ANNUAL REPORT 2003

MAŽEIKIŲ NAFTA

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MAŽEIKIŲ NAFTA

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MAŽEIKIŲ NAFTA

Yukos became shareholder and operator of *Mažeikių Nafta* in the end of 2002. This proved to be a good business decision already at the end of 2002 and helped to reveal *Mažeikių Nafta*'s potential during 2003.

Yukos provided a stable crude oil supply for the Mažeikiai refinery and Butingė Terminal; market tendencies remained positive throughout the year and the experienced leadership of the company had *Mažeikių Nafta* prepared to take advantage of the favorable market conditions.

The constructive co-operation between two major shareholders—Yukos and the Government of Lithuania also helped *Mažeikių Nafta* to achieve good results. Yukos as a shareholder and operator initiated important decisions that laid grounds for improving financial situation. The new marketing and sales system was another major factor for the successful year 2003 and will continue contributing to the successes of the company in the years to come.

Mažeikių Nafta is facing new challenges in the years ahead. Ambitious modernization program and experienced leadership will drive the company to becoming a strong player in the European market. Yukos remains a committed shareholder and operator of *Mažeikių Nafta*.

Mikhail B. Brudno
Chairman of the Board
AB Mažeikių Nafta

2003 was a very successful year for *Mažeikių Nafta* and some would say very lucky. If it was luck it was earned, not accidental; earned success or earned luck occurs when hard work and preparation meet opportunity. It is undeniable that the market was quite good; however *Mažeikių Nafta* had worked hard to prepare the refinery and to capitalize upon those good market conditions with record throughputs. Our preparation and hard work did in fact pay off!

We finished the first phase of our modernization program: we completed the installation of the PENEX Unit, along with the Naphta Processing Upgrade project and the In-line Gasoline Blending Station, which allows the refinery to optimally meet current specifications, and to meet the new EU clean fuel requirements. Ongoing Modernization will continue to improve the refinery ability to meet market demand, both local and export, for higher-octane grades of gasoline while at the same time keep our products compliant with new regulations.

14 million metric tons export capacity was approved for *Būtingė Terminal* additionally maintaining the Terminal's crude import capabilities. Two new tanks were installed at *Būtingė Terminal* at very aggressive schedule.

Financial performance of *Mažeikių Nafta* during the year 2003 establishes grounds for our business success in the future. Qualified and dedicated employees will continue work to safeguard *Mažeikių Nafta*'s positions in Europe.

P. Nelson English
AB Mažeikių Nafta
General Director

Mažeikių Nafta is considered as an experienced participant in European Union market. The goal of Company business strategy is to become one of the most efficient oil companies in Europe and successful competitor in the European market. In 2003 *Mažeikių Nafta* endeavored to expand sales in profitable markets, reduce costs and increase performance efficiency, refinance loans on favorable conditions and improve products quality.

Excellent results were achieved through long-standing experience, high Refinery potential and goal-oriented consistency:

- Following the best worldwide industry practices the Refinery **turnaround** was carried out in a considerably short period—42 days only;
- Completion of the first **phase of Modernization Program** is an important step towards quality perfection of the Company products. 285 MM LTL allotted to the first phase of Modernization Program enabled the Company to supply market with premium petroleum products—gasoline, diesel fuel, low-temperature-resistant arctic diesel fuel, heating fuel oil—meeting European standard requirements. Sulfur Units revamping resulted in substantial reduction of emissions not exceeding the newly established standard norms.

Air pollution decrease and more accurate calculation of product volumes shipped was facilitated by petroleum products on-spot loading rack modernization. Light petroleum products tanks with double seals and floating roofs contributed to environmental protection by maximally reducing product vapor release to the atmosphere;

- Initiation of **energy resources saving program** allowed the decrease of fuel consumption from 7.3 to 6.8%;
- *Būtingė Terminal* **export volumes** increased to 14 MM tons per year (6 MM t/year import opportunity used for export) additionally maintaining the Terminal crude import capabilities;
- The construction of two **new storage tanks** (52 000 m^3 each) was completed in *Būtingė Terminal*;

- ***UAB Mažeikių Nafta Trading House***—subsidiary of *Mažeikių Nafta*—was established for sales and marketing of the Company products in the Baltic States and neighboring markets. During the year 2003 *Mažeikių Nafta Trading House* commenced their activities in Latvia, Estonia and Poland;
- **Cooperation Agreement** was concluded between *Mažeikių Nafta* and Lithuanian Basketball League (LBL), *LKL Mažeikių Nafta Cup* was established.

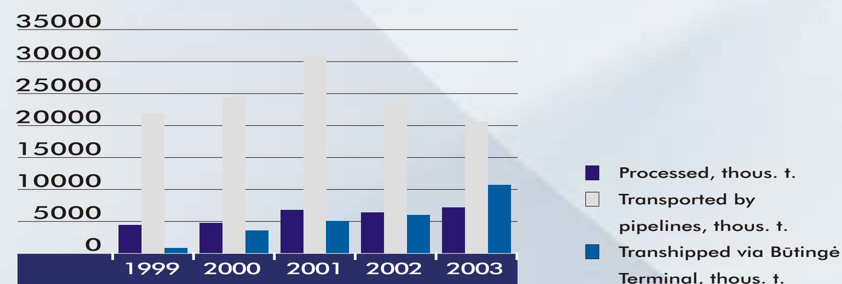
Being a part of the international oil company YUKOS, *Mažeikių Nafta* is secured by stable and reliable **feedstock supply**, which was used in effective and efficient manner—in 2003 all-time high **processing, transportation and loading** volumes were achieved.

In 2003 Būtingė Terminal operated at profit for the first time since 1999: 10.7 MM tons of crude transshipped, 105 tankers serviced (in 2002, 6.1 MM tons of crude transshipped, 62 tankers serviced). *AB Mažeikių Nafta* processed more than 7.15 MM tons of crude and other feedstock, i.e. approximately 607 thous. tons more than in 2002, and 20.5 MM tons of crude and diesel fuel transported via pipeline in 2003.

In the course of 2003 ***Mažeikių Nafta*** maintained its position as the **biggest Lithuanian exporter**—3.6MM tons of petroleum products (nearly 60% of total production) was exported to Western Europe, The United States, Canada and other countries via Klaipėda Port.

