31,446,020)	(16,256,983)	-	(47,703,003)
Net book amount	**16,708,431**	**16,214,160**	**4,095,373**	**573,087**	**37,591,051**

The Company's depreciation charge for machinery and equipment in 2006 amounts to Euro 1,042,488 while accumulated depreciation of disposed assets amounts to Euro 1,129,952 which results in negative total depreciation of Euro 87,464 for this category.

The Company performed an impairment test as of 31 December 2006. The recoverable amount of each individual petrol station and installation was determined based on value-in-use calculations. These calculations use cash flow projections based on financial budgets approved by management covering a five-year period. Cash flows beyond the five-year period are extrapolated using the estimated growth rates stated below. The growth rate does not exceed the long-term average growth rate.

11. Property, plant and equipment (continued)

Key assumptions used for value-in-use calculations:

	Petrol stations	Installation Bar
Gross margin (Euro/m^3)- in 2006	101	36
Growth rate	2%	2%
Discount rate	12%	12%

Management determined the budgeted gross margin based on past performance and its expectations for the market development. The discount rates used are pre-tax and reflect specific risks relation to the relevant cash generating units.

Installations with the carrying values of Euro 3,061 thousand (Lipci) and Euro 657 thousand (Bijelo Polje) are not in use. Based on the valuation of fixed assets performed during July 2006 by Danos&Associates Greece, the total value of fixed assets approximate to Euro 60 millions. Out of this amount the current market value of installations in Lipci and Bijelo Polje amounted to Euro 8,904 thousand and Euro 1,445 thousand, respectively.

12. Investments in subsidiaries and joint ventures

	Business	Ownership	31 December 2006	31 December 2005
Jugopetrol Trebinje d.o.o.	Sales of oil products	100.%	3,542,556	3,542,556
Less: Impairment provision			(24,263)	-
			3,518,293	**3,542,556**
Star Petroleum Holding Ltd.	Oil and gas exploration	49%	2,349	2,349
Productoil, Kotor	Oil and gas exploration	49%	2,349	2,349
Total			**3,522,991**	**3,547,254**

Jugopetrol Trebinje d.o.o., Trebinje (hereinafter also referred to as "JPT") was established in June 2003 as a wholly owned subsidiary of the Company. JPT's headquarters are located in Trebinje, Bosnia and Herzegovina and its main activity is the trading of oil products. the Company as the sole shareholder of JPT, approved the capital increase of JPT up to Euro 4 million until 31 December 2004 as required for investments in Jugopetrol Trebinje. JPK has invested Euro 742,556 and Euro 2,800,000 during the years ended 31 December 2003 and 2004, respectively, bringing its total investment to Euro 3,542,556 as of 31 December 2004. JPT has acquired three petrol stations in southern Bosnia and Herzegovina for Euro 3,350,000 (PS Lukavica in December 2003; PS Mrkonjic Grad in April 2004 and PS Sokolac in June 2004).

The Company has exploration rights offshore Montenegro. The exploration area (about 9.000 Km2) consists of three blocks. According to the provisions of the Contract on rights of exploration of oil and gas on land and offshore of Montenegro signed with the Government of the Republic of Montenegro at October 1995, The Company has signed the joint venture contracts with the foreign partners for exploration and production of oil. The joint venture companies use concession rights of the Company to conduct exploration activities. The contract duration is for 30 years (which could be extended if needed).

(All amounts expressed in Euro, unless otherwise stated)

12. Investments in subsidiaries and joint ventures (continued)

The Joint venture Agreement with Star Petroleum-England signed in 2000, covers the exploration and production in Blocks 1 and 2. On 2004 Star Petroleum assigned its interest to Medusa (Montenegro) and Hellenic Petroleum International AG so currently the interest percentage is the Company (49%), Medusa, Montenegro (40%) and HPI (11%). The Company together with its foreign partners has submitted to the Government of Montenegro a new exploration program and are waiting for its approval.

The Joint Venture Agreement with Medusa Oil and Gas which was signed in 1998, covers exploration in Block 3 and currently the interest percentage is JPK (60%) and Medusa Oil and Gas (40%). Both Medusa Oil and Gas and Medusa, Montenegro are subsidiaries of ARMCO- Energy PLC. In 2006 the Government of Montenegro has unilaterally terminated the Contract signed in 1995 concerning the Block 3 concession. The Company and its foreign partner have not accepted the Government decision and reserve all their legal rights.

