

JUGOPETROL A.D, KOTOR

FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2005.

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GENERAL INFORMATION

Board of Directors

Stanitsas Gerasimos – President of the Board
Athanasopoulos Konstatinos – Executive director
Kovačević Veselin – 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

Audit Company

PricewaterhouseCoopers doo
Brach office Podgorica
Rimski trg 50
81000 Podgorica
Montenegro

Report of the Auditors

To the shareholders of Jugopetrol a.d. Kotor

1. We have audited the accompanying balance sheet of Jugopetrol a.d. Kotor. (“the Company”) as of 31 December 2005 and the related statements of income, cash flow and changes in shareholders equity for the year then ended. These financial statements are the responsibility of the management of Jugopetrol a.d. Kotor. Our responsibility is to express an opinion on these financial statements based upon our audit.
2. Except as discussed in paragraph 3 below, we conducted our audit in accordance with International Standards on Auditing. These standards require that we plan and perform the audit to obtain reasonable assurance that the financial statements are free of material misstatements. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statements presentation. We believe that our audit provides a reasonable basis for our opinion.
3. The Company's fixed assets are stated at cost less depreciation. Management has not carried out a review of these fixed assets in accordance with IAS 36 – “Impairment of assets”, to determine whether there is an indication that the assets may be impaired, and hence whether any impairment write down should be applied to the amounts recorded in the balance sheet at 31 December 2005. In the absence of information to assess the recoverability of these assets, we were unable to satisfy ourselves as to the carrying amounts of fixed assets by other audit procedures.
4. In our opinion, except for the effects of such adjustments, if any, as might have been determined to be necessary to reflect the matter described in paragraph 3, the accompanying financial statements presents fairly, in all material respects, the financial position of the Company as at 31 December 2005 and results of its operations and cash flows for the year then ended, in accordance with the accounting regulations of the Republic of Montenegro.

5. Without further qualifying our opinion, we draw attention to the 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. These financial statements do not include any provision in that respect.

Maja Krstic
Licensed Auditor

Podgorica, 29 May 2006

JUGOPETROL A.D. KOTOR
INCOME STATEMENT
For the year ended 31 December 2005

(amounts expressed in €, unless otherwise stated)

	<i>Notes</i>	<i>Year ended 31-Dec-05</i>	<i>Year ended 31 Dec 2004</i>
Revenues			
Sale of goods	3	116,974,460	91,193,328
Other revenue	4	557,650	828,580
		<u>117,532,110</u>	<u>92,021,908</u>
Cost of goods sold		(96,349,871)	(72,003,068)
Gross profit		21,182,239	20,018,840
Spare parts and materials		(394,675)	(702,288)
Energy expense		(917,088)	(932,197)
Maintenance		(267,259)	(359,516)
Staff cost	5	(9,993,109)	(12,805,296)
Depreciation and amortization	10,11	(3,712,776)	(3,589,524)
Other operating expenses	6	(5,115,322)	(7,078,482)
Other operating income	7	788,152	503,602
		<u>(19,612,077)</u>	<u>(24,963,701)</u>
Operating profit		1,570,162	(4,944,861)
Financial income, net	8	(904,393)	564,087
Profit before tax		665,769	(4,380,774)
Income tax expense	9	0	(785,873)
Net profit		665,769	(5,166,647)
Earnings per share			
Basic and diluted for profit for the year		0,14	(1,11)
Weighted average number of shares, basic and diluted		4,653,971	4,653,971
Dividends per share declared and paid			0.9

The accompanying notes form an integral part of these financial statements

JUGOPETROL A.D. KOTOR
BALANCE SHEET
For the year ended 31 December 2005

(amounts expressed in €, unless otherwise stated)

ASSETS	<i>Notes</i>	<i>31-Dec-05</i>	<i>31 Dec 2004</i>
Non-current assets			
Intangible assets	<i>10</i>	22,785	74,553
Property, plant and equipment	<i>11</i>	45,273,841	48,924,710
Investments in affiliates	<i>12</i>	3,547,254	3,802,909
Available-for-sale investments	<i>13</i>	928,449	985,309
Deferred income tax asset	<i>9</i>		376,409
Other long-term assets	<i>14</i>	1,625,069	1,627,314
		<u>51,397,398</u>	<u>55,791,204</u>
Current assets			
Inventories	<i>15</i>	10,734,748	12,025,248
Trade and other receivables	<i>16</i>	14,798,940	14,241,396
Cash and cash equivalents	<i>17</i>	11,198,297	8,800,980
		<u>36,731,985</u>	<u>35,067,624</u>
TOTAL ASSETS		<u>88,129,383</u>	<u>90,858,828</u>
EQUITY & LIABILITIES			
Capital and reserves			
Share capital	<i>18</i>	67,986,605	67,986,605
Statutory reserves	<i>19</i>	2,469,979	2,123,012
Other reserves	<i>20</i>	1,950,214	1,956,465
Retained earnings		(4,007,743)	(3,814,438)
		<u>68,399,055</u>	<u>68,251,644</u>
Long term liabilities			
Provisions	<i>21</i>	4,303,336	4,182,312
Current liabilities			
Trade and other payables	<i>22</i>	15,426,992	18,424,872
		<u>19,730,328</u>	<u>22,607,184</u>
Total equity and liabilities		<u>88,129,383</u>	<u>90,858,828</u>
Memo accounts	<i>23</i>	1,619,323	1,752,673

Authorized on behalf of the Board of Directors on May 5, 2006:

Stanitsas Gerasimos
President of the Board of Directors

JUGOPETROL A.D. KOTOR
STATEMENT OF CHANGES IN EQUITY
For the year ended 31 December 2005

(amounts expressed in €, unless otherwise stated)

