MAŽEIKIŲ NAFTA AB
Consolidated financial statements
Prepared in accordance with accounting principles generally accepted in the United States of America
(expressed in Lithuanian Litas)
December 31, 2004

PRICEWATERHOUSECOOPERS

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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, 2004 and December 31, 2003 and for the years 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 25, 2005 we issued independent auditor's report 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 including an emphasis of matter in respect of the current crude oil supply from Yukos.

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 25, 2005

On behalf of PricewaterhouseCoopers UAB

Christopher C. Butler
Partner

MAŽEIKIŲ NAFTA AB
Consolidated Balance Sheets
(Expressed in thousands of Lithuanian Litas, except as indicated)

	Notes	December 31, 2004	December 31, 2003
Assets			
Cash and cash equivalents, net	4	516,805	297,379
Current portion of restricted cash	5	452,677	2,696
Trade accounts receivable, net	6	127,701	144,891
Accounts receivable from related parties, net	33	183,298	100,416
Inventories, net	7	491,979	324,262
Other current assets, net	8	34,121	34,035
Current portion of deferred income tax asset, net	27	33	2,367
Total current assets		1,806,614	906,046
Non-current portion of restricted cash	5	28,399	65,503
Equity investees and long-term investments at cost, net	12	3,437	4,378
Property, plant and equipment, net	9	1,271,379	1,464,684
Intangible assets, net	10	12,197	7,237
Non-current accounts receivable, net	11	14,138	20,652
Non-current portion of deferred income tax asset, net	27	-	66
Total assets		3,136,164	2,468,566
Liabilities and shareholders' equity			
Short-term debt and current portion of long-term debt	20	29,394	33,333
Current portion of capital lease liabilities	19	900	1,083
Trade accounts payable	15	345,450	82,184
Accounts payable to/advances received from related parties	33	190,491	415,218
Advances received	16	4,808	8,662
Taxes payable and accrued	17	246,685	90,539
Other current liabilities	18	26,530	33,620
Total current liabilities		844,258	664,639
Long-term debt, net of current maturities	20	1,180,046	1,313,754
Capital lease liabilities, net of current maturities	19	819	1,911
Subsidies	21	12,634	13,837
Non-current portion of deferred income tax liability	27	-	853
Total liabilities		2,037,757	1,994,994
Minority interest		1,739	2,502
Ordinary shares (707,454,130 authorized and issued at December 31,2004 and December 31, 2003; nominal value – LTL 1 per share)		707,454	707,454
Additional paid in capital	28	859,979	859,979
Revaluation reserve		437	437
Accumulated other comprehensive losses		(211,052)	(114,767)
Accumulated surplus (deficit)	28	(260,150)	(982,033)
Total shareholders' equity		1,096,668	471,070
Commitments and contingent liabilities	31	-	-
Total liabilities and shareholders' equity		3,136,164	2,468,566

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Paul Nelson English — Vita Petrošienė

General Director — Chief Financial Officer

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

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

	Notes	Year ended December 31, 2004	2003
Sales and other operating revenues*	22	7,663,481	5,297,215
Operating costs and other deductions			
Cost of sales, excluding depreciation and amortization	23	(6,025,469)	(4,431,972)
Selling and distribution expenses, excluding depreciation and amortization	24	(451,739)	(295,774)
General and administrative expenses, excluding depreciation and amortization	25	(189,061)	(180,502)
Depreciation and amortization	26	(106,476)	(98,909)
Total operating costs and other deductions		(6,772,745)	(5,007,157)
Other income (expenses)			
Loss from equity affiliates		(453)	(312)
Interest income		9,832	7,500
Interest expense		(74,050)	(113,484)
Exchange gain, net		22,801	34,197
Write-down of long-term investments		-	(1,645)
Insurance compensation		51	11,112
Other income (expenses), net		430	163
Total other expenses, net		(41,389)	(62,469)
Income before income tax and minority interest		849,347	227,589
Income tax			
Current income tax expense		(126,622)	(9,340)
Deferred income tax benefit (expense)		(1,565)	1,583
Total income tax expense, net	27	(128,187)	(7,757)
Income before minority interest		721,160	219,832
Minority interest		723	1,114
Net income		721,883	220,946
Earnings per share (LTL per share)			
Basic		1.02	0.31
Diluted		0.88	0.29
Weighted-average shares outstanding (thousands of shares)			
Basic	29	707,454	707,454
Diluted	29	820,517	755,459
* excludes excise taxes on sold refined oil products		903,813	810,817

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

	Notes	Year ended December 31, 2004	2003
Operating activities			
Net income		721,883	220,946
Adjustments to reconcile net income to cash provided by operations:			
Depreciation and amortization	26	106,476	98,909
Equity in losses of associates		453	312
Minority interest		(723)	(1,114)
Loss on sales and retirements of property, plant and equipment and intangible assets		2,906	3,236
Impairment of construction in progress and assets held for resale		28,571	1,912
Write down of investments		-	1,645
Discounting of long-term receivables		(370)	1,111
Inventories allowance		16,258	-
Other		(172)	(199)
Changes in operating assets and liabilities:			
Trade accounts receivable and accounts receivable from related parties		(91,375)	(11,034)
Inventories		(216,637)	(80,698)
Other current assets		(14,181)	42,916
Trade accounts payable and accounts payable to related parties		99,499	152,710
Taxes payable, advances and other current liabilities		163,474	8,011
Net cash generated from operating activities		816,062	438,663
Investing activities			
Additions to property, plant and equipment and intangible assets		(80,531)	(286,556)
Proceeds from sales of property, plant and equipment		7,512	2,055
Proceeds from sales of investments		644	-
Dividends received from associates and investees		-	211
Acquisition of minority shares in subsidiary	