MAŽEIKIŲ NAFTA

Annual Report 2002

Company Address

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Successfull cooperation between Mazeikiu Nafta and YUKOS Oil Company have started in 1999, the year 2002 have brought new perspectives for both companies.

The top-class qualifications and experiences of Mazeikiu Nafta's employees, the Company's operational and market potential were complimented by resources of its new shareholder and operator, YUKOS Oil Company. Mazeikiu Nafta secured stable crude oil supplies for the Mazeikiai Refinery and Butinge Terminal, received an opportunity for stable and profitable operation in long time perspective. All this marks a new business level for Mazeikiu Nafta, gives the Company a firm foothold to become a strong player in the European market, and ensures reliability for its shareholders and investors.

2003 will be the year for Mazeikiu Nafta to start disclosing its real potential for improvement and development.

Mikhail B. Brudno
AB Mazeikiu Nafta
Board Chairman

Dear Sirs,

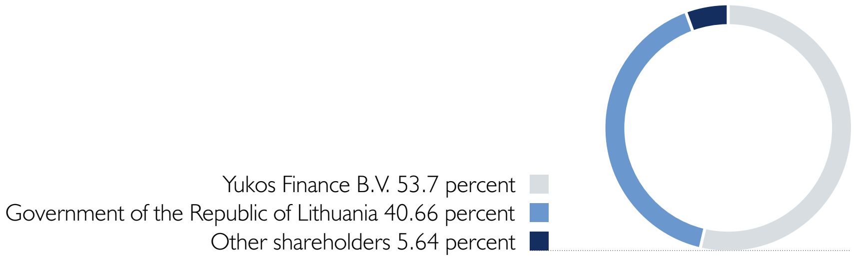
In 2002, Mazeikiu Nafta opened a new page in its history. The investment agreements signed between YUKOS Oil Company, Williams International Company, and the Government of Lithuania as well as YUKOS and Mazeikiu Nafta's long-term crude oil supply contract were an event of great importance for our Company.

At the end of the year, this proved to be a good business decision: Financial performance of Mazeikiu Nafta during the recent few months shows the real potential of the Company and establishes grounds for its business success. Mazeikiu Nafta's people, their extensive experience, work ethics, self-sufficiency and strong tradition of teamwork provide the most important guarantee for the company's continuous successful operations.

Last year, we made considerable progress in implementing the Refinery Modernization Program: PENEX Isomerization Unit Construction Project, Feedstock Preparation for PENEX Unit Project, and Gasoline Blending Station Project that are moving forward and are close to completion. The Butinge Baltic Sea Terminal and the Pipeline System operate in a stable manner; Mazeikiu Nafta's position in its strategic markets is becoming stronger. Today Mazeikiu Nafta is a reliable bridge between eastern and western markets and a strengthening company in Europe.

In 2003 our Company is looking forward to new challenges. We have formed a strong team of employees, set clear goals and created a solid basis to reach these goals.

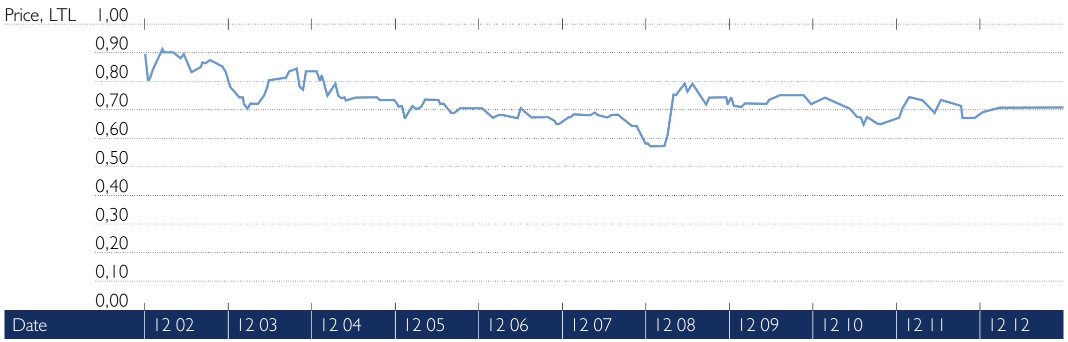
Paul N. English
AB Mazeikiu Nafta
General Director

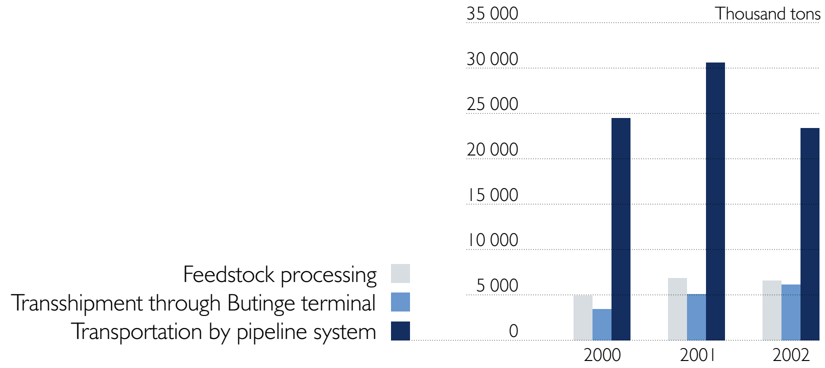


On 18 June 2002 Williams International Company, oil company Yukos and the Government of the Republic of Lithuania signed agreements regarding investment, according to which Yukos Finance B.V., a subsidiary company of Yukos became a shareholder of AB Mazeikiu Nafta. Pursuant to this agreement Williams International Company and Yukos each owned 26.85 percent of Mazeikiu Nafta shares, the Government of the Republic of Lithuania owned 40.66 percent of shares.

189,959,206 shares of AB Mazeikiu Nafta were sold at the National Stock Exchange on 19 September 2002, through the direct transaction: 26.85 percent of the Company shares owned by Williams International Company were sold to the Yukos subsiadiary company Yukos Finance B.V., which, thus, increased its portion of AB Mazeikiu Nafta shares up to 53.7 percent.

AB Mazeikiu Nafta share price in 2002





In 2002 AB Mazeikiu Nafta processed 6.6 million tons of feedstock, in 2001 it was 6.8 million tons.

23.4 tons of crude oil and products were transported by pipeline system in 2002: i.e. 25 percent was transported to Mazeikiai and 25 percent – to Butinge, 50 percent – to Ventspils (in 2001 it was 30.6 million tons).

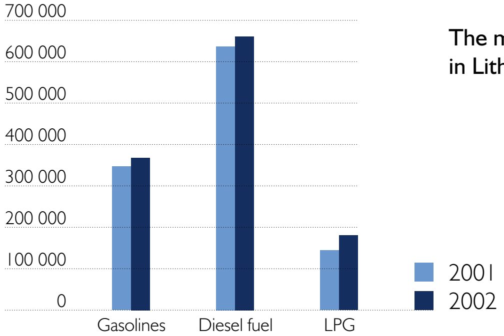
The Butinge terminal transshipment volumes increased: 6.1 million tons of crude oil and products were transshipped in 2002, while in 2001 it was 5.1 million tons.

In 2002 AB Mazeikiu Nafta continued gradual development of marketing activities especially considering the increase of sales volumes and eficiency in its strategic markets.

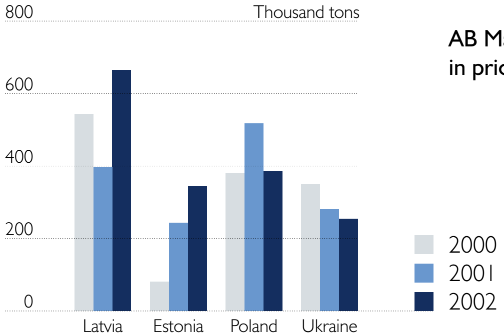
Due to successful sales and pricing strategy the Company achieved a great share of the Lithuanian market in 2002: it increased by 4 percent during the year, and it was 88 percent.

When compared with 2001, the Company sales in Lithuania during the year 2002 are as follows:

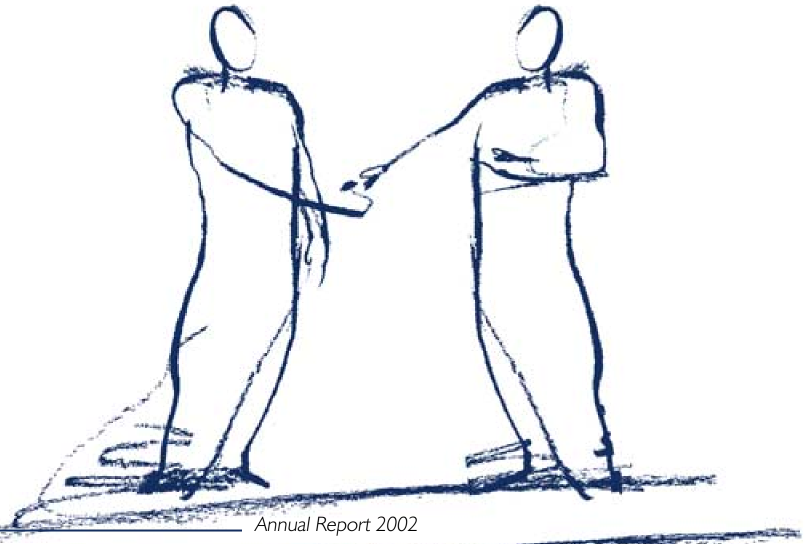
- 21.8 thousand tons of gasoline or 6 percent more;
- 24.1 thousand tons of diesel fuel or 3.6 percent more;
- 37.1 thousand tons of LPG or even 20.7 percent more;
- 19.6 thousand tons of bitumen or even 36.9 percent more.

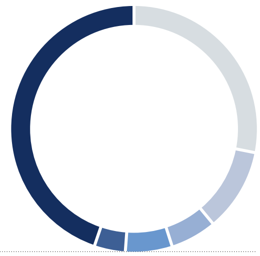


The most popular light oil product sales in Lithuania, 2001/2002



AB Mazeikiu Nafta product sales in prioritized markets





AB Mazeikiu Nafta product sales

In 2002, if compared with 2001, the Company sales in Lithuanian market reduced by 124.9 thousand tons or 7.1 percent. The increased natural gas demand resulted in significant reduction of fuel oil consumption (from 668.5 thousand tons to 408.1 thousand tons or even 39 percent).

Starting July 1 the Company started producing LPG in conformance with the new EU quality requirements. Lithuanian consumers were supplied by the first shipment of the new product – several hundred tons of diesel heating oil, which is marked red and is subject to excise exemption.

- In Latvia sales of light petroleum products have increased: LPG – 11.4 percent, gasolines – 36.9 percent, jet fuel – 172.9 percent, diesel fuel – even 319.3 percent. Last year the sales of fuel oil decreased by 80.1 percent, and sales of bitumen decreased by 41.4 percent.
- Sales in Estonia also increased: in 2002 in Estonia we sold: gasoline 32.7 percent more, diesel fuel 16.5 percent more, jet fuel even 630.1 percent more than in 2001, that respectively is 235.7 thousand tons, 68.3 thousand tons and 14.8 thousand tons.
- In 2002 sales of diesel fuel in Poland increased and were greater than in 2001: 115.4 thousand tons or 54.7 percent more than in 2001. Total sales of gasoline amounted to 40.4 thousand tons, in 2001 – 176.7 thousand tons.
- Due to increased LPG sales in Lithuania, the year 2002 sales in Poland were 17.6 percent less, i.e. 227.2 thousand tons.
- In the Ukraine the demand for imported products decreased due to privatization of oil refineries and their stable and efficient operations. The demand for high octane number gasoline A-95 remains stable and even grows up. Therefore, even though total sales volumes of gasoline in Ukraine decreased by 20.5 thousand tons or 9.3 percent, sales of gasoline A-95 increased by 14.5 thousand tons or 10.8 percent.

In the year 2002 the geography of Company's sales has expanded: the Company exported products to several new markets, those were Hungary and Slovakia. To each of these countries we exported a little more than 400 tons of LPG. Through marine terminals to West Europe, as in previous year, we exported the greatest part of all kinds of products, except for LPG, bitumen and sulfur. In total export volumes amount to almost 2.8 million tons of products, however that is only 90.2 percent of the 2001 volumes. The main reason of decreased export volumes is related to increased sales in the markets of Lithuania, Latvia and Estonia.