	<u>Share capital</u>	<u>Statutory reserves</u>	<u>Other reserves (employee housing fund)</u>	<u>Retained earnings</u>	<u>Total equity</u>
As at 1 January 2004	67,986,605	2,123,012	1,869,723	1,872,661	73,852,001
Dividends declared and paid	-	-	-	(433,710)	(433,710)
Appropriation of retained earnings for the employee housing fund	-	-	86,742	(86,742)	-
Net income for the year ended 31 December 2004	-	-	-	(5,166,647)	(5,166,647)
As at 31 December 2004	67,986,605	2,123,012	1,956,465	(3,814,438)	68,251,644
Transfers from R/E to statutory reserves		346,967		(346,967)	
Write off of L/T – housing loans	-		(6,251)		(6,251)
Write off of capitalized consulting fees				(208,045)	(208,045)
Gains included directly to R/E				72,347	72,347
Deferred tax*				(376,409)	(376,409)
Net income for the year ended 31 December 2005	-	-	-	665,769	665,769
As at 31 December 2005	67,986,605	2,469,979	1,950,214	(4,007,743)	68,399,055

* The opening balances as at 31.12.2005 include a balance in respect of deferred taxation which may be doubtful of recovery and as a result was reversed on prior year accounts.

JUGOPETROL A.D. KOTOR
CASH FLOW STATEMENT
For the year ended 31 December 2005

(amounts expressed in €, unless otherwise stated)

		<i>Year ended</i>	<i>Year ended</i>
		<i>31 Dec 2005</i>	<i>31-Dec-04</i>
Cash flows from operating activities	<i>Notes</i>		
Net income before income taxes		665,769	(4,380,774)
Adjustment for:			
Depreciation and amortization	9,10	3,712,775	3,589,524
Loss on disposal of PP&E and materials, net	6,7	226,004	53,003
Provision for retirements & jubilee awards	20	263,673	1,719,011
Bad debt expense/(Release) of provisions for doubtful debtors	6,7	216,355	67,209
Write off of payables	7	(21,772)	(30,421)
Net finance cost		(140,395)	(561,263)
Operating profit before working capital changes		4,922,409	456,289
(Increase)/decrease in inventories	14	1,290,281	(2,006,265)
(Increase) in trade and other receivables	15	(762,309)	(1,344,122)
Increase/(decrease) in trade and other payables	21	(2,997,880)	2,285,248
Cash generated from operations		2,452,501	(608,850)
Interest paid		(33)	(113)
Income taxes paid	8		(224,076)
Payments of retirements & jubilee awards		(509,491)	(2,227,728)
Net cash flows from operating activities		1,942,977	(3,060,767)
Cash flows from investing activities			
Purchase of property, plant and equipment	10	(684,151)	(2,881,081)
Purchase of intangible assets	9	(6,720)	(19,873)
Proceeds from disposal of PP&E and materials		8,215	-
Interest received		229,359	561,376
Net cash flows used in investing activities		(453,297)	(2,339,578)
Cash flows from financing activities			
Loans for employee housing, net of repayments	13	(205,000)	(217,261)
Investment in affiliates	11		(2,800,000)
Equity dividends paid			(433,710)
Other		60,566	
Net cash flows (used in) financing activities		(144,434)	(3,450,971)
Net increase (decrease) in cash and cash equivalents		1,345,246	(8,851,316)
Net foreign exchange differences		1,052,071	(11,068)
Cash and cash equivalents at 1 January	16	8,800,980	17,663,364
Cash and cash equivalents at 31 December	16	11,198,297	8,800,980

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2005

(amounts expressed in €, unless otherwise stated)

1. CORPORATE 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. On 1 January 1996, following the Company’s ownership transformation, the Company was re-registered as 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 2005, the Company employed 550 employees (2004: 617 employees).

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

a. Basis of preparation

The accompanying financial statements have been prepared on a historical cost basis and are presented in Euros, except when otherwise indicated. The Company does not prepare consolidated financial statements (which is in line with low regulation in Montenegro) for its subsidiaries on the grounds of principles of materiality.

b. Statement of compliance

The financial statements of Jugopetrol A.D. Kotor have been prepared in accordance with Law on accounting of Republic of Montenegro

c. Approval of financial statements

The financial statements were authorized for issue on May 5, 2006 by the Company’s Board of Directors.

d. 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.

e. Foreign currency translation

Transactions in foreign currencies are recorded at the rate ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are retranslated at the rate of exchange ruling at the balance sheet date. All differences are taken to the income statement.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2005

(amounts expressed in €, unless otherwise stated)

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

f. Property, plant & equipment

i. Cost of property, plant and equipment

The value of property, plant and equipment is based on independent appraisal performed on the Company's property, plant and equipment in 1994, in connection with the Company's transformation from a public enterprise to a shareholding company. Afterwards, property, plant and equipment are recorded at cost of purchase. Cost represents the prices billed by suppliers together with all costs incurred in bringing new assets into use. Depreciation is charged from the month subsequent to purchase of the asset.

Capital improvements, renewals and repairs that extend the life of an asset are capitalized. Repairs and maintenance of assets are expensed and shown as operating expenses.

The gain or loss on disposal of an asset is determined with comparison of inflows with accounting value, and credited or charged to the income statement.

ii. Depreciation

Property, plant and equipment are depreciated on a straight-line basis at the tax-prescribed annual minimum rates in order to allocate the depreciable amount of the assets on a systematic basis 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.

