MAŽEIKIŲ NAFTA AB
Consolidated financial statements
Prepared in accordance with accounting principles generally accepted in the United States of America presented in US Dollars
December 31, 2003

PRICEWATERHOUSECOOPERS

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Report of Independent Auditor

To the Shareholders and Board of Directors of
Mažeikių Nafta AB

1. We have audited the accompanying consolidated balance sheet of Mažeikių Nafta AB and Subsidiaries (the "Company") as of December 31, 2003 and the related consolidated statements of income, changes in shareholders' equity and comprehensive income, 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. The consolidated financial statements of the Company as of December 31, 2002 were audited by other auditors whose report dated January 27, 2003 was qualified with respect to the matter discussed in paragraph 3.
2. Except as discussed in paragraph 3, we conducted our audit in accordance with auditing standards generally accepted in the United States of America. 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 management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.
3. United States Generally Accepted Accounting Principles require presentation of property, plant and equipment on the basis of historical cost less accumulated depreciation. In accordance with resolutions of the Government of Lithuania, the Company has revalued property, plant and equipment four times prior to January 1, 1996 resulting in an initial cumulative increase in the net book value of tangible assets of USD 115,090 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 balance sheets as of December 31, 2003 and 2002 and on the consolidated statements of income for the years then ended.
4. In our opinion, based on our audit, except for the effect of the matter referred to in paragraph 3, the financial statements referred to above present fairly, in all material respects, the consolidated financial position of AB Mažeikių Nafta AB and Subsidiaries at December 31, 2003, and the results of their operations and their cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.
5. As further discussed in Note 1 to the financial statements, the Company's parent, Yukos Finance B.V. is part of YUKOS. YUKOS and certain of its significant shareholders have been subjected to a series of charges by the Russian authorities.

Vilnius, Lithuania
March 26, 2004

PricewaterhouseCoopers UAB

MAŽEIKIŲ NAFTA AB
Consolidated Statements of Income
(Expressed in thousands of US Dollars, except as indicated)

	Note	December 31, 2003	December 31, 2002
Assets			
Cash and cash equivalents, net	4	107,664	48,113
Current portion of restricted cash	5	976	583
Trade accounts receivable, net	6	52,457	62,652
Accounts receivable from related parties, net	32	36,355	33,542
Inventories	7	117,397	90,701
Other current assets, net	8	12,322	23,879
Current portion of deferred income tax asset, net	27	857	-
Total current assets		328,028	259,470
Non-current portion of restricted cash	5	23,715	60,186
Equity investees and long-term investments at cost	12	1,585	1,659
Property, plant and equipment, net	9	530,279	472,212
Intangible assets, net	10	2,620	1,502
Non-current accounts receivable, net	11	7,477	667
Non-current portion of deferred income tax asset, net	27	24	-
Total assets		893,728	795,696
Liabilities and shareholders' equity			
Short-term debt and current portion of long-term debt	20	12,068	26,667
Current portion of capital lease liabilities	19	392	443
Trade accounts payable	15	29,754	35,414
Accounts payable to/advances received from related parties	32	150,327	95,011
Advances received	16	3,136	3,791
Taxes payable	17	32,779	31,474
Other current liabilities	18	12,172	13,119
Total current liabilities		240,628	205,919
Long-term debt, net of current maturities	20	475,636	485,687
Capital lease liabilities, net of current maturities	19	692	756
Subsidies	21	5,010	4,994
Non-current portion of deferred income tax liability	27	309	-
Total liabilities		722,275	697,356
Minority interest		906	1,675
Ordinary shares (707,454,130 authorized and issued at December 31,2003 and 2002; nominal value – LTL 1 per share)		181,366	181,366
Additional paid in capital		87,613	87,613
Revaluation reserve		109	109
Accumulated other comprehensive income		3,298	1,378
Accumulated deficit		(101,839)	(173,801)
Total shareholders' equity		170,547	96,665
Commitments and contingent liabilities	30	-	-
Total liabilities and shareholders' equity		893,728	795,696

Paul Nelson English
General Director

Vita Petrošienė
Acting Chief Financial Officer

(Expressed in thousands of US Dollars, except as indicated)

	Notes	Year ended December 31, 2003	2002
Sales and other operating revenues*	22	1,736,929	1,297,523
Operating costs and other deductions			
Cost of sales, excluding depreciation and amortization	23	(1,453,230)	(1,164,523)
Selling and distribution expenses, excluding depreciation and amortization	24	(97,253)	(53,834)
General and administrative expenses, excluding depreciation and amortization	25	(59,764)	(34,244)
Depreciation and amortization	26	(32,344)	(32,305)
Total operating costs and other deductions		(1,642,591)	(1,284,906)
Other income (expenses)			
Loss from equity affiliates		(102)	(39)
Interest income		2,541	2,042
Interest expense		(36,970)	(42,671)
Exchange gain, net		11,257	2,223
Write-down of long-term investments		(519)	-
Goodwill impairment		-	(8,194)
Compensations received from Government		-	3,418
Insurance compensation		3,857	-
Other income (expenses), net		58	399
Total other expenses, net		(19,878)	(42,822)
Income (loss) before income tax and minority interest		74,460	(30,205)
Income tax			
Current income tax expense		(3 381)	(918)
Deferred income tax benefit		519	-
Total income tax expense, net	27	(2,862)	(918)
Income (loss) before minority interest		71,598	(31,123)
Minority interest		364	110
Net income (loss)		71,962	(31,013)
Earnings (loss) per share (USD per share)			
Basic		0.10	(0.05)
Diluted		0.08	(0.05)
Weighted-average shares outstanding (thousands of shares)			
Basic		707,454	654,572
Diluted	28	918,689	654,572
* excludes excise taxes on sold refined oil products		268,623	243,902

MAŽEIKIŲ NAFTA AB
Consolidated Statements Cash Flow
(Expressed in thousands of US Dollars, except as indicated)

	Notes	Year ended December 31, 2003	2002
Operating activities			
Net income (loss)		71,962	(31,013)
Adjustments to reconcile net income to cash provided by operations:			
Depreciation and amortization	26	32,344	32,305
Impairment of goodwill		-	8,194
Equity in losses of associates		102	39
Minority interest		(364)	(110)
Loss on sales and retirements of property, plant and equipment and intangible assets		1,045	2,994
Impairment of assets held for resale		624	-
Write down of investment		519	-
Discounting of long-term receivables		363	362
Other		(64)	57
Changes in operating assets and liabilities:			
Trade accounts receivable and accounts receivable from related parties		(3,469)	(60,279)
Inventories		(26,340)	(20,982)
Other current assets		14,023	(13,297)
Trade accounts payable and accounts payable to related parties		49,812	43,111
Taxes payable, advances and other current liabilities		2,842	26,120
Net cash generated from (used for) operating activities		143,399	(12,499)
Investing activities			
Additions to property, plant and equipment and intangible assets		(94,234)	(55,054)
Proceeds from sales of property, plant and equipment		641	20
Distributions from investees		34	-
Dividends received from associates		26	-
Cash from subsidiary acquired		-	201
Acquisition of minority shares in subsidiary	13	(530)	-
Other		(34)	-
Net cash used for investing activities		(94,097)	(54,833)
Financing activities			
Share capital increase		-	74,992
Net proceeds from/(repayments of) short-term debt		(15,082)	8,860
Repayments of long-term debt		(15,153)	(34,957)
Proceeds from long-term loans		5,132	75,000
Principal payments of capital lease obligations		(470)	(1,741)
Change in long-term accounts receivable		234	1,069
Distribution to minority		(3)	(139)
Net cash generated from (used for) financing activities		(25,342)	123,084
Effect of foreign exchange on cash balances		(487)	(1,132)
Net change in cash and cash equivalents		23,473	54,620
Cash and cash equivalents at beginning of period	4	48,113	26,886
Change in restricted cash	5	36,078	(33,393)
Cash and cash equivalents at end of period	4	107,664	48,113
Supplemental cash flow information			
Interest paid		39,949	51,243

MAŽEIKIŲ NAFTA AB

Consolidated Statements of Shareholders' Equity and of Comprehensive Income

(Expressed in thousands of US Dollars, except as indicated)

	Number of ordinary shares issued (thousand)	Ordinary shares	Additional paid in capital	Revaluation reserve	Accumulated other comprehensive income	Accumulated deficit	Total shareholders' equity
Balance at December 31, 2001	1,034,990	258,748	64,613	109	-	(272,161)	51,309
Net loss for the year	-	-	-	-	-	(31,013)	(31,013)
Decrease in share capital	(517,495)	(129,373)	-	-	-	129,373	-
Increase in share capital	189,959	51,991	23,000	-	-	-	74,991
Other comprehensive income, net of tax	-	-	-	-	1,378	-	1,378
Balance at December 31, 2002	707,454	181,366	87,613	109	1,378	(173,801)	96,665
Net income for the year	-	-	-	-	-	71,96	71,962
Other comprehensive income, net of tax	-	-	-	-	1,920	-	1,920
Balance at December 31, 2003	707,454	181,366	87,613	109	3,298	(101,839)	170,547

