

**OKTA A.D. - SKOPJE**

**Financial Statements**

**For the year ended 31 December 2006**

**With the Report of the Auditors Thereon**

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## INDEPENDENT AUDITOR'S REPORT

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

### *Report on the Financial Statements*

We have audited the accompanying financial statements of OKTA crude oil refinery A.D. - Skopje, which comprise the balance sheet as at December 31, 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*

Management is responsible for the preparation and fair presentation of these financial statements in accordance with Laws and Regulations of the Republic of Macedonia. This responsibility includes: designing, implementing and maintaining internal control 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*

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

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

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our 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 and the Government of the Republic of Macedonia, the Company has recognised receivables that as of 31 December 2006 are for the amount of MKD 769,497,000, which EL.P.ET Balkanike S.A. considers to be recoverable from the Government of the Republic of Macedonia. EL.P.ET Balkanike S.A. has accordingly filed a legal action against the Government of the Republic of Macedonia to recover these expenses. Due to the uncertainty about the outcome of this legal dispute, this amount may not ultimately be recoverable by the Company. No provision has been made in the financial statements for this matter.

## **Qualified 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 December 31, 2006, and of its financial performance and its cash flows for the year then ended in accordance with Laws and Regulations of the Republic of Macedonia.

  
General Manager

Ljube Gjorgjievski

Skopje  
22 March 2007

PricewaterhouseCoopers dooel Skopje





Certified auditor

Vladimir Zogovik

**OKTA CRUDE OIL REFINERY A.D. – SKOPJE**  
**Financial statements for the year ended 31 December 2006**

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

**Income statement**

	Note	Year ended 31 December	
		2006	2005
Sales	3	29,990,412	23,704,979
Cost of goods sold	4	(28,622,307)	(22,517,526)
<b>GROSS PROFIT</b>		<b>1,368,105</b>	<b>1,187,453</b>
Administrative expenses	5	(245,481)	(224,342)
Sales and distribution expenses	6	(177,530)	(158,407)
Other income	7	81,309	217,000
Other expenses	8	(255,991)	(164,018)
<b>OPERATING PROFIT</b>		<b>770,412</b>	<b>857,686</b>
Finance income / (costs)	9	181,351	(133,254)
<b>PROFIT BEFORE INCOME TAX</b>		<b>951,763</b>	<b>724,432</b>
Income tax expense	10	(81,075)	(91,352)
<b>PROFIT FOR THE YEAR</b>		<b>870,688</b>	<b>633,080</b>



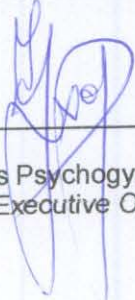

**OKTA CRUDE OIL REFINERY A.D. – SKOPJE**  
**Financial statements for the year ended 31 December 2006**

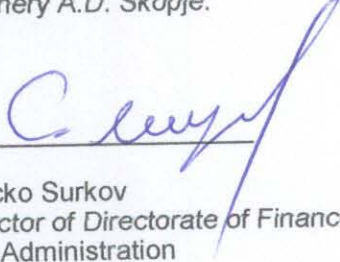
(all amounts are in thousands of Denars unless otherwise stated)

**Balance sheet**

	Note	Year ended 31 December	
		2006	2005
<b>ASSETS</b>			
<b>Non-current assets</b>			
Intangible assets	12	680	-
Property, plant and equipment	11	2,304,279	2,314,298
<b>Total non-current assets</b>		<b>2,304,959</b>	<b>2,314,298</b>
<b>Current assets</b>			
Inventory	13	1,566,901	1,792,048
Trade receivables	14	3,223,546	2,480,595
Other receivables	15	830,459	787,374
Available-for-sale financial assets	16	90,420	64,011
Cash and cash equivalents	17	602,516	1,049,025
Prepaid expenses	18	5,106	8,037
<b>Total current assets</b>		<b>6,318,948</b>	<b>6,181,090</b>
<b>TOTAL ASSETS</b>		<b>8,623,907</b>	<b>8,495,388</b>
<b>EQUITY AND LIABILITIES</b>			
Paid in share capital		2,472,820	2,472,820
Revaluation and other reserves		115,239	114,826
Retained earnings		3,029,204	2,158,981
<b>TOTAL EQUITY</b>		<b>5,617,263</b>	<b>4,746,627</b>
Trade payables	19	2,393,353	3,327,593
Accrued liabilities	20	80,477	21,486
Other current liabilities	21	532,814	399,682
<b>TOTAL LIABILITIES</b>		<b>3,006,644</b>	<b>3,748,761</b>
<b>TOTAL LIABILITIES AND EQUITY</b>		<b>8,623,907</b>	<b>8,495,388</b>