In spring of 2003 *UAB Mažeikių Nafta Trading House*— subsidiary of *Mažeikių Nafta*—was established **for sales and market development** of the company products.

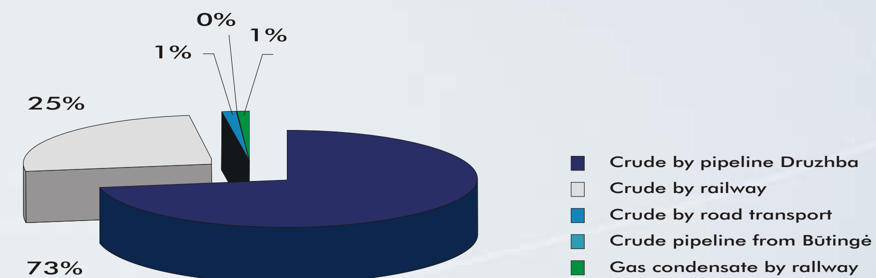
Processing, transportation and loading 1999–2003



Report on Feedstock Delivery to *AB Mažeikių Nafta*

Destination	Description	Type of Delivery	Volume, t
	Crude	Pipeline Druzhba	5215277
Refinery	Crude	Railway	1830889
	Crude	Road transport	90912
	Crude	Pipeline from Būtingė	137
	Gas condensate	Railway	54984
		Total to Refinery:	**7192198**
Būtingė	Crude	Pipeline Druzhba	10792183
Terminal	Crude	Railway	17187
		Total to Būtingė:	**10809370**
		Total to *AB Mažeikių Nafta*:	**18001568**

Feedstock delivery to Refinery, %.



Employees are the greatest treasure of the Company. Highly skilled professionals, capable to work as a united team, determined sound business results in 2003: successful turnaround, reconstruction and modernization program implementation. Team of professionals is formed and strengthened annually:

- Vocational training is continuously organized in Learning and Development Center. The Company employees have access to their qualification improvement;
- The manager training program *Create the Future Together* prepared in cooperation with *Aon Consulting* is being continued: after the completion of *Business Management* and *Conflict Management* courses, *Problem Solving* courses were commenced;
- The Company operation staff started the program of six training sessions conducted by the lecturers of Ufa Petroleum Technical University;
- As of the end of 2003, the Company consisted of 3471 employees: 74% male (2567) and 26%— female (904); average length of employment—12 years; average age of employees—40 years;
- In 2003 compensation system restructuring was completed, variable wage part was merged with the work group performance results;
- In the course of 2003 the Company average salary increased by 7.3%.

Safety at work is one of the Company key priorities. This area is concentrating on each employee viewpoint to be responsible in respect of safety as well as personally answerable for observance of work safety requirements.

In 2003 the reported number of accidents at work reduced almost in half if compared with 2002 (7 accidents in 2003, and 15 in 2002); all the reported accidents are classified as minor.

In accordance with USA OSHA standards the statistic index of accidents at work falling to one hundred Company employees did not reach 0.2 in 2003 (as per OSHA total index of refining industry employees and accidents ratio is 2.50 to one hundred employees).

Scope level of accidents at work (i.e. accidents to 1000 employees) in the Company is below 2, while in other Lithuanian companies with potentially explosive and combustible processes this level approximately totals to 3 (as per data of 2002).

Exceptional attention and funds are addressed to the development of **health care system**. The Company Medical Center provides employees with the services of qualified medical specialists both for general health examination and disease diagnostics and treatment.

Medical and first aid services quality was improved by acquisition of a modern blood pressure and long-term monitoring computer system for disease prevention and analyses, instruments for chemicals concentration determination in working environment, and reanimation vehicle for urgent aid rendering in case of accidents and acute diseases.

Meeting **environmental** requirements is another non the less important area of the Company priority activities. During 2003 **Refinery** implemented the below stated measures to reduce environment pollution:

- Reconstruction of Sulfur Plant No. 2, Block No. 2 and Sulfur Plant No. 1, Block No. 1 - 2 resulting in reduction of sulfur dioxide content in flue gas emitted by 30 to 50%;
- Oily sludge centrifuging block construction (capacity 200 m^3/day) in Waste Water Treatment Shop. During the waste treatment process oily sludge is separated into petroleum products, water and soil, which allows reducing hydrocarbon emissions from sludge pond surfaces;
- Replacement of internal floating pontoon seals of Tanks No. 32, 38, 39, 40, 49 with the modern ones in order to observe the requirements of EU Directives 94/63/EC and LAND 35-2000. The tanks were newly painted using 70% light reflecting color;
- Arrangement of inert waste site in the Company domestic wastes dump to observe the Lithuanian Republic waste management requirements.

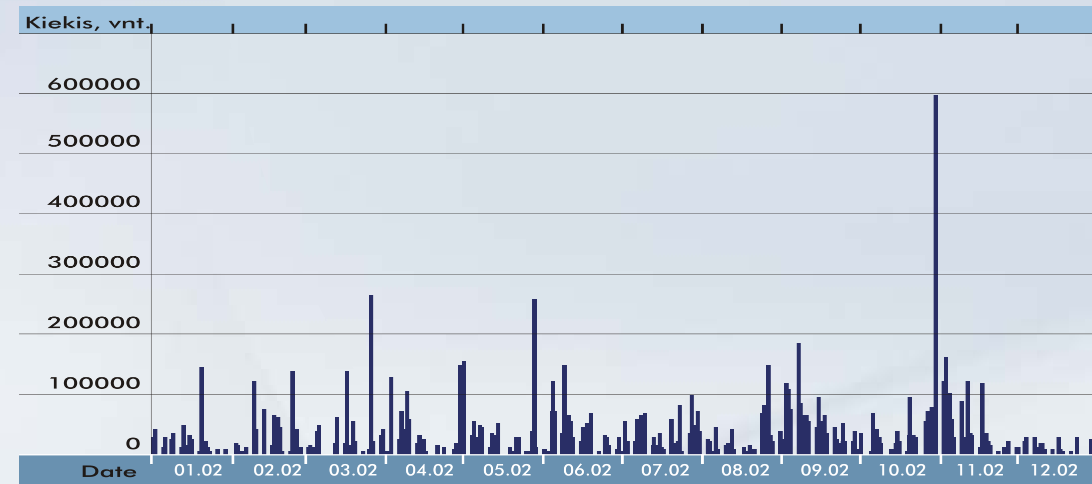
The data of ***Būtingė Terminal*** environment monitoring report of 2003 evidence the stable environmental situation of Būtingė Terminal area that satisfies the current state of the Baltic Sea. The report is provided by specialists of Klaipėda University Coastal Research and Planning Institute coordinating the monitoring of *Būtingė Terminal* environment for four years.