During the year ended 31 December 2003, the Company changed its depreciation rates by adopting the minimum rates prescribed by the Montenegrin Tax Law, which the Company believes, approximates their useful economic life.

iii. 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. 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.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2005

(amounts expressed in €, unless otherwise stated)

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

g. Intangible assets

Expenditure on acquired patents, trademarks and licenses is capitalized and amortized using the straight-line method over their useful lives. The amortization periods adopted do not exceed five (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.

h. Available-for-sale investments

Available-for-sale investments are initially recorded at cost. Securities which have market price on active financial markets are recorded by market value.

i. Investment in affiliates

Investments in affiliates are initially recorded at cost. Subsequently, they were restated to reflect the effects of hyperinflation, in the years of hyperinflation and decreased by a provision for permanent diminution in value, where necessary.

The financial statements of these subsidiaries and associated undertakings were not consolidated following the provisions of IAS 27 and IAS 28 on grounds of materiality. These subsidiaries and associated undertakings are accounted for in the Company's individual IFRS financial statements at cost in accordance with the provisions of IAS 27 (paragraph 30) and IAS 28 (paragraph 14).

j. Employee housing loans

Employee housing loans are classified as "other long-term assets" and are granted to employees to finance the purchase of flats or houses and/or cover other expenses in relation to residential needs. Until 2005 these loans were with no interest calculated (no tax was calculated on the difference up to real market interest rate). Starting from the year 2005, the interest is being calculated on the level of annual EURIBOR. These loans are repayable in 10-20 years and are carried at amortized cost, unless the discounting effect is not material.

k. Inventories

Inventories of materials, spare parts and fixtures and fittings are stated at purchase cost determined on a weighted average cost 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 fiscal year, on the basis of results from inventory stated in inventory report, and are presented in other operating expenses.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2005

(amounts expressed in €, unless otherwise stated)

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

l. 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.

m. Trade receivables

Trade receivables are carried at original invoice amount less an estimate made for doubtful receivables based on a review of all outstanding amounts at the year-end. Bad debts are written-off when identified.

n. 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.

o. Employee benefits

The Company, in the normal course of business, makes payments on behalf of its employees for pensions, health care, employment and personnel tax that are calculated on the basis of gross salaries and wages, as well as food allowances, travel expenses and vacation allowances according to the local legislation. The Company makes contributions to the Government's health and retirement funds, at the statutory rates in force during the year, based on gross salary payments. The cost of these payments is charged to the income statement in the same period as the related salary cost. There is no additional liability for these plans.

The Company does not operate any other pension scheme or post retirement benefits plan and consequently, has no obligation in that respect. In addition, the Company is not obliged to provide any further benefits to its current and/or former employees.

In accordance with Article 74 of the Collective Agreement, the Company is obliged to pay employees staff leaving indemnity up to ten months of the gross monthly salary earned in the month prior to retirement, which cannot be less than six times the average gross salary of the Company at the time of retirement.

Furthermore, in accordance with Article 77 of the Company's new Collective Agreement, employees are entitled to jubilee awards upon completion of 10, 20 and 30 years of service as follows:

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2005

(amounts expressed in €, unless otherwise stated)

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

<u>Completion of years of service with the Company</u>	<u>Jubilee awards</u>
10	one hand watch and two average gross salaries in the Company in March of the year of award
20	one hand watch and four average gross salaries in the Company in March of the year of award
30	one hand watch and six average gross salaries in the Company in March of the year of award

The benefits for staff leaving indemnities on retirement and jubilee awards are unfunded. The cost of providing these benefits is determined using the projected unit credit actuarial valuation method. Actuarial gains and losses are recognized as income or expense when the cumulative unrecognized actuarial gains or losses for each individual plan exceed 10% of defined benefit obligation.

Finally, in accordance with Article 74 of the Collective Agreement employees who are less than ten years away from regular retirement can apply for early retirement. If the application for early retirement is accepted by the Company, the severance pay will be equal to the amount the employee would be entitled to when qualifying for regular retirement plus 50% of the employee's net salary until retirement. No provision for this liability has been made in the accompanying financial statements as the number of employees which may opt for early retirement is not known at this time. Payments made to employees opting for early retirement are expensed during the period incurred and the provision for retirement indemnities and jubilee awards is reduced by the accrued benefit earned by such employees.

p. Taxation

Taxes currently due are calculated and paid in accordance with the Montenegrin Tax Law (Official Gazette of Republic of Montenegro no.80/04), by tax rate of 9%. By previous regulations (Official Gazette of Republic of Montenegro no.65/01) the tax rate was of 15% for the taxable income up to 100.000 €, and 20% for the income over 100.000 €). The estimated tax on monthly profit is paid in advance as determined by the tax authorities.

Deferred income tax is provided, using the liability method, on all temporary differences at the balance sheet date between the tax bases of assets and liabilities and their carrying amount for financial reporting purposes. Deferred income tax assets and liabilities are measured at tax rates that are expected to apply to the period when the asset is realized or the liability is settled, based on tax rates and tax laws that have been enacted or substantially enacted at the balance sheet date.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2005

(amounts expressed in €, unless otherwise stated)

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Realization of deferred tax asset is dependent upon sufficient future taxable income during the period in which the temporary differences carried forward are expected to be available to reduce taxable income.

q. Revenue recognition

Revenue includes fair value of received amounts or receivables on the sales of goods and services in business operations of the Company. Revenue is presented without VAT, goods returns, discounts and after deducting the revenue generated internally in the Company.

Revenue is recognized to the extent that it is probable that economic benefits will flow to the Company and the revenue can be reliably measured. The following specific recognition criteria must also be met before revenue is recognized:

Sale of goods

Revenue is recognized when the significant risks and rewards of ownership of the goods have passed to the buyer and the amount of revenue can be measured reliably.

Rendering of services

Revenue from services is recognized upon completion of the services rendered.

Interest

Revenue is recognized as interest accrues (taking into account the effective yield on the assets).

Rental income

Rental income arising on leasing a portion of office and warehouse space to third parties is accounted for on a straight-line basis under the lease term. Rental income arising on storage of oil products on behalf of third parties is accounted for in accordance with the terms of the specific contractual agreements.