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

  
  
 Ioannis Psychogyos  
 Chief Executive Officer

  
 Srecko Surkov  
 Director of Directorate of Finance  
 and Administration

**OKTA CRUDE OIL REFINERY A.D. – SKOPJE**  
**Financial statements for the year ended 31 December 2006**

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

**Statement of changes in equity**

	Capital	Revaluation and other reserves	Retained Earnings	Total
<b>Balance at 1 January 2005</b>	<b>2,472,820</b>	<b>114,419</b>	<b>1,548,739</b>	<b>4,135,978</b>
Net profit for 2005	-	-	633,080	<b>633,080</b>
Paid dividends	-	-	(1,352)	<b>(1,352)</b>
Retirement benefits obligations	-	-	(21,486)	<b>(21,486)</b>
Other movements	-	407	-	<b>407</b>
<b>Balance at 31 December 2005</b>	<b>2,472,820</b>	<b>114,826</b>	<b>2,158,981</b>	<b>4,746,627</b>
Net profit for 2006	-	-	870,688	<b>870,688</b>
Paid dividends	-	-	(1,349)	<b>(1,349)</b>
Other movements	-	413	884	<b>1,297</b>
<b>Balance at 31 December 2006</b>	<b>2,472,820</b>	<b>115,239</b>	<b>3,029,204</b>	<b>5,617,263</b>

According to Macedonian regulations, the Company is required to have compulsory general reserve established through apportionment of a portion of its net profits. The annual contribution to the general 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.



**OKTA CRUDE OIL REFINERY A.D. – SKOPJE**  
**Financial statements for the year ended 31 December 2006**

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

**Cash flow statement**

	2006	2005
<b>Operating activities</b>		
Profit before tax for the year	951,763	724,432
<i>Adjustments for:</i>		
Depreciation	165,473	190,393
Impairment losses on trade and other receivables	-	68,304
Impairment on fixed assets	239,265	-
Gain on available for sale financial assets	(26,409)	(40,795)
Interest income	(111,736)	(75,779)
Interest expense and bank charges	32,874	18,218
Foreign exchange gain	(412,691)	(327,916)
Foreign exchange loss	312,606	520,333
Dividend income	(2,404)	(1,602)
Gain on sale of equipment	(2,142)	(631)
<b>Cash generated from operations before changes in working capital</b>	<b>1,146,599</b>	<b>1,074,957</b>
Increase (decrease) in inventories	225,147	(742,004)
Increase in receivables	(780,743)	(1,000,627)
Decrease (increase) in payables	(742,117)	1,415,947
<b>Cash generated from operations</b>	<b>(151,114)</b>	<b>748,273</b>
Interest and bank charges paid	(32,874)	(18,218)
Income taxes paid	(83,597)	(4,798)
<b>Cash flows from operating activities</b>	<b>(267,585)</b>	<b>725,257</b>
<b>Investing activities</b>		
Acquisition of property, plant and equipment	(393,942)	(198,175)
Proceeds from sale of property, plant and equipment	2,142	1,241
Interest received	111,736	75,779
Dividends received	2,404	1,602
Foreign exchange gain	412,691	327,916
Foreign exchange loss	(312,606)	(520,333)
<b>Cash flows from investing activities</b>	<b>(177,575)</b>	<b>(311,970)</b>
<b>Financing activities</b>		
Dividends paid	(1,349)	(1,352)
<b>Net cash used in financing activities</b>	<b>(1,349)</b>	<b>(1,352)</b>
Net increase in cash and cash equivalents	(446,509)	411,935
Cash and cash equivalents at 1 January	1,049,025	637,090
<b>Cash and cash equivalents at 31 December</b>	<b>602,516</b>	<b>1,049,025</b>