During 2003, using the data of internal diagnostics and applying different means of pipeline maintenance, 150 various defects were eliminated in crude and product lines of ***Biržai pipelines***, 71 of the defects had been acknowledged as potentially dangerous for further safe operation. Applying internal pipeline leak detection system data, the detection of unauthorized tie-ins or attempts to tie-in to crude or product lines is performed by the efforts of Main Pipelines Maintenance Section and Structural Pipeline Security Division personnel; 11 unauthorized tie-ins were detected in 2003.

The year 2003 is considered as record-breaking in the Company's share market as well—the price of shares bounced from 0.78 LTL in the beginning of the year to 2.78 LTL in summer.

AB Mažeikių Nafta shares price diagram

AB *Mažeikių nafta* shares turnover chart of 2003



Trade of stocks in 2003

ACCOUNTING PERIOD		CENTRAL MARKET									OTHER TRANSACTIONS			CAPITALIZATION (LTL)
		Price (LTL)			Turnover (LTL)			Date of last session	General Turnover		Price average (LTL)	Turnover		
From	To	Max.	Min.	of last session	Max.	Min.	of last session		Pcs.	LTL		Pcs.	LTL	
2002.01.01	2002.03.31	0,92	0,7	0,8	98 228	0	21 606	2002.03.29	950 986	784 066	0,87	221 212	191 532	277 377 280
2002.04.01	2002.06.30	0,84	0,66	0,72	75 863	0	10 142	2002.06.28	716 633	537 052	0,68	130 050	88 032	249 639 552
2002.07.01	2002.09.30	0,8	0,57	0,75	106 939	0	13 743	2002.09.30	983 943	705 918	1,4	190 306 214	266 136 369	530 590 598
2002.10.01	2002.12.31	0,76	0,65	0,7	133 469	0	0	2002.12.31	633 362	458 347	0,72	110 540	79 878	495 217 891
2003.01.01	2003.03.31	1,02	0,74	1,02	259 123	0	31 157	2003.03.31	1 890 612	1 712 464	0,87	550 545	478 232	721 603 213
2003.04.01	2003.06.30	1,68	1,02	1,68	367 488	0	11 068	2003.06.30	2406 928	3 327 528	1,23	8 560 482	10 498 352	1 188 522 938
2003.07.01	2003.09.30	2,75	1,65	2,44	493 154	1 238	92 835	2003.09.30	2 730 367	5 788 685	1,81	1 457 745	2 637 360	1 726 188 077
2003.10.01	2003.12.31	2,65	1,96	2,2	1 153 791	0	77 153	2003.12.31	2 542 589	5 485 464	2,12	545 297	1 155 195	1 556 399 086

In 2003 *Mažeikių Nafta* focused mainly on expansion of its product sales channels. On April, 30 the Company established a subsidiary *UAB Mažeikių Nafta Trading House* with its main business goal—efficient sales of Company's products to purchasers in Lithuanian and regional markets. At present there exists two Company's product distribution tendencies. *Mažeikių Nafta Trading House* handles sales in strategic Company's markets (Lithuanian, Latvian, Estonian and Polish), and Petroval SA, which is an international sales company, is in charge of marine sales through *Klaipėdos Nafta Terminal*.

Subsidiaries of *Mažeikių Nafta Trading House* in Latvia, Estonia and Poland have been established and commenced their activities before the end of the year. These are to handle Company's product sales and marketing in these countries.

To approach the consumers with the products, the Company has increased a number of petroleum product terminals to cooperate with. Today the customers in Lithuania are serviced in Juodeikiai, Jonava, Kaunas and Klaipėda terminals.

The subsidiary of *Mažeikių Nafta Trading House* in Latvia offers delivery of

Sales to Strategic Markets (thous. tons), 2002 to 2003

	LITHUANIA		LATVIA		ESTONIA		POLAND	
	2003	2002	2003	2002	2003	2002	2003	2002
Gasolines	372,2	367,8	310	305	234	213	23	40
Diesel fuel	635	657	103	66	75	63	74	115
LPG	178	180	0	3	0,2	0,2	203	227
Jet fuel	6	5	88	36	3	5	0	0
Bitumen	81	68	1	3	19	23	0	0

Company's products to the customers' storage facilities by railway and sales of products from *Olaine* Terminal located near Riga.

Estonian purchasers have a possibility of product transportation by railway to their storage facilities and product sales from petroleum product terminals in Tallinn and Tartu.

In Poland products are distributed from frontier terminals in Malashevich, Semenuvka and Braniev or by railway to the Polish frontier border.

In 2003 *Mažeikių Nafta* product sales increased by 8% if compared with 2002.

The sales structure has slightly changed: less products were sold to Ukraine and CIS. However, sales to Western Europe, USA, and Canada increased substantially, i.e. by 24% and reached 57% of total sales in 2003.

Due to receding demand for heavy petroleum products sales in Lithuania have lessened by 7%.

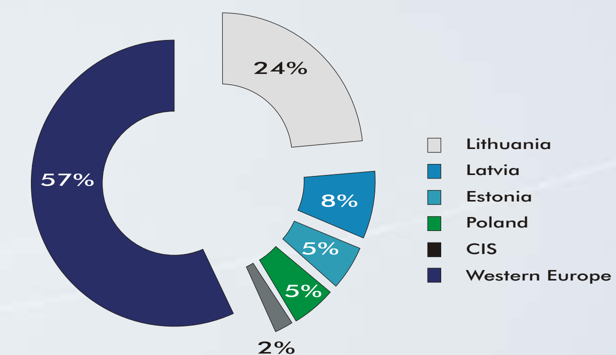
Exceeded demand for light petroleum products resulted in increased product sales in Latvia by 23% and in Estonia by 11% due to greater demand for all petroleum products, if compared with 2002, and the activities of *Mažeikių Nafta Trading House*.