13. Long-term financial investments

	31 December 2006	31 December 2005
Available-for-sale financial assets	1,594,834	928,449
Other long-term financial assets	1,502,255	1,625,069
	3,097,089	**2,553,518**

Available-for-sale financial assets

	Business	31 December 2006	31 December 2005
Hipotekarna banka a.d., Podgorica	Bank	1,140,416	500,480
Lovcen osiguranje a.d., Podgorica	Insurance	390,600	333,787
Niksicka Banka Montenegro a.d., Niksic	Bank	36,450	29,271
Jadransko Brodogradiliste a.d., Bijela	Shipping	22,978	17,518
Export Drvo, Kolasin	Wood processing	28,496	28,496
Velimir Jakic, Pljevlja		22,625	22,625
CMC a.d., Podgorica		4,077	5,720
Castello Montenegro, Pljevlja		313	313
		1,645,955	938,210
Less: Impairment provision			
Export Drvo, Kolasin		(28,496)	-
Velimir Jakic, Pljevlja		(22,625)	(9,760)
		(51,121)	(9,760)
		1,594,834	**928,450**

Some available-for-sale investments include equity securities, which are not publicly or actively traded. Due to the nature of the local financial markets, it is not possible to obtain current market value for these investments. For other investments traded in active markets, fair value is determined by reference to the current market value at the close of business on 31 December.

(All amounts expressed in Euro, unless otherwise stated)

13. Long-term financial investments (continued)

Other long-term financial assets

	31 December 2006	31 December 2005
Housing loans to employees	1,476,207	1,598,318
Receivables from sold houses	26,048	26,751
	1,502,255	**1,625,069**

Housing loans to employees are financed through the profit allocation. Interest rate on these loans is 5.5% per annum.

Movements in the housing loans and sold houses to employees are as follows:

	31 December 2006	31 December 2005
At 1 January	1,625,069	1,627,314
New loans granted	-	205,000
Repayments	(122,814)	(207,245)
At 31 December	**1,502,255**	**1,625,069**

14. Inventories

	31 December 2006	31 December 2005
Goods for resale-wholesale	9,888,125	7,130,800
Goods for resale-retail	2,648,621	2,858,424
Spare parts and consumables	592,635	745,524
Goods in transit	40,092	-
	13,169,473	**10,734,748**

(All amounts expressed in Euro, unless otherwise stated)

15. Trade and other receivables

	31 December 2006	31 December 2005
Domestic trade receivables	14,237,055	18,522,902
Foreign trade receivables	3,016,577	2,864,654
Receivables from government agencies	121,065	30,799
Refundable VAT	54,484	6,479
Advances to suppliers	37,689	13,693
Prepaid expenses	33,358	37,617
Receivables from employees	32,460	25,978
Other receivables	31,016	152,128
Prepaid VAT	22,966	612,193
Receivables from insurance companies	9,389	69,782
	17,596,059	22,336,225
Less: Provision for impairment		
- domestic trade receivables	(2,720,211)	(7,536,489)
- foreign trade receivables	(371,518)	(796)
	(3,091,729)	(7,537,285)
	14,504,330	**14,798,940**

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

	2006	2005
At 1 January	7,537,285	7,781,436
Provision for receivables impairment (Note 8)	2,353,186	127,501
Reversal of provision (Note 6)	(4,970,220)	(168,197)
Write off	(1,828,522)	(203,455)
At 31 December	**3,091,729**	**7,537,285**

Additional provision for impaired receivables has been included under the operating expenses in the income statement (Note 6). Amounts charged to the allowance account are generally written off when there is no expectation of recovering additional cash. On 20 November 2006 reprogram of old debt agreement was signed with KAP based on which most of the written off balance was collected.

The other classes within trade and other receivables do not contain impaired assets.

The maximum exposure to credit risk at the reporting date is the fair value of each class of receivable mentioned above. The Company does not hold any collateral as security.

16. Cash and cash equivalents

	31 December 2006	31 December 2005
Cash in hand	15,000	15,000
Current accounts	11,892,137	8,183,297
Short-term deposits	6,010,726	3,000,000
	17,917,863	**11,198,297**

Current accounts with banks earn interest at floating rates based on daily bank deposit interest rates.