3. SALE OF GOODS

	<i>31-Dec-05</i>	<i>31 Dec 2004</i>
Sales of goods in the domestic market	96,619,840	71,337,129
Sales of goods in foreign markets	20,354,620	19,856,199
	116,974,460	91,193,328

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2005

(amounts expressed in €, unless otherwise stated)

4. OTHER REVENUE

	<i>31-Dec-05</i>	<i>31 Dec 2004</i>
Services rendered	458,580	710,909
Rental income	99,070	117,671
	557,650	828,580

5. STAFF COSTS

	<i>31-Dec-05</i>	<i>31 Dec 2004</i>
Gross salaries and wages	5,624,767	6,243,704
Social security contributions - employer portion	1,232,423	1,578,136
Food allowance	733,626	1,023,368
Transportation allowance	307,433	320,896
Winter allowance	510,000	572,220
Holiday allowance	560,830	612,009
Humanitarian assistance to employees	175,179	178,740
Voluntary leave compensation	366,843	1,548,741
Temporary staff costs	63,908	143,373
Board of Directors compensation	78,146	104,875
Other personnel costs	76,281	308,964
Jubilee awards and retirement indemnities	263,673	170,260
	9,993,109	12,805,296

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2005

(amounts expressed in €, unless otherwise stated)

6. OTHER OPERATING EXPENSES

	<i>Year ended 31-Dec-05</i>	<i>Year ended 31 Dec 2004</i>
Transportation cost	360,349	18,784
Telecommunications & postal	191,873	283,799
Rental cost	46,900	78,224
Marketing and advertising	166,630	431,006
Cost of other services (port, printing etc)		35,497
Travel expenses	160,309	331,189
Third party services	363,975	1,291,392
Entertainment	80,465	73,837
Insurance	174,871	293,046
Bank commissions and fees	425,397	867,244
Indirect taxes and contributions	615,077	816,042
Loss on sale & disposal of fixed assets	93,924	59,356
Loss on sale of materials	140,015	6,441
Financing expenses-VK Primorac	185,977	272,832
Bad debt expense	384,552	227,039
Donations and sponsorships	93,053	402,270
Training and seminars	28,878	82,286
Scholarships	203,260	287,030
Inventory shortages	509,263	492,394
Discounts	91,488	
Other indirect expenses	799,066	728,774
	5,115,322	7,078,482

7. OTHER OPERATING INCOME

	<i>31-Dec-05</i>	<i>31 Dec 2004</i>
Gain from sale of fixed assets	7,598	12,794
Gain from sale of materials	338	-
Income from write off of liabilities	21,772	30,421
Release of provision for doubtful debtors	168,197	159,830
Inventory surpluses	481,373	271,278
Other operating income	108,874	29,279
	788,152	503,602

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2005

(amounts expressed in €, unless otherwise stated)

8. FINANCIAL INCOME, net

	<i>31-Dec-05</i>	<i>31 Dec 2004</i>
Interest income	229,359	525,849
Interest expense	(33)	(113)
Other financial income	2,557	35,527
Foreign exchange gain	720,163	1,145,681
Foreign exchange loss	(1,856,439)	(1,142,857)
	(904,393)	564,087

9. INCOME TAX

The provision for income taxes reflected in the accompanying income statement is analyzed as follows:

	<i>31 Dec 2005</i>	<i>31-Dec-04</i>
Current income taxes	-	-
Current year income tax charge	-	-
Adjustment in respect of current income tax of previous years	-	224,076
Deferred income tax expense (benefit)	-	561,797
Total provision for income taxes	-	785,873

Current income tax expense represents the amount of tax to be paid according to the Law on company tax in Montenegro, at statutory rates.

Ref no.	Description	Amounts in €
1.	Profit/(loss) before income taxes	665,769
2.	Depreciation expenses from Income statement	3,712,775
3.	Depreciation expenses recognized in tax purposes	3,712,775
4.	Expenditures not allowed for income tax purposes	-
4.1	Write off of doubtful receivables	10,344
5.	Adjusted income (loss)	676,113
6.	Carried loss from previous 5 years	(676,113)
7.	Taxable income	0
8.	Income tax liability	0

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2005

(amounts expressed in €, unless otherwise stated)

10. INTANGIBLE ASSETS

	<i>Software Licenses</i>
Cost	
Balance as of 1 January 2004	168,366
Additions during the year	19,873
Balance as of 31 December 2004	188,239
Additions during the year	6,720
Balance as of 31 December 2005	194,959
Amortization	
Balance as of 31 December 2003	81,735
Charge for the year	31,951
Balance as of 31 December 2004	113,686
Charge for the year	58,488
Balance as of 31 December 2005	172,174
Net book value as of 01/01/2004	86,631
Net book value as of 31/12/2004	74,553
Net book value as of 31/12/2005	22,785

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2005

(amounts expressed in €, unless otherwise stated)