Extensive competition with local and Byelorussian producers in the market of Poland caused decrease in sales by 21%: sales of gasolines lessened in half, and diesel fuel—in one third. *Mažeikių Nafta* product sales in Poland totaled approximately 300 thous. tons, LPG being the major part of the whole sales.

Sales in Ukraine have decreased significantly. Unfavorable prices reduced gasoline sales three times, while the shortage of diesel fuel in the period of rye harvest increased diesel fuel sales remarkably. Sales in Ukraine made 34%, i.e. less than in 2002 (approximately 86 thous. tons).

Sales to other CIS countries have increased, however making less than 0.5% of total sales or more than 33 thous. Tons.

Distribution of Strategic Markets by Percentage in 2003



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

PRICEWATERHOUSECOOPERS

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Auditor's report

To the Shareholders of Mažeikių Nafta AB

1. We have audited consolidated financial statements of Mažeikių Nafta AB and its subsidiaries ("the Company") as of December 31, 2003 and for the year then ended expressed in US Dollars, from which the accompanying consolidated financial statements expressed in Lithuanian Litas were derived. 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. On March 26, 2004 we issued a report of independent auditor on the financial statements, from which these consolidated financial statements expressed in Lithuanian Litas were derived, qualified with respect to the revaluation of property, plant and equipment and included emphasis of matter in respect of current situation within YUKOS. The consolidated financial statements of the Company as of December 31, 2002 and for the year then ended expressed in US Dollars were audited by other auditors whose report dated January 27, 2003 was qualified with respect to respect to the revaluation of property, plant and equipment.

2. In our opinion, the accompanying consolidated financial statements expressed in Lithuanian Litas were properly, in all material respects, derived from the consolidated financial statements expressed in US Dollars following the principles described in the Note 2 *Basis of Preparation Reporting and functional currencies*, to the accompanying consolidated financial statements expressed in Lithuanian Litas.

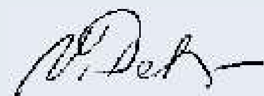
3. For a better understanding of the Company's financial position, the results of its operations and cash flows for the year, management's responsibilities in connection with the financial statements and of the scope of our audit, these consolidated financial statements expressed in Lithuanian Litas should be read in conjunction with the consolidated financial statements expressed in US Dollars, from which they were derived, and our report of independent auditor thereon.

Vilnius, Lithuania
March 26, 2004

On behalf of PricewaterhouseCoopers UAB

Christopher C. Butler
Partner

	Note	December 31, 2003	December 31, 2002
Assets			
Cash and cash equivalents, net	4	297,379	159,320
Current portion of restricted cash	5	2,696	1,932
Trade accounts receivable, net	6	144,891	207,466
Accounts receivable from related parties, net	32	100,416	111,071
Inventories	7	324,262	300,348
Other current assets, net	8	34,035	79,074
Current portion of deferred tax asset, net	27	2,367	-
Total current assets		906,046	859,211
Non-current portion of restricted cash	5	65,503	199,300
Equity investees and long-term investments at cost	12	4,378	5,493
Property, plant and equipment, net	9	1,464,684	1,563,683
Intangible assets, net	10	7,237	4,974
Non-current accounts receivable, net	11	20,652	2,208
Non-current portion of deferred tax asset, net	27	66	-
Total assets		2,468,566	2,634,869
Liabilities and shareholders' equity			
Short-term debt and current portion of longterm debt	20	33,333	88,305
Current portion of capital lease liabilities	19	1,083	1,467
Trade accounts payable	15	82,184	117,271
Accounts payable to/advances received from related parties	32	415,218	314,618
Advances received	16	8,662	12,554
Taxes payable	17	90,539	104,223
Other current liabilities	18	33,620	43,443
Total current liabilities		664,639	681,881
Long-term debt, net of current maturities	20	1,313,754	1,608,304
Capital lease liabilities, net of current maturities	19	1,911	2,503
Subsidies	21	13,837	16,537
Non-current portion of deferred tax liability	27	853	-
Total liabilities		1,994,994	2,309,225
Minority interest		2,502	5,547
Ordinary shares (707,454,130 authorized and issued at December 31,2003 and 2002; nominal value – LTL 1 per share)		707,454	707,454
Additional paid in capital		342,484	342,484
Revaluation reserve		437	437
Accumulated other comprehensive loss		(114,767)	(44,794)
Accumulated deficit		(464,538)	(685,484)
Total shareholders' equity		471,070	320,097
Commitments and contingent liabilities	30	-	-
Total liabilities and shareholders' equity		2,468,566	2,634,869



Paul Nelson English
General Director

Vita Petrošienė
Acting Chief Financial Officer

	Notes	Year ended December 31, 2003	2002
Sales and other operating revenues*	22	5,297,215	4,721,189
Operating costs and other deductions			
Cost of sales, excluding depreciation and amortization	23	(4,431,972)	(4,231,284)
Selling and distribution expenses, excluding depreciation and amortization	24	(295,774)	(196,348)
General and administrative expenses, excluding depreciation and amortization	25	(180,502)	(127,794)
Depreciation and amortization	26	(98,909)	(118,510)
Total operating costs and other deductions		(5,007,157)	(4,673,936)
Other income (expenses)			
Loss from equity affiliates		(312)	(143)
Interest income		7,500	7,499
Interest expense		(113,484)	(156,699)
Exchange gain, net		34,197	8,166
Write-down of long-term investments		(1,645)	-
Goodwill impairment		-	(32,202)
Compensations received from Government		-	13,206
Insurance compensation		11,112	-
Other income (expenses), net		163	1,224
Total other expenses, net		(62,469)	(158,949)
Income (loss) before income tax and minority interest		227,589	(111,696)
Income tax			
Current income tax expense		(9,340)	(3,041)
Deferred income tax benefit		1,583	-
Total income tax expense, net	27	(7,757)	(3,041)
Income (loss) before minority interest		219,832	(114,737)
Minority interest		1,114	404
Net income (loss)		220,946	(114,333)
Earnings (loss) per share (LTL per share)			
Basic		0.31	(0.17)
Diluted		0.24	(0.17)
Weighted-average shares outstanding (thousands of shares)			
Basic		707,454	654,572
Diluted	28	918,689	654,572
* excludes excise taxes on refined oil products		810,817	882,472

Consolidated Statements Cash Flow

(Expressed in thousands of Lithuanian Litas, except as indicated)