(All amounts expressed in Euro, unless otherwise stated)

16. Cash and cash equivalents (continued)

Short-term deposits are placed with different maturity dates up to three months with the interest rate from 6% to 7.5%.

17. Share capital

The structure of the Company's share capital and shareholders as of 31 December 2006 is as follows:

	Number of shares	Percentage shareholding	31 December 2006
Hellenic Petroleum Int'l S.A.	2.529.489	54.4%	36,951,534
Euro Fund	311.606	6.7%	4,552,034
Trend Fund	276.415	5.9%	4,037,953
MIG Fund	251.291	5.4%	3,670,934
Atlas Mont Fund	220.812	4.7%	3,225,688
The Republic of Montenegro	1	-	15
Other legal entities	316.791	6.8%	4,627,779
Physical persons	747.566	16.1%	10,920,668
	4.653.971	**100.0%**	**67,986,605**

The Company's share capital comprises of 4.653.971 common shares with nominal value of Euro 14.6083 per share. In October 2002, Hellenic Petroleum International S.A. acquired 54.4% of the Company's share capital.

18. Legal reserves

Statutory reserves of Euro 2,469,979 completely relate to legal reserves as prescribed by Montenegrin Law.

Movements on statutory reserves were as follows:

	2006	2005
At 1 January	2,469,979	2,123,012
Increase during the year	-	346,967
At 31.December	**2,469,979**	**2,469,979**

Legal reserves were formed based on the decision of the Board of Directors and the Shareholders' Assembly and represent 5% of the Company's statutory after tax profits starting from year 2001. This reserve may be used to cover future losses.

19. Other reserves

i. Housing fund

At the end of each financial year, the Company, based on the decision of the General Assembly, allocates, as necessary, a portion of its retained earnings to the housing fund. This fund is used for financing the purchase of flats and houses for the Company's employees and/or covers other expenses in relation to residential needs.

(All amounts expressed in Euro, unless otherwise stated)

19. Other reserves (continued)

Changes in the other reserves were as follows:

	2006	2005
At 1 January	2,014,281	1,956,465
Write off of housing loans	-	(6,251)
Reclassification to other reserves	(512,026)	(325,145)
At 31 December	**1,502,255**	**1,625,069**

ii. Other reserves

The amount of Euro 512,026 (31 December 2005: Euro 325,145) represents the difference between the balances of receivables from employees for housing loans and other reserves – housing fund. At the end of each year this amount is reclassified to other reserves.

20. Long-term employee related liabilities

	2006	2005
Provision for retirement indemnities	2,168,397	1,707,467
Provision for jubilee awards	1,083,268	1,219,641
	3,251,665	**2,927,108**

In accordance with the Collective Agreement, the Company is obliged to pay employees staff leaving indemnities on retirement and jubilee awards upon completion of ten, twenty and thirty years of service.

The initial actuarial valuation was carried out to measure the present value of the accrued benefits under these plans as of 31 December 2002. Subsequently, annual actuarial valuations were prepared.

The movements in the defined benefit obligation are as follows:

	Retirement indemnities		**Jubilee awards**	
	2006	**2005**	**2006**	**2005**
At 1 January	1,707,467	1,622,016	1,219,641	1,184,067
Opening adjustment	(376,604)	-	-	-
Current service cost	76,461	72,954	76,664	97,900
Interest cost	63,044	58,278	47,412	62,762
Actuarial losses/(gains)	(13,757)	161,223	(56,536)	-
Benefits paid	(443,974)	(380,048)	(203,913)	(125,088)
Extra payments or expenses	366,557	173,044	-	-
Prior year' adjustments	789,203	-	-	-
At 31 December	**2,168,397**	**1,707,467**	**1,083,268**	**1,219,641**

(All amounts expressed in Euro, unless otherwise stated)

20. Long-term employee related liabilities (continued)

The amounts recognised in the income statement are as follows:

	Retirement indemnities		Jubilee awards	
	2006	**2005**	**2006**	**2005**
Current service cost	76,461	72,954	76,664	97,900
Interest cost	63,044	58,278	47,412	62,762
Net amortisation	(11,572)	(28,221)	(56,536)	-
Prior year adjustment	789,203	-	-	-
Curtailment/Settlement	482,596	527,505	-	-
Total	**1,398,732**	**630,516**	**67,540**	**160,662**