In the year 2002 the Company modernization was continued by implementing various projects:

- Project of the Isomerization unit – Penex was continued. The main purpose of the unit is the possibility to efficiently increase the production of extra quality gasoline with high octane number by fulfilling all the environmental requirements. During the year 2002 over 55 percent of engineering, procurement, and construction activities was complete.

- Penex unit catalyst requires special quality of feedstock, therefore another project, the feedstock preparation for the Penex unit, was continued. The LK-1 and LK-2 complexes were being reconstructed so that the feedstock of optimal composition would be supplied to the Penex unit. In 2002 over 37 percent of activities were completed.

- Gasoline blending station will enable the Company compounding different grades of gasoline at one time, which will allow reducing the production costs and meeting the customer requests better. During the year 2002 the gasoline blending project was almost completed: 97 percent of works accomplished, 60 percent of those – during the year 2002.

- In 2002 the reconstruction of crude oil loading rack was performed, after implementation of the project the Company can receive around 300 thousand tons of extra crude oil transported by railway.

During the year 2002, AB Mazeikiu Nafta continued the implementation of environmental effort to reduce the harmful effects to environment:

- Reconstruction of Block One at Sulphur Production Unit as a result of which the concentrations of sulphul dioxide have been reduced by 30-50 percent.

- Implementation of the requirements of European Union Directive 94/63/EC and LAND 35-2000:
  1) in three gasoline storage tanks, the floating pontoon insertions have been replaced with the modern ones, and the surface of these tanks has been coated with the special paint ensuring 70 percent of reflectability.
  2) the project has been developed and the preparatory work has begun to reconstruct the light oil product rack, which will ensure the hermetic loading of products with the recovery of hydrocarbon vapours released during the process of loading.

- Under the cooperation of the Ministry of Environment of the Republic of Lithuania and other state institutions, the Enhancement/Amendment Plan of the Section of the Basis Project of Butinge Terminal to ensure the environmental protection during the servicing of 150 thous. DWT tankers has been negotiated.

- The monitoring program has been prepared and works began in Joneliai village, Birzai district at the site/area where the oil-product-contaminated soil has been accumulated.

- The treatment technology of soil contaminated with oil products has been implemented and works began.

The Company success depends on the employees working for it. The innovations in the personnel management area are made following the LR Legislation and Collective Bargaining Agreement and cooperating with trade unions of the Company. Safe work and positive work environment conditions are stipulated in employee and management ethics regulations as well as the documents regulating the work procedures.

Key objective of the management – efficiently apply the proficiency and skills of the employees, fairly reward for their efforts, prompt teamwork and good performance results. This year the first annual employee performance evaluation was accomplished and the salaries increased respectively according to the newly prepared Employee Performance Appraisal; work group key performance assessment with regard to work reimbursement was prepared, and the incentive system was created.

The Company promotes employees studying at colleges and universities for the Company business related professions. At present 157 Company employees study at Universities and Colleges as extramural students. Company Training Center provides employees with training and professional improvement. Special attention and funds were dedicated to employee qualification improvement, development, participation at professional conferences and seminars in Lithuania and abroad. In 2002 the Company continued management development program *Create the future together*, according to which 199 employees of the supervisory staff obtained leadership skills at twelve training sessions. Taking into consideration the observations and recommendations of the managers a new project supporting leadership skill improvement was prepared. 105 supervisors of different levels participated in the first session of the *Performance Management* courses.

3510 employees worked at AB Mazeikiu Nafta at the end of 2002. Average time of service – 11 years.

The Company conducts the periodical health examinations to ensure the employee health prevention/prophylaxis. Occupational Medicine Center offers the medical services of ophthalmologist, otorhinolaryngologist, neurologist, psychiatrist, therapeutist, gynecologist, stomatologists. The services of dental treatment, vaccination are provided at no cost to employees as the Company reimburses for such expenses.

The Medical Department of the Company has set up a properly equipped classroom where the first aid training is offered.

In 2002, the Medical Department has signed a Contract of mutual cooperation with the State Fund of Medical Patients, thus merging into the unified system of Lithuanian National Health Protection.

According to the OSHA standarts (USA), the statistical accident rate for 100 Company employees is less than 0.6; while the general rate for employees of refining industry, according to OSHA, is 2.50 (for 100 employees). During the year 2002, there have been 21 accident registered, 15 of which were minor injuries at work, and 6 of which occurred on the way to or from work.

AB Mažeikių Nafta Consolidated Financial Statements for the year ended 31 December 2002

Report of Independent Public Accountants

To the shareholders of AB Mažeikių Nafta

1. We have audited the accompanying consolidated balance sheet of AB Mažeikių Nafta (a joint stock company registered in the Republic of Lithuania) and subsidiaries (the Company) as of 31 December 2002, and the related consolidated statements of operations, statements of comprehensive income, shareholders' equity and cash flows for the year then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audit.

2. Except as discussed in paragraph 3, we conducted our audit in accordance with International Standards on Auditing as set forth by the International Federation of Accountants (IFAC) and National Auditing Standards of Lithuania as defined by Lithuanian Chamber of Auditors. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. 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 the management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

3. Tangible assets are properly presented in accordance with Lithuanian Accounting Principles, however, United States Generally Accepted Accounting Principles (US GAAP) require presentation of tangible assets on the basis of historical cost less accumulated depreciation. In accordance with resolutions of the Government of the Republic of Lithuania, the Company has revalued tangible assets four times prior to 31 December 2002 resulting in an initial cumulative increase in the net book value of tangible assets of LTL 460,358 thousand. Due to many movements and lack of separate registration of the indexed amounts per asset, the Company is unable to quantify the effect of the indexations on the consolidated balance sheet as of 31 December 2002 and the consolidated statement of operations for the year ended 31 December 2002.

4. In our opinion, except for the effect of the matter discussed in paragraph 3 above, the financial statements for the year ended 31 December 2002 present fairly, in all material respects, the financial position of AB Mažeikių Nafta and subsidiaries as of 31 December 2002 and the results of their operations and their cash flows for the year then ended in conformity with US GAAP.

5. Without further qualifying our opinion, we draw your attention to the fact that the Company is in the process of legal proceedings defending claims from the oil terminal project contractor Fluor Daniel Intercontinental Inc. (see Note 29). As of the date of issuance of these consolidated financial statements the total amount claimed by Fluor Daniel Intercontinental Inc. approximates USD 17,269 thousand (equivalent to LTL 57,184 thousand as of 31 December 2002) and the counterclaim of the Company approximates USD 113,862 thousand (equivalent to LTL 377,039 thousand as of 31 December 2002). The outcome of this contingency is uncertain at this time. An accrual of USD 4,030 thousand (equivalent to LTL 13,345 thousand as of 31 December 2002) for this claim was recognised in the consolidated financial statements as of 31 December 2002. No provisions have been made in these consolidated financial statements for any additional liabilities that may result from this claim.

6. Without further qualifying our opinion, we draw your attention to the fact that on 18 October 2000 the Constitutional Court of the Republic of Lithuania concluded that certain provisions of the Law of the Republic of Lithuania on the Reorganisation of the Public Companies Būtingės Nafta, Mažeikių Nafta and Naftotiekis (see Note 29), which entitled the Government to assume on behalf of the State the essential property-related obligations to the strategic investor and (or) AB Mažeikių Nafta, contravened the Constitution of the Republic of Lithuania. This uncertainty has not been solved by the date of the issue of this report and no provision has been established for the total amount of LTL 173,431 thousand compensated to the Company by the Government of the Republic of Lithuania under the Investment Agreement.

UAB Ernst & Young Baltic
Audit Company's audit license No. 224

Per Moeller

Inga Gudinaite
Auditor's license No. 000366

The audit was completed on 27 January 2003.

Consolidated Statements of Operations for the years ended 31 December 2002 and 31 December 2001

(LTL '000)

Note		2002	2001
4	**Net sales**	4,721,189	5,349,922
5	Cost of sales, excluding depreciation and amortization	(4,225,386)	(4,880,089)
6	Selling and distribution expenses, excluding depreciation and amortization	(196,348)	(188,555)
7	General and administrative expenses, excluding depreciation and amortization	(133,692)	(259,769)
8	Depreciation and amortization	(118,510)	(135,157)
	Operating profit (loss)	47,253	(113,648)
9	Other income	13,206	10,551
	Financial income:		
10	Gain on sales of securities	-	5,504
	Interest income	7,499	4,608
	Foreign currency exchange gain, net	8,166	953
	Other	1,751	124
		17,416	11,189
	Financial expenses:		
	Interest on debt	(156,699)	(172,113)
1	Goodwill impairment	(32,202)	-
	Other	(527)	(748)
		(189,428)	(172,861)
	Equity in earnings (losses) of associated companies	(143)	96
	(Loss) before income tax, minority interest and cumulative effect of change in accounting principle	**(111,696)**	**(264,673)**
11	Income tax	(3,041)	(338)
	(Loss) before minority interest and cumulative effect of change in accounting principle	**(114,737)**	**(265,011)**
	Minority interest	404	(552)
	(Loss) before cumulative effect of change in accounting principle	**(114,333)**	**(265,563)**

(LTL '000)

Consolidated Statements of Operations for the years ended 31 December 2002 and 31 December 2001

Note	(continued)	2002	2001
3	Cumulative effect of change in accounting principle for pipeline fill	-	(5,590)
	Net (loss) for the year	**(114,333)**	**(271,153)**

The accompanying notes are an integral part of these consolidated financial statements.

(LTL '000)

Consolidated Statements of Comprehensive Loss for the years ended 31 December 2002 and 31 December 2001

	2002	2001
Net (loss) for the year	(114,333)	(271,153)
Foreign currency translation adjustment	(44,794)	-
Comprehensive (loss)	**(159,127)**	**(271,153)**

The accompanying notes are an integral part of these consolidated financial statements.

Consolidated Balance Sheets as of 31 December 2002 and 31 December 2001

(LTL '000)

Note		2002	2001
	ASSETS		
	Current assets		
12	Cash and cash equivalents, net	159,320	87,546
12	Restricted cash	201,232	109,506
	Trading securities	-	20,000
13	Trade accounts receivable, net of allowance for doubtful accounts of 56,559 and 91,676 respectively	207,466	201,296
32	Accounts receivable from related parties	109,482	51
14	Prepayments and other current assets	80,663	42,712
15	Inventories	300,348	276,080
	Total current assets	**1,058,511**	**737,191**
16	**Long-term investments**	**5,493**	**6,588**
17	**Tangible assets and construction in progress, net**		
	Machinery and equipment	1,743,131	2,109,093
	Buildings	283,529	265,899
18	Construction in progress and prepayments for tangible assets	258,074	165,406
	Other tangible assets	189,647	175,881
	Accumulated depreciation	(942,971)	(1,020,280)
	Pipeline fill	22,511	27,074
	Total tangible assets and construction in progress, net	**1,553,921**	**1,723,073**
19	**Intangible assets, net**	**14,736**	**9,395**
20	Non-current accounts receivable, net of allowance for doubtful accounts of 7,361 and 18,397 respectively	2,208	4,271
	TOTAL ASSETS	**2,634,869**	**2,480,518**

The accompanying notes are an integral part of these consolidated financial statements.

(LTL '000)

Note		2002	2001
	LIABILITIES AND SHAREHOLDERS' EQUITY		
	Current liabilities		
25	Current portion of long-term loans	37,839	103,737
26	Current portion of long-term capital lease obligations	1,467	3,372
21	Short-term loans	50,466	24,000
	Loans interest payable	2,944	9,763
22	Trade accounts payable	426,002	328,167
	Other accounts payable	-	15,507
23	Advances received	14,057	7,507
24	Accrued and other current liabilities	149,106	44,786
	Total current liabilities	**681,881**	**536,839**
	Long-term liabilities		
25	Long-term loans, net of current maturities	1,608,304	1,700,455
26	Long-term capital lease obligations, net of current maturities	2,503	1,920
	Other long-term accounts payable	-	14,000
27	Subsidies	16,537	20,006
	Deferred road tax	-	6
	Total long-term liabilities	**1,627,344**	**1,736,387**
	Minority interest	**5,547**	**2,058**
29	**Commitments and contingencies**		
28	**Shareholders' equity**		
	Share capital (707,454,130 and 1,034,989,850 common shares, with a par value of LTL 1 each, authorized, issued and outstanding as of 31 December 2002 and 2001, respectively)	707,454	1,034,990
	Additional paid in capital	342,484	258,453
	Revaluation reserve	437	437
	Accumulated other comprehensive (loss)	(44,794)	-
	Accumulated (deficit)	(685,484)	(1,088,646)
	Total shareholders' equity	**320,097**	**205,234**
	TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY	**2,634,869**	**2,480,518**

The accompanying notes are an integral part of these consolidated financial statements.