**OKTA CRUDE OIL REFINERY A.D. – SKOPJE**  
**Notes to the financial statements for the year ended 31 December 2006**

(all amounts are in thousands of Denars 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 Balkanike, a company jointly controlled - 63% by Hellenic Petroleum S.A. and 37% by Etep S.A. & Meton S.A. 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 of hydroskimming type 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.

In 2006, the Company employs 927 people (2005: 946 employees).

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

**2. 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 Trade Law (Official Gazette No. 28/2004) and Rule Book for Accounting (Official Gazette No. 94/2004 and 11/2005 and No. 40/1997 and 73/99). The financial statements are prepared under the historical cost convention as modified by the revaluation of certain fixed assets and depreciation.

**2.2 Foreign currencies**

Transaction denominated in foreign currencies has been translated into Macedonian Denars at the middle exchange rate at the date of transaction. Assets and liabilities denominated in foreign currencies are translated into Macedonian Denars ("Denars") at the National Bank of the Republic of Macedonia middle exchange rate on the reporting period. All gains and losses resulting from foreign currency translation or exchange are included in the Statement of Income as other financial income or expenses in the period in which they arose.

**2.3 Property, plant and equipment**

Property, plant and equipment are recorded at cost and they are 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.



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

## **2. Accounting policies (continued)**

Additions of the property, plant and equipment are revaluated using by the official indexes of revaluation, which are accumulative, calculated since their acquisition, or construction till the end of the current year. The next year depreciation is based on revalued value of property, plant and equipment stated at year-end.

Additions are recorded at cost. Cost represents the prices by suppliers together with all costs incurred in bringing new property, plant and equipment into use.

Disposal of property, plant and equipment represents expense or technology obsolescence 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.

Depreciation of property, plant and equipment is provided at rates not lower than those prescribed by law and is designed to write off 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 principal useful lives in use are:

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

The costs of regular maintenance and repairs are charged to operating cost as incurred.

Improvements to existing fixed assets are capitalized as incurred.

### **2.4 Intangible assets**

Developed computer software is capitalised on the basis of the costs incurred to develop and bring to use the specific software. These costs are amortised over their estimated useful lives (4 years).

### **2.5 Inventories**

Inventories are stated at cost. Cost represent purchase price, customs duties, and other purchase costs. The cost of crude oil inventory is determined by using FIFO method, whereas the cost of spare parts is determined on a weighted average cost basis. The cost of finished goods and work in progress comprises the costs of direct materials and labor and a proportion of manufacturing overheads, however excluding borrowing costs.



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

## **2. Accounting policies (continued)**

### **2.6 Trade receivables**

Trade receivables are carried at original invoice amount less provision made for impairment of these receivables. 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 in payments are considered indicators that the trade receivable is impaired.

The amount of the provision is the difference between the carrying amount and the recoverable amount, being the present value of expected cash flows, discounted at the market rate of interest for similar borrowers.

### **2.7 Available-for-sale financial assets**

Available-for-sale financial assets 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 for all financial assets not carried at fair value through profit and loss. Gains and losses arising from the changes in the fair value of available-for-sale financial assets are presented in the income statement as income (losses) in the period which they arise. The fair values of quoted investments are based on current bid prices. If the market for a financial asset is not active (and for unlisted securities), the Company establishes fair value by using valuation techniques such as use of recent arm's length transactions, reference to other instruments that are substantially the same and discounted cash flow analysis.