The principal actuarial assumptions used were as follows:

Financial assumptions

	2006	**2005**
Discount rate	5.6%	5.0%
Increase of average salary	1.0%	1.0%
Individual pay increase	Actual seniority increase	

Demographic assumptions

Mortality:	Men: standard table EVK2000 for males Women: standard table EVK2000 for females
Disability:	Men: standard table EVK2000 for males Women: standard table EVK2000 for females
Retirements:	At earliest possible age under Montenegrin law
Voluntary withdrawals:	No allowance
Unfair Dismissal:	No allowance

21. Long-term provisions

Long-term provisions of Euro 2,876,228 (31 December 2005: Euro 1,376,228) completely relate to legal claims brought against the Company. The amount of Euro 1,376,228 provided in previous years relates to the claim placed by the Yugoslav Federal Directorate for Commodity Reserves (Note 24). An additional provision of Euro 1,500,000 was made during 2006 in relation to the legal case placed by Jugoskandik (Notes 8 and 24). In the directors' opinion, after taking appropriate legal advice, the outcome of these and other legal claims will not give rise to any significant loss beyond the amounts provided as of 31 December 2006.

(All amounts expressed in Euro, unless otherwise stated)

22. Trade and other payables

	31 December 2006	31 December 2005
Domestic trade creditors	861,027	641,615
Foreign trade creditors	6,329,096	8,550,326
Customer advances	431,685	106,741
Salaries and wages payable	204,796	191,851
Payroll taxes and contributions payable	276,126	277,913
Other liabilities to employees	258,673	150,880
Liabilities to the Board of Directors	2,357	3,854
Unused holidays	98,327	-
Excise and other duties payable	4,133,309	4,305,059
VAT payable on imports	842,391	649,393
Other taxes payable	428,895	422,891
Income tax payable	345,573	-
Other payables	109,140	85,410
Accrued expenses	50,489	41,059
	14,371,884	**15,426,992**

23. Related party transactions

The Company is ultimately controlled by Hellenic Petroleum S.A., a company incorporated in Greece, which owns 54.4% of the Company's share capital through Hellenic Petroleum International S.A., a company incorporated in Austria. Since the acquisition date, Hellenic Petroleum has been the Company's exclusive supplier of oil products. EKO ELDA ABEE, a wholly-owned subsidiary of Hellenic Petroleum S.A., supplies the Company with lubricants. Furthermore, two other Group companies, Asprofos and ELPE Services Limited, both of which are wholly owned subsidiaries of Hellenic Petroleum S.A., provide the Company with various technical and management services.

Jugopetrol Trebinje d.o.o. (JPT) is the Company's wholly owned subsidiary headquartered in Trebinje, Bosnia and Herzegovina. JPT purchases oil products from the Company which is resold through the three owned and operated petrol stations.

The following transactions were carried out with related parties:

(a) *Sales of goods and services*

	Relationship	Nature of transactions	31 December 2006	31 December 2005
Jugopetrol Trebinje	Subsidiary	Sales of oil products	1,620,927	3,014,216
Eko Yu, Belgrade	Group company	Sales of oil products	1,404,124	130,020
Eko Yu, Belgrade	Group company	Transport services	3,511	9,816
Global Petroleum SH	Group company	Sales of oil products	41,120	-
			3,069,682	**3,154,052**

Goods are sold based on the price lists in force and terms that would be available to third parties.

(All amounts expressed in Euro, unless otherwise stated)

23. Related party transactions (continued)

(b) *Purchases of goods and services*

	Relationship	Nature of transactions	31 December 2006	31 December 2005
Hellenic Petroleum S.A.	Parent company	Purchases of oil products	119,541,154	86,547,802
Hellenic Petroleum S.A.	Parent company	Insurance services	15,769	218,746
EKO ELDA ABEE	Group company	Purchases of lubricants	450,860	344,185
ELPE Services Limited	Group company	Royalties	-	75,000
ELPE Services Limited	Group company	Consultancy services	-	50,000
Asprofos Engineering S.A.	Group company	Engineering services	10,704	31,000
			120,018,487	**87,266,733**

Goods and services are bought on normal commercial terms and conditions on the basis of the price lists in force with non-related parties.