Comprehensive income (loss) for the years ended December 31, 2003 and 2002 was as follows:

	Notes	Year ended December 31, 2003	2002
Net income (loss)		71,962	(31,013)
Other comprehensive income, net of tax			
Foreign currency translation adjustment		1,908	1,378
Unrealized gain on cash flow hedge	14	12	-
Total comprehensive income (loss)		73,882	(29,635)

Note 1: Nature of Business

Mažeikių Nafta AB (hereinafter - the Company) was originally established in 1980 to refine crude oil and market refined oil products. On April 7, 1995 the Company was reorganized into a public company following a partial privatization by the Company's employees. In 1998, the Company merged with Būtingės Nafta AB, an oil terminal operator, and Naftotiekis AB, a pipeline operator. In 2002, the Company acquired 85 percent of the share capital of Uotas UAB, which included an 81 percent interest in Ventus Nafta AB. In 2003, the remaining 15 percent of share capital in Uotas UAB was acquired. Both companies are engaged in the refined oil products retail business. In May 2003, the Company established a wholly owned subsidiary Mažeikių Nafta Trading House UAB to act as a sales commissioner in Lithuania. Subsidiaries of Mažeikių Nafta Trading House UAB are also engaged in wholesale of refined oil products in Latvia, Estonia and Poland.

The Company's two primary shareholders are Yukos Finance B.V. (part of YUKOS) with 53.7 percent and the Government of the Republic of Lithuania with 40.7 percent of shares. The remaining shares are widely held.

According to the Investment Agreement Yukos Finance B.V. provides management services to the Company.

Current situation within YUKOS. The Chairman of the Board of Directors of Mazeikiu Nafta AB is a significant shareholder of YUKOS. Beginning in 2003, he together with other significant shareholders have been subjected to a series of charges by the Russian tax authorities and the Russian general prosecutor including corporate tax evasion, fraud, personal tax evasion and forgery. All individuals named in the allegations have resigned or are in the process of being removed from their positions in YUKOS and its subsidiaries, including the Company. Two of the majority shareholders, including the former Chairman of the Executive Committee of YUKOS' Board of Directors, have been incarcerated pending trial.

Based on discussions with management of YUKOS, the Company does not believe that the actions by the Russian government against various YUKOS shareholders should have a material impact on the Company.

During the same time period that charges were brought against individual shareholders of YUKOS, the Russian tax authorities submitted a preliminary finding that YUKOS underpaid USD 3.3 billion in taxes, including penalties, for the year 2000. YUKOS has objected to the tax findings, and a subsequent inquiry by the tax authorities is in progress. YUKOS has also been subjected to numerous compliance reviews of its oil and gas licenses by federal and regional governmental agencies. These reviews are ongoing.

YUKOS' management have informed the Company that the charges of underpayment of taxes are without merit and that it intends to vigorously defend its position. Further, YUKOS management has informed the company that it believes it is in material compliance with its oil and gas licenses and that they do not anticipate adverse findings in the ongoing license reviews. However, since there is a risk that YUKOS may be required to pay significant additional taxes or lose significant oil and gas licenses due to actual or alleged non-compliance with license terms, such events could have a material adverse affect on the financial position and operations of YUKOS and its subsidiaries, including Mazeikiu Nafta AB.

As further disclosed in Note 32 to the financial statements, the company is currently dependent on YUKOS for a large part of its supply of crude oil. Management of the Company believes that should YUKOS lose a substantial portion of its licenses it could still supply the Company's crude requirement. Furthermore, the management of the Company, with significant assistance from YUKOS, is seeking to reduce this dependence.

Note 2: Basis of preparation

The financial statements are prepared in accordance with accounting principles generally accepted in the United States of America (US GAAP).

Management's use of estimations. The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the amounts reported in the financial statements and footnotes thereto. Actual results may differ from those estimates.

(Expressed in US Dollars (tabular amounts in thousands))

Reporting and functional currencies. The functional currency of the Company is US Dollar (USD). The functional currencies of the Company's subsidiaries are official currencies of the countries in which subsidiaries operate. The financial statements of the subsidiaries were translated to US Dollars, the reporting currency of the Company, in accordance with the relevant provisions of SFAS No. 52, *Foreign Currency Translation.*

Currency controls. Until January 31, 2002 the exchange rate of the Lithuanian Litas (LTL) was fixed to the US Dollar (USD) at a rate of 4 LTL=1 USD. From February 1, 2002 Lithuania repegged the Lithuanian Litas to the Euro at the rate of 3.4528 LTL=1 Euro.

Currency exchange rates. The following summarizes the end of period exchange rates of Lithuanian Litas (LTL) to US Dollar (USD) for the dates presented:

LTL per USD	2003	2002
December 31,	2.7621	3.3114
September 30,	3.0133	3.5314
June 30,	3.0196	3.4794
March 31,	3.2287	3.9526

Reclassification. Certain reclassifications have been made to previously reported balances to conform to the current year's presentation; such reclassifications have no effect on net income and shareholders' equity.

Note 3: Significant accounting policies

Principles of consolidation and long-term investments. The consolidated financial statements include the operations of all entities in which the Company directly or indirectly controls more than 50 percent of the voting stock. Significant joint ventures and investments in which the Company has voting ownership interest between 20 and 50 percent or otherwise exercises significant influence are accounted for using the equity method and adjusted for estimated impairment. Long-term investments in other unquoted companies are accounted for at cost and adjusted for estimated impairment.

Foreign currencies transactions and translation. Foreign currency transactions are accounted for at the exchange rates prevailing at the date of the transactions; gains and losses resulting from the settlement of such transactions are recognised in the statement of income. All outstanding amounts and cash are remeasured at each reporting date using period end exchange rates; any resulting gains and losses on the remeasurement are included as an exchange gain or loss in the statement of income.

Statements of income and cash flows of subsidiaries are translated to the reporting currency by using appropriately weighted average exchange rates for period, and balance sheets are translated by using period end exchange rates. Translation adjustments resulting from the process of translation the financial statements into the reporting currency are not included in determining net income for the period but are disclosed and accumulated in the statement of other comprehensive income. On the disposal of a subsidiary accumulated translation adjustments are recognized as gain (loss) on the disposal in the statement of income.

Cash and cash equivalents. Cash includes cash on hand and in bank. The Company considers all highly liquid investments with original maturity date of three months or less to be cash equivalents.

Cash and cash equivalents exclude cash that is not available to the Company due to restrictions related to its use. Such amounts are segregated and disclosed as restricted cash.

Accounts receivable. Accounts receivable are presented at their respective face values, less any valuation allowances, as appropriate, and include value-added taxes which are payable to tax authorities upon collection of such receivables. Bad debts are written off during the year in which they are identified as irrecoverable.

(Expressed in US Dollars (tabular amounts in thousands))

Inventories. Inventories are recorded at the lower of cost and net realizable value. Cost is determined on a FIFO (first-in, first-out) basis. Costs capitalized to inventory include, but not limited to, cost of raw materials, direct production costs (direct material and direct labor), overhead costs for work in progress and finished goods. Net realisable value is the estimate of the selling price in the ordinary course of business less selling expenses.

Spare parts for machinery and equipment are included within inventory although due to their nature not all of them are expected to be utilized within one year period.

Property, plant and equipment. Property and equipment is stated at indexed cost less indexed accumulated depreciation through December 31, 1995 and at cost less accumulated depreciation since that date. Depreciation is calculated on the straight-line method to write off the cost of each asset over its estimated useful life, except for catalysts which are depreciated using the unit of output method. The useful lives for different tangible assets groups are as follows:

	Useful life (in years)
Machinery and equipment:	
Structures	20 – 70
Other machinery and equipment	2 – 35
Buildings:	
Concrete and brick buildings	40 – 90
Other buildings	10 – 20
Other tangible assets:	
Petrol stations and related equipment	7 – 20
Other	2 – 32

In accordance with resolutions of the Government of the Republic of Lithuania, tangible assets have been revalued/indexed four times prior to December 31, 1995 and, as a result, are neither stated at historical cost less accumulated depreciation nor accounted for using the provisions of SFAS 52, *Foreign Currency Translation* concerning hyper-inflationary accounting, as required by US GAAP. The initial cumulative effect of indexations performed amounting to LTL 460,358 thousand (USD 115,090 thousand) was originally accounted for as a revaluation reserve in shareholders' equity. All except LTL 437 thousand (USD 109 thousand) of this reserve was later converted to share capital with the balance remaining in the revaluation reserve.