### **2.8 Cash and cash equivalents**

For the purposes of the cash flow statement, cash and cash equivalents comprise cash in hand, bank balances in denar and foreign currency, and deposits in banks with original maturity with less than 3 months.

### **2.9 Share capital**

Ordinary shares are classified as equity.

### **2.10 Trade payables**

Trade payables are initially recognised and carried at original invoice amount.

### **2.11 Income taxes**

Taxes currently due are calculated and paid in accordance with the Macedonian Income Tax Law. The estimated tax on monthly profit is paid in advance as determined by the tax authorities. Final taxes on profit of 15% are payable based on the annual profit shown in the statutory Income Statement.



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

## **2. Accounting policies (continued)**

### **2.12 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 according to the statutory rates in force during the year, based on gross salaries and wages. Food allowances travel expenses and holiday allowances are also calculated according to the local legislation. The Company makes these contributions to the Government's health and 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 and retirement 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.

Pursuant to the Labor law prevailing in the Republic of Macedonia, the Company is obliged to pay retirement benefits in an amount equal to two average republic salaries. According to the Collective bargaining agreement, the Company is obliged to pay up to one average republic salary for jubilee anniversary award. The number of average republic salaries for jubilee anniversary awards corresponds to the total number of years of service of the employee as presented in the table below:

<b>Total number of Service Years</b>	<b>Percentage from one republic salary</b>
10	50% from one republic salary
20	70% from one republic salary
30	100% from one republic salary

Long-term liabilities arising on severance pay and jubilee employment anniversary awards are stated at the present value of expected future cash payments towards the qualifying employees.

### **2.13 Revenue**

Revenue comprises the fair value of the consideration received or receivable for the sale of goods in the ordinary course of Company's activities.

Sales are recognised upon delivery of products and customer acceptance, net of sales taxes and discounts.

Other revenues earned by the Company are recognised on the following bases:

*Interest income* - as it accrues unless collectibles is in doubt.

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



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

## **2. Accounting policies (continued)**

### **2.14 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.

### **2.15 Financial risk management**

The Company's activities expose it to a variety of financial risks. The company's risk management approach is focused on unpredictability of the financial market and seeks to minimise potential adverse effects. Risk management is carried out under policies approved by the Board of Directors.

#### **a) Foreign exchange risk**

The Company operates internationally and is exposed to foreign exchange risk arising from various currency exposures, primarily with respect to the US dollar and the EURO. Foreign exchange risk arises from future commercial transactions, recognised assets and liabilities and net investments in foreign operations.

#### **b) Credit risk**

The Company has no significant concentrations of credit risk. The Company has policies in place to ensure that sales of products are made to customers with an appropriate credit history. The Company has policies that limit the amount of credit exposure to any one customer. In addition, to reduce this risk the Company has required as collateral: bank guaranties and deposits.

Recognisable risks are accounted for by adequate provisions on receivables.

### **2.16 Comparative information**

In order to maintain consistency with the current year presentation, where appropriate certain items have been reclassified for comparative purpose. Such reclassifications, however, have not resulted in significant changes of the content and format of the financial information as presented in the financial statements.

## **3. Analysis of sales**

	<b>2006</b>	<b>2005</b>
Sales on domestic market	19,794,819	15,487,135
Sales on foreign market	10,195,593	8,217,844
	<u><b>29,990,412</b></u>	<u><b>23,704,979</b></u>

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

**OKTA CRUDE OIL REFINERY A.D. – SKOPJE**  
**Notes to the financial statements for the year ended 31 December 2006**

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

**4. Cost of Sales**

	2006	2005
Consumed crude oil	26,501,971	20,624,433
Cost of traded goods	1,255,392	1,483,594
Wages and salaries	167,138	170,291
Depreciation	133,932	153,741
Expenses for chemicals	121,610	34,684
State contributions	115,331	118,491
Electricity	105,881	107,427
Other benefits	54,442	34,611
Maintenance expenses	52,393	51,099
Insurance expenses	38,495	40,750
Personnel transportation expenses	20,680	20,694
Consumed food products	17,568	16,332
Miscellaneous expenses	12,289	8,426
Inventory movements	10,209	(358,243)
Own consumption	5,975	4,459
Other fixed cost	4,466	1,841
Telecommunication expenses	1,588	1,348
Overtime	1,278	849
Office supplies expenses	1,011	1,316
Other variable expenses	658	1,383
	<b>28,622,307</b>	<b>22,517,526</b>