Consolidated Statements of Shareholders' Equity for the years ended 31 December 2002 and 31 December 2001

(LTL '000)

Note		Share capital issued: Number of shares (in thous.)	Share capital issued: Amount	Additional paid in capital	Revaluation reserve	Shareholder's debenture	Accumulated other comprehensive income (loss)	Accumulated (deficit)	Total
	Balance as of 31 December 2000	1,034,990	1,034,990	258,453	437	(300,000)	5,172	(517,493)	481,559
	Net (loss) for the year	-	-	-	-	-	-	(271,153)	(271,153)
28	Write-off of shareholder debenture	-	-	-	-	300,000	-	(300,000)	-
10	Reversal of realized other com prehensive income	-	-	-	-	-	(5,172)	-	(5,172)
	Balance as of 31 December 2001	**1,034,990**	**1,034,990**	**258,453**	**437**	**-**	**-**	**(1,088,646)**	**205,234**
	Net (loss) for the year	-	-	-	-	-	-	(114,333)	(114,333)
1	Decrease of share capital	(517,495)	(517,495)	-	-	-	-	517,495	-
1	Increase of share capital	189,959	189,959	84,031	-	-	-	-	273,990
	Other comprehensive (loss), net of tax	-	-	-	-	-	(44,794)	-	(44,794)
	Balance as of 31 December 2002	**707,454**	**707,454**	**342,484**	**437**	**-**	**(44,794)**	**(685,484)**	**320,097**

The accompanying notes are an integral part of these consolidated financial statements.

(LTL '000)

Note		2002	2001
	Operating activities		
	Net (loss) for the year	(114,333)	(271,153)
	Adjustments to reconcile net (loss) to net cash provided by (used in) operating activities:		
	Depreciation	116,599	129,305
	Amortization	1,911	5,852
	Loss on retirements of tangible and intangible assets	9,908	16,179
	(Gain) on sales of securities	-	(5,504)
	Long-term investments write-off	-	27
1	Goodwill impairment	32,202	-
	Provision for trade accounts and non-current accounts receivable	(31,591)	14,469
	Other receivables write-off	(1,059)	(363)
	Unrealized currency exchange (gain) on capital lease	(330)	(203)
	Equity in (earnings) losses of associated companies	143	(96)
	Minority interest	(409)	552
		13,041	(110,935)
	Changes in operating assets and liabilities:		
	Inventories	(76,207)	303,132
	Trade accounts receivable	(70,712)	(90,464)
	Accounts receivable from related parties	(120,253)	-
	Prepaid expenses and other current assets	(48,828)	28,787
	Trade accounts payable	156,494	198,784
	Loan interest payable	(6,972)	(6,292)
	Other long-term accounts payable	-	(8,000)
	Other payables	(14,237)	(873)
	Advances received	8,275	(22,683)
	Accrued and other current liabilities	109,116	(22,982)
	Net cash provided by (used in) operating activities	(50,283)	268,474
	Investing activities		
	Change in restricted cash	(91,726)	(89,221)
	Acquisition of intangible assets	(9,448)	(2,683)
	Acquisition of tangible assets	(192,717)	(65,242)
	Proceeds from sales of tangible assets	72	1

Consolidated Statements of Cash Flows for the years ended 31 December 2002 and 31 December 200

(LTL '000)

Note	(continued)	2002	2001
	Cash from subsidiary acquired	796	-
	Proceeds from sales of securities	-	5,504
	Net cash (used in) investing activities	(293,023)	(151,641)
	Financing activities		
	Reduction of share capital of subsidiary	(400)	-
1	Share capital increase	273,990	-
	Proceeds from short-term loans	670,090	229,796
	Repayments of short-term loans	(638,804)	(254,796)
	Proceeds from long-term loans	273,990	32,000
	Repayments of long-term loans	(125,907)	(43,559)
	Repayments of long-term capital lease obligations	(6,269)	(5,155)
	Change in long-term accounts receivable	6,651	1,446
	Dividends paid	-	(198)
	Net cash provided by (used in) financing activities	453,341	(40,466)
	Effect of exchange rate changes on cash	(58,261)	-
	Net increase in cash and cash equivalents	**51,774**	**76,367**
	Cash and cash equivalents at the beginning of the year (including trading securities as of 31 December 2001)	**107,546**	**31,179**
	Cash and cash equivalents at the end of the year	**159,320**	**107,546**
	Supplemental cash flow information		
	Cash paid for interest	188,229	163,677
	Cash paid for income tax	-	362
	Non-cash investing activity		
1	Acquisition of subsidiary	49,980	-

The accompanying notes are an integral part of these consolidated financial statements.

The Management: P. N. English V. Petrošienė

1. Organization and formation

AB Mažeikių Nafta (the Company) was originally established in 1980 to operate an oil refinery in Lithuania. On 7 April 1995 the Company was reorganized into a public company following a partial privatization of shares to the Company's employees. Earnings per share has not been disclosed by the Company in accordance with Statement of Financial Accounting Standards (SFAS) 128, as the amount of publicly traded shares is not significant

Based on the decision of the Shareholders' meeting held on 30 October 1998 the Company merged with AB Būtingės Nafta (Oil terminal) and AB Naftotiekis (Pipeline operator). The merger was accounted for as a transaction between entities under common control (which is similar to a pooling of interest), as the companies were all majority owned by the Government of the Republic of Lithuania (the State). Following the merger, the State held approximately 88.5% of the outstanding shares.

On 29 October 1999 the Company, the Government of the Republic of Lithuania and Williams International Company, based on laws passed by the Parliament of the Republic of Lithuania, signed the Investment agreement for the acquisition of a new share issue, constituting 33% of the outstanding shares of the Company. According to the Investment agreement Williams International Company was also granted management control over the Company. Following the share issuance, the State held approximately 59% and Williams International Company held 33% of the 1,034,989,850 outstanding shares, each having a par value of LTL 1.

As permitted by the Lithuanian legislation, on 4 February 2002 the Company decreased its share capital by LTL 517,495 thousand reducing the accumulated losses. The reduction of the share capital has not changed the ownership structure of the Company.

On 18 June 2002 the Government of the Republic of Lithuania, the Company, OAO Yukos Oil Corporation, Yukos Finance B.V. and Williams International Company signed an Investment Agreement, according to which Yukos Finance B.V., which is a subsidiary of OAO Yukos Oil Corporation, acquired 26.85% of the Company's shares. In connection with this agreement, the Company has increased its share capital to LTL 707,454 thousand by two new share issues. 189,959,205 ordinary shares with a par value of LTL 1 each were issued for the total price of LTL 273,990 thousand. After these share issues, Williams International Company and Yukos Finance B.V. each owned 26.85% of the share capital of the Company and the Government of the Republic of Lithuania owned 40.66% of the share capital. Williams International Company continued to provide management services to the Company.

On 19 September 2002 Williams International Company sold its shares in the Company and passed the management control rights to Yukos Finance B.V. Consequently, as of 31 December 2002 Yukos Finance B.V. owns 53.7% of the 707,454,130 outstanding shares and the State owns 40.66% of the shares. The remaining 5.64% of the share capital is held by other investors.

(LTL '000 unless otherwise stated)

1. Organization and formation (continued)

Description of the Group

As of 31 December 2002 "the Group" consists of the parent company AB Mažeikių Nafta and the following investments:

Entity	Activity	Ownership (percentage)	Consolidation method
Subsidiaries: Acquired in 2002			
UAB Uotas	Rent of petrol stations to AB Ventus Nafta	85	Consolidated
AB Ventus Nafta	Oil products retail	81	Consolidated
Acquired prior to 2002			
UAB Mažeikių Nafta – Saugos Tarnyba	Under liquidation process*	100	Consolidated
UAB Juodeikių Nafta	Loading of oil products on trucks	60	Consolidated
UAB Biržietiška Aibė	Operating of grocery, house appliances stores and bakery	100	Consolidated
Associated entities:			
UAB Naftelf	Sales of aviation fuel, construction of aviation fuel storage facilities	34	Equity method

*In 2002 the management decided to restructure the Group by liquidating the subsidiary UAB Mažeikių Nafta – Saugos Tarnyba, which used to provide security of cargo, storage, property and personnel to the Company, transferring these functions to the Security Department of the parent company. The subsidiary ceased its activities from April 2002 and the impact of this restructuring on these financial statements is not considered significant.

Acquisition made in 2002

On 27 February 2002 the Company signed an investment agreement to acquire 85% of the share capital of UAB Uotas Group, which includes 81% interest in AB Ventus Nafta, with an intention to reorganize this group and subsequently sell the investment thus recovering accounts receivable from UAB Uotas Group. However, in September 2002 the controlling interest in the Company was acquired by Yukos Finance B.V. and the management plans to dispose the investment have changed. UAB Uotas Group is engaged in the oil products retail business. The effective control has been obtained by the Company on 19 March 2002 as the closing statement to the investment agreement was signed. The acquisition cost of the investment amounting to LTL 49,980 thousand was netted against the balance receivable from UAB Uotas Group at the date of acquisition.

The investment in UAB Uotas Group has been accounted for using the purchase method: consolidated financial statements for the year ended 31 December 2002 include results of the operations of UAB Uotas and AB Ventus Nafta for the nine-month period from 1 April 2002 to 31 December 2002. The management estimated that the impact of using the date of 1 April 2002 as the acquisition date instead of 19 March 2002, the date when the effective control was obtained, is not material on the consolidated financial statements.

1. Organization and formation (continued)

The following table summarizes the estimated fair values of the assets acquired and liabilities assumed at the date of acquisition (LTL'000):

Current assets	5,132
Tangible assets	68,317
Intangible assets	163
Total assets acquired	73,612
Current liabilities	34,303
Long-term liabilities	18,393
Total liabilities assumed	52,696
Net fair value of assets acquired	**20,916**
Share of net fair value of assets acquired (85%)	17,778

Goodwill of LTL 32,202 thousand as of the acquisition date was recorded on the acquisition. As the acquired group is incurring continuous losses, the Company assessed the impairment of goodwill based on SFAS 142 by estimating the fair value of the group acquired using the discounted cash flows method. As a result, an impairment loss for the total value of goodwill was recorded in the financial expenses caption in the consolidated statement of operations for the year ended 31 December 2002.

2. Form and contents of the financial statements

Principles of consolidation

As described in Note 1 and Note 16, the Company has investments in various entities operating in Lithuania and in the Ukraine. The financial statements of the entities in which the Company holds more than 50% of the outstanding voting shares and operating control are consolidated. The entities in which the Company holds more than 20% of the voting shares, but less than 50% are accounted for under the equity method. Long-term investments in other entities are carried at cost (see Note 16).The financial statements of the Company and its subsidiaries have been prepared in all material respects in accordance with United States Generally Accepted Accounting Principles (US GAAP) as of 31 December 2002 and 31 December 2001. All significant intercompany transactions and balances have been eliminated in the consolidated financial statements.

3. Significant accounting policies

Basis of accounting

The Group maintains its accounting records in accordance with Lithuanian accounting principles. The accompanying consolidated financial statements have been adjusted in all material respects to conform to United States Generally Accepted Accounting Principles (US GAAP), except for tangible assets as discussed below.

3. Significant accounting policies (continued)

Use of estimates in the preparation of consolidated financial statements

The preparation of the consolidated financial statements in conformity with US GAAP requires management to make estimates and judgments that affect the reported amount of assets and liabilities and disclosure of contingent assets and liabilities at the date of the consolidated financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimated and such difference may be material to the consolidated financial statements.

Change in accounting principles

In the balance sheet as of 31 December 2001 the Company changed the classification of the pipe-fill oil in the Oil Terminal's pipes and reservoirs. As this quantity of oil is required for the operation of the Terminal equipment and cannot be extracted under normal operations, it has been reclassified from inventories to separate tangible assets caption "pipeline fill". The asset is carried at cost and is not depreciated. The effect from the change of accounting principle has been reported in the statement of operations for the year 2001 and amounts to LTL 5,590 thousand.

Foreign currency translation and transactions

The functional currency of the Company's subsidiaries is Lithuania's currency, Litas (LTL). The functional currency of the Company is US dollar (USD).