	Notes	Year ended December 31, 2003	2002
Operating activities			
Net income (loss)		220,946	(114,333)
Adjustments to reconcile net income to cash provided by operations:			
Depreciation and amortization	26	98,909	118,510
Impairment of goodwill		-	32,202
Equity in losses of associates		312	143
Minority interest		(1,114)	(409)
Loss on sales and retirements of property, plant and equipment and intangible assets		3,236	9,908
Impairment of assets held for resale		1,912	-
Write down of investment		1,645	-
Discounting of long-term receivables		1,111	1,329
Other		(199)	(330)
Changes in operating assets and liabilities:			
Trade accounts receivable and accounts receivable from related parties		(11,034)	(223,615)
Inventories		(80,698)	(76,207)
Other current assets		42,916	(48,828)
Trade accounts payable and accounts payable to related parties		152,710	162,381
Taxes payable, advances and other current liabilities		8,011	90,295
Net cash generated from (used for) operating activities		438,663	(48,954)
Investing activities			
Additions to property, plant and equipment and intangible assets		(286,556)	(202,165)
Proceeds from sales of property, plant and equipment		2,055	72
Distributions from investees		134	-
Dividends received from associates		77	-
Cash from subsidiary acquired		-	796
Acquisition of minority shares in subsidiary	13	(1,538)	-
Other		(94)	-
Net cash used for investing activities		(285,922)	(201,297)
Financing activities			
Share capital increase		-	273,990
Net proceeds from/(repayments of) short-term debt		(48,316)	31,286
Repayments of long-term debt		(45,553)	(125,907)
Proceeds from long-term loans		15,793	273,990
Principal payments of capital lease obligations		(1,438)	(6,269)
Change in long-term accounts receivable		716	5,322
Distribution to minority		(8)	(400)
Net cash generated from (used for) financing activities		(78,806)	452,012
Effect of foreign exchange on cash balances		(68,909)	(58,261)
Net change in cash and cash equivalents		5,026	143,500
Cash and cash equivalents at beginning of period	4	159,320	107,546
Change in restricted cash	5	133,033	(91,726)
Cash and cash equivalents at end of period	4	297,379	159,320
Supplemental cash flow information			
Interest paid		118,829	188,229

Consolidated Statements of Shareholder's Equity and of Comprehensive Income

(Expressed in thousands of Lithuanian Litas, except as indicated)

	Number of ordinary shares issued (thousand)	Ordinary shares	Additional paid in capital	Revaluation reserve	Accumulated other comprehensive loss	Accumulated deficit	Total shareholders' equity
Balance at December 31, 2001	1,034,990	1,034,990	258,453	437	-	(1,088,646)	205,234
Net loss for the year	-	-	-	-	-	(114,333)	(114,333)
Decrease in share capital	(517,495)	(517,495)	-	-	-	517,495	-
Increase in share capital	189,959	189,959	84,031	-	-	-	273,990
Other comprehensive loss, net of tax	-	-	-	-	(44,794)	-	(44,794)
Balance at December 31, 2002	707,454	707,454	342,484	437	(44,794)	(685,484)	320,097
Net income for the year	-	-	-	-	-	220,946	220,946
Other comprehensive loss, net of tax	-	-	-	-	(69,973)	-	(69,973)
Balance at December 31, 2003	707,454	707,454	342,484	437	(114,767)	(464,538)	471,070

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)		220,946	(114,333)
Other comprehensive loss, net of tax			
Foreign currency translation adjustment		(70,008)	(44,794)
Unrealized gain on cash flow hedge	14	35	-
Total comprehensive income (loss)		150,973	(159,127)

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.

Reporting and functional currencies. The functional currency of the Company is the US Dollar (USD) and function currencies of subsidiaries are official currencies of countries in which they operate. These consolidated financial statements have been presented in Lithuanian Litas, the official currency of the Republic of Lithuania, in order to meet the requirements of the National Stock Exchange of Lithuania. The financial statements of the Company, prepared in US Dollars, were translated to reporting currency, Lithuanian Litas (LTL), by using period end exchange rates for translation of assets and liabilities and appropriately weighted average exchange rates for period for translation of revenues, expenses, gains and losses. 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.

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. 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.

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.

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 was originally accounted for as revaluation reserve in shareholders' equity. All except LTL 437 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 con solidation). 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.

Note 4: Cash and cash equivalents, net

	December 31, 2003	December 31, 2002
Cash in banks	25,567	35,958
Short-term bank deposits	292,973	148,246
Cash on hand	38	216
Total cash and cash equivalents	318,578	184,420
Less: allowance for cash held in Vneshekonombank	(8,524)	(10,220)
allowance for cash held in Litimpeks Bank	(12,675)	(14,880)
Total cash and cash equivalents, net	297,379	159,320

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 (equivalent to LTL 8,524 thousand and LTL 10,220 thousand as of December 31, 2003 and 2002, respectively) 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	65,503	199,300
Current portion of restricted cash	2,696	1,932
Total restricted cash	68,199	201,232

Restricted cash in the amount of USD 23,546 thousand or LTL 65,036 thousand as of December 31, 2003 (December 31, 2002: USD 60,186 thousand or LTL 199,300 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 LTL 467 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 or LTL 2,696 thousand as of December 31, 2003 (December 31, 2002: USD 583 thousand or LTL 1,932 thousand) is required to be maintained under the terms of letters of credit issued for settlements with suppliers.

Note 6: Trade accounts receivable, net

	December 31, 2003	December 31, 2002
Oil refinery	187,038	247,184
Oil terminal	2,544	11,987
Pipeline operator	2,226	2,457
Retail network operators	2,041	2,354
Non-production units	36	43
Total gross trade accounts receivable	193,885	264,025
Less: provision for doubtful trade accounts receivable	(48,994)	(56,559)
Total trade accounts receivable, net	144,891	207,466

Note 7: Inventories

	December 31, 2003	December 31, 2002
Raw and supplementary materials	55,573	48,784
Finished goods and goods for resale	183,434	161,497
Semi-manufactures	27,508	24,342
Assets held for resale	122	-
Spare parts and other	57,625	65,725
Total inventories	324,262	300,348

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	10,847	44,764
Accrued income and deferred expenses	18,655	19,101
Advances to suppliers (net of allowances for doubtful accounts of LTL 1,389 thousand and LTL 1,364 thousand at December 31, 2003 and 2002 respectively)	3,331	12,163
Other current assets (net of allowances for doubtful accounts of LTL 3,337 thousand and LTL 3,649 thousand at December 31, 2003 and 2002 respectively)	1,202	3,046
Total other current assets, net	34,035	79,074

As of December 31, 2002 prepaid and recoverable taxes included real estate tax amounting to LTL 35,073 thousand 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 was recognized as irrecoverable. In 2003, real estate tax of LTL 114 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 will be set off against future tax liabilities of the Company over a three year period.