**OKTA CRUDE OIL REFINERY A.D. – SKOPJE**  
**Notes to the financial statements for the year ended 31 December 2006**

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

**5. Administrative expenses**

	2006	2005
Miscellaneous expenses	50,066	42,938
Salaries, wages, benefits	41,327	41,220
Contribution (social security etc.)	29,960	29,834
Public relation and advert expenses	24,939	20,154
Depreciation	18,257	21,534
Other benefits	14,611	10,697
Membership expenses	12,418	8,935
Personal income tax on other basis	7,708	3,267
Personnel transportation expenses	5,701	5,752
Insurance expenses	5,176	5,206
Audit expenses	5,083	6,325
Consumed food products	4,655	4,241
Rental expenses	4,342	4,819
Telecommunication expenses	4,286	4,135
Withholding tax	4,269	-
Own consumption	3,435	2,845
Maintenance expenses	2,108	2,168
Business travel	1,859	1,237
Office supplies expenses	1,474	1,985
Management and allocated expenses	1,348	2,015
Redundancy expenses	1,063	3,664
Other fixed cost	1,396	837
Other variable expenses	-	534
	<b>245,481</b>	<b>224,342</b>

**6. Sales and distribution expenses**

	2006	2005
Transportation of oil products - in the country	51,029	21,650
Other variable expenses	34,484	44,886
Salaries, wages, benefits	19,120	19,520
Transportation of oil products - abroad	18,787	19,533
Depreciation	13,284	15,118
Contribution (social security etc.)	13,220	13,681
Other benefits	7,950	6,098
Miscellaneous expenses	3,502	1,466
Insurance expenses	2,852	2,835
Dues and subscriptions	2,085	1,989
Telecommunication expenses	1,840	1,749
Public relation and advert expenses	1,702	1,538
Consumed food products	1,680	1,436
Personnel transportation expenses	1,659	1,582
Office supplies expenses	1,127	1,219
Electricity	1,013	829
Maintenance expenses	559	1,485
Other fixed cost	1,637	1,793
	<b>177,530</b>	<b>158,407</b>

**OKTA CRUDE OIL REFINERY A.D. – SKOPJE**  
**Notes to the financial statements for the year ended 31 December 2006**

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

**7. Other income**

	<b>2006</b>	<b>2005</b>
Income from collected bad and doubtful debt	37,445	6,198
Income from gain on available-for-sale financial assets	26,409	40,795
Other income	14,973	2,173
Income from sale of fixed assets	2,399	1,211
Insurance reimbursements	83	1,165
Capital gain from sale of catalyst	-	165,458
	<b>81,309</b>	<b>217,000</b>

**8. Other expenses**

	<b>2006</b>	<b>2005</b>
Net book value of fixed assets written off	239,523	580
Pipeline charges	7,200	62,016
Prior year expenses	5,050	29,231
Other expenses	4,218	3,887
Provision for bad and doubtful debts	-	68,304
	<b>255,991</b>	<b>164,018</b>

**9. Finance income / (costs)**

	<b>2006</b>	<b>2005</b>
Foreign exchange gain	412,691	327,916
Foreign exchange loss	(312,606)	(520,333)
Interest income	111,736	75,779
Interest expenses	(11,679)	(546)
Income from dividends received	2,404	1,602
Bank charges	(21,195)	(17,672)
	<b>181,351</b>	<b>(133,254)</b>

**10. Income tax expense**

	<b>2006</b>	<b>2005</b>
Income before tax	951,763	724,432
Tax calculated at a tax rate of 15%	142,764	108,665
Expenses non tax deductible according to local regulations	2,073	12,682
Income not subject to tax	(4,418)	(269)
Tax allowance	(59,344)	(29,726)
<b>Tax charge</b>	<b>(81,075)</b>	<b>(91,352)</b>

The tax authorities are authorised to carry out a full-scope tax audit at the Company for the year ended 31 December 2006. 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.