Prior to 1 February 2002 Litas was pegged to the US dollar at the rate 1:4. On 2 February 2002 the Bank of Lithuania re-pegged the Litas from the US dollar to the EUR at a fixed rate of 1:3.4528. Until 1 July 2002 the Company maintained its accounts in Litas. Accordingly, starting from 1 February the Company was recognizing the foreign currency adjustment from the remeasurement of its assets, liabilities, revenues and expenses into US dollar, the functional currency, in the statement of operations. Furthermore, the Company translated the resulting US dollar amounts back to Litas, the reporting currency, using current exchange rates as required by SFAS 52. The resulting translation adjustment was reported in the statement of comprehensive loss.

Starting from 1 July 2002 the Company maintains its accounts in USD and translates the amounts to Litas, the reporting currency, using current exchange rates as required by SFAS 52. The resulting translation adjustment is reported in the statement of comprehensive loss.

The current exchange rate used for the translation of the consolidated balance sheet as of 31 December 2001 was 4 Litas for 1 US dollar, as of 31 December 2002 was 3.3114 Litas for 1 US dollar. As of 27 January 2003 the rate had changed to 3.2024 Litas for 1 US dollar.

3. Significant accounting policies (continued)

Comprehensive income (loss)

Comprehensive income (loss) is defined as all changes in equity during a period except those resulting from investments by owners and distributions to owners. The foreign translation loss on the translation from US dollars to Litas is the only component of the Company's accumulated other comprehensive loss included in shareholders' equity.

Reclassification

As described in Note 17, in 2002 the Company changed the classification of tangible assets. Tangible assets, previously reported in 2001 have been restated accordingly.

Environmental matters

Liabilities for future remediation costs are recorded when environmental assessments and/or remedial efforts are probable and the costs can be reasonably estimated. The Company has third party liability insurance, which also covers liabilities in case of damage caused to the environment.

Revenue recognition

The Group recognizes revenue when the goods are shipped or services provided and net sales accordingly include the value of goods delivered and services provided during the period, net of value added tax, other taxes and price discounts directly related to the sales.

Products shipping and handling costs

Costs incurred for shipping and handling of products are included in selling expenses in the consolidated statements of operations.

Research and development

Research and development costs are expensed as incurred.

Advertising costs

Advertising costs are expensed as incurred.

3. Significant accounting policies (continued)

Legal costs

Legal costs related to loss contingencies are expensed as incurred.

Income tax

The Group records the income tax related to the taxable income computed in accordance with Lithuanian tax rules. The Group companies are taxed individually irrespective of the overall results of the Group.

Starting from 1 January 2002 the enacted Lithuanian corporate income tax rate was reduced from 24% to 15%. Based on the Law on Investments and the Law on Administration of Taxes, the Investment Agreement, signed between Williams International Company, AB Mažeikių Nafta and the Government of the Republic of Lithuania on 29 October 1999, guaranteed that the rate of corporate income tax will not be increased for the period of 5 years starting from 29 October 1999.

If the Company reports taxable losses, these taxable losses can be carried forward for 5 years.

Deferred taxes are recorded based on temporary differences between the financial statements and the tax basis of assets and liabilities using the enacted tax rates in effect in the years in which the differences are expected to reverse. Valuation allowances are recorded to reduce deferred tax assets when it is more likely than not that a tax benefit will not be realized.

Other taxes

Based on the Law on Investments and the Law on Administration of Taxes, the Investment Agreement, signed between Williams International Company, AB Mažeikių Nafta and the Government of the Republic of Lithuania on 29 October 1999, guaranteed that rates of personal income tax, real estate, road and other taxes, except for VAT, excise and social security tax, will not be increased for the period of 5 years starting from 29 October 1999.

Derivative instruments

Starting from 1 January 2001 the Group implemented SFAS No. 133, as amended by SFAS 137 and SFAS 138, requiring that every derivative instrument (including certain derivative instruments embedded in non-derivative contracts) be separately recorded in the balance sheet as either an asset or liability measured at its fair value. The Statement requires that changes in the derivative's fair value be recognized currently in earnings unless specific hedge accounting criteria are met.

3. Significant accounting policies (continued)

Cash and cash equivalents

Cash equivalents are highly liquid, low-risk debt instruments, which have a maturity of three months or less when acquired. Cash and cash equivalents exclude cash that is not available to the Company due to restrictions related to its use. Such amounts are segregated in the consolidated balance sheets and shown as restricted cash.

Accounts receivable

The Group provides a reserve for potential losses based on evaluation of general provision for certain age groups of accounts receivable and on evaluation of specific doubtful accounts.

Inventories

Inventories are stated at the lower of cost and net realizable value. Cost includes the cost of raw materials, direct production costs (direct material and direct labor), overhead costs for work-in-process and finished goods. Cost of raw materials, work-in-process and finished goods are determined on a first-in-first-out basis.

Investments

Available-for-sale securities

Investments in bonds for which there is no positive intent to hold to maturity are recorded at fair value. Realized gains or losses ontrading are included in earnings. Unrealized gains or losses on these securities are excluded from earnings and reported in other comprehensive income until realized.

Trading securities

Securities that are bought and held for selling in the near term are classified as trading securities and accounted for at fair value. Unrealized holding gains and losses on these securities are reported in the consolidated statements of operations.

Tangible assets

Tangible assets are stated at indexed cost less indexed accumulated depreciation through 31 December 1995 and at cost less accumulated depreciation since that date. Straight-line depreciation is provided over the estimated useful lives of the assets, except for catalysts, which are depreciated using the unit of output method.

(LTL '000 unless otherwise stated)

3. Significant accounting policies (continued)

The useful lives for different tangible assets groups range as follows (in years):

Machinery and equipment:	
Structures	20 - 70
Other machinery and equipment	5 - 35
Buildings:	
Concrete and brick buildings	40 - 90
Other buildings	10 - 20
Other tangible assets:	
Petrol stations and related equipment	7 - 20
Other	3 - 20

Assets under capital leases are stated at the present value of minimum lease payments less accumulated depreciation. Assets under capital lease are depreciated based on the asset group over their economic useful life.

Repairs and maintenance expenditures, such as inspections and removal of corrosion, are expensed as incurred. Major maintenance expenditures that increase capacity of the asset or significantly extend its useful life are capitalized.

In accordance with resolutions of the Government of the Republic of Lithuania, tangible assets have been revalued/indexed four times prior to 31 December 2002 and, as a result, are neither stated at historical cost less accumulated depreciation nor accounted for using the provisions of SFAS 52 concerning hyper-inflationary accounting, as it is required by US GAAP.

The initial cumulative effect of indexations performed prior to 31 December 2002 and 31 December 2001 amounting to LTL 460,358 thousand was originally accounted for as revaluation reserve in the shareholders' equity and was later converted to share capital except for LTL 437 thousand remaining in the revaluation reserve.

The interest cost recognized on borrowings used to finance tangible assets acquisitions and incurred during the period required to complete the asset is capitalized as a part of historical asset cost. The interest rate for capitalization is based on the rates charged on the outstanding Company's borrowings. For expenditures not covered by specific new borrowings, a weighted average of the rates on other borrowings is applied.

The Group periodically reviews the carrying value of tangible assets when indicators of impairment exist, and if the value of the asset is impaired, an impairment loss is recognized.

In 2002 the Company adopted SFAS No. 144, Accounting for the Impairment or Disposal of Long-Lived Assets. The initial application of this standard had no effect on the consolidated financial statements for the year ended 31 December 2002.

3. Significant accounting policies (continued)

Intangible assets

Intangible assets mainly represent patents, licenses acquired and computer software, stated at cost less accumulated amortization. The straight-line amortization is provided over the estimated useful lives of the assets not exceeding 2 years.

Goodwill

Goodwill is recorded for the excess of the cost of acquisition over the fair value of the Company's share of the net identifiable assets of the acquired subsidiary at the date of acquisition. Goodwill is tested for impairment on an annual basis and/or whenever indicators of impairment arise.
In 2002 the Group adopted SFAS No. 141, Business Combinations, and SFAS No. 142, Goodwill and Other Intangible Assets. The application of SFAS 142 resulted in the recognition of impairment of goodwill recorded on to the acquisition of UAB Uotas group.

New accounting pronouncements

In June 2001, the FASB issued SFAS No. 143, Accounting for Asset Retirement Obligations. SFAS No. 143 requires that the fair value of a liability for an asset retirement obligation be recognized in the period in which it is incurred if a reasonable estimate of fair value can be made. The associated asset retirement costs are capitalized as part of the carrying amount of the long-lived asset. An entity shall measure changes in the liability for an asset retirement obligation due to passage of time by applying an interest method of allocation to the amount of the liability at the beginning of the period. The interest rate used to measure that change shall be the credit-adjusted risk-free rate that existed when the liability was initially measured. That amount shall be recognized as an increase in the carrying amount of the liability and as an expense classified as an operating item in the statement of income. SFAS No. 143 is effective for fiscal years beginning after 15 June 2002. The Company has not determined the impact that this Statement will have on its consolidated financial statements.

In June 2002, the FASB issued SFAS No. 146, Accounting for Costs Associated with Exit or Disposal Activities. SFAS No 146 requires that a liability for a cost associated with an exit or disposal activity be recognized and measured initially at fair value when the liability is incurred. In periods subsequent to initial measurement, changes to the liability shall be measured using the credit-adjusted risk-free rate that was used to measure the liability initially. The cumulative effect of a change resulting from a revision to either the timing or the amount of estimated cash flows shall be recognized as an adjustment to the liability in the period of the change. Changes due to the passage of time shall be recognized as an increase in the carrying amount of the liability and as an expense. The provisions of SFAS No. 146 are effective for exit or disposal activities that are initiated after December 31, 2002. The adoption of this Statement is not expected to have an impact on the Company's consolidated financial statements.

(LTL '000 unless otherwise stated)

4. Net sales

Sales consist of the following:	2002	2001
Own products of the Oil refinery	4,428,008	5,078,813
Processing fees from third parties	-	3,013
Other services of the Oil refinery	14,860	22,395
Pipeline operator's sales	111,647	143,982
Oil terminal sales	111,091	94,452
Retail sales of oil products	50,271	-
Services and sales of non-production units	5,312	7,267
Total net sales	**4,721,189**	**5,349,922**

Other services of the Oil refinery include mainly railway services, custom declarations handling, rent of tanks and heating.

5. Cost of sales, excluding depreciation and amortization

Cost of sales consists of the following:	2002	2001
Own products of the Oil refinery	4,113,697	4,825,990
Processing for third parties	-	1,543
Other services of the Oil refinery	10,950	7,501
Pipeline operator	14,620	12,892
Oil terminal	37,095	15,543
Retail sales of oil products	41,487	-
Cost of services and sales of non-production units	7,537	16,620
Total cost of sales, excluding depreciation and amortization	**4,225,386**	**4,880,089**

6. Selling and distribution expenses, excluding depreciation and amortization

Selling and distribution expenses consist of the following:	2002	2001
Railway services	92,871	94,748
Terminal and laboratory services	34,697	35,728
Transit / freight	27,398	30,631
Salaries and social security	15,122	7,847
Rent of rail tanks	8,454	9,031

(LTL '000 unless otherwise stated)

6. Selling and distribution expenses, excluding depreciation and amortization (continued)

	2002	2001
Repair and maintenance	4,333	3,124
Advertising	558	1,369
Storage and loading services	401	178
Other	12,514	5,899
Total selling and distribution expenses, excluding depreciation and amortization	**196,348**	**188,555**

7. General and administrative expenses, excluding depreciation and amortization

General and administrative expenses consist of the following:	2002	2001
Professional fees	61,416	82,033
Salaries and social security	39,725	39,750
Insurance	23,088	14,945
Taxes, other than income tax	19,675	35,086
Engineering and operational consulting fees	9,851	13,436
Fire safety expenses	5,398	5,540
Utilities and communication	4,472	2,352
Internal transport	2,455	2,440
Materials	2,447	4,409
Fixed plant overheads of idle production time	1,908	2,158
Repairs and maintenance	1,193	2,101
Training	1,021	2,366
(Reversal of) provision for prepayments and other current assets write-off	(1,018)	(363)
Business trips	894	1,446
Write-off of construction projects	-	9,164
Claims related to the accident in Oil terminal	-	5,199
Other	26,553	23,238
	199,078	245,300
(Reversal of) provisions for and write-off of trade accounts receivable	(33,442)	14,469
Overpaid real estate tax (for 1997-2001)	(31,944)	-
Total general and administrative expenses, excluding depreciation and amortization	**133,692**	**259,769**

(LTL '000 unless otherwise stated)

7. General and administrative expenses, excluding depreciation and amortization (continued)

(Reversal of) provisions for and write-off of trade accounts receivable at the amount of LTL 33,442 thousand for the year ended 31 December 2002 includes reversed provisions, amounting to LTL 29,384 thousand, for accounts receivable from AB Ventus-Nafta and UAB Uotas, which were set-off against liabilities for shares acquired in UAB Uotas Group. This resulted in goodwill write off, included into financial expenses (see Note 1).