Note 9: Property, plant and equipment, net

	December 31, 2003	December 31, 2002
Machinery and equipment	1,717,267	1,743,131
Buildings	244,001	283,529
Pipeline fill	22,997	22,511
Other tangible assets	232,798	201,767
Construction in progress and prepayments	142,997	267,365
Total property, plant and equipment at cost	2,360,060	2,518,303
Less: accumulated depreciation	(895,376)	(954,620)
Total property, plant and equipment, net	1,464,684	1,563,683

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	102,294	229,863
Oil terminal	39,305	35,326
Pipeline operator	108	1,080
Retail network operator	1,290	1,096
Total construction in progress and prepayments	142,997	267,365

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 LTL 41,495 thousand as of December 31, 2003. Management expects that the shareholders will approve 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 LTL 3,900 thousand (December 31, 2002: LTL 6,722 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 LTL 9,945 thousand during the year ended December 31, 2003 (December 31, 2002: LTL 16,408 thousand).

Note 10: Intangible assets, net

	December 31, 2003	December 31, 2002
Patents and licenses	16,139	14,742
Prepayments for patents and licenses	3,395	4,974
Total intangible assets at cost	19,534	19,716
Less: accumulated amortization	(12,297)	(14,742)
Total intangible assets, net	7,237	4,974

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	981
2005	981
2006	942
2007	938
Total estimated amortization	3,842

Note 11: Non-current accounts receivable, net

	Note	December 31, 2003	December 31, 2002
Overpaid real estate tax	8	19,321	-
Mažeikių Vandenys SP UAB		6,530	6,328
Lifosa AB		865	2,096
Other		1,563	1,676
Gross non-current accounts receivable		28,279	10,100
Less: provisions for doubtful amounts		(5,624)	(6,692)
Non-current accounts receivable, net		22,655	3,408
Less: discounting effect at 4% rate		(2,003)	(1,200)
Total non-current accounts receivable, net		20,652	2,208

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

	December 31, 2003	December 31, 2002
Investments in associated companies	3,842	3,417
Other long-term investments (net of accumulated impairment of LTL 6,262 thousand and LTL 5,788 thousand at December 31, 2003 and 2002 respectively)	536	2,076
Total equity investees and long-term investments at cost	4,378	5,493

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 LTL 130 thousand is included within consolidated accumulated losses as at December 31, 2003 (December 31, 2002: LTL 113 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 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. Investment in Biržų Vandenys SPAB amounted to LTL 1,381 thousand as of December 31, 2003 (December 31, 2002: LTL 1,658 thousand).

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 by LTL 1,295 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.

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 (LTL thousands)
12/16/03 – 02/29/04	EN590, NWE	6,000	286.0	(8)
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	44
				35

Note 15: Trade accounts payable

	December 31, 2003	December 31, 2002
Oil refinery	75,386	112,043
Oil terminal	3,790	2,414
Retail network operator	2,359	2,023
Pipeline operator	533	642
Non-production units	116	149
Total trade accounts payable	82,184	117,271

Note 16: Advances received

	December 31, 2003	December 31, 2002
Oil refinery	7,163	9,597
Oil terminal	594	76
Pipeline operator	588	2,487
Retail network operator	276	381
Non-production units	41	13
Total advances received	8,662	12,554

Note 17: Taxes payable

	December 31, 2003	December 31, 2002
VAT payables	38,721	50,996
Excise tax	34,907	45,184
Natural persons income tax payable	2,779	1,659
Real estate	2,467	4,222
Profit tax	9,339	-
Other taxes	2,326	2,162
Total taxes payable	90,539	104,223

Note 18: Other current liabilities

	December 31, 2003	December 31, 2002
Accrued claims from Oil terminal contractors	8,010	14,020
Salaries and social security	9,999	9,961
Accrued vacation pay	5,198	5,993
Accrued interest	1,840	2,540
Accrual for other claims	1,577	-
Accrued professional fees	848	503
Other accrued expenses and short-term liabilities	6,148	10,426
Total other current liabilities	33,620	43,443

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	2,624	3,854
Land and buildings	1,914	2,510
Other tangible assets	842	7,517
Total costs of property, plant and equipment acquired under capital leases	5,380	13,881
Less: accumulated depreciation	(1,497)	(5,398)
Property, plant and equipment acquired under capital leases, net	3,883	8,483

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

	December 31, 2003	December 31, 2002
Year ending December 31:		
2003	-	1,758
2004	1,279	1,126
2005	1,144	983
2006	925	752
2007	28	23
Net minimum lease payments	3,376	4,642
Less: Future finance charges on capital leases	(382)	(672)
Present value of capital lease liabilities	2,994	3,970

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	1,083	1,467
Capital lease liabilities, net of current maturities	1,911	2,503
Present value of capital lease liabilities	2,994	3,970

Note 20: Debt

	December 31, 2003	December 31, 2002
Long-term debt	1,346,637	1,646,143
Current portion of long-term debt	(32,883)	(37,839)
Non-current portion of long-term debt	1,313,754	1,608,304
Current portion of long-term debt	32,883	37,839
Short-term debt	-	50,466
Overdraft	450	-
Total short-term debt and current portion of long-term debt	33,333	88,305