(c) *Year end balances arising from sales and purchases of goods and services*

	Relationship	31 December 2006	31 December 2005
Receivables from related parties (Note 15)			
Jugopetrol Trebinje d.o.o.	Subsidiary	929,266	753,236
ELPE Services Limited	Group company	-	87,508
Helenic Petroleum (non trade debtors)	Parent company	16,167	15,608
Helenic Petroleum (losses over 0.5%)	Parent company	7,250	54,681
EKO YU A.D. Beograd	Group company	85,514	62,289
Global Petroleum SH	Group company	77	-
		1,038,274	**973,322**
Payables to related parties (Note 22)			
Hellenic Petroleum S.A.	Parent	6,142,402	8,333,349
EKO ELDA ABEE	Group company	162,290	98,400
ELPE Services Limited	Group company	-	87,508
		6,304,692	**8,519,257**

Receivables from related parties arise mainly from sale transactions and are due at normal commercial terms at the date of sales. Receivables are unsecured and bear no interest.

(All amounts expressed in Euro, unless otherwise stated)

23. Related party transactions (continued)

Payables to related parties arise mainly from purchase transactions and are due at normal commercial after the date of purchase. Payables bear no interest and no guarantees exist that are related to these transactions.

(d) *Key management compensation*

	2006	2005
Salaries and other short-term employee benefits	383,332	399,443
	383,332	**399,443**

24. Commitments and contingencies

(a) Legal cases

Jugoskandik d.d., Belgrade (in bankruptcy)

The depositors of former Jugoskandik d.d., Belgrade (the bank liquidated in 1993) initiated legal action against the Company demanding the return of 4,806,212 liters of Gasoline MB-98 and 261,446 liters of Gas Oil D-2, that were held by it on behalf of Jugoskandik. The Company used these stocks to recover storage charges due by Jugoskandik. The Company filled the counter claim alleging it was a preferred lien creditor on the mentioned gasoline, which the Company stored in its petroleum installation under the Storage Agreement with Jugoskandik.

The Company has been obligated to return, to the executive creditor Jugoskandik d.d., Belgrade (in bankruptcy), the above mentioned quantities of gasoline by the effective and executive decision of the Commercial court in Belgrade. Jugoskandik brought an action with the Commercial Court of Podgorica, in the procedure of execution of the effective judgment of the Commercial Court of Belgrade. The Commercial Court of Podgorica allowed the carrying out of the execution. The Company filled court proceedings with the Appeal Court of the Republic of Montenegro but was not successful in obtaining a favorable decision. The provision of Euro 1,500 thousand was made in 2006 in this respect.

Jugoskandik d.d., Sveti Stefan, Montenegro

The procedure with the creditors of Jugoskandik d.d., Sveti Stefan, is underway, with the Municipal Court of Kotor, in the court case number P. Br. 282/03.

The court trial has been brought regarding the fuel, for which, Jugoskandik d.d., Belgrade (in bankruptcy) has already got the effective court decision of the Commercial court in Belgrade.

Furthermore, this case should be linked to the above legal case with Jugoskandik Belgrade and the management is confident that there will be a favorable outcome as it’s very unlikely that the Company will be executed to return the same quantities of fuel to both plaintiffs.

24. Commitments and contingencies (continued)

Insurance company Dunav osiguranje, Beograd

Dunav Insurance Company, Belgrade has filed a claim against the Company during 1994 stating that it was not allowed to cancel the long-term cooperation agreement signed in 1990 which was valid for a 10-year period, before the expiry of 5 years. The Company denied the allegations of Dunav, stating that this was not a 10-year insurance contract. Also, the Company has filled a counter claim on the grounds of damages for one tanker lorry.

Claim against the Company was two times dismissed. In the third retrial, the Commercial Court partially granted both demands claims and its cross-claim. However, the Appellate Commercial Court in its third decision stated that Dunav has not proven that the insurance contract was executed for a 10-year period, and ordered the trial court to re-examine the expert witnesses and the whole file of the case.

According to the Company’s lawyer the potentional exposure amounts to Euro 600,000.