Gains and losses on disposal of property, plant and equipment are determined by reference to their carrying amount and are taken into account in determining operating profit.

The costs of expansion, modernization or improvements leading to increased productivity, capacity of efficiency or to a lengthening of the useful lives of the assets are capitalized. Repair and maintenance costs are expensed as incurred.

Following SFAS 144 *Accounting for the Impairment or Disposal of Long-Lived Assets*, the Company's long-lived assets or a group of assets are tested for impairment whenever events or changes in circumstances indicate that the carrying value of these assets may not be recoverable. Impairment is measured as the amount by which the carrying value of an asset or a group of assets exceeds their fair value.

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.

Intangibles. Intangible assets mainly represent patents and licenses acquired stated at cost less accumulated amortization less impairment. Amortization is provided over the estimated useful lives of the assets, generally 2 - 5 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 whenever indications of impairment arise.

Negative goodwill. Any excess of fair value over the purchase price, i.e. negative goodwill, is allocated on a pro-rata basis to all assets other than: current assets, financial assets (other than equity method investments); assets to be sold and deferred taxes. Any negative goodwill remaining is recognized as an extraordinary gain.

Lease, where the Company is the lessee. Leases of assets where the Company has substantially all the risks and rewards of ownership are classified as capital leases. Capital leases are capitalised at the inception of the lease at the estimated present value of the underlying lease payments. Each lease payment is allocated between the liability and finance charges so as to achieve a constant rate on the finance balance outstanding. The corresponding rental obligations, net of finance charges, are included in current and non-current borrowings. The interest element of the finance cost is charged to the statement of income over the lease period so as to produce a constant periodic rate of interest on the remaining balance of the liability for each period. The property, plant and equipment acquired under capital leasing contracts are depreciated over the useful life of the asset.

Leases other than capital leases are classified as operating leases. Payments made under operating leases are charged to the income statement on a straight-line basis over the period of lease.

Environmental liabilities. Liabilities for environmental remediation are recorded when it is probable that obligations have been incurred and the amounts can be reasonably estimated.

Comprehensive income. Comprehensive income is composed of net income and other comprehensive income. Other comprehensive income includes changes in equity that are excluded from net income, such as translation adjustments and unrealized result from hedge activities.

Financial instruments. The Company records derivative instruments following provisions of SFAS 133, *Accounting for Derivative Instruments and Hedging Activities*, as amended by SFAS 137 and SFAS 138. Derivative instruments are separately recorded in the balance sheet as either an asset or liability, measured at its fair value. Changes in the fair value of derivatives are recognized in the statement of income unless specific hedge accounting criteria are met. Result from hedge transactions is classified and accounted for in the same category as the item being hedged.

Revenue recognition. Sales of refined oil products, net of value added tax, are recognized when deliveries are made, title passes to the customer and collectability is reasonably assured. Sales of services, net of value added tax, are recognized upon performance of services. Excise taxes collected by the Company on behalf of the state are excluded from sales revenue.

Products shipping and handling costs. Costs incurred for shipping and handling of products are included in selling expenses in the statement of income.

Income tax. The current expense (benefit) for corporate income taxes due is calculated in accordance with local tax regulations in the countries the Company operates and is based on book income before taxes reported under local accounting regulations increased and decreased by the appropriate temporary differences from taxable income (loss).

Following SFAS 109, *Accounting for Income Taxes,* deferred income tax is accounted for using the liability method and is provided on the future tax consequences of all events that have been recognized in the Company's consolidated financial statements or tax returns. Deferred income tax asset and liability are not recognised for differences related to assets and liabilities that under SFAS 52, *Foreign Currency Translation* are remeasured from the local currency into the functional currency using historical exchange rates and that result from (1) changes in exchange rates or (2) indexing for tax purposes. Deferred income tax assets and liabilities are measured using enacted rates in the years in which temporary differences are expected to reverse. Valuation allowances are provided for deferred income tax assets when management believes that it is more likely than not that the assets will not be realized.

Basic and diluted earnings per share. Basic earnings per share is calculated by dividing net income by the weighted-average number of ordinary shares outstanding during the year. Diluted earnings per share reflects the potential dilution that would occur if third party options were exercised.

Recent accounting pronouncements. Effective January 1, 2003, the Company adopted SFAS No. 143, *Accounting for Assets Retirement Obligations,* which addresses the accounting and reporting requirements for legal obligations associated with the retirement of long-lived assets. This standard requires that a liability for an asset retirement obligation, measured at fair value, be recognized in the period in which it is incurred if a reasonable estimate of fair value is determinable. That initial fair value is capitalized as part of the carrying amount of the long-lived asset and subsequently depreciated. The liability is adjusted each reporting period for accretion, with a charge to the statement of income. Management of the Company is not aware of any assets retirement obligations of the Company.

In November 2002, the Financial Accounting Standards Board (FASB) issued Interpretation No. 45, *Guarantor's Accounting and Disclosure Requirements for Guarantees, Including Indirect Guarantees of Indebtedness of Others* ("FIN 45"). FIN 45 elaborates on the disclosures to be made by a guarantor in its interim and annual financial statements about its obligations under certain guarantees that it has issued. It also clarifies that a guarantor is required to recognize, at the inception of a guarantee, a liability for the fair value of the obligation undertaken in issuing the guarantee. The measurement and initial recognition provisions of FIN 45 are effective for guarantees issued or modified after December 31, 2002. The disclosure requirements of FIN 45 are effective for financial statements of periods ending after December 15, 2002. The Company has adopted the recognition provisions in the first quarter 2003 with no impact on its consolidated financial condition, results of operations or cash flows.

In January 2003, the FASB issued Interpretation No. 46, *Consolidation of Variable Interest Entities,* an interpretation of ARB No. 51. This interpretation clarifies consolidation requirements for variable interest entities. It establishes additional factors beyond ownership of a majority voting interest to indicate that a company has a controlling financial interest in an entity (or a relationship sufficiently similar to a controlling financial interest that it requires consolidation). This interpretation applies immediately to variable interest entities created or obtained after January 31, 2003 and must be retroactively applied to holdings in variable interest entities acquired before February 1, 2003 in interim and annual financial statements issued for periods beginning after June 15, 2003. The adoption of this interpretation did not have an impact on consolidated financial condition, results of operations or cash flows of the Company.

In April 2003, the FASB issued SFAS No. 149, *Amendment of Statement 133 on Derivative Instruments and Hedging Activity*. SFAS No. 149 amends certain provisions related to Statement No. 133, and is generally effective for transactions entered into after September 30, 2003. The adoption of SFAS No. 149 did not have a material impact on Company's consolidated financial condition, results of operations or cash flows.

In May 2003, the FASB issued SFAS No. 150, *Accounting for Certain Financial Instruments with Characteristics of both Liabilities and Equity*. SFAS No. 150 affects how an entity measures and reports financial instruments that have characteristics of both liabilities and equity, and is effective for financial instruments entered into or modified after May 31, 2003 and is otherwise effective at the beginning of the first interim period beginning after June 15, 2003. The adoption of SFAS No. 150 did not have a material impact on consolidated financial condition, results of operations or cash flows of the Company.

In May 2003, the Emerging Issues Task Force (EITF) of the FASB issued Consensus No. 01-8, *Determining Whether an Arrangement Contains a Lease.* Consensus No. 01-8 establishes criteria for determining when certain contracts, or portions of contracts, should be subject to the provisions of SFAS No. 13, *Accounting for Leases* and related pronouncements. EITF Consensus No. 01-8 generally is effective for arrangements entered into or modified after May 28, 2003. The adoption of EITF Consensus No. 01-8 did not have a material impact on consolidated financial condition, results of operations or cash flows of the Company.

(Expressed in US Dollars (tabular amounts in thousands))

Note 4: Cash and cash equivalents, net

	December 31, 2003	December 31, 2002
Cash in banks	9,256	10,859
Short-term bank deposits	106,069	44,768
Cash on hand	14	65
Total cash and cash equivalents	115,339	55,692
Less: allowance for cash held in Vneshekonombank	(3,086)	(3,086)
allowance for cash held in Litimpeks Bank	(4,589)	(4,493)
Total cash and cash equivalents, net	107,664	48,113

As of December 31, 2003, the weighted average effective annual interest rate on short-term bank deposits was 1.47 per cent (December 31, 2002: 1.98 per cent).

An allowance was formed for the deposit of USD 3,086 thousand (December 31, 2002: USD 3,086 thousand) frozen in the Russian bank Vneshekonombank. Negotiations are being held between the governments of the Republic of Lithuania and the Russian Federation regarding the settlement of the balances held with Vneshekonombank by Lithuanian entities. The management of the Company does not expect that the above-mentioned amount will be recovered, therefore, a provision for whole amount has been recorded.