**OKTA CRUDE OIL REFINERY A.D. – SKOPJE**  
**Notes to the financial statements for the year ended 31 December 2006**

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

**11. Property Plant and Equipment**

	Land	Buildings	Machinery and equipment	Construction in progress	Total
<b>At 1 January 2005</b>					
Cost	126,876	3,215,921	4,413,723	78,340	<b>7,834,860</b>
Accumulated depreciation	-	(2,378,456)	(3,149,318)	-	<b>(5,527,774)</b>
<b>Net book amount</b>	<b>126,876</b>	<b>837,465</b>	<b>1,264,405</b>	<b>78,340</b>	<b>2,307,086</b>
<b>Year ended 31 December 2005</b>					
Opening net book amount	126,876	837,465	1,264,405	78,340	<b>2,307,086</b>
Additions	-	-	-	198,176	<b>198,176</b>
Transfer from construction in progress	-	10,701	175,698	(186,399)	-
Disposal	-	-	(571)	-	<b>(571)</b>
Depreciation charge	-	(31,608)	(158,785)	-	<b>(190,393)</b>
<b>Closing net book amount</b>	<b>126,876</b>	<b>816,558</b>	<b>1,280,747</b>	<b>90,117</b>	<b>2,314,298</b>
<b>At 31 December 2005</b>					
Cost	126,876	3,226,622	4,582,855	90,117	<b>8,026,470</b>
Accumulated depreciation	-	(2,410,064)	(3,302,108)	-	<b>(5,712,172)</b>
<b>Net book amount</b>	<b>126,876</b>	<b>816,558</b>	<b>1,280,747</b>	<b>90,117</b>	<b>2,314,298</b>
<b>Year ended 31 December 2006</b>					
Opening net book amount	126,876	816,558	1,280,747	90,117	<b>2,314,298</b>
Additions	-	-	-	393,943	<b>393,943</b>
Transfer from construction in progress	-	11,409	47,764	(59,173)	-
Disposals (net book amount)	-	(239,265)	(232)	-	<b>(239,497)</b>
Depreciation charge	-	(32,473)	(131,992)	-	<b>(164,465)</b>
<b>Closing net book amount</b>	<b>126,876</b>	<b>556,229</b>	<b>1,196,287</b>	<b>424,887</b>	<b>2,304,279</b>
<b>At 31 December 2006</b>					
Cost	126,876	2,998,766	4,611,118	424,887	<b>8,161,647</b>
Accumulated depreciation	-	(2,442,537)	(3,414,831)	-	<b>(5,857,368)</b>
<b>Net book amount</b>	<b>126,876</b>	<b>556,229</b>	<b>1,196,287</b>	<b>424,887</b>	<b>2,304,279</b>

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**Notes to the financial statements for the year ended 31 December 2006**

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**12. Intangible assets**

	Software	Construction in progress	Total
<b>Year ended 31 December 2006</b>			
Opening net book amount	-	-	-
Additions	-	1,688	1,688
Transfer from construction in progress	1,688	(1,688)	-
Disposal	-	-	-
Depreciation charge	(1,008)	-	(1,008)
<b>Closing net book amount</b>	<b>680</b>	<b>-</b>	<b>680</b>
<b>At 31 December 2006</b>			
Cost	1,688	-	1,688
Accumulated depreciation	(1,008)	-	(1,008)
<b>Net book amount</b>	<b>680</b>	<b>-</b>	<b>680</b>

Total depreciation expense (of the tangible and intangible assets) in amount of MKD 133,932 (2005: MKD 153,741) has been charged in cost of sales, MKD 18,257 (2005: MKD 21,534) in administrative costs and MKD 13,284 (2005: MKD 15,118) in selling and distribution expenses.