The Company has an overdraft agreement for LTL 450 thousand 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 USD	Balance as of December 31,2003 USD	Balance as of December 31,2003 LTL
Working capital finance						
Government of Lithuania	Semi-annually	8.00%*	07/13	323,928	288,927	798,045
Vilniaus Bankas AB	Semi-annually	3 months LIBOR +1.100%	07/13	75,000	75,000	207,158
Investment program						
Vilniaus Bankas AB	Semi-annually	3 months LIBOR +1.100%	07/13	75,000	75,000	207,158
Investment in oil terminal						
Kreditanstalt fur Wiederaufbau	Semi-annually	6 months LIBOR +1.750%	06/04	1,277	106	293
Kreditanstalt fur Wiederaufbau	Semi-annually	6 months LIBOR +1875%	06/04	1,473	124	343
Kreditanstalt fur Wiederaufbau	Semi-annually	7.160%	09/04	406	68	188
Kreditanstalt fur Wiederaufbau	Semi-annually	6 months LIBOR +0.875%	06/06	7,235	2,262	6,248
Kreditanstalt fur Wiederaufbau	Semi-annually	8.065%	09/06	2,444	916	2,530
Kreditanstalt fur Wiederaufbau	Semi-annually	6 months LIBOR +0.875%	12/06	4,294	994	2,746
Kreditanstalt fur Wiederaufbau	Semi-annually	6 months LIBOR +0.875%	12/06	11,855	3,762	10,391
Kreditanstalt fur Wiederaufbau	Semi-annually	6 months LIBOR +0.875%	12/06	17,395	5,178	14,302
Hansabankas AB	Semi-annually	6 months LIBOR +0.900%	01/09	50,000	28,947	79,954

Petrol stations						
Neon Corporation	Monthly	10.000%	09/04	636	127	351
Karina International Ltd.	Monthly	9.000%	05/05	400	315	870
Bankas Snoras AB	Monthly	7.000%	05/08	6,411	5,791	15,994
Trading houses						
Nordea Bank Finland Plc	Monthly	3.900%	12/06	24	24	66
Less: current portion of longterm debt					(11,905)	(32,883)
Total long term debt					475,636	1,313,754

*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. LTL 47,409 thousand as of December 31, 2003 (December 31, 2002: LTL 40,349 thousand).

Scheduled maturity of long-term borrowings is as follows:

	2004	2005	2006	2007	2008	Later	Total
Principal amount of debt	32,883	31,549	27,140	18,989	16,446	1,219,630	1,346,637

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 (equivalent of LTL 870 thousand as of December 31, 2003) 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.

Note 21: Subsidies

The subsidies include LTL 13,708 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 LTL 13,708 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	4,945,549	4,428,008
Other services of the Oil refinery	9,727	14,860
Pipeline operator's sales	103,870	111,647
Oil terminal sales	170,161	111,091
Retail sales of oil products	51,164	50,271
Services and sales of non-production units	16,744	5,312
Total net sales and other operating revenues	5,297,215	4,721,189

Sales of the Oil refinery products for the year ended December 31, 2003 include a positive result of LTL 2,487 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	4,328,782	4,119,595
Other services of the Oil refinery	8,108	10,950
Pipeline operator	18,487	14,620
Oil terminal	22,033	37,095
Retail sales of oil products	40,784	41,487
Cost of services and sales of non-production units	13,778	7,537
Total cost of sales, excluding depreciation and amortization	4,431,972	4,231,284

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

	Year ended December 31, 2003	2002
Railway services	103,809	92,871
Terminal and laboratory services	54,443	34,697
Transit/freight	89,032	27,398
Salaries and social security	14,347	15,122
Rent of rail tanks	8,341	8,454
Sales and distribution expenses of petrol stations	8,191	5,791
Intermediary services	2,888	280
Repair and maintenance	2,632	4,333
Other	12,091	7,402
Total selling and distribution expenses, excluding depreciation and amortization	295,774	196,348

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	35,734	33,827
Insurance	24,618	23,088
Taxes, other than income tax	24,458	19,675
Settlement of Flour Daniels claim	16,655	-
Professional fees	12,140	71,267
Fire safety expenses	5,326	5,398
General and administrative expenses of petrol stations	4,563	3,274
Utilities and communication	3,874	4,472
Materials, repairs and maintenance	3,126	3,640
Internal transport	2,453	2,455
Fixed plan overheads of idle production time	2,208	1,908
Other	26,331	25,194
	161,486	194,198
Provisions for claims	10,088	-
Impairment of fixed assets held for resale	1,912	-
Provisions for prepayments and other current assets write-off	255	(1,018)
(Reversal of) provisions for and write-off of trade accounts receivable	(1,578)	(33,442)
Overpaid real estate tax (for 1997 – 2001)	-	(31,944)
Provision for overpaid real estate tax	8,339	-
Total general and administrative expenses, excluding depreciation and amortization	180,502	127,794

Professional fees include management fees of LTL 2,923 thousand incurred during the year ended December 31, 2003 to Yukos Finance B.V. (December 31, 2002: LTL 48,228 to Williams International Company and Yukos Finance B.V.)

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	77,913	96,242
General and administrative expenses	9,144	11,292
Selling expenses	11,852	10,976
Total depreciation and amortization	98,909	118,510

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	60,443	44,893
Taxable losses to be carried forward	5,894	57,800
Property, plant and equipment	8,819	6,788
Inventory	928	990
Accounts receivable	301	5,411
Other assets	564	152
Accrued expenses	1,514	2,262
Gross deferred income tax assets	78,463	118,296
Property, plant and equipment	(3,599)	(3,686)
Other liabilities	(55)	-
Gross deferred income tax liability	(3,654)	(3,686)
Deferred tax asset, net, before valuation allowances	74,809	114,610
Less: Valuation allowances against deferred income tax	(73,229)	(114,610)
Total deferred tax asset, net	1,580	-

Valuation allowances of LTL 73,229 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.