Professional fees include management fees of LTL 48,228 thousand incurred during the year ended 31 December 2002 (LTL 53,246 thousand during the year ended 31 December 2001) to Williams International Company and Yukos Finance B.V. for the management services provided (see Note 32).

In the last quarter of 2002 the Company has submitted a request to the Tax Inspection to refund the Company LTL 31,944 thousand of overpaid real estate tax. The overpayment of real estate tax has accumulated during the period of 1997 – 2001. The tax was overpaid because the State Register of Land and Other Real Estate had not provided the Company with the data on the taxable base of the Company's real estate in time (in 1997) and the Company used the accounting values of the assets as basis for the tax calculation.

Write-off of construction projects represents projects in the Oil refinery, which were started but not completed as the management of the Company suspended the projects due to changes in the Company's objectives. Since the works already performed had no alternative use, their value was written off.

8. Depreciation and amortization

Based on the use of assets being depreciated, depreciation and amortization could be allocated as follows:	**2002**	**2001**
Cost of sales	96,242	111,848
General and administrative expenses	11,292	17,532
Selling and distributions expenses	10,976	5,777
Total depreciation and amortization	**118,510**	**135,157**

9. Other income

According to the provisions of the Investment Agreement signed on 29 October 1999 between the Company, the Government of the Republic of Lithuania and Williams International Company, the Company is indemnified by the Government of the Republic of Lithuania from certain obligations and losses. In October and November 2001 the Company notified the Government on several items that were qualified for indemnification under the Investment Agreement. The total amount of such claims estimated by the Company was approximately LTL 37,683 thousand. The total amount of interest payable set-off in 2001 against such claims amounted to LTL 20,225 thousand. An amount of LTL 10,551 thousand from the total set-off amount represents costs

(LTL '000 unless otherwise stated)

9. Other income (continued)

incurred by the Company in 1999 and 2000 and has been included in other income caption in the statement of operations for the year 2001. The remaining LTL 9,674 thousand represents costs incurred in 2001 and has been accounted for as a reduction in the respective expenses in the statement of operations for the year 2001.

On 18 June 2002 a settlement agreement between the Government of the Republic of Lithuania, AB Mažeikių Nafta and Williams International Company was signed, according to which the Government of the Republic of Lithuania has committed to compensate LTL 33,431 thousand out of the total claims' amount. Therefore, additional LTL 13,206 thousand were recognized as other income in the statement of operations for the year ended 31 December 2002.

For more information about the Investment Agreement please also see decision of the Constitutional Court described in Note 29.

10. Gain on sales of securities

In March 2001 the Company sold special 10-year non-interest bearing Government bonds received as a compensation for funds held in Lithuanian Joint Stock Innovation Bank, which was declared insolvent in 1995. Initially these securities were carried at zero value and were reclassified to available for sale and valued at their estimated market value as of 31 December 2000, recognizing unrealized gain of LTL 5,172 thousand in other comprehensive income. Accordingly, in 2001 the Company reversed realized other comprehensive income and the total amount of LTL 5,504 thousand of cash received for the bonds was recorded as gain on sales of securities in the statement of operations for the year ended 31 December 2001.

11. Income tax

	2002	2001
Income tax expense		
(Loss) for the year before income tax and minority interest according to US GAAP, including cumulative effect of change in accounting principle for pipeline fill	(111,696)	(270,263)
Changes in temporary differences	321,794	(22,056)
Permanent differences	(29,548)	36,473
Loss carried forward	(183,149)	-
Taxable (loss) for the year reported in tax returns	**(2,599)**	**(255,846)**
Income tax	3,041	338
Change in deferred income tax	-	-

(LTL '000 unless otherwise stated)

11. Income tax (continued)

Income tax expense charged to the statement of operations (on operations performed in Lithuania)	**3,041**	**338**
Deferred income tax before valuation allowance		
Temporary differences	378,735	6,008
Loss carry forward	385,333	538,192
	764,068	544,200
Deferred income tax before valuation allowance	114,610	81,630
Components of deferred income tax		
Deferred income tax assets:		
Loss carry forward	57,800	80,729
Unrealized currency exchange gain on USD denominated balances	44,893	-
Inventory	992	313
Tangible assets	6,789	-
Accruals	2,259	1,577
Provision for receivables	5,411	3,382
Other	151	39
Deferred income tax assets before valuation allowance	118,295	86,040
Less: valuation allowance	(114,610)	(81,630)
Deferred income tax assets, net	3,685	4,410
Deferred income tax liabilities:		
Depreciation	3,685	4,410
Deferred income tax liabilities	3,685	4,410
Deferred income tax, net	-	-
Deferred income tax valuation allowance		
Deferred income tax valuation allowance at the beginning of the year	(81,630)	(74,278)
Deferred income tax valuation allowance in UAB Uotas Group as of its acquisition date	(11,793)	-
Change in deferred income tax valuation allowance	(21,187)	(7,352)
Deferred income tax valuation allowance at the end of the year	**(114,610)**	**(81,630)**

(LTL '000 unless otherwise stated)

11. Income tax (continued)

Until 1 January 2002 the standard Lithuanian corporate income tax rate was 24%. Starting 1 January 2002 the income tax rate was reduced to 15%. Deferred income tax as of 31 December 2002 and 31 December 2001 was calculated at 15 percent tax rate. Income tax is computed based on the taxable income/(loss), calculated in accordance with Lithuanian income tax rules, less income tax incentives on reinvested income.

In accordance with Lithuanian tax rules, tax losses generated after 1 January 1997 can be carried forward for 5 years. The Group had unused tax loss carried forward of LTL 385,333 thousand as of 31 December 2002 with the following expiry dates:

Expiry date	
2003	28
2004	2,443
2005	140,596
2006	237,068
2007	5,198
Total	**385,333**

Temporary differences represent differences between tax and financial books arising from different principles applied in accounting for tangible assets depreciation, accruals, provisions for accounts receivable and inventory, as well as unrealized currency exchange gain on USD denominated monetary balances, arising due to the fact that the functional currency in tax books is LTL. Due to uncertainty about the Group's ability to realize the deferred income tax asset, a valuation allowance was recorded on 31 December 2002 and 31 December 2001.

The reported amount of income tax expenses attributable to continuing operations for the period can be reconciled to the amount of income tax expenses that would result from applying the statutory income tax rate to pretax loss from continuing operations as follows:

	2002	**2001**
Income tax (benefit) computed at 15% and 24% respectively	(16,754)	(64,863)
Income tax on dividends received	-	118
Change in deferred income tax valuation allowance	21,187	7,352
Correction of prior periods income tax	3,041	-
Change in statutory tax rate	-	48,978
Permanent differences	(4,433)	8,753
Income tax expenses reported in the statement of operations	**3,041**	**338**

(LTL '000 unless otherwise stated)

12. Cash and cash equivalents and restricted cash

Cash consists of the following:	2002	2001
Cash in banks	184,204	115,721
Cash on hand	216	207
Total cash	184,420	115,928
Less: provision for cash held in Vneshekonombank	(10,220)	(10,739)
Less: provision for cash held in Litimpeks Bank	(14,880)	(17,643)
Total cash, net	**159,320**	**87,546**

A provision is made against the deposit of LTL 10,220 thousand frozen in the Russian bank Vneshekonombank. The bank no longer exists and negotiations are being held between the Governments of the Republic of Lithuania and Russia regarding the settlement of balances kept in Vneshekonombank. The management does not expect that this amount will be recovered, and a provision for the total amount has been recorded.

Litimpeks Bank no longer exists. Therefore, the Company decided to make a 100% provision for the total cash amount of LTL 14,880 thousand held in Litimpeks Bank.

	2002	2001
Total restricted cash	**201,232**	**109,506**

Restricted cash in the amount of USD 60,186 thousand (LTL 199,301 thousand) is received from OAO Yukos Oil Corporation according to a long-term loan agreement (see Note 25). The Company can use these funds only for financing the modernization of the refinery.

The remaining restricted cash in the amount of USD 583 thousand (LTL 1,931 thousand) represents a letter of indemnity issued to Nuovo Pignone Inc. to guarantee the payment for modernization equipment.

13. Trade accounts receivable, net

Trade accounts receivable consist of the following:	2002	2001
Oil refinery	247,184	290,671
Oil terminal	11,987	16
Pipeline operator	2,457	1,358
Retail network operator	2,354	-
Non-production units	43	927

(LTL '000 unless otherwise stated)

13. Trade accounts receivable, net (continued)

	2002	2001
Gross trade accounts receivable	264,025	292,972
Less: provision for doubtful trade accounts receivable	(56,559)	(91,676)
Total trade accounts receivable, net	**207,466**	**201,296**

14. Prepayments and other current assets

Prepayments and other current assets consist of the following:	2002	2001
Overpaid taxes	44,764	15,183
Accrued income / deferred expenses	20,690	14,467
Prepayments	12,163	8,150
Other current assets	3,046	4,912
Total prepayments and other current assets	**80,663**	**42,712**

15. Inventories

Inventories consist of the following:	2002	2001
Raw materials and spare parts	114,588	132,174
Finished goods and goods for resale	161,418	117,375
Semi-manufactures	24,342	26,531
Total inventories	**300,348**	**276,080**

Semi-manufactures include oil products that are produced by the Oil refinery and used in further stages of production. However, these products may also be sold as finished products in the market.

As of 31 December 2002 the Oil refinery of the Company had slow moving inventories with the book value of LTL 20,787 thousand. No provision has been made against the slow moving inventories as they by nature cannot become obsolete in the nearest future and are expected to be fully used by the Company.

The Company has insured inventories in AB Lietuvos Draudimas. The insurance amounting to USD 94,576 thousand (LTL 313,179 thousand) is valid until 29 August 2005. The Company has also obtained a third party liability insurance, including product liability, from AB Lietuvos Draudimas.

(LTL '000 unless otherwise stated)

16. Long-term investments

Long-term investments consist of the following:	**2002**	**2001**
Investments in associated companies	3,417	4,295
Investments in other entities	1,827	2,293
Investments held for sale	249	-
Total long-term investments	**5,493**	**6,588**

The balance of investments in associated companies as of 31 December 2002 and 31 December 2001 represents the investment in UAB Naftelf, where AB Mažeikių Nafta holds 34% of the shares. UAB Naftelf is a joint venture company with the French company Corelf. The activity of the entity includes aviation fuel sales and construction of aviation fuel storage facilities.

Investments in other entities represent shares held in the entities, were investments do not exceed 20% of the shares in an entity.

17. Tangible assets, net

Tangible assets with a cost value of LTL 17,382 thousand and accumulated depreciation of LTL 5,232 thousand as of 31 December 2002 that have been leased under the capital lease contracts are included in buildings, machinery and equipment and other tangible assets balances. The corresponding liability outstanding as of 31 December 2002 in the amount of LTL 3,970 thousand is included in long-term lease and current portion of long-term lease captions in the consolidated balance sheet. The leased assets are depreciated during the same period as the Company's own assets in the respective groups. Depreciation expense for assets under capital lease during the year ended 31 December 2002 amounted to LTL 1,357 thousand.

In 2002 the Company has changed classification of its pipelines with a total cost value of LTL 197,071 thousand by transferring them from other tangible assets caption to machinery and equipment caption in the balance sheet. The comparative figures have been restated accordingly.

The Company had no collateralized tangible assets as of 31 December 2002. The subsidiaries had collateralized tangible assets with a total net book value of LTL 40,348 thousand as of 31 December 2002.

As of 31 December 2002 the Company had tangible assets with a net book value of LTL 6,721 thousand that are currently not operating. It is anticipated that these assets will be brought into use as the refinery's modernization plan is realized.

All tangible assets of the Company are insured.