**13. Inventory**

	2006	2005
Finished goods	701,079	1,039,968
Raw materials - crude oil	332,210	521,375
Work in progress	470,403	141,723
Raw materials - other	-	35,730
Trade goods	45,000	34,651
Spare parts in storage	17,848	18,175
Tools and consumables stores - inventory	361	426
	<b>1,566,901</b>	<b>1,792,048</b>

**14. Trade receivables**

	2006	2005
Trade receivables domestic	2,954,860	2,314,287
Trade receivables foreign	287,380	192,014
Allowance for doubtful accounts	(18,694)	(102,495)
Other trade receivables	-	76,789
	<b>3,223,546</b>	<b>2,480,595</b>



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**14. Trade receivables (continued)**

The ageing analysis of these trade receivables is as follows:

	2006	2005
Up to 3 months	3,108,252	2,452,615
3 to 6 months	3,348	3,225
6 months to 1 year	19,584	22,706
Over 1 year	111,056	27,749
	<b><u>3,242,240</u></b>	<b><u>2,506,295</u></b>

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

	2006	2005
<b>At 1 January</b>	(18,694)	(34,191)
Provision for receivables impairment	-	(68,304)
<b>At 31 December</b>	<b><u>(18,694)</u></b>	<b><u>(102,495)</u></b>

The maximum exposure to credit risk at the reporting date is the fair value of each class of receivable mentioned above. The company holds bank guarantees as collateral.

**15. Other receivables**

	2006	2005
Receivable from Escrow account	769,497	769,497
Advance payments	2,282	3,997
Input VAT taxes	2,308	773
Receivable from workers	724	833
Other receivables	55,648	12,274
	<b><u>830,459</u></b>	<b><u>787,374</u></b>

**16. Available-for-sale financial assets**

	2006	2005
Beginning of the year- 1 January 2006	64,011	23,216
Gains recognised in Income statement	26,409	40,795
<b>End of year- 31 December 2006</b>	<b><u>90,420</u></b>	<b><u>64,011</u></b>

There were no disposals or impairment provisions on available-for-sale financial assets in 2006 and 2005. Available-for-sale financial assets are denominated in Macedonian denars and include the following:

	2006	2005
Investments in companies	12,438	6,299
Investments in banks	77,982	57,712
	<b><u>90,420</u></b>	<b><u>64,011</u></b>

**OKTA CRUDE OIL REFINERY A.D. – SKOPJE**  
**Notes to the financial statements for the year ended 31 December 2006**

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

**17. Cash and cash equivalents**

	<b>2006</b>	<b>2005</b>
Bank accounts in domestic currency	155,631	111,838
Foreign accounts	120,052	71,103
Cash on hand	306	485
Letter of credit in foreign currency	-	734
Other money assets	4,830	3,815
Checks	1,240	1,896
Bank deposits	320,457	859,154
	<b>602,516</b>	<b>1,049,025</b>

Short-term bank deposits relate to time deposits up to one month in domestic and foreign currency. Deposits in domestic and foreign currency are placed in Stopanska banka, Komercijalna banka and Alfa Banka with one month maturity and interest rate 6.5 - 9% for domestic deposits and 2.5 – 3% for foreign deposits.