Liquidation procedures of Litimpeks Bank have been finished and there has been no payouts to creditors. Therefore, the Company decided to establish an allowance for whole amount of the multicurrency deposit held with Litimpeks Bank.

Note 5: Restricted cash

	December 31, 2003	December 31, 2002
Non-current portion of restricted cash	23,715	60,186
Current portion of restricted cash	976	583
Total restricted cash	24,691	60,769

Restricted cash in the amount of USD 23,546 thousand (December 31, 2002: USD 60,186 thousand) was received from Yukos Oil Company under a loan agreement. These funds can be used only for financing of the oil refinery modernization project. In July 2003, this loan was refinanced by Vilniaus Bankas AB.

As a security for assets acquired under capital lease agreements concluded in 2003, the Company made an interest free deposit of PLZ 635 thousand (equivalent of USD 169 thousand as of December 31, 2003) which was paid into the lessor's bank account. According to the agreements, deposits are to be returned after the Company pays all leasing installments in 2006 – 2007, however, management of the Company intends to refinance unfavorable leasing agreements and take back the deposited cash in 2004.

The remaining balance of restricted cash of USD 976 thousand (December 31, 2002: USD 583 thousand) is required to be maintained under the terms of letters of credit issued for settlements with suppliers.

(Expressed in US Dollars (tabular amounts in thousands))

Note 6: Trade accounts receivable, net

	December 31, 2003	December 31, 2002
Oil refinery	67,716	74,646
Oil terminal	921	3,620
Pipeline operator	806	742
Retail network operators	739	711
Non-production units	13	13
Total gross trade accounts receivable	70,195	79,732
Less: provision for doubtful trade accounts receivable	(17,738)	(17,080)
Total trade accounts receivable, net	52,457	62,652

Note 7: Inventories

	December 31, 2003	December 31, 2002
Raw and supplementary materials	20,120	14,732
Finished goods and goods for resale	66,411	48,770
Semi-manufactures	9,959	7,351
Assets held for resale	44	-
Spare parts and other	20,863	19,848
Total inventories	117,397	90,701

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

Note 8: Other current assets, net

	December 31, 2003	December 31, 2002
Prepaid and recoverable taxes	3,927	13,518
Accrued income and deferred expenses	6,754	5,768
Advances to suppliers (net of allowances for doubtful accounts of USD 503 thousand and USD 412 thousand at December 31, 2003 and 2002 respectively)	1,206	3,673
Other current assets (net of allowances for doubtful accounts of USD 1,208 thousand and USD 1,102 thousand at December 31, 2003 and 2002 respectively)	435	920
Total other current assets, net	12,322	23,879

As of December 31, 2002 prepaid and recoverable taxes included real estate tax amounting to LTL 35,073 thousand (equivalent to USD 10,581 thousand as of December 31, 2002) paid during the period 1997 - 2002. In 2003, based on the decision of the state tax authorities, part of this tax amounting to LTL 26,734 thousand was recognized as overpaid and the remaining part of LTL 8,339 thousand (equivalent to USD 2,787 thousand) was recognized as irrecoverable. In 2003, real estate tax of LTL 114 thousand (equivalent to USD 40 thousand) was set-off against tax liabilities of the Company and, according to the agreement with the state tax authorities, the remaining part of the overpaid real estate tax totaling to LTL 26,620 thousand as of December 31, 2003 (equivalent to USD 9,638 thousand as of December 31, 2003) will be set off against future tax liabilities of the Company over a three year period.

(Expressed in US Dollars (tabular amounts in thousands))

Note 9: Property, plant and equipment, net

	December 31, 2003	December 31, 2002
Machinery and equipment	621,725	526,403
Buildings	88,339	85,622
Pipeline fill	8,326	6,798
Other tangible assets	84,283	60,931
Construction in progress and prepayments	51,771	80,741
Total property, plant and equipment at cost	854,444	760,495
Less: accumulated depreciation	(324,165)	(288,283)
Total property, plant and equipment, net	530,279	472,212

Pipeline fill represents oil in the oil terminal's pipes and reservoirs. This volume of oil is required for the operation of the terminal equipment and cannot be extracted under normal operations. It is carried at cost and is not depreciated.

Construction in progress and prepayments consists of the following:

	December 31, 2003	December 31, 2002
Oil refinery	37,035	69,416
Oil terminal	14,230	10,668
Pipeline operator	39	326
Retail network operator	467	331
Total construction in progress and prepayments	51,771	80,741

At the end of 1999, the Company started a modernization program which included projects designed to meet more stringent quality requirements for gasoline, diesel and more stringent environmental requirements, improve logistics and product handling as well as increase efficiency. In 2003, the management updated this modernization program and submitted it for approval of shareholders. The updated modernization program for 2004 - 2008 includes implementation of modernization projects suspended in 2001 with a carrying value of USD 15,023 thousand as of December 31, 2003. Management expects that the shareholders will approve the modernization program and, therefore, no provisions for possible impairment of suspended projects were made in the consolidated financial statements for the year ended December 31, 2003.

As of December 31, 2003 property, plant and equipment included not operating tangible assets with carrying value of USD 1,412 thousand (December 31, 2002: USD 2,030 thousand). It is anticipated that they will be brought into use after repairs/reconstruction or will be utilized in the modernization program.

Interest capitalised amounted to USD 3,240 thousand during the year ended December 31, 2003 (December 31, 2002: USD 4,361 thousand).

(Expressed in US Dollars (tabular amounts in thousands))

Note 10: Intangible assets, net

	December 31, 2003	December 31, 2002
Patents and licenses	5,843	4,452
Prepayments for patents and licenses	1,229	1,502
Total intangible assets at cost	7,072	5,954
Less: accumulated amortization	(4,452)	(4,452)
Total intangible assets, net	2,620	1,502

Patents and licenses include acquired patents and costs of manufacturing technology used by the refinery.

The estimated aggregate amortization expenses of intangible assets already in use over the following four years is:

	December 31, 2003
Year ending December 31:	
2004	355
2005	355
2006	341
2007	340
Total estimated amortization	1,391

Note 11: Non-current accounts receivable, net

	Note	December 31, 2003	December 31, 2002
Overpaid real estate tax	8	6,995	-
Mažeikių Vandenys SP UAB		2,364	1,911
Lifosa AB		313	633
Other		566	506
Gross non-current accounts receivable		10,238	3,050
Less: provisions for doubtful amounts		(2,036)	(2,021)
Non-current accounts receivable, net		8,202	1,029
Less: discounting effect at 4% rate		(725)	(362)
Total non-current accounts receivable, net		7,477	667

(Expressed in US Dollars (tabular amounts in thousands))

Note 12: Equity investees and long-term investments at cost

	December 31, 2003	December 31, 2002
Investments in associated companies	1,391	1,032
Other long-term investments (net of accumulated impairment of USD 2,267 thousand and USD 1,748 thousand at December 31, 2003 and 2002 respectively)	194	627
Total equity investees and long-term investments at cost	1,585	1,659

The balance of investments in associated companies as at December 31, 2003 and 2002 represents the investment in Naftelf UAB, where the Company holds 34 percent of shares. Naftelf UAB is a joint venture with the French company Corelf. The activity of the entity includes sales of aviation fuel and construction of aviation fuel storage facilities. The share of undistributed earnings of Naftelf UAB amounting to USD 47 thousand is included within consolidated accumulated losses as at December 31, 2003 (December 31, 2002: USD 34 thousand).

Investments in other entities represents shares held in the entities where investments do not exceed 20 percent of the shares.

In 2003, the Company recognized an impairment of USD 500 thousand of its investment in Biržų Vandenys SPAB, an entity controlled by the Biržai municipality, which has reported substantial losses over the past few years. Attempts to dispose of this investment have been unsuccessful.

Note 13: Acquisitions

In November 2003, the Company acquired the remaining 15 percent of shares in its subsidiary Uotas UAB from the minority shareholders increasing its ownership to 100 percent. The share of net assets acquired exceeded the purchase consideration of LTL 1,538 thousand (USD 530 thousand) by USD 469 thousand. Negative goodwill arising on acquisition was allocated to property, plant and equipment on a proportional basis and will be amortized during the average useful lives of the assets concerned.

(Expressed in US Dollars (tabular amounts in thousands))

Note 14: Financial instruments

Fair values. A financial instrument is defined as cash, evidence of an ownership interest in an equity, or a contract that imposes an obligation to deliver or the right to receive cash or another financial instrument. The fair values of financial instruments are determined with reference to various market information and other valuation methods, as considered appropriate. However, considerable judgment is required to interpret market data and to develop the estimates of fair value. Accordingly, the estimates presented herein may differ from the amounts the Company could receive in current market exchanges.

The net carrying values of cash and cash equivalents, short-term accounts receivable and accounts payable, taxes payable and accrued liabilities approximate their fair values because of the short maturities of these instruments.