(LTL '000 unless otherwise stated)

18. Construction in progress and prepayments for tangible assets

Construction in progress consists of the following:

Project	2002	2001
Oil refinery:		
Modernization program	192,517	99,516
New construction	86	3,142
Other	27,967	19,796
Total Oil refinery	220,570	122,454
Oil terminal:		
Reservoirs	18,719	22,594
New construction	2,911	3,515
Other	13,696	16,403
Total Oil terminal	35,326	42,512
Pipeline operator	1,080	440
Retail network operator	1,098	-
Total	**258,074**	**165,406**

Oil refinery projects

At the end of the year 1999 the Company started the modernization program in order to increase the production capacities as well as the efficiency of the Oil refinery. Other projects include equipment to be installed and prepayments for tangible assets, a significant part of which is also related to modernization projects. As of 31 December 2001 some of the projects of the modernization program with the total carrying value of LTL 45,195 thousand had been suspended until necessary financing was obtained. In June 2002 the Company has received additional financing from OAO Yukos Oil Corporation (see Note 25) and plans to resume the suspended projects as soon as the necessary human resources are available. The total carrying value of the suspended projects as of 31 December 2002 was LTL 64,418 thousand.

The construction in progress balance as of 31 December 2002 of the Oil refinery includes LTL 7,938 thousand prepayments for tangible assets and LTL 14,131 thousand capitalized interest.

Usage of heavy fuel oil containing more than 1% of sulphur in Lithuania is restricted starting from 1 January 2004. In order to produce heavy fuel oil complying with this requirement, the Company may need additional investment. The Company has raised the issue of compensating the amounts needed for such investment under provisions of the Investment Agreement signed

(LTL '000 unless otherwise stated)

18. Construction in progress and prepayments for tangible assets (continued)

between the Government of the Republic of Lithuania, AB Mažeikių Nafta and Williams International Company. For more information about the Investment Agreement please also see decision of the Constitutional Court described in Note 29.

Oil terminal projects

The balance of LTL 18,719 thousand as of 31 December 2002 represents the design works performed and the materials acquired for the construction of new reservoirs. The reservoirs will be used for crude oil and oil products storage.

The Company is planning to expand the current transport capacities for oil products. Therefore, the construction of a new product pipeline is planned by the Company. The product pipeline will connect the refinery and AB Klaipėdos Nafta. The new construction balance of LTL 2,911 thousand represents the cost of design works performed for the construction of the product pipeline.

The construction in progress balance as of 31 December 2002 of the Oil terminal includes LTL 15 thousand prepayments paid by the Company and LTL 2,229 thousand capitalized interest.

The Group periodically reviews the carrying value of construction in progress and when indicators of impairment exist, and if the value of the asset is impaired, an impairment loss is recognized.

19. Intangible assets, net

Intangible assets consist of the following:	**2002**	**2001**
Patents and licenses	22,644	25,967
Computer software	19,622	16,798
Total cost of intangible assets	42,266	42,765
Less: accumulated amortization	(27,530)	(33,370)
Total intangible assets, net	**14,736**	**9,395**

Computer software mainly includes purchased standard computer software. Patents and licenses include acquired patents and costs of the manufacturing technology used by the refinery that satisfy the criteria of SFAS 142.

20. Non-current accounts receivable, net

Non-current accounts receivable consist of the following:	2002	2001
AB Ventus Nafta*	-	15,446
SP UAB Mažeikių Vandenys	6,328	5,893
AB Lifosa	2,096	629
Other	1,145	700
Gross non-current accounts receivable	9,569	22,668
Less: provision for doubtful non-current accounts receivable	(7,361)	(18,397)
Total non-current accounts receivable, net	**2,208**	**4,271**

*As described in Note 1, in 2002 the Company acquired the controlling interest in UAB Uotas Group, including AB Ventus Nafta, and all significant intercompany balances outstanding as of 31 December 2002 have been eliminated in the consolidated balance sheet as of 31 December 2002.

21. Short-term loans

As of 31 December 2002 short-term loans of the Group consist of the following:

Lender	Purpose	Interest rate	Loan amount (in '000)	Balance LTL (in '000)	Maturity date
AB bankas Snoras	Overdraft for working capital	9.29% - 10.29%	LTL 500	450	03/03
Vereins-und Westbank AG	Crude oil purchases and pre-financing of oil products export deliveries to BP Oil International Limited	1 month LIBOR+ 1.95%	USD 20,000	50,016	04/03
Total short-term loans				**50,466**	

On 9 May 2002 the Company signed an overdraft agreement with Vereins-und Westbank AG for the maximum amount of USD 20,000 thousand. The Company may use this overdraft facility until 15 April 2003. On 18 November 2002 the Company signed the Pledge of Deposit agreement and deposited USD 25,000 thousand as a collateral for the overdraft facility.

During the year ended 31 December 2002 the weighted average interest rate for the Company's short-term loan described above was 2.68%.

(LTL '000 unless otherwise stated)

22. Trade accounts payable

Trade accounts payable consist of the following:	**2002**	**2001**
Oil refinery	420,774	317,551
Oil terminal	2,414	9,800
Retail network operator	2,023	446
Pipeline operator	642	-
Non-production units	149	370
Total trade accounts payable	**426,002**	**328,167**

23. Advances received

Advances received consist of the following:	**2002**	**2001**
Oil refinery	11,100	4,197
Pipeline operator	2,487	3,292
Retail network operator	381	-
Oil terminal	76	-
Non-production units	13	18
Total advance s received	**14,057**	**7,507**

24. Accrued and other current liabilities

Accrued and other current liabilities consist of the following:	**2002**	**2001**
Accrued taxes	104,223	6,166
Accrued claims from Oil terminal contractors	14,020	16,120
Salaries and social security	9,961	8,199
Accrued vacation pay	5,993	5,058
Accrued management fees	3,977	-
Accrued professional fees	503	200
Other accrued expenses and short-term liabilities	10,429	9,043
Total accrued and other current liabilities	**149,106**	**44,786**

25. Long-term loans

The long-term loans of the Group as of 31 December 2002 consist of the following:

Lender		Purpose	Repayment terms	Interest rate	Loan amount (in '000)	Balance LTL (in '000)	Maturity date
Neon Corporation		Working capital	At maturity date	12%	USD 636	687	06/03
AB bankas Snoras		Working capital	Monthly	9.99%	USD 8,000	-	05/04
Kreditanstalt fur Wiederaufbau	A)	Investment in oil terminal	Semi-annually	6 months LIBOR+1.75%	USD 1,277	1,057	06/04
	B)	Investment in oil terminal	Semi-annually	6 months LIBOR+1.875%	USD 1,473	1,219	06/04
Kreditanstalt fur Wiederaufbau		Investment in oil terminal	Semi-annually	6 months LIBOR+1.25%	USD 406	448	09/04
Karina International Ltd.		Investment in petrol stations	Monthly	9%	USD 400	1,162	05/05
Kreditanstalt fur Wiederaufbau		Pipeline in oil terminal	Semi-annually	6 months LIBOR+0.875%	USD 4,294	5,196	06/06
Kreditanstalt fur Wiederaufbau		Investment in oil terminal	Semi-annually	6 months LIBOR+0.875%	USD7,235	10,482	06/06
Kreditanstalt fur Wiederaufbau		Investment in oil terminal	Semi-annually	6 months LIBOR+0.875%	USD 2,444	4,046	09/06
Yukos International UK B.V.		Working capital	*	10%	USD 75,000	248,355	10/06
OAO Yukos Oil Corporation		Investment program	*	10%	USD 75,000	248,355	10/06
Kreditanstalt fur Wiederaufbau		Main pipeline	Semi-annually	6 months LIBOR+0.875%	USD11,855	16,639	12/06
Kreditanstalt fur Wiederaufbau		Investment in oil terminal	Semi-annually	6 months LIBOR+0.875%	USD 17,395	23,748	12/06
Government of the Republic of Lithuania		Working capital	*	10%	USD323,928	956,754	02/07
AB bankas Hansa-LTB		Investment in petrol stations	Monthly	5.35%	USD 4,000	10,633	07/07
AB bankas Snoras		Investment petrol stations	Monthly	7.00%	USD 6,411	4,077	05/08
Bank of Tokyo Mitsubishi		Investment in oil terminal	Semi-annually	6 months LIBOR+2%	USD 50,000	113,285	01/09
Less: current portion of long-term debt						(37,839)	
Total long-term loans						**1,608,304**	

(LTL '000 unless otherwise stated)

25. Long-term loans (continued)

* Half of the loan should be repaid a year before the maturity date; the remaining portion – at the maturity date.

As of 31 December 2002 the USD LIBOR rates were as follows:
– 6 months LIBOR – 1.38000%
– 12 months LIBOR – 1.44938%

In 2002 the total interest cost for the long-term financing amounted to USD 44,552 thousand (LTL 162,002 thousand). USD 4,361 thousand (LTL 16,408 thousand) from this amount has been capitalized.

In 2002 the Company obtained a new USD 75,000 thousand long-term loan from OAO Yukos Oil Corporation to finance the modernization of the plant. In 2002, as a result of share purchase agreement with Williams International Company, Yukos International UK B.V refinanced USD 75,000 thousand loan (LTL 248,355 thousand as of 31 December 2002), which was granted to the Company by Williams International Company in 1999, on the same terms.

As described in Note 1, in 2002 the Company acquired UAB Uotas Group. As of 31 December 2002 long-term loans balance outstanding includes loans of LTL 16,559 thousand acquired by UAB Uotas Group from AB bankas Snoras, AB bankas Hansa-LTB, Neon Corporation and Karina International Ltd.

According to the loan agreement signed on 5 May 1997 Karina International Ltd. (USA) granted UAB Uotas, a subsidiary of the Company, USD 400 thousand loan for a 2 year period. According to this agreement, one month before reimbursement due date Karina International Ltd. or a person/company nominated by the lender has an option to convert the loan or a portion of loan into UAB Uotas share capital. In case this option is exercised, the Company's share in UAB Uotas will decrease. UAB Uotas and Karina International Ltd. extended the loan maturity until 31 May 2005.

All the loans granted by Kreditanstalt fur Wiederaufbau and Bank of Tokyo Mitsubishi for investment in the oil terminal, the loan granted by OAO Yukos Oil Corporation for the financing of modernization of the refinery, the loan granted by AB bankas Hansa-LTB and the loan granted by Yukos International UK B.V. for working capital are guaranteed by the Government of the Republic of Lithuania.

The debt outstanding as of 31 December 2002 was subject to a number of covenants, such as exclusive use of loans and restricted management ability to pledge, mortgage or sell the assets, which acquisitions were financed by the loans throughout the duration of the loan agreements without the lender's prior consent. The management believes that the Group has complied with these covenants.

Maturity schedule:						**Years**
	2003	2004	2005	2006	2007	Thereafter
Balance of principal amount of long-term loans payable	**37,839**	**37,173**	**728,312**	**760,064**	**56,255**	**26,500**

(LTL '000 unless otherwise stated)

25. Long-term loans (continued)

The amounts payable in 2005, 2006 and 2007 include repayment of the loans from Yukos International UK B.V., the Government of the Republic of Lithuania and OAO Yukos Oil Corporation amounting to LTL 728,312 thousand, LTL 760,064 thousand and LTL 56,255 thousand respectively. According to these loan agreements the maturity dates for these amounts may be extended until 2011, 2012 and 2013 respectively.

26. Long-term capital lease obligations

As of 31 December 2002 the Group had tangible assets acquired under capital lease agreements for the total cost value of LTL 17,382 thousand. Tangible assets leased, which mainly represent buildings and machinery & equipment, are accounted for under other tangible assets caption in the balance sheet.

The capital lease liability outstanding as of 31 December 2002 amounts to LTL 4,643 thousand, which includes lease payments of LTL 1,467 thousand falling due within one year.