**18. Prepaid expenses**

	<b>2006</b>	<b>2005</b>
Prepaid expenses	8,268	8,037
Prepaid excise duties on border	(3,162)	-
	<b>5,106</b>	<b>8,037</b>

**19. Trade payables**

	<b>2006</b>	<b>2005</b>
Domestic trade payables	50,849	41,224
Foreign trade payables	2,340,439	3,284,042
Payables for non-invoiced goods	2,065	2,327
	<b>2,393,353</b>	<b>3,327,593</b>

**20. Accrued liabilities**

	<b>2006</b>	<b>2005</b>
Retirement obligation benefits	20,602	21,486
Accrued expenses for pipeline	59,875	-
	<b>80,477</b>	<b>21,486</b>



**OKTA CRUDE OIL REFINERY A.D. – SKOPJE**  
**Notes to the financial statements for the year ended 31 December 2006**

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**21. Other current liabilities**

	2006	2005
Advances received	20,277	24,289
Excise taxes payable	350,617	276,506
Other acc. payable - Chamber of commerce fee	151	151
Income taxes payable	19,215	83,205
Wages payable	21,659	21,694
Employee illness fund	306	661
VAT taxes payables	118,986	(6,824)
Withholding tax	1,603	-
	<b>532,814</b>	<b>399,682</b>

**22. Related party transactions**

The Company is controlled by EL.P.ET Balkanike, which owns 81.51% of the Company's shares. The remaining 7.50% of the shares are held by the employees and 10.99% of shares are held by the Pension and Disability Fund.

The following transactions were carried out with related parties:

**i) Sales of goods and services**

	2006	2005
<b>Sales of goods</b>		
Eko Yu A.D. Beograd	146,040	50,862
	<b>146,040</b>	<b>50,862</b>

	2006	2005
<b>Sales of services</b>		
EL.P.ET Balkanike S.A.	343	2,824
Vardax S.A.	1,280	2,151
Hellenic Petroleum S.A.	47,375	-
Eko Yu A.D. Beograd	585	-
	<b>49,583</b>	<b>4,975</b>

**ii) Purchases of raw material, goods and services**

	2006	2005
<b>Purchases of raw material and goods</b>		
Hellenic Petroleum S.A.	25,885,134	21,030,582
Hellenic Petroleum Chemicals S.A.	5,109	4,235
Eko Elda S.A.	892	1,396
Asprofos S.A.	10,721	-
	<b>25,901,856</b>	<b>21,036,213</b>

	2006	2005
<b>Purchases of services</b>		
Vardax S.A.	1,191,594	968,799
EL.P.ET Balkanike S.A.	9,081	334,343
ELPE Services Ltd	-	30,639
	<b>1,200,675</b>	<b>1,333,781</b>

**OKTA CRUDE OIL REFINERY A.D. – SKOPJE**  
**Notes to the financial statements for the year ended 31 December 2006**

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

**22. Related party transactions (continued)**

**iii) Outstanding balances arising from sale/purchase of goods/services**

	2006	2005
<b>Receivables arising from sale of goods</b>		
Hellenic Petroleum S.A	7,971	-
Eko Yu A.D. Beograd	3,219	-
	<u>11,190</u>	<u>-</u>
<b>Receivables arising from sale of services</b>		
Hellenic Petroleum S.A	45,819	-
Vardax S.A.	449	-
	<u>46,268</u>	<u>-</u>
<b>Payables arising from purchase of goods</b>		
Hellenic Petroleum S.A.	1,837,714	-
Asprofos S.A.	9,837	-
Vardax S.A.	193,540	15
	<u>2,041,091</u>	<u>15</u>
<b>Payables arising from purchase of services</b>		
EL.P.ET Balkanike S.A.	9,081	-
	<u>9,081</u>	<u>-</u>
<b>Payments in advance</b>		
Hellenic Petroleum Chemicals S.A.	-	87
	<u>-</u>	<u>87</u>

**23. Contingencies**

**a) Contingencies with respect to 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 640,000,000 as at 31.12.2006 (2005: MKD 260,000,000). No additional payments are anticipated at the date of the financial statements.

**24. Subsequent events**

**Changes in the Profit Tax and Personal Income Tax at 1 January 2007**

Starting from 1 January 2007 the Government has announced the replacement of the Profit Tax rate of 15%, with flat rate of 12%, and with further decrease to 10% in 2008. The same flat tax rate will be applicable for Personal Income Tax instead of the variable one (15%, 18% and 24%) used up to 2006.