11. PROPERTY, PLANT AND EQUIPMENT

Cost	<i>Land</i>	<i>Buildings</i>	<i>Machinery & Equipment</i>	<i>Construction in progress</i>	<i>Total</i>
As at 1 January 2004	21,478,915	45,541,633	20,693,301	1,477,666	89,191,515
Additions	-	-	-	2,881,081	2,881,081
Allocation of appraisal surplus	-	-	-	-	-
Transfers	82,120	1,817,007	1,868,775	(3,767,902)	-
Disposals	-	(37,296)	(456,244)	(28,550)	(522,090)
As at 31 December 2004	21,561,035	47,321,344	22,105,832	562,295	91,550,506
Additions	-	222,201	147,428	314,522	684,151
Transfers	-	-	371,599	(371,599)	-
Write off of capitalized exp.	-	-	-	(208,045)	(208,045)
Disposals	-	-	(1,102,028)	-	(1,102,028)
As at 31 December 2005	21,561,035	47,543,545	21,521,631	298,373	90,924,584
Depreciation					
As at 1 January 2004	-	24,684,030	14,827,561	-	39,511,591
Charge for the year	-	2,275,278	1,282,295	-	3,557,573
Allocation of appraisal surplus	-	-	-	-	-
Disposals	-	(32,613)	(410,755)	-	(443,368)
Other movements	-	-	-	-	-
As at 31 December 2004	-	26,926,695	15,699,101	-	42,625,796
Charge for the year	-	2,375,989	1,278,299	-	3,654,288
Disposals	-	-	(629,341)	-	(629,341)
As at 31 December 2005	-	29,302,684	16,348,059	-	45,650,743
Net book value 31 Dec 2004	21,561,035	20,394,649	6,406,731	562,295	48,924,710
Net book value 31 Dec 2005	21,561,035	18,240,861	5,173,572	298,373	45,273,841

The correction of € 208,045 refers to decrease of construction in progress – write off of capitalized expenses in previous years against retained earnings. As it is also explained in note 2f to the accompanying financial statements, value of property, plant and equipment is based on independent appraisal performed on the Company's property, plant and equipment in 1994, in connection with the Company's transformation from a public enterprise to a shareholding company. During the year ended 31 December 2003, the Company changed accounting estimate in respect of the estimated useful life of depreciable assets by adopting the minimum rates prescribed by the Montenegrin Tax Law, which it is believed to approximate the assets' useful economic lives.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2005

(amounts expressed in €, unless otherwise stated)

11. PROPERTY, PLANT AND EQUIPMENT (continued)

The value of land of € 21,561,035 as of 31 December 2005 includes the carrying amount of € 4,852,604 for the land which is held under explicit “rights of use” granted to the Company. This land is located along the Adriatic coast in the towns of Bar, Tivat and Lipci, which according to the Law on Land Ownership, is state-owned.

12. INVESTMENTS IN AFFILIATES

<i>Company name</i>	<i>Registered place of business</i>	<i>Nature of business activities</i>	<i>% holding</i>	<i>Carrying value 31 Dec 2005</i>	<i>Carrying value 31-Dec-04</i>
Jugopetrol Trebinje d.o.o.	Trebinje	Oil products	100.0%	3,542,556	3,542,556
VK Primorac Jugopetrol A.D.	Kotor	Waterpolo Club	100.0%		255,655
Star Petroleum Holding Ltd.	Kotor	O&G exploration	49.0%	2,349	2,349
Productoil	Kotor	O&G exploration	49.0%	2,349	2,349
Total				3,547,254	3,802,909

Jugopetrol Trebinje d.o.o. (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. JPK, as the sole shareholder of JPT, approved to increase the capital of JPT up to € 4 million until 31 December 2004 as required for investments in Jugopetrol Trebinje. JPK has invested € 742,556 and € 2,800,000 during the years ended 31 December 2003 and 2004, respectively, bringing its total investment to € 3,542,556 as of 31 December 2004. JPT has acquired three petrol stations in southern Bosnia and Herzegovina for € 3,350,000 (PS Lukavica - December 2003; PS Mrkonjic Grad – April 2004; PS Sokolac – June 2004).

The Company has exploration rights in Montenegro on an area consisting of land area (13,182 km²) and offshore area (9,000 km²). The offshore area of exploration consists of three blocks. Under the Contract on rights of exploration of oil and gas on land and sea shore of Montenegro with the Government of the Republic of Montenegro (dated October 1995) JPK is currently, with joint venture partners, exploring three offshore blocks. Joint venture Agreement with Star Petroleum-England covers the exploration on offshore blocks 1 and 2, while the Agreement with Ramco Energy covers exploration on offshore block 3. Contracts signed with both joint venture partners for the purpose of joint offshore exploration define 51% and 49% proportion ownership rights of new joint venture companies in favor of foreign partners. The joint venture companies use concession rights of Jugopetrol to conduct exploration activities. The contract duration is for 20 years (maximum 25 years).

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2005

(amounts expressed in €, unless otherwise stated)

13. AVAILABLE-FOR-SALE INVESTMENTS

Available-for-sale investments are classified as non-current assets, unless they are expected to be realized within twelve months of the balance sheet date or unless they will need to be sold to raise operating capital.

Securities are stated by market value

<i>Company name</i>	<i>Registered place of business</i>	<i>Nature of business activities</i>	<i>Number of shares</i>	<i>% holding</i>	<i>Carrying value 31 Dec 2005</i>	<i>Carrying value 31-Dec-04</i>
Hipotekarna Banka A.D.	Podgorica	Bank	1,472	5,60%	500,480	752,622
Lovcen Osiguranje A.D.	Podgorica	Insurance	1,953	0,96%	333,787	101,576
Niksicka Banka Montenegro A.D.	Niksic	Bank	229	0,49%	29,271	25,565
Jadransko Brodogradiliste A.D.	Bijela	Shipping Wood	1,844	0,11%	17,518	64,185
Export Drvo	Kolasin	processing	39	2,44%	28,496	28,496
Velimir Jakic	Pljevlja	n/a	968	0,11%	22,625	22,625
CMC ad	Podgorica		27,900	0,39%	5,720	
Castello Montenegro	Pljevlja		52	0,01%	313	
Subtotal					938,209	995,069
Less: Provision for impairment - Velimir Jakic					(9,760)	(9,760)
Total					928,449	985,309

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2005

(amounts expressed in €, unless otherwise stated)

14. OTHER LONG-TERM ASSETS

Other long-term assets comprise mainly loans granted to employees to finance the purchase of flats or houses and/or cover other expenses in relation to residential needs. Starting from the year 2005, the interest is being calculated on the level of annual EURIBOR.