Amounts under capital lease (principal amount and interest) are due as follows:

	Amount
2003	1,757
2004	1,126
2005	985
2006	751
2007	24
Total long-term lease	4,643
Less: interest	(673)
Less: current maturities of long-term capital lease	(1,467)
Long-term capital lease, net of current maturity	**2,503**

27. Subsidies

The subsidies include financing received from the Government of the Republic of Lithuania for construction of apartment blocks for Russian citizens in Vsevolotzk, St. Petersburg. As of 31 December 1998 the construction was completed and the buildings with a net book value of LTL 19,851 thousand were included in tangible assets balance as of 31 December 2001 (equivalent of LTL 16,434 thousand as of 31 December 2002). The Government of the Republic of Lithuania has fully financed the construction of these apartment blocks as a part of an agreement to enable the Russian citizens (former employees of Oil refinery) to move from Lithuania back to Russia. The title to the apartments is going to be transferred from the Company and the subsidies will be netted

27. Subsidies (continued)

against the tangible assets balance transferred. The remaining subsidies amount of LTL 103 thousand as of 31 December 2002 (LTL 155 thousand as of 31 December 2001) represents funds received to finance the study of the impact of industrial plants on the atmosphere and a subsidy received the export insurance.

28. Shareholders' equity

Part of the subscription price of the share issue acquired by Williams International Company in 1999 was paid by issuing a USD 75,000 thousand (LTL 300,000 thousand) guaranteed zero coupon debenture, payable to the Company in 2002. However, in accordance with the provisions of the Investment agreement signed between the Government of the Republic of Lithuania, AB Mažeikių Nafta and Williams International Company, after the end of year 2001 Williams International Company had to be compensated for the difference between the Company's cumulative actual earnings before interest, taxes, depreciation and amortization (EBITDA) and the amount of USD 421,486 thousand set by the Investment agreement (EBITDA shortfall), however not exceeding USD 75,000 thousand. As the EBITDA compensation amounted to the shareholder's debenture, the debenture was written off to retained earnings as of 31 December 2001.

29. Commitments and contingencies

Pending claims

In 1998 the Company received initial claims from Fluor Daniel Intercontinental Inc., the engineering, procurement, construction and project management contractor, arising out of the Oil Terminal project in the amount of USD 20,620 thousand (equivalent of LTL 68,280 thousand as of 31 December 2002). The management of the Company has rejected these claims and has instructed its lawyers to defend the Company from the claims and to submit counterclaims against Fluor Daniel Intercontinental Inc. At an early stage of the dispute the Company recognized an accrued liability of USD 4,030 thousand (equivalent of LTL 13,345 thousand as of 31 December 2002) that was reflected in the financial statements as of 31 December 2002 and capitalized these costs in the construction in progress account. The Company does not believe the claims by Fluor Daniel Intercontinental Inc. are valid but has retained the liability on its books. The Company believes that Fluor Daniel Intercontinental Inc. is responsible for the delay in the construction works and, therefore, is not entitled to their claim, but is rather responsible for the damages sustained by the Oil Terminal, i.e. lost income and the losses of USD 18,500 thousand, which the Company incurred in order to settle the claim received from PPS Pipeline Systems (former Preussag Wasser & Rohrtechnik GmbH). Therefore, no additional liability that can result from the outcome of this contingency was recognized in the financial statements as of 31 December 2002.

In March 2000 the Company initiated legal proceedings seeking to cover damages from Fluor Daniel Intercontinental Inc. for the breach of duty and/or breach of collateral warranty and/or economic duress of the Oil terminal. The damages claimed are approximately of USD 113,862 thousand (equivalent of LTL 377,039 thousand as of 31 December 2002). The counterclaim, which has been submitted by Fluor Daniel Intercontinental Inc. in the arbitration approximates to USD 17,269 thousand (equivalent of LTL 57,184 thousand as of 31 December 2002). The outcome of these proceedings is unclear at the date of the issuing of these financial statements.

29. Commitments and contingencies (continued)

On 22 July 1999 the Company received a claim from AS Rietumu Banka for the total amount of USD 1,250 thousand (LTL 4,139 thousand as of 31 December 2002) related to not performed sales of oil products to Thornleigh Trust Ltd. in accordance with the agreement signed on 23 March 1998 with AS Rietumu Banka and Thornleigh Trust Ltd. The Company set-off the advance payment of USD 1,250 thousand received from Thornleigh Trust Ltd. against the receivable balance outstanding and did not perform the shipment of products. The management cannot predict the outcome of the claim, therefore, no provision for the claim amount was made in the financial statements as of 31 December 2002.

Based on the claim received from UAB Klevo Lapas, in 2000 the Lithuanian Competition Council imposed a fine amounting to LTL 100 thousand to the Company for non-compliance with the Lithuanian Competition Law. The Company has paid the fine and disputed the decision of the Competition Council. The dispute with the Competition Council was not resolved at the issuance date of these financial statements. If the decision of the Competition Council that the Company has not complied with the Competition Law remains final, the customers affected by the Company's pricing policy might claim the Company to cover their damages. As of 31 December 2002 the total claims from UAB Klevo Lapas amounted to LTL 8,241 thousand. As of 31 December 2002 the Company had a receivable from UAB Klevo Lapas amounting to LTL 5,298 thousand, which has been provided in full in these financial statements. The management cannot estimate the final amount of the claims resulting from the decision of the Competition Council, including the claim of UAB Klevo Lapas, nor predict their outcome, therefore, no provision for this uncertainty was made in the financial statements as of 31 December 2002.

Furthermore, in 2001 the Company received a report from the Competition Council, stating that the Company did not comply with the article of the Lithuanian Competition Law, forbidding vertical agreements limiting competition. The Competition Council has proposed to impose a fine of LTL 100 thousand on the Company for the breach of the above mentioned law. The fine has been imposed and the Company has paid and disputed it, however, the outcome of the case was not known at the date of the release of these financial statements.

In June 2000 the Company received a payment request from a group of persons in the amount of LTL 9,808 thousand related to production improvement process invented and patented by the group and subsequently implemented by the Oil refinery. Three agreements were signed by the Company and this group in September 1994 stating that 25% of the additional revenue resulting from the production improvement process implementation must be paid to the authors of the improvement. The agreements state that the remuneration of the authors must be paid during the period the patent of the invention is valid. According to the Lithuanian legislation the patent's period is 20 years. The Company has paid LTL 1,153 thousand for the year 1995. The requested balance of LTL 9,808 thousand relates to the years 1996-1998. On 10 April 2001 the Company has received another letter from the above-mentioned group of persons, increasing the claim amount to LTL 14,000 thousand and covering the period 1996 - 2001. The management does not agree that the implementation of the invention did actually improve the output of production process and, therefore, intends to reject the payment request. No accrual for this disputed liability has been made in the financial statements. In the event the Company looses this proceeding, the Company might raise the issue of compensation of the amounts of this claim under the provisions of the Investment Agreement, signed between OAO Yukos Oil Corporation, Yukos Finance B.V., Williams International Company, AB Mažeikių Nafta and the Government of the Republic of Lithuania (see also decision of the Constitutional Court described below).

29. Commitments and contingencies (continued)

In 2002 the Company has received a claim of USD 1,602 thousand (LTL 5,305 thousand as of 31 December 2002) from OAO Oil Company YUKOS demanding to compensate losses incurred due to not loading YUKOS' tanker after an accident in the oil terminal. In the Company's management opinion, the Company is not liable to compensate the losses since force majeure is applicable in this case. Therefore, no provision for this uncertainty was made in the consolidated financial statements as of 31 December 2002.29.

In 2002 the Company has refused to settle several invoices received from AB Lietuvos Geležinkeliai, because, in the Company's opinion, the railway tariffs were calculated incorrectly. The case is currently being investigated in arbitration. As of 31 December 2002 the total claim amount including interest was LTL 4,049 thousand. The management believes that out of the total amount the Company will have to pay LTL 3,335 thousand and this amount has been accrued in the financial statements as of 31 December 2002. The outcome of these proceedings is unclear at the date of the issuing of these financial statements. Therefore, no provision for any additional liabilities arising from this uncertainty was made in the consolidated financial statements as of 31 December 2002.

The Company is involved in other litigations and has claims against it for matters arising in the ordinary course of business, which has not been described above. In the opinion of the management, the outcome of these claims will not have a material adverse effect on the Company's operations.

Minority shareholders' claims

During the year ended 31 December 2002 different groups of minority shareholders presented a number of claims to the court, demanding:

- To recognize the Investment Agreement signed on 29 October 1999 between the Company, the Government of the Republic of Lithuania and Williams International Company as not valid. In case this claim is satisfied, restitution may be applied. As of the date of the issuing of these financial statements no decisions were taken by the court regarding this claim. Since the shares possessed by Williams International Company were sold to Yukos Finance B. V. thus transferring all related rights and obligations, the court is considering involving Yukos Finance B. V. in this case as well.

- To recognize the decisions made during the shareholders' meeting held on 30 April 2002 as not valid due to breach of the Law on Stock Companies. The decisions made include increase of the share capital of the Company. The first instance court has ruled in favour of the minority shareholders, however the Company has appealed the court decision and the appellation was satisfied. The minority shareholders have not further appealed this decision.

- To recognize the decisions made during the shareholders' meeting held on 19 June 2002 as not valid due to breach of the Law on Stock Companies. The decisions made include approval of the Investment agreement between the Company, OAO Yukos Oil Corporation, Yukos Finance B. V. and Williams International Company. The first instance court has suspended investigation of this claim and contacted the Constitutional Court regarding certain provisions of the Law of the Republic of Lithuania on

29. Commitments and contingencies (continued)

Reorganization of Public Companies Būtingės Nafta, Mažeikių Nafta and Naftotiekis (see section on the decision of the Constitutional Court of the Republic of Lithuania below).

- To recognize the decisions made during the shareholders' meeting held on 21 September 2002 as not valid due to breach of the Law on Securities Market. As of the date of the issuing of these financial statements no decisions were taken by the court regarding this claim.

The final outcome of these cases was not known at the date of the release of these financial statements. The management believes that the claims of the minority shareholders are not grounded.

Decision of the Constitutional Court of the Republic of Lithuania

On 18 October 2000 the Constitutional Court of the Republic of Lithuania concluded that certain provisions of the Law of the Republic of Lithuania on Reorganization of Public Companies Būtingės Nafta, Mažeikių Nafta and Naftotiekis, which entitled the Government to assume, on behalf of the State, the essential property-related obligations to the strategic investor and (or) AB Mažeikių Nafta, contravened the Constitution of the Republic of Lithuania. The Constitutional Court concluded that the law statement on compensation of losses to the strategic investor and AB Mažeikių Nafta to the extent it is formulated in such a way that the State would have an obligation to compensate from the State budget even if the losses were incurred due to the fault of the strategic investor Williams International Company and (or) AB Mažeikių Nafta, contradicts the Constitution of the Republic of Lithuania. The Constitutional Court also concluded that the law statement according to which both the State and the strategic investor have the priority right to acquire the sold or otherwise transferred shares of other shareholders who own at least 1% of the shares in AB Mažeikių Nafta to be active after reorganization, to the extent the shareholders' right to otherwise transfer shares is restricted, contradicts the provision of the Constitution establishing protection of ownership rights.

The Investment Agreement signed on 29 October 1999 among the Company, the Government of the Republic of Lithuania and Williams International Company (from 19 September 2002 – Yukos Finance B.V.) (see Note 1), established that the Government of the Republic of Lithuania undertook to ensure the economic conditions for the Company's operations (i.e. laws and other legal acts of the Republic of Lithuania) will not be changed in the manner to adversely affect or impede implementation of the Management Plans of the Company until the latter of the termination of the Management Agreement, the Shareholders' Agreement or the Financing Agreements (as such Management Plans and agreements defined in contractual documentation signed by the parties). The strategic investor and/or the Company can claim the compensation from the Government for any losses incurred due to the Government's failure to ensure these matters. In addition, under the provisions of the Investment Agreement the Company is indemnified by the Government of the Republic of Lithuania from certain obligations and losses, if any, arising from the contingencies that were present when the agreement was signed. In 2002 the Company has been compensated for a number of such losses (see Note 9) and raised the issue of compensation for additional investments required in the oil refinery due to changes in requirements for product specifications (see Note 18). Furthermore, in 1999 and 2000 the Company received LTL 140,000 thousand as crude oil interruption compensation. The management of the Company believes that the uncertainty related to the decision of the Constitutional Court may to some extent negatively influence the Government of the

29. Commitments and contingencies (continued)

Republic of Lithuania when fulfilling its obligations under the provisions of the Investment Agreement, however, no provisions have been established for the compensation already received.

The Government of the Republic of Lithuania is working on the above mentioned issue and trying to find the means to implement the provisions of the Investment Agreement. Certain changes in legislation might be needed. The issue was not solved at the date of the issuance of these consolidated financial statements.