Long-term investments are valued at their historical cost adjusted for impairment, as appropriate. Management believes that the carrying values of long-term investments approximate their fair values.

Management also believes that the carrying value of long-term debt, including the current portion of long-term debt, is an approximate of its fair value.

Credit risk. Financial instruments that potentially subject the Company to a concentration of credit risk consist principally of temporary cash investments and accounts receivable.

The Company restricts placement of cash investments to financial institutions evaluated as highly creditworthy.

Concentrations of customers in the oil industry may impact the Company's overall exposure to credit risk, as these customers may be similarly effected by the changes in economic conditions. The Company has procedures in place 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 established by the management. Management believes that there is no significant risk of loss to the Company beyond the provisions already recorded.

Concentration of risk. The majority of sales of refined oil products, except for domestic sales and sales to Latvia, Estonia and Poland are made through sales commissioner Petroval SA, an entity related to Yukos group (Note 31). Furthermore, a significant part of Pipeline and Oil Terminal services are provided to Yukos group companies. Yukos group is also the major supplier of crude oil to the Company. Therefore, negative changes in relationships with Yukos group could have an adverse impact on the operations of the Company.

Derivative instruments. The Company occasionally enters into commodity swap contracts to reduce risk relating to the price volatility.

In the last quarter of 2003, the Company entered into commodity price swap contracts to reduce risk associated with the price volatility relating to forecast sales of diesel in February - April 2004. According to these agreements the Company has swapped the floating price of a certain volume of forecast sales of diesel in February, March and April 2004 to fixed prices. The diesel reference prices of these contracts are based upon Platts European Marketscan NWE, which have a very high degree of historical correlation with actual prices received by the Company. The Company's diesel swap contracts are designated as cash flow hedges.

As of December 31, 2003, the Company was a party to the fixed price swaps summarized below:

Time period	Hedged item	Notional volume, MT	Average fixed price, USD/MT	Unrealized loss (USD thousands)
12/16/03 – 02/29/04	EN590, NWE	6,000	286.0	(3)
12/17/03 – 03/31/04	EN590, NWE	7,000	278.0	(1)
12/18/03 – 04/30/04	EN590, NWE	13,000	266.5	16
				12

(Expressed in US Dollars (tabular amounts in thousands))

Note 15: Trade accounts payable

	December 31, 2003	December 31, 2002
Oil refinery	27,293	33,835
Oil terminal	1,372	729
Retail network operator	854	611
Pipeline operator	193	194
Non-production units	42	45
Total trade accounts payable	29,754	35,414

Note 16: Advances received

	December 31, 2003	December 31, 2002
Oil refinery	2,593	2,898
Oil terminal	215	23
Pipeline operator	213	751
Retail network operator	100	115
Non-production units	15	4
Total advances received	3,136	3,791

Note 17: Taxes payable

	December 31, 2003	December 31, 2002
VAT payables	14,019	15,400
Excise tax	12,638	13,645
Natural persons income tax payable	1,006	501
Real estate	893	1,275
Profit tax	3,381	-
Other taxes	842	653
Total taxes payable	32,779	31,474

Note 18: Other current liabilities

	December 31, 2003	December 31, 2002
Accrued claims from Oil terminal contractors	2,900	4,234
Salaries and social security	3,620	3,008
Accrued vacation pay	1,882	1,810
Accrued interest	666	767
Accrual for other claims	571	-
Accrued professional fees	307	152
Other accrued expenses and short-term liabilities	2,226	3,148
Total other current liabilities	12,172	13,119

(Expressed in US Dollars (tabular amounts in thousands))

Note 19: Capital lease liabilities

The following is an analysis of the leased property under capital leases by major classes:

	December 31, 2003	December 31, 2002
Machinery and equipment	950	1,164
Land and buildings	693	758
Other tangible assets	305	2,270
Total costs of property, plant and equipment acquired under capital leases	1,948	4,192
Less: accumulated depreciation	(542)	(1,630)
Property, plant and equipment acquired under capital leases, net	1,406	2,562

Capital lease liabilities – minimum lease payments can be analyzed as follows:

	December 31, 2003	December 31, 2002
Year ending December 31:		
2003	-	531
2004	463	340
2005	414	297
2006	335	227
2007	10	7
Net minimum lease payments	1,222	1,402
Less: Future finance charges on capital leases	(138)	(203)
Present value of capital lease liabilities	1,084	1,199

As at December 31, 2003 the weighted average effective annual interest rate on the capital lease liabilities was 7.7 percent (December 31, 2002: 8.6 percent).

The present value of capital lease liabilities is as follows:

	December 31, 2003	December 31, 2002
Current portion of capital lease liabilities	392	443
Capital lease liabilities, net of current maturities	692	756
Present value of capital lease liabilities	1,084	1,199

(Expressed in US Dollars (tabular amounts in thousands))

Note 20: Debt

	December 31, 2003	December 31, 2002
Long-term debt	487,541	497,114
Current portion of long-term debt	(11,905)	(11,427)
Non-current portion of long-term debt	475,636	485,687
Current portion of long-term debt	11,905	11,427
Short-term debt	-	15,240
Overdraft	163	-
Total short-term debt and current portion of long-term debt	12,068	26,667

The Company has an overdraft agreement for LTL 450 thousand (equivalent to USD 163 thousand as of December 31, 2003) with Bankas Snoras AB. Annual interest rate is 7 percent on the balance withdrawn. The agreement expires in March 2004.

Balance of long-term borrowings can be further analyzed as follows:

Lender/Purpose	Repayment terms	Annual interest rate	Maturity date (mm/yy)	Loan amount	Balance as of December 31,2003
Working capital finance					
Government of Lithuania	Semi-annually	8.00%*	07/13	323,928	288,927
Vilniaus Bankas AB	Semi-annually	3 months LIBOR +1.100%	07/13	75,000	75,000
Investment program					
Vilniaus Bankas AB	Semi-annually	3 months LIBOR +1.100%	07/13	75,000	75,000
Investment in oil terminal					
Kreditanstalt fur Wiederaufbau	Semi-annually	6 months LIBOR +1.750%	06/04	1,277	106
Kreditanstalt fur Wiederaufbau	Semi-annually	6 months LIBOR +1.875%	06/04	1,473	124
Kreditanstalt fur Wiederaufbau	Semi-annually	7.160%	09/04	406	68
Kreditanstalt fur Wiederaufbau	Semi-annually	6 months LIBOR +0.875%	06/06	7,235	2,262
Kreditanstalt fur Wiederaufbau	Semi-annually	8.065%	09/06	2,444	916
Kreditanstalt fur Wiederaufbau	Semi-annually	6 months LIBOR +0.875%	12/06	4,294	994
Kreditanstalt fur Wiederaufbau	Semi-annually	6 months LIBOR +0.875%	12/06	11,855	3,762
Kreditanstalt fur Wiederaufbau	Semi-annually	6 months LIBOR +0.875%	12/06	17,395	5,178
Hansabankas AB	Semi-annually	6 months LIBOR +0.900%	01/09	50,000	28,947

(Expressed in US Dollars (tabular amounts in thousands))

Petrol stations					
Neon Corporation	Monthly	10.000%	09/04	636	127
Karina International Ltd.	Monthly	9.000%	05/05	400	315
Bankas Snoras AB	Monthly	7.000%	05/08	6,411	5,791
Trading houses					
Nordea Bank Finland Plc	Monthly	3.900%	12/06	24	24
Less: current portion of long-term debt					(11,905)
Total long term debt					475,636

*According to the loan agreement with the Government of Lithuania, the annual interest rate on the loan is 8% starting from July 2003 until the end of March 2004 and 7% afterwards.

Loans granted by Vilniaus Bankas AB, Hansabankas AB and Kreditanstalt fur Wiederaufbau are guaranteed by the Government of the Republic of Lithuania.

The bank borrowings of petrol stations are secured over certain of the property, plant and equipment with net book value of approx. USD 17,164 thousand as of December 31, 2003 (December 31, 2002: USD 12,185 thousand).

Scheduled maturity of long-term borrowings is as follows:

	2004	2005	2006	2007	2008	Later	Total
Principal amount of debt	11,905	11,422	9,826	6,875	5,954	441,559	487,541

The amounts payable in 2009 – 2013 include repayment of the loans granted by Government of Lithuania and Vilniaus Bankas AB (former loans of Yukos International UK B.V. and Yukos Oil Company).

The debt outstanding as of December 31, 2003 was subject to a number of covenants, such as exclusive use of the loans and restricted management ability to pledge, mortgage or sell the assets, the acquisition of which was financed by loans throughout the duration of the loan agreements without the lenders' approval. The management believes that the Company has complied with these covenants.