These loans are financed through the appropriation of retained earnings as it is further explained in note 20 to the accompanying financial statements.

Balance of other long term assets:

	<i>31 Dec 2005</i>	<i>31-Dec-04</i>
Loans	1,598,318	1,609,632
Receivables from sold houses	26,751	17,682
Balance at 31.12	1,625,069	1,627,314

Changes in other long term assets:

	<i>31 Dec 2005</i>	<i>31-Dec-04</i>
Balance at 1. January	1,627,314	1,404,653
New loans	205,000	500,000
Repayment	(207,245)	(277,339)
Balance at 31.12.	1,625,069	1,627,314

15. INVENTORIES

	<i>31 Dec 2005</i>	<i>31-Dec-04</i>
Goods for resale-oil products	7,130,800	9,043,780
Goods for resale-other products	2,858,424	2,177,608
Spare parts and consumables	745,524	803,860
	10,734,748	12,025,248

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2005

(amounts expressed in €, unless otherwise stated)

16. TRADE AND OTHER RECEIVABLES

	<i>31 Dec 2005</i>	<i>31-Dec-04</i>
Domestic trade debtors, gross	18,522,902	18,252,065
Provision for domestic trade debtors	(7,536,489)	(7,780,639)
Foreign trade debtors, gross	2,112,418	2,525,580
Provision for foreign trade debtors	(796)	(796)
Receivables of Jugopetrol Trebinje	752,236	619,252
Advances to suppliers	13,693	55,483
Receivables from insurance companies	69,782	69,782
Receivables from government agencies	30,799	165,546
Receivables from employees	25,978	135,347
Prepaid VAT	612,193	
Prepaid expenses	37,617	39,627
Other receivables	158,607	165,415
	<u>14,798,940</u>	<u>14,246,662</u>

17. CASH AND CASH EQUIVALENTS

	<i>31 Dec 2005</i>	<i>31-Dec-04</i>
Cash on hand	15,000	15,663
Cash in banks	8,183,297	4,574,678
Short-term deposits in banks	3,000,000	3,414,392
Short-term investments in bonds		796,247
	<u>11,198,297</u>	<u>8,800,980</u>

Cash at banks earns interest at floating rates based on daily bank deposit rates.

Short-term deposits are made for varying periods ranging up to three months depending on the immediate cash requirements of the Company, and earn interest at the respective short-term deposit rates (3.00-3.50%).

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2005

(amounts expressed in €, unless otherwise stated)

18. SHARE CAPITAL

The Company's share capital comprises of 4,653,971 common shares with nominal value of € 14.6083 per share. In October 2002, Hellenic Petroleum International S.A. acquired 54.4% of the Company's share capital. The structure of the Company's share capital and shareholders as of 31 December 2005 is analyzed as follows:

<i>Shareholder</i>	<i>Number of shares</i>	<i>Total value in €</i>	<i>Percentage shareholding</i>
Hellenic Petroleum Int'l S.A.	2,529,489	36,951,534	54.4%
Republic of Montenegro	1	15	-
Euro Fund	300,311	4,387,033	6.5%
Atlas Mont Fund	220,812	3,225,688	4.7%
Trend Fund	270,445	3,950,742	5.8%
MIG Fund	186,594	2,725,821	4.0%
Other legal entities	218,802	3,196,325	4.7%
Physical persons	927,517	13,549,447	19.9%
	4,653,971	67,986,605	100.0%

19. STATUTORY RESERVES

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.

Changes in balance of statutory accounts are as follows:

	<i>31 Dec 2005</i>	<i>31-Dec-04</i>
Balance at 1.january	2,123,012	2,123,012
Changes	346,967	
Balance at 31.december	2,469,979	2,123,012

20. 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 this fund. This fund is used for financing the purchase of flats and houses for Jugopetrol's employees and/or covers other expenses in relation to residential needs.

Changes on the other reserves accounts were as follows:

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2005

(amounts expressed in €, unless otherwise stated)

20. OTHER RESERVES (continued)

	<i>31 Dec 2005</i>	<i>31-Dec-04</i>
Balance on 1.01	1,956,465	1,869,723
Write off of housing loans	(6,251)	
Transfer from retained earnings		86,742
Correction for the difference of balances between account-receivables from employees for housing loans and account-other reserves-housing fund	(325,145)	
Balance on 31.12	1,625,069	1,956,465

ii. Other reserves

The amount of € 325,145 is the difference of balances between account – receivables from employees for housing loans and account-other reserves – housing fund. This amount in every fiscal year, the Company is transferring on the account of other reserves.

21. PROVISIONS

	<u>Provision for retirement indemnities</u>	<u>Provision for jubilee awards</u>	<u>Provision for legal cases</u>	<u>Total provision</u>
As at 1 January 2004	1,768,263	1,546,538	1,376,228	4,691,029
Charge for the year	2,006,682	(287,671)	-	1,719,011
Payments to retiring employees	(2,152,929)	(74,799)	-	(2,227,728)
As at 31 December 2004	1,622,016	1,184,068	1,376,228	4,182,312
Charge for the year	103,011	160,662	-	263,673
Payments during the year	(17,560)	(125,089)	-	(142,649)
As at 31 December 2005	<u>1,707,467</u>	<u>1,219,641</u>	<u>1,376,228</u>	<u>4,303,336</u>

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. These benefits are unfunded and the cost of providing these benefits is determined using the projected unit credit actuarial valuation method.

The initial actuarial valuation was carried out to measure the present value of the accrued benefits under these plans as of 31 December 2002.