Purchase commitments

On 10 June 1999 the Company signed an agreement with UOP Limited for the installation of UOP HF Alkylation Process unit, Huels Selective Hydrogenation Process unit, UOP Oxygenate Removal Process unit and Penex Process unit. According to the agreement the Company is obliged to acquire licenses for the design capacities of the corresponding units. As of 31 December 2002 the Company has paid USD 1,502 thousand (equivalent of LTL 4,974 thousand as of 31 December 2002) for these licenses and included this amount into intangible assets balance as of 31 December 2002. The remaining license purchase commitment amounts to USD 1,502 thousand (LTL 4,974 thousand as of 31 December 2002).

In addition to the above, under the modernisation program the Company has signed a number of contracts with various other suppliers. The total tangible assets purchase commitment according to these contracts as of 31 December 2002 amounted to USD 15,843 thousand (LTL 52,462 thousand as of 31 December 2002).

Other commitments

The Company and OAO Yukos Oil Corporation signed a crude oil supply agreement for an annual quantity of 4,800 thousand metric tons of crude oil. The maturity of the agreement is 30 June 2012.

Furthermore, according to an agreement with OAO Oil Company YUKOS signed in June 2002, the Company has committed to accept an annual quantity of 4,000 thousand metric tons of crude oil from OAO Oil Company YUKOS and to transport it through the oil terminal. The maturity of this agreement is 31 December 2005.

30. Segment information

Description of reportable segments

In 2001 the Company had three reportable segments: the Oil refinery, the Oil terminal and the Pipeline operator. As described in note 1, in 2002 the Company acquired investment in UAB Uotas Group, which formed a fourth segment, engaged in the retail sales of oil products. The Oil refinery is mainly involved in refining of crude oil. Its present production includes different grades of high-octane unleaded gasoline, diesel, jet fuel, bitumen, LPG and sulfur. The Oil terminal is built on the Baltic Sea coast in order to have an alternative source of crude oil supplies into Lithuania as well as the capacity of exporting oil products to Europe. The

(LTL '000 unless otherwise stated)

30. Segment information (continued)

terminal was brought into operation in July 1999. Pipelines connect the Oil refinery and Biržai pumping station (Pipeline operator) with the terminal. The Pipeline operator transports crude oil and oil products on the Druzhba pipeline. The Company's reportable segments are separate business units that offer different kinds of services. They are managed separately as each business requires different technology and market approach.
A distribution of revenues, profit (loss) and assets between the segments of the Company for the year ended 31 December 2002 is presented in the table below (the results of operations of retail segment are included from 31 March 2002, the acquisition date):

	Oil refinery	Oil terminal	Pipeline operator	Retail sales network	Total
Total revenues by segment	4,442,868	111,087	111,651	82,640	4,748,246
Internal revenues	32,369	-	-	-	32,369
Interest income	7,499	-	-	-	7,499
Interest expenses	(101,398)	(53,373)	-	(1,928)	(156,699)
Depreciation and amortization	(70,230)	(31,127)	(11,680)	(4,391)	(117,428)
Segment operating profit (loss)	(12,789)	(184)	66,392	(4,424)	48,995
Segment assets	1,784,337	761,730	54,415	69,612	2,670,094
Expenditures for segment assets	275,325	961	1,514	1,098	278,898

The customers of the Oil terminal, Oil refinery and Pipeline operator that exceeded 10% of sales during the year ended 31 December 2002 in reportable segments are presented below:

Customer	Segment	% of segment sales
Oil company OAO Yukos (Russia)	Pipeline operator	42.58%
Oil company OAO Yukos (Russia)	Oil terminal	35.54%
BP Oil International Ltd. (Great Britain)	Oil refinery	29.33%
UAB ASTRAMARA (Lithuania)	Oil Terminal	23.37%
UAB Lietuva Statoil (Lithuania)	Oil refinery	15.68%
UAB Lukoil Baltija (Lithuania)	Oil refinery	13.81%
OAO NGK SLAVNEFT (Russia)	Oil Terminal	13.16%
OAO Oil Company LUKOIL (Russia)	Pipeline operator	10.18%

A distribution of revenues, profit (loss) and assets between the segments of the Company in the year ended 31 December 2001 is presented in the table below:

	Oil refinery	Oil terminal	Pipeline operator	Total
Total revenues by segment	5,104,221	94,452	143,982	5,342,655

(LTL '000 unless otherwise stated)

30. Segment information (continued)

	Oil refinery	Oil terminal	Pipeline operator	Total
Internal revenues	12,841	1,907	2,456	17,204
Interest income	4,142	-	-	4,142
Interest expenses	(102,226)	(68,514)	-	(170,740)
Depreciation and amortization	(83,310)	(41,238)	(9,374)	(133,922)
Segment operating profit (loss)	(210,298)	(10,580)	106,529	(114,349)
Segment assets	1,434,455	970,779	72,411	2,477,645
Expenditures for segment assets	62,219	2,173	2,823	67,215

31. Reconciliation of reportable segments' revenues, profit (loss) and assets

	2002	2001
Revenues		
Total revenues for reportable segments	4,748,246	5,342,655
Services and sales of non-production units	11,119	24,471
Elimination of intercompany revenues	(38,176)	(17,204)
Total consolidated revenues	4,721,189	5,349,922
Profit (loss)		
Total operating profit (loss) for reportable segments	48,995	(114,349)
Other profit (loss)	(994)	570
Other corporate expenses	(159,554)	(150,990)
(Loss) before equity in earnings (losses) of associated companies, income tax, minority interest and cumulative effect of a change in accounting principle	(111,553)	(264,769)
Assets		
Total assets for reportable segments	2,670,095	2,477,645
Other assets	6,947	11,378
Intercompany eliminations	(23,958)	(963)
Other eliminations	(18,215)	(7,542)
Total consolidated assets	2,634,869	2,480,518
Depreciation and amortization		
Total depreciation and amortization of reportable segments	(117,428)	(133,922)
Depreciation and amortization in non-production units	(1,082)	(1,235)
Total consolidated depreciation and amortization	(118,510)	(135,157)

(LTL '000 unless otherwise stated)

31. Reconciliation of reportable segments' revenues, profit (loss) and assets (continued)

Total consolidated revenues earned by the Company in the year ended 31 December 2002 and 31 December 2001 can be split by country as follows:

	2002	2001
UK	1,686,430	2,502,875
Lithuania	1,345,524	1,396,949
Latvia	370,884	155,038
Switzerland	276,713	54,667
Poland	245,767	388,866
Ukraine	225,325	235,734
Russia	206,572	222,040
Estonia	184,911	160,484
USA	105,360	96,751
Virgin islands	33,795	15,984
Austria	32,496	20,434
Germany	3,861	45,458
Komi Republic	1,270	3,024
Canada	1,019	1,101
Finland	600	37,683
Ireland	462	422
Denmark	62	21
Cyprus	47	4,295
France	11	6,429
Other	80	1,667
Total consolidated revenues	**4,721,189**	**5,349,922**

All of the Company's long-lived assets are located in Lithuania.

32. Transactions with related parties

In accordance with the provisions of the Investment Agreement, Williams (Williams International Company or UAB Williams Lietuva) was providing management services to the Company. Management fees of LTL 43,858 thousand incurred during the year ended 31 December 2002 (LTL 53,246 thousand during the year ended 31 December 2001) are included in the general and administrative expenses in the statement of operations. On 19 September 2002 Williams International Company sold its shares in the Company and passed the management control rights to Yukos Finance B.V. Management fees for Yukos Finance B.V services amount to LTL 4,370 thousand and are included in the general and administrative expenses in the statement of operations. The management agreement is valid till 29 October 2014 and is renewable thereafter by mutual agreement.

(LTL '000 unless otherwise stated)

32. Transactions with related parties (continued)

In 2002 the Company received a loan from OAO Yukos Oil Corporation, which is a parent company of the Company's shareholder Yukos Finance B.V., amounting to USD 75,000 thousand (LTL 248,355 thousand as of 31 December 2002) and bearing 10% annual interest (see Note 25). In addition as a result of the share purchase agreement with Williams International Company, Yukos International UK B.V., a member of Yukos Group, refinanced USD 75,000 thousand loan (LTL 248,355 thousand as of 31 December 2002), which was granted to the Company by Williams International Company in 1999, on the same terms. As specified in Note 25, the Company also has a loan from its shareholder, the Government of the Republic of Lithuania, bearing an annual interest rate of 10%. The interest rate charged on these loans is higher than the current market rate. However, this interest rate does not exceed the maximum interest rate allowed by the Lithuanian tax legislation and does not have any tax implications for the Company.

As specified in Note 29, in 2002 the Company signed crude oil supply agreement and oil transportation agreement with OAO Yukos Oil Corporation and OAO Oil Company YUKOS respectively. On 1 November 2002 the Company has signed sales commissioner agreement with Petroval SA, a related entity of Yukos.

Transactions with related parties can be specified as follows:

	2002	2001
Accounts receivable from related parties, net		
Petroval SA *	91,432	-
Government of the Republic of Lithuania	11,971	-
UAB Naftelf	717	51
OAO Oil Company YUKOS *	5,307	-
OOO Yukos export trade *	50	-
Yukos Finance B.V. *	3	-
Total	109,480	51
Advances received from related parties		
UAB Naftelf	40	-
OAO Oil Company YUKOS *	1,463	-
Total	1,503	-
Loans received from and interest payable to related parties		
Government of the Republic of Lithuania	957,020	1,176,256
Williams International Company	-	302,667
Yukos International UK B.V. *	248,424	-
OAO Yukos Oil Corporation *	248,424	-
Total	1,453,868	1,478,923

(LTL '000 unless otherwise stated)

32. Transactions with related parties (continued)

	2002	2001
Accounts payable to related parties		
Petroval SA *	1,983	-
UAB Williams Lietuva	1,676	20,391
Total	3,659	20,391
Services sales to related parties		
OAO Oil Company YUKOS *	58,109	-
OOO Yukos export trade *	800	-
UAB Naftelf	1,407	906
Yukos Finance B.V. *	13	-
UAB Williams Lietuva	-	31
Total	60,329	937
Product sales to related parties		
UAB Naftelf	18,788	9,979
Crude oil purchases from related parties		
OAO Yukos Oil Corporation *	1,608,718	-
Services purchases from related parties		
Williams	43,858	53,246
Yukos Finance B.V	4,370	-
Total	48,228	53,246
Commission fee expenses		
Petroval SA *	280	-

* Yukos Group companies and Petroval SA were not related parties until 18 June 2002, and the transactions specified constitute the transactions made since that date.

Petroval SA according Sales Commissioner Agreement, signed on 1 November 2002, for a defined fee is selling Company's oil products. The accounts receivable balance of LTL 91,432 thousand outstanding as of 31 December 2002 represents receivables from third parties for oil products sold by Petroval SA according to Sales Commissioner Agreement, which Petroval SA has to collect on behalf of the Company. The accounts payable to Petroval SA balance as of 31 December 2002 represents commission fee and compensation of expenses incurred by Petroval SA on behalf of the Company according to Sales Commissioner Agreement.

33. Financial risk management activities

The Group operates internationally, giving rise to significant exposures to commodity price, interest rate, credit and foreign exchange risks. Currently the Group does not use any derivative instruments to manage its exposure to any of the risks described below.

Commodity price risk

The Group is exposed to market risks related to the volatility of crude oil and refined products prices.

Interest rate risk

The Group is exposed to the risk of changes in the market interest rates related to its short-term and long-term borrowings.

Credit risk

Concentrations of customers in the oil industry may impact the Group's overall exposure to credit risk, as these customers may be similarly affected by the changes in economic or other conditions. The Group has procedures in force to ensure on a continuous basis that sales are made to customers with an appropriate credit history and do not exceed an acceptable credit exposure limit as established by the management.

Foreign exchange risk

Major currency risks of the Group occur due to the fact that domestic sales and purchases of the Group are mainly denominated in LTL, while the currency of the oil industry and the currency of the major part of the Group's borrowings is USD. The Group's policy is to match cash flows arising from highly probable future sales and purchases and other expenditures in each foreign currency.

Fair value of financial instruments

Financial instruments with on-balance sheet risk include cash and cash equivalents, accounts receivable, other current assets, trade accounts payable, other current liabilities, and overdraft facilities. These financial instruments are disclosed separately in the consolidated financial balance sheet and their carrying values approximate their fair market values. The Group's on-balance sheet risk is minimal as the financial instruments are denominated in stable currencies, they are of a short-term nature and their interest rates approximate current market prices.