Uotas UAB, a subsidiary of the Company, has a loan of USD 315 thousand granted by Karina International Ltd. (USA) with maturity on May 31, 2005. According to the loan 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 Uotas UAB share capital at today's price. In case this option is exercised, the Company's share in Uotas UAB will decrease.

(Expressed in US Dollars (tabular amounts in thousands))

Note 21: Subsidies

The subsidies include LTL 19,852 thousand (USD 4,963 thousand) financing received from the Government of the Republic of Lithuania for construction of apartment blocks for Russian citizens in Vsevolotzk, St. Petersburg. The Government of the Republic of Lithuania fully financed the construction of these apartment blocks as a part of an agreement to enable Russian citizens (former employees of Oil refinery) to move from Lithuania back to Russia. The construction was completed in 1998 and the buildings with carrying value of USD 4,963 thousand were included within other tangible assets balance. Subsidies will be netted off against tangible assets after an appropriate decision is taken by the Government of the Republic of Lithuania supporting this course of action.

Note 22: Net sales and other operating revenues

	Year ended December 31,	
	2003	2002
Products of the Oil refinery	1,622,166	1,216,948
Other services of the Oil refinery	3,204	4,084
Pipeline operator’s services	33,916	30,684
Oil terminal services	55,462	30,531
Retail sales of oil products	16,721	13,816
Services and sales of non-production units	5,460	1,460
Total net sales and other operating revenues	1,736,929	1,297,523

Sales of the Oil refinery products for the year ended December 31, 2003 include a positive result of USD 782 thousand from the cash-flow hedge.

Note 23: Cost of sales, excluding depreciation and amortization

	Year ended December 31,	
	2003	2002
Products of the Oil refinery	1,419,558	1,133,782
Other services of the Oil refinery	2,636	3,014
Pipeline operator services	6,016	4,024
Oil terminal services	7,185	10,210
Retail sales of oil products	13,329	11,419
Cost of services and sales of non-production units	4,506	2,074
Total cost of sales, excluding depreciation and amortization	1,453,230	1,164,523

(Expressed in US Dollars (tabular amounts in thousands))

Note 24: Selling and distribution expenses, excluding depreciation and amortization

	Year ended December 31, 2003	2002
Railway services	34,175	25,463
Terminal and laboratory services	17,891	9,429
Transit/freight	29,373	7,512
Salaries and social security	4,712	4,146
Rent of rail tanks	2,742	2,318
Sales and distribution expenses of petrol stations	2,676	1,619
Intermediary services	903	84
Repair and maintenance	860	1,188
Other	3,921	2,075
Total selling and distribution expenses, excluding depreciation and amortization	97,253	53,834

In 2003, the delivery terms of waterborne sales were changed from FOB to CIF, DES, DEQ, resulting in significant increase in transit/freight cost.

Note 25: General and administrative expenses, excluding depreciation and amortization

	Year ended December 31, 2003	2002
Salaries and social security	11,677	9,369
Insurance	8,033	6,330
Taxes, other than income tax	8,026	5,395
Settlement of Flour Daniels claim	5,622	-
Professional fees	4,211	19,540
Fire safety expenses	1,746	1,480
General and administrative expenses of petrol stations	1,491	916
Utilities and communication	1,275	1,226
Materials, repairs and maintenance	1,018	998
Internal transport	805	673
Fixed plan overheads of idle production time	717	523
Other	8,701	6,889
	53,322	53,339
Provisions for claims	3,471	-
Impairment of fixed assets held for resale	624	-
Provisions for prepayments and other current assets write-off	91	(279)
(Reversal of) provisions for and write-off of trade accounts receivable	(531)	(9,169)
Overpaid real estate tax (for 1997 – 2001)	-	(9,647)
Provision for overpaid real estate tax	2,787	-
Total general and administrative expenses, excluding depreciation and amortization	59,764	34,244

Professional fees include management fees of USD 1,005 thousand incurred during the year ended December 31, 2003 to Yukos Finance B.V. (December 31, 2002: USD 13,327 to Williams International Company and Yukos Finance B.V.)

(Expressed in US Dollars (tabular amounts in thousands))

Note 26: Depreciation and amortization

Based on the use of assets being depreciated and amortized, depreciation and amortization could be allocated as follows:

	Year ended December 31, 2003	2002
Cost of sales	25,478	26,235
General and administrative expenses	2,990	3,078
Selling expenses	3,876	2,992
Total depreciation and amortization	32,344	32,305

Note 27: Income tax

Deferred income tax asset were comprised of differences arising between the carrying values of the following assets and liabilities:

	December 31, 2003	December 31, 2002
Unrealized foreign exchange gain on monetary items denominated in USD	21,883	13,557
Taxable losses to be carried forward	2,134	17,992
Property, plant and equipment	3,193	2,050
Inventory	336	299
Accounts receivable	109	1,634
Other assets	204	46
Accrued expenses	548	683
Gross deferred income tax assets	28,407	36,261
Property, plant and equipment	(1,303)	(1,113)
Other liabilities	(20)	-
Gross deferred income tax liability	(1,323)	(1,113)
Deferred tax asset, net, before valuation allowances	27,084	35,148
Less: Valuation allowances against deferred income tax	(26,512)	(35,148)
Total deferred tax asset, net	572	-

Valuation allowances of USD 26,512 thousand as of December 31, 2003 were provided against (1) deferred income tax asset arising on USD denominated loans most of which are repayable during 2009 – 2013 due to uncertainty relating to USD and LTL exchange rate movements in the future; and (2) deferred income tax assets arising in the subsidiaries where, according to the management, considering all the available objective evidence, both positive and negative, historical and prospective, with greater weight given to the historical evidence, it is not more likely than not that these assets will be realized.

(Expressed in US Dollars (tabular amounts in thousands))

Tax losses can be carried forward for five years to be offset against future taxable income. The Company has unused tax loss carry forward with the following expiry dates:

	December 31, 2003	December 31, 2002
Expiry date		
2003	-	8
2004	884	738
2005	4,252	46,040
2006	3,475	71,591
2007	1,980	1,570
2008	3,616	-
Total tax loss carry forward	14,207	119,947

Deferred income tax balances were classified in the consolidated balance sheet as follows:

	December 31, 2003	December 31, 2002
Non-current portion of deferred income tax asset, net	24	-
Current portion of deferred income tax asset, net	857	-
Non-current portion of deferred income tax liability	(309)	-
Total deferred income tax asset, net	572	-

Presented below is a reconciliation between total income tax expense and theoretical income tax expense (benefit) determined by applying the Lithuanian statutory tax rate of 15 percent to income (loss) before income tax and minority interest:

	Year ended December 31,	
	2003	2002
Income (loss) before income tax and minority interest	74,460	(30,205)
Theoretical income tax expense (benefit) at the statutory rate of 15 percent	11,169	(4,531)
Increase (decrease) in the theoretical income tax expense due to:		
Income taxed at other rates	13	-
Investment tax credits and other rate effects	(1,671)	-
Nondeductible/nontaxable items	5,886	(2,824)
Foreign exchange effects	(4,557)	(4,406)
Correction of prior periods income tax	658	918
Income tax expense (benefit) before provisions	11,498	(10,843)
Change in provision for deferred income tax asset	(8,636)	11,761
Total income tax expense	2,862	918

(Expressed in US Dollars (tabular amounts in thousands))

The Investment Agreement, signed between the OAO Yukos Oil Corporation, Yukos Finance B.V., Williams International Company, the Company and the Government of the Republic of Lithuania guaranteed that starting from October 29, 1999 for a period of 10 years a portion of taxable profit of the Company utilised for investment in property, plant and equipment may be taxed at a corporate profit tax rate of 0 percent. If the Government fails to ensure for at least for a period of 10 years application of this investment credit, the Government shall be responsible for and shall indemnify and hold harmless the Company from any and all losses, liabilities and expenses incurred or sustained by the Company as a result of such failure. Uncertainties relating to the possibility to application of the provisions of Investment Agreement based on the Constitutional Court decision are described in Note 30.

Note 28: Earnings (loss) per share

Basic earnings per share is computed by dividing net income (the “numerator”) by the weighted-average number of ordinary shares outstanding (the “denominator”). Diluted earnings per share is similar computed, except the denominator is increased to include the dilutive effect of outstanding stock options (Note 29).

The denominator is based on the following weighted-average number of ordinary shares outstanding (thousands of shares):

	Year ended December 31, 2003	2002
Weighted – average shares outstanding – basic earnings (loss) per share	707,454	654,572
Add: incremental shares from assumed conversions of stock options	211,235	-
Weighted – average shares outstanding – diluted earnings (loss) per share	918,689	654,572

The outstanding stock options were not included into computation of diluted loss per share for the year ended December 31, 2002 because to do so would have been antidilutive for that period.