Main assumptions, on which tax calculation for termination benefits and jubilee rewards is based, are as follows:

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2005

(amounts expressed in €, unless otherwise stated)

21. PROVISIONS (continued)

Financial assumptions:

	<i>Year 2004</i>	<i>Year 2003</i>
Discount rate:	5,5%	6,0%
The increase of individual salaries	1,0%	5,0%
The increase of average salary in the Company	1,0%	4,0%

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

22. TRADE AND OTHER PAYABLES

	<i>31 Dec 2005</i>	<i>31-Dec-04</i>
Domestic trade creditors	641,615	776,393
Foreign trade creditors	8,550,326	10,823,760
Customer advances	106,741	614,609
Salaries and wages payable	191,851	294,371
Payroll taxes and contributions payable	277,913	540,118
Other liabilities to employees	150,880	380,439
Liabilities to the Board of Directors	3,854	8,139
Excise and other duties payable	4,305,059	4,272,377
VAT payable on imports	649,393	248,850
Other taxes payable	422,891	
Deferred income		135,642
Other payables	126,469	330,174
	<u>15,426,992</u>	<u>18,424,872</u>

Transactions with connected entities regarding suppliers in foreign are explained in note 24. to the accompanying financial statements

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2005

(amounts expressed in €, unless otherwise stated)

23. OFF BALANCE SHEET ITEMS

	<i>31 Dec 2005</i>	<i>31 Dec 2004</i>
Third party goods	1,136,739	1,270,053
Gasoline coupons	482,584	482,584
	<u>1,619,323</u>	<u>1,752,637</u>

Third party goods relate to oil products and lubricants held by the Company on behalf of third parties. In the previous years, these goods were shown on the account 211354 – Third party goods in the warehouse in the amount of € 4,238,958 (the rate 1 lit = 1 €). Now, these goods are recorded as off balance sheet items, with the value of average purchase prices in the Company. These goods are mostly appertaining to Montenegro Bonus Company. Gasoline coupons relate to unsold gasoline coupons held by the Company as of the balance sheet date.

24. RELATED PARTY DISCLOSURES

The following transactions have been entered into with Group companies under normal commercial terms:

Sales to:	Nature of transactions	<i>Year ended</i>	<i>Year ended</i>
		<i>31 Dec 2005</i>	<i>31-Dec-04</i>
Jugopetrol Trebinje d.o.o.	Sales of oil products	3,014,216	1,437,915
		<u>3,014,216</u>	<u>1,437,915</u>
Purchases/charges from:			
Hellenic Petroleum S.A.	Purchases of oil products	86,547,802	68,892,327
Hellenic Petroleum S.A.	Purchases of services	218,746	129,628
EKO ELDA ABEE	Purchases of lubricants	344,185	348,509
ELPE Services Limited	Royalties	75,000	150,000
ELPE Services Limited	Consultancy services	50,000	100,000
Asprofos Engineering S.A.	Engineering services	31,000	109,000
		<u>87,266,733</u>	<u>69,729,464</u>

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2005

(amounts expressed in €, unless otherwise stated)

24. RELATED PARTY DISCLOSURES (continued)

Year-end balances arising from above purchases are as follows:

	<i>31 Dec 2005</i>	<i>31 Dec 2004</i>
Due from:		
Jugopetrol Trebinje d.o.o.	753,236	619,252
ELPE Services Limited	87,730	87,508
EKO YU A.D. Beograd	62,289	847,910
	<u>903,033</u>	<u>1,554,892</u>
Due to:		
Hellenic Petroleum S.A.	8,333,349	9,167,222
EKO ELDA ABEE	98,400	87,248
ELPE Services Limited	87,508	125,000
	<u>8,519,257</u>	<u>9,379,470</u>

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 are resold through three owned and operated petrol stations.

25. COMMITMENTS AND CONTINGENCIES

a. Pending legal actions against the Company

Court case No. V-1569/2000. (compulsory enforcement case No. I. 37/2002)

Yugoslav Federal Directorate for Commodity Reserves, Belgrade (FDCR), as the Plaintiff, has sued AD Jugopetrol-Kotor in the Commercial Court of Belgrade. The Commercial court has adjudicated in favor of the Plaintiff and obligated JPK as the Defendant to deliver 4.300 tones of fuel oil to FDCR within 15 days upon receiving a copy of the court judgment. The judge also ruled that JPK may be absolved from its obligation, by a payment of YUM 25,886,000 in lieu of specific performance, with legal interest thereon. Also, the court adjudicated that JPK, as Defendant should pay the amount of YUM 37,602 to FDCR as liquidated damages. The Defendant was also obligated to pay the court costs.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2005

(amounts expressed in €, unless otherwise stated)

25. COMMITMENTS AND CONTINGENCIES (continued)

On the basis of above final court judgment of the Belgrade Commercial Court, the Plaintiff filed an application with the Commercial Court in Podgorica to issue a warrant of execution against the judgment debtor – JPK (compulsory enforcement case No.I. 37/2002). The Commercial Court in Podgorica issued a warrant of execution on 16 January 2002 according to which JPK's debt towards FDCR (with debt converted into Euro) is € 1,376,228 and, as result, a provision has been made for the Compay's financial statements (refer to note 20).

Non-monetary claim by Montenegrobonus d.o.o. Centinje ("MB") – Case No. 4222/2003

On 28 November 2003, MB filed an application for interim injunction against JPK as the alleged debtor, to accept delivery and storage of 14.000 tons of fuel oil at the storage tank facility – reservoir No. 18 – at the Bar installation. MB claims to be the successor in title to property of former Federal Procurement Agency, via the Assignment of Right to Use Agreement entered into with the Government of Montenegro. The Government of Montenegro claims to be successor in law to the rights and liabilities of the former Federal Procurement Agency – Belgrade, on the grounds of the Constitutional Charter of Serbia and Montenegro, Law of Implementation of the Constitutional Charter and the Decree of the Council of Ministers of Serbia and Montenegro that assigned the assets of the former FPA (dissolved in 2000) to the representative member states – Serbia and Montenegro, based on the territorial principle. Subsequently, the Government of Montenegro, pursuant to the said laws and Decree of the Council of Ministers (CM) assigned the "right of use" over disputed storage tanks to Montenegro Bonus, although JPK is the registered owner of the said tank as well as of the auxiliary equipment – overland oil pipes etc.