Montenegrobonus d.o.o., Cetinje (1)

The Company has been sued by Monenegrobonus, Cetinje against the property rights over installations in Bar, Lipci (Kotor) and Bijelo Polje. Montenegro Bonus claims to be successor in title to property of the former Federal Procurement Agency, Belgrade, via the Assignment of right to use agreement entered into the Government of Montenegro. The Company has been claimed to pay Euro 11,024,960 as has not allowed the usage of these storage capacities to Montenegrobonus. The Government has claimed Montenegro is the legal owner of the installations in dispute and neither the Company nor Montenegro Bonus.

On 29 September 2006, the Commercial Court of Podgorica, forwarded to the Company the complaint, in order to offer its response to the assertions made in the legal suit. Management believes that this is a groundless claim, where the procedure practically has not yet begun.

Montenegrobonus d.o.o., Cetinje (2)

In the year of 2000, Jugopetrol did not acted according to the dispositions of the then Federal Agency, to deliver the Fuel Oil, which was put in storage, at Bar Petrol Installation. This is for the reason, that at the behest of the cognitant Ministry, of the Government of the Republic of Montenegro, this Fuel Oil has been given to the business organizations, from Montenegro. The Agency was very successful in court trials, but, the procedure of execution according to the effective Judgments of the Commercial Court of Belgrade, has not been put into effect, from the Commercial Court of Podgorica.

At the moment, Montenegrobonus demands the carrying out of execution, because it finds that the State of Montenegro, is the legal successor of the property of the then Federal Agency, as well as that trough the conclusion of the agreement, with Montenegrobonus doo Cetinje, it has transferred its right to Montenegrobonus.

If Montenegrobonus obtains the execution, according to the effective Judgment of the Commercial Court, of Belgrade, Jugopetrol shall have a possibility to recoup the possible loss, from the State of Montenegro, because Jugopetrol has not delivered the Fuel Oil to the then Federal Agency, because there has been a special behest of the cognitant Minister, and the then Prime Minister and the President of the State, have been familiarized with this.

24. Commitments and contingencies (continued)

Argonaut Trading Co. Limited, Malta and Sea Trade Shipping Corporation S.A., Athens

Argonaut Trading Co. Limited, Malta and Sea Trade Shipping Corporation S.A., Athens sued the Company for the coverage of damage made in 2001, when oil was spilled to the sea. The exposure amounts to USD 529,000 and Euro 144,000. In addition, Marina AD, Bar (for Euro 121,306) and Morsko dobro, Budva (for Euro 90,000) also sued the Company on the same basis. On the basis of information provided by the management of the Company, claim placed by Morsko dobro, Budva was refused by the Court.

The Yugoslav Federal Directorate for Commodity Reserves

The Company made a provision for a court case placed by the Yugoslav Federal Directorate for Commodity Reserves in the total amount of Euro 1,376 thousand based on the execution decision made by the Commercial Court in Belgrade in January 2002.

The ultimate outcome of this and several other lawsuits in which the Company is a defendant cannot presently be determined.

(b) Taxation

The taxation system in Montenegro is undergoing a continual revision and amendment. However, there are still different interpretations of the fiscal legislation. In various circumstances, the tax authorities may have different approaches to certain issues, and assess additional tax liabilities, together with late payment interest and penalties. In Montenegro, tax periods remain open for 5 years. The Company's management considers that the tax liabilities included in these financial statements are fairly stated.

Value added tax and excise duties on supplies to international vessels

Based on the Tax authority decision from June 2006, the Company became liable to pay additional VAT and excise duty on supplies to international vessels of € 2,281 thousand (€ 1,498 thousand for excise duty and €784 thousand for VAT). The Company appealed during July 2006 to the Ministry of Finance. The Ministry of Finance annulled both this and the subsequent decisions issued by the Tax authorities during October 2006. The process has been returned to the first degree body for renewal of the procedure. It is not possible to forecast outcome of the dispute or to assess additional liabilities for the periods not covered by this tax audit.

(c) Environmental matters

Environmental regulations are developing in Montenegro and the Company has not recorded any liability at 31 December 2006 for any anticipated costs, including legal and consulting fees, site studies, the design and implementation of remediation plans, related to environmental matters. Management do not consider the costs associated with environmental issues to be significant.

24. Commitments and contingencies (continued)

(d) Interest in joint ventures

There are no contingent liabilities related to the Company's interest in the joint ventures, and no contingent liabilities of the venture itself.

25. Events after the balance sheet date

There are no material events after the balance sheet date that may affect the fairness of the accompanying financial statements.