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	-	28
2004	2,442	2,443
2005	11,744	140,596
2006	9,598	237,068
2007	5,469	5,198
2008	9,988	-
Total tax loss carry forward	39,241	385,333

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	66	-
Current portion of deferred income tax asset, net	2,367	-
Non-current portion of deferred income tax liability	(853)	-
Total deferred income tax asset, net	1,580	-

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	227,589	(111,696)
Theoretical income tax expense (benefit) at the statutory rate of 15 percent	34,138	(16,754)
Increase (decrease) in the theoretical income tax expense (benefit) due to:		
Income taxed at other rates	39	-
Investment tax credits and other rate effects	(5,113)	-
Nondeductible/nontaxable items	18,059	(4,433)
Correction of prior periods income tax	2,012	3,041
Income tax expense (benefit) before provisions	49,135	(18,146)
Change in provision for deferred income tax asset	(41,378)	21,187
Total income tax expense	7,757	3,041

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 (equivalent to LTL 207.2 million as of December 31, 2003) 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 (equivalent to LTL 13.5 million as of December 31, 2003) 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 (equivalent to LTL 61,084 thousand as of June 6, 2003) 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 (equivalent to LTL 7,184 thousand as of June 6, 2003) while Fluor Daniel Intercontinental Inc. was obliged to compensate to the Company USD 2,972 thousand (equivalent to LTL 8,804 thousand as of June 6, 2003) 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 (equivalent to LTL 2,808 thousand as of June 6, 2003) 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 (equivalent to LTL 337,305 thousand as of June 6, 2003) 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 (equivalent to LTL 51,158 thousand as of June 6, 2003). 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 (equivalent to LTL 18,862 thousand as of June 6, 2003) towards its representation costs and Fluor Daniel was obliged to reimburse the Company USD 18 thousand (equivalent to LTL 53 thousand as of June 6, 2003) 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 (equivalent to LTL 16,421 thousand as of June 6, 2003) 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 (equivalent to LTL 5,905 thousand as of December 31, 2003) 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 (equivalent to LTL 8,010 thousand as of December 31, 2003) which also included accumulated late payment interest of USD 662 thousand (equivalent to LTL 1,829 thousand as of December 31, 2003) and PPS Pipeline Systems branch office costs of USD 100 thousand (equivalent to LTL 276 thousand as of December 31, 2003). Furthermore, in 2003 PPS Pipeline Systems submitted an additional claim of USD 646 thousand (equivalent to LTL 1,784 thousand as of December 31, 2003). 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 (equivalent to LTL 8,010 thousand as of December 31, 2003) 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 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 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. As of December 31, 2003, the Company had a receivable from Klevo Lapas UAB amounting to LTL 5,298 thousand, 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 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 for the year 1995. The requested balance of LTL 9,808 thousand 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 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. 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 (equivalent to LTL 3,453 thousand as of December 31, 2003). 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 (equivalent to LTL 4,425 thousand as of December 31, 2003) to USD 571 thousand (equivalent to LTL 1,577 thousand as of December 31, 2003). 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 as crude oil interruption compensation. In 2001 and 2002, the Government of the Republic of Lithuania compensated to the Company LTL 33,431 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.

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 (LTL 8,453 thousand) for these licenses and included this amount in intangible assets. The remaining license purchase commitment amounts to approx. USD 751 thousand (equivalent to LTL 2,074 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	1,439
2005	1,411
2006	986
2007	536
2008 and later years	2,154
Total operating lease commitments	6,526

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

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	5,001,756	169,357	103,436	61,475	5,127	(43,936)	5,297,215
Depreciation and amortization	(57,669)	(21,564)	(13,783)	(5,278)	(615)	-	(98,909)
Segment operating (loss) profit	155,725	79,823	63,557	(6,023)	(2,803)	(221)	290,058
Interest revenue	3,826	3,542	-	123	9	-	7,500
Interest expense	(70,420)	(41,347)	-	(1,717)	-	-	(113,484)
Segment assets	1,768,040	631,934	52,779	64,920	4,215	(53,322)	2,468,566
Additions to segment assets	246,526	35,375	2,016	2,443	196	-	286,556

Year ended December 31, 2002

	Oil refinery	Oil terminal	Pipeline operator	Petrol stations	Other	Intersegment balances	Total
Revenues	4,442,868	111,087	111,651	82,640	11,119	(38,176)	4,721,189
Depreciation and amortization	(70,230)	(31,127)	(11,680)	(4,391)	(1,082)	-	(118,510)
Segment operating (loss) profit	(12,897)	(184)	66,392	(4,424)	(994)	(748)	47,253
Interest revenue	7,499	-	-	-	-	-	7,499
Interest expense	(101,398)	(53,373)	-	(1,928)	-	-	(156,699)
Segment assets	1,784,337	761,730	54,415	69,612	6,947	(42,172)	2,634,869
Additions to segment assets	198,332	961	1,514	1,098	260	-	202,165

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	2,751,781	276,713
Lithuania	1,294,190	1,345,524
Latvia	333,987	370,884
Russia	240,008	206,572
Estonia	223,467	184,911
Poland	208,606	245,767
USA	99,808	105,360
Ukraine	69,835	225,325
Virgin islands	26,990	33,795
Austria	25,462	32,496
Moldova	7,933	-
UK	4,530	1,686,430
Germany	4,501	3,861
Other	3,630	3,551
Total consolidated revenues*	5,294,728	4,721,189

*excluding cash-flow hedge result of LTL 2,487 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.

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)	97,292	93,020
Government of the Republic of Lithuania	-	11,971
Yukos Group*	2,011	5,361
Naftelf UAB	1,113	719
Total accounts receivable from related parties, net	100,416	111,071

	December 31, 2003	December 31, 2002
Accounts payable (including accruals) to related parties		
Yukos Group (crude oil purchases, management fee, accrual for claim)	357,242	307,651
Petroval SA (crude oil purchases, commission fee and compensation of expenses)	56,228	1,984
Naftelf UAB	102	-
Williams Lietuva UAB	-	3,076
Total accounts payable (including accruals) to related parties	413,572	312,711
Advances received from related parties		
Yukos Group	1,380	1,463
Petroval SA	25	-
Naftelf UAB	64	40
Total advances received from related parties	1,469	1,503
Accrued interest payable		
Government of the Republic of Lithuania	177	265
Yukos Group	-	139
Total accrued interest payable	177	404
Total accounts payable to/advances received from related parties	415,218	314,618

	December 31, 2003	December 31, 2002
Loans received from related parties:		
Government of the Republic of Lithuania	798,045	956,753
Yukos Group	-	496,710
	798,045	1,453,463

	Year ended December 31, 2003	2002
Sales of products and services to related parties		
Yukos Group	118,151	58,977
Naftelf UAB	23,472	20,195
Interest on borrowings to related parties		
Government of the Republic of Lithuania	80,693	107,095
Yukos Group	24,834	23,105
Williams International Company	-	21,390
Crude oil and services purchases from related parties		
Williams Lietuva UAB (management fee)	-	43,854
Yukos Group (purchase of crude oil and management fee)	3,707,472	1,613,088
Petroval SA (commission fee and purchase of crude oil)	261,578	280

*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.