JPK filed a Defence to the Application for interim injunction and after two oral hearings, the judge issued an interim injunction, ordering JPK to accept the delivery of the fuel oil owned by MB and to store it at storage tank No. R-18 at Bar installation. The Commercial Court of Podgorica in its ruling granting the application for interim injunction, also ordered MB to file a declaratory action within 30 days from the service of the injunction to prove that it is that actual owner of the said storage tank. The Company's Legal Counsel has checked the Registry of the Municipal Court in Bar, which has jurisdiction over the disputed storage tank R-18 and discovered that MB has not filed a declaratory action against JPK within the 30-day period as directed by the Commercial Court of Podgorica. The Company's Legal Counsel has also filed a demand for recusal of the president of the Commercial Court of Podgorica, the Honourable Dragan Rakocevic, as well as a request for the recusal of the Commercial Court of Podgorica. An appeal has also been filed against the ruling on interim injunction. A three-judge panel of the Commercial Court of Podgorica will rule on JPK's appeal. The last legal remedy in these proceedings will be an extraordinary relief – "Request for Protection of Law" – which will be filed with the State Attorney General of Montenegro.

NOTES TO THE FINANCIAL STATEMENTS

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(amounts expressed in €, unless otherwise stated)

25. COMMITMENTS AND CONTINGENCIES (continued)

Commercial case No. L-P-175/99. Value in dispute: €1,120,000

Dunav Insurance Company of Belgrade as Plaintiff, has filed Points of Claim against JPK before the Commercial Court in Belgrade demanding payment of the then CSD 942,369. The Plaintiff asserted that the claim was based on Long-Term Cooperation Agreement entered by and between Dunav and JPK in 1990 for a 10-year period, stating that the Defendant, JPK, could not have rescinded the agreement before the expiry of 5 years.

Commercial case No. L-P-175/99. Value in dispute: €1,120,000 (continued)

The Plaintiff at the end of the first-instance proceedings specified the claimed amount in the sum of CSD 68,934,714 on the grounds of unpaid insurance premium and damages. JPK denied the allegations of Dunav, stating that this was not a 10-year insurance contract. JPK has also filed a counter claim for CSD 103,000 on the grounds of damages for one tanker lorry. The Commercial Court in Belgrade, as a trial court, dismissed two times the Plaintiff's claim.

However, the Appellate Commercial Court in Belgrade remanded the case two times to the trial court for retrial, under the Plaintiff's appeal. In the third retrial, the Commercial Court partially granted both the Plaintiff's demand for relief and that of the Defendant under its cross-claim. However, the Appellate Commercial Court in its third decision stated that the Plaintiff 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.

Civil Action No. P.450/03 pending before the Commercial Court of Podgorica for setting aside the Resolution of the Shareholders Assembly of Jugopetrol A.D. Kotor

In accordance with Decision No. 13833 dated 15 July 2003, the Company's Shareholders Assembly decided to proceed with an increase in the Company's share capital by € 8,750,006 divided into 598,975 shares with nominal value of € 14.6083 per share. The purpose of this share capital increase is to finance the Guaranteed investment Program (GIP) specified in the SPA agreement.

Certain of the Company's minority shareholders (the four privatization funds) have taken legal action to block the share capital increase on the grounds that the shareholders' assembly that approved the increase did not have the required 2/3 majority present. A court decision on this issue is expected soon.

Association of Depositors of Former Jugoskandik vs. Jugopetrol

The Depositors of Former Jugoskandik D.D. initiated legal action against the Company demanding the return of 10,583,801 litres of gasoline (MB-98), which was held by Jugopetrol on behalf of Jugoskandik. Jugopetrol liquidated these stocks to recover storage charges due by Jugoskandik.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2005

(amounts expressed in €, unless otherwise stated)

25. COMMITMENTS AND CONTINGENCIES (continued)

Jugopetrol Kotor filed a counter claim alleging in its Statement of Claim that it was a preferred lien creditor on the 10,583,801 litres of gasoline, which JPK stored in its petroleum installation under the Storage Agreement with Jugoskandik. The Yugoslav Supreme Court set aside the judgments of all inferior courts and ordered a retrial, since none of the said courts has determined what the value in dispute was.

The Plaintiff filed court proceedings with the Kotor Municipal Court but was not successful in obtaining a favourable decision. The Company's legal counsel expects that the Plaintiff will file legal proceedings in the Municipal Court of Bar.

26. FINANCIAL INSTRUMENTS

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.

Foreign currency 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 debts. The Company purchases oil products in US dollars and sell them mainly in Euro and US dollar denominated prices.

Commodity 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.

Credit risk exposures

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 2005 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.

Significant concentrations of credit risk

Concentrations of credit risk exist when changes in economic, industry or geographic factors similarly affects groups of counterparties whose aggregate credit exposure is significant in relation to the Company's total credit exposure. The Company's portfolio of financial instruments is broadly diversified within the industry, along product and geographic lines, and transactions are entered into with diverse creditworthy counterparties, thereby mitigating any significant concentration of credit risk.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2005

(amounts expressed in €, unless otherwise stated)

26. FINANCIAL INSTRUMENTS (continued)

Fair Values

Financial assets and financial liabilities of the Company are carried at fair values in the balance sheet, unless otherwise disclosed in the financial statements.

27. 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.