Note 29: Stock – based compensation

According to the Investment Agreement as of June 18, 2002, Yukos Finance B.V. has an option to subscribe for new shares for consideration of USD 75 million which would cause its holding in the Company to increase by 15.363% after exercising this option. The option expires on October 29, 2004.

After exercising the first option, Yukos Finance B.V. has an option to purchase from 1 to 11.5 percent of shares held by the Government of the Lithuanian Republic for a price which is equal to 3 times EBITDA (preceding year) times percentage to be repurchased but not less than USD 4.9 million for 1 percent. The option expires on October 29, 2006.

Note 30: Commitments and contingent liabilities

In 2003 resolved claim from Fluor Daniel Intercontinental Inc.

On June 6, 2003 the London Arbitral Tribunal issued a final award with respect to the claims of USD 20,620 thousand received in 1998 by the Company from Fluor Daniel Intercontinental Inc., the engineering, procurement, construction and project management contractor, arising out of the Oil Terminal project and related counterclaims submitted by the Company as disclosed in the financial statements for the year ended December 31, 2002. According to this award, the Company was obliged to compensate Fluor Daniel Intercontinental Inc. USD 2,425 thousand while Fluor Daniel Intercontinental Inc. was obliged to compensate to the Company USD 2,972 thousand together with interest on the awarded amounts calculated for the period from June 21, 2000 to the date of payment. Furthermore, Fluor Daniel Intercontinental Inc. was obliged to compensate the Company USD 948 thousand towards its representation and arbitration costs.

On June 6, 2003 the London Arbitral Tribunal also issued a final award with respect to the legal proceedings initiated by the Company seeking to cover damages from Fluor Daniel Intercontinental Inc. amounting to approximately USD 113,862 thousand for the breach of duty and/or breach of collateral warranty and/or economic duress of the Oil Terminal and related counterclaim submitted by Fluor Daniel Intercontinental Inc. amounting to USD 17,269 thousand. According to this award, the claims were dismissed without prejudice. Furthermore, the Company was obliged to compensate Fluor Daniel Intercontinental Inc. USD 6,367 thousand towards its representation costs and Flour Daniels was obliged to reimburse the Company USD 18 thousand of arbitration costs.

The final awards of London Arbitral Tribunal discussed in the two preceding paragraphs resulted in additional cost of USD 5,543 thousand which were recognized in the consolidated financial statements for the year ended December 31, 2003.

Claim from PPS Pipeline Systems

In 2000, the Company received a claim from PPS Pipeline Systems, the contractor of the Oil Terminal Project, to compensate Lithuanian VAT in the amount of USD 2,138 thousand which was incurred until registration of PPS Pipeline Systems in Lithuania and, therefore, was not recovered from the state budget. The dispute regarding this subject started in 1997. Following advice of its lawyers the Company rejected these claims as ungrounded. In 2003, the Company received a repeated claim from PPS Pipeline Systems in the total amount of USD 2,900 thousand which also included accumulated late payment interest of USD 662 thousand and PPS Pipeline Systems branch office costs of USD 100 thousand. Furthermore, in 2003 PPS Pipeline Systems submitted an additional claim of USD 646 thousand to the Company for the extra works reimbursement according to the Oil Terminal contract.

The Company believes that PPS Pipeline Systems is not entitled to the VAT claim and is examining the grounds for the new claim regarding the extra works reimbursement. However, following the principle of prudence, management decided to create a provision of USD 2,900 thousand for possible losses that would be incurred if legal proceedings were successfully initiated against the Company, in the consolidated financial statements for the year ended December 31, 2003.

Claim from Klevo Lapas UAB

Based on the claim received from Klevo Lapas UAB, in 2000 the Lithuanian Competition Council imposed a fine amounting to LTL 100 thousand (equivalent to USD 36 thousand as of December 31, 2003) to the Company for non-compliance with Lithuanian Competition Law. The Company has paid the fine and disputed the decision of the Competition Council. In 2003, this dispute was resolved to the Company's disadvantage and the Competition Council decision that the Company has not complied with the Competition Law remained final. Based on this decision, which allows the customers affected by the Company's pricing policy to claim damages from the Company, the legal proceedings initiated by Klevo Lapas UAB against the Company were renewed and the Court appointed an independent expertise committee to evaluate the possible amounts of damages caused to Klevo Lapas UAB. As of December 31, 2003, the claims from Klevo Lapas UAB amounted to LTL 741 thousand (equivalent to USD 268 thousand as of December 31, 2003) and the possible amounts of damages caused to this customer evaluated by the expertise committee appointed by the Court at an early stage of the dispute comprised approximately LTL 7,500 thousand (equivalent to USD 2,715 thousand as of December 31, 2003). As of December 31, 2003, the Company had a receivable from Klevo Lapas UAB amounting to LTL 5,298 thousand (equivalent of USD 1,918 thousand as of December 31, 2003), which was provided in full during the years ended December 31, 1999 and 2000. The management does not expect that the final amount of claim will exceed the amount receivable from Klevo Lapas UAB, therefore, no provision for the claim was made in the consolidated financial statements for the year ended December 31, 2003.

Payment request from a group of inventors

In June 2000, the Company received a payment request from a group of persons in the amount of LTL 9,808 thousand (equivalent to USD 3,551 thousand as of December 31, 2003) 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 percent of the additional revenue resulting from the production improvement process implementation must be repaid to the authors of the improvement. The agreements state that the remuneration of the authors must be paid during the period of the patent of the invention is valid. According to the Lithuanian legislation the patent's period is 20 years. The Company paid LTL 1,153 thousand (USD 288 thousand) for the year 1995. The requested balance of LTL 9,808 thousand (equivalent to USD 3,551 thousand as of December 31, 2003) relates to the years 1996 – 1998. On April 10, 2001 the Company received another letter from the same group of persons, increasing the claim amount to LTL 14,000 thousand (equivalent of USD 5,069 thousand as of December 31, 2003) covering the period 1996 – 2001. 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. In 2003, one of the inventors initiated legal proceedings against the Company and claimed an amount totaling LTL 400 thousand (USD 145 thousand as of December 31, 2003). Management believes the charges are without merit and intends to vigorously defend its position. Accordingly, no accrual for this contingent liability has been made in consolidated financial statements for the year ended December 31, 2003. In the event the Company loses this proceeding, the Company might raise the issue of compensation of the amounts of this claim under provisions of the Investment Agreement, signed between OAO Yukos Oil Corporation, Yukos Finance B.V., Williams International Company, the Company and the Government of Lithuania (see also decision of the Constitutional Court described further).

Claim from Rietumu Banka AS

During 2003, there were no changes in the status of the claim received from Rietumu Banka AS for the total amount of USD 1,250 thousand. On July 22, 1999, the Company received a claim from Rietumu Banka AS for the total amount of USD 1,250 thousand related to unperformed sales of oil products to Thornleigh Trust Ltd. in accordance with the agreement signed on March 23, 1998 with Rietumu Banka AS 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 believes that the claim is without merit, therefore, no provision for the claim amount was made in the consolidated financial statements for the year ended December 31, 2003.

Yukos Oil Company

In 2003, the claim received in 2002 from Yukos Oil Company to compensate losses incurred due to failure to load a Yukos' tanker after an accident in the oil terminal was further reduced from USD 1,602 thousand to USD 571 thousand. The management of the Company made the decision to accept the claim and accrued a liability of USD 571 thousand in the consolidated financial statements for the year ended December 31, 2003.

Other litigations and claims

The Company is involved in other litigations and has claims against it for matters arising in the ordinary course of business, which have not been described above. In the opinion of the Company's 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 December 31, 2003, there were no changes in status of the claim submitted by minority shareholders' to the court in 2002 to recognize the decisions made during the shareholders' meeting held on June 19, 2002 as invalid due to breach of the Law on Stock Companies. The decisions made include approval of the Investment Agreement between the Company, Yukos Oil Company, Yukos Finance B.V. and Williams International Company.

The final outcome of this claim has not been determined at the date of these consolidated financial statements. Management believes that the claim of the minority shareholders is not grounded.

Decision of the Constitutional Court of the Republic of Lithuania

On October 18, 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 AB, Mažeikių Nafta AB and Naftotiekis AB, which entitled the Government to assume, on behalf of the State, major property-related obligations to the strategic investor and (or) Mažeikių Nafta AB, contravened the Constitution of the Republic of Lithuania. The Constitutional Court concluded that the provision in the Law on compensation of losses to the strategic investor and Mažeikių Nafta AB 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) Mažeikių Nafta AB, and thus contradicts the Constitution of the Republic of Lithuania.

The Investment Agreement signed on October 29, 1999 between the Company, the Government of the Republic of Lithuania and Williams International Company (from September 19, 2002 replaced by Yukos Finance B.V.) 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 a manner that would adversely affect or impede implementation of the Management Plans of the Company until the later 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 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 1999 and 2000, the Company received LTL 140,000 thousand (USD 35,000 thousand) as crude oil interruption compensation. In 2001 and 2002, the Government of the Republic of Lithuania compensated to the Company LTL 33,431 thousand (USD 8,671 thousand) under provisions of the Investment Agreement for indemnification from certain obligations and losses. 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 Republic of Lithuania when fulfilling its obligations under the provisions of the Investment Agreement, however, no provisions have been established for the possible repayment of compensation already received.

(Expressed in US Dollars (tabular amounts in thousands))

In accordance with the amendments made to the Investment Agreement as of July 8, 2003, the provision allowing the Company the unilateral right of set off of amounts receivable from the Government of the Republic of Lithuania with the amounts payable to the Government was abolished.

Purchase commitments

On 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. In 1999 and 2003, the Company paid USD 2,290 thousand for these licenses and included this amount in intangible assets. The remaining license purchase commitment amounts to approx. USD 751 thousand as of December 31, 2003.

Operating lease commitments – the Company is lessee

In 2003, the Company concluded operating lease agreements for premises of offices, furniture, EDP/IT equipment and motor vehicles. The Company also has a number of operating lease agreements for land plots and petrol stations. Operating lease commitments – future minimum lease payments according to non-cancelable lease agreements can be analyzed as follows:

	December 31, 2003
Year ending December 31:	
2004	521
2005	511
2006	357
2007	194
2008 and later years	780
Total operating lease commitments	2,363

The Company also has several operating lease agreements for petrol stations equipment according to which the Company is obliged to pay LTL 0.15 (USD 0.05) per liter of gas sold in the petrol stations were the leased equipment is installed. The agreements are valid until August 1, 2016.

(Expressed in US Dollars (tabular amounts in thousands))

Note 31: Segment information

The Company has four reportable segments: oil refinery, oil terminal, pipeline operator and operator of petrol stations chain. The oil refinery produces different grades of high octane unleaded gasoline, diesel, jet fuel, bitumen, LPG and sulphur. The Company owns an import-export oil terminal in Būtingė on the Baltic sea cost. The pipeline segment consists of part of the Druzhba pipeline in the territory of the Republic of Lithuania and a pipeline connecting the Biržai pumping station with the oil refinery and the oil terminal. The pipeline operator transports crude oil to the oil refinery and terminals in Būtingė and Ventspils, Latvia. In the first quarter of 2002, the Company acquired the operator of a chain of petrol stations. The operator of petrol stations chain owns approximately 30 petrol stations in Lithuania.

The accounting policies of the segments are the same as used by the Company. The Company evaluates performance of segments based on operating profit (i.e. sales and other operating revenues less operating cost and other deductions).

Summarized financial information concerning the Company's reportable segments for the year ended December 31, 2003 and 2002 is shown in the following tables:

Year ended December 31, 2003

	Oil refinery	Oil terminal	Pipeline operator	Petrol stations	Other	Intersegment balances	Total
Revenues	1,640,016	55,531	33,916	20,089	1,681	(14,304)	1,736,929
Depreciation and amortization	18,859	7,051	4,507	1,726	201	-	32,344
Segment operating (loss) profit	50,462	26,037	20,826	(1,993)	(922)	(72)	94,338
Interest revenue	1,290	1,206	-	42	3		2,541
Interest expense	(22,651)	(13,748)	-	(571)	-	-	(36,970)
Segment assets	640,107	228,788	19,108	23,504	1,526	(19,305)	893,728
Additions to segment assets	84,491	8,346	563	788	46	-	94,234

Year ended December 31, 2002

	Oil refinery	Oil terminal	Pipeline operator	Petrol stations	Other	Intersegment balances	Total
Revenues	1,221,032	30,530	30,685	22,712	3,056	(10,492)	1,297,523
Depreciation and amortization	19,144	8,485	3,184	1,197	295	-	32,305
Segment operating (loss) profit	(3,977)	22	18,271	(1,230)	(275)	(194)	12,617
Interest revenue	2,042	-	-	-	-	-	2,042
Interest expense	(27,598)	(14,534)	-	(539)	-	-	(42,671)
Segment assets	538,847	230,032	16,433	21,022	2,098	(12,736)	795,696
Additions to segment assets	54,028	290	457	218	61	-	55,054

(Expressed in US Dollars (tabular amounts in thousands))

Total consolidated revenues earned by the Company in the years ended December 31, 2003 and 2002 can be split by country as follows:

	Year ended December 31,	
	2003	2002
Switzerland	900,521	76,049
Lithuania	426,149	369,790
Latvia	109,463	101,930
Russia	78,331	56,772
Estonia	73,569	50,819
Poland	68,611	67,544
USA	32,693	28,956
Ukraine	23,047	61,926
Virgin islands	8,631	9,288
Austria	8,329	8,931
Moldova	2,657	-
Germany	1,513	1,061
UK	1,471	463,481
Other	1,162	976
Total consolidated revenues*	1,736,147	1,297,523

*excluding cash-flow hedge result of USD 782 thousand reported in sales and other operating revenue for the year ended December 31, 2003

Sales through sales commissioner Petroval SA comprised 45.5 percent of total sales during the year ended December 31, 2003 and were reported as sales to Switzerland. Until November 2002, the commissioner services to the Company were provided by BP Oil International Ltd and all sales through this agent were reported within sales to UK.

99.96% of the Company's long-lived assets are located in Lithuania.

Note 32: Related Parties

Until June 18, 2002 Williams International Company held 33 percent and from June 19, 2002 to September 19, 2002 held 26.85 percent of the outstanding shares in the Company and, in accordance with the provisions of the Investment Agreement, was providing management services to the Company. On September 19, 2002 Williams International Company sold its stake in the Company and transferred the management control rights to Yukos Finance B.V.

In June 2002, the Company and Yukos Oil Company signed a crude oil supply agreement for an annual quantity of 4,800 thousand metric tons of crude oil. The price of crude oil is determined based on open market terms. The agreement is valid until September 30, 2012.

Furthermore, according to an agreement with Yukos Oil Company signed in June 2002, the Company has committed to accept an annual quantity of 4,000 thousand metric tons of crude oil from Yukos Oil Company and to transport it through the oil terminal. The price for the transportation services is determined based on market terms. This agreement is valid until December 31, 2005.

On November 1, 2002 the Company signed a sales commissioner agreement with Petroval SA, an entity related to Yukos Oil Company. According to this agreement Petroval SA sells the Company's oil products for defined fee. Accounts receivable balance represents receivables from the third parties which has to be collected by Petroval SA on behalf of the Company.

Naftelf UAB is an associated company, where the Company holds 34 percent of the shares. The Company sells jet fuel to Naftelf UAB.

(Expressed in US Dollars (tabular amounts in thousands))

Transactions carried out with the related parties and balances arising from these transactions are shown as follows:

	December 31, 2003	December 31, 2002
Accounts receivable from related parties, net		
Petroval SA (acting as a sales commissioner)	35,224	28,091
Government of the Republic of Lithuania	-	3,615
Yukos Group*	728	1,619
Naftelf UAB	403	217
Total accounts receivable from related parties, net	36,355	33,542

	December 31, 2003	December 31, 2002
Accounts payable (including accruals) to related parties		
Yukos Group (crude oil purchases, management fee, accrual for claim)	129,337	92,907
Petroval SA (crude oil purchases, commission fee and compensation of expenses)	20,357	599
Naftelf UAB	37	-
Williams Lietuva UAB	-	929
Total accounts payable (including accruals) to related parties	149,731	94,435
Advances received from related parties		
Yukos Group	500	442
Petroval SA	9	-
Naftelf UAB	23	12
Total advances received from related parties	532	454
Accrued interest payable		
Government of the Republic of Lithuania	64	80
Yukos Group	-	42
Total accrued interest payable	64	122
Total accounts payable to/advances received from related parties	150,327	95,011

	December 31, 2003	December 31, 2002
Loans received from related parties		
Government of the Republic of Lithuania	288,927	288,927
Yukos Group	-	150,000
Total loans received from related parties	288,927	438,927

(Expressed in US Dollars (tabular amounts in thousands))

	Year ended December 31, 2003	2002
Sales of products and services to related parties		
Yukos Group	38,486	16,941
Naftelf UAB	7,703	5,551
Interest on borrowings to related parties		
Government of the Republic of Lithuania	26,501	29,294
Yukos Group	7,958	6,646
Williams International Company	-	5,687
Crude oil and services purchases from related parties		
Williams Lietuva UAB (management fee)	-	12,025
Yukos Group (purchase of crude oil and management fee)	1,222,076	463,829
Petroval SA (commission fee and purchase of crude oil)	84,034	84

*Yukos Oil Company, Yukos International UK B.V., Yukos Finance B.V., Yukos Export Trade OOO are treated as Yukos Group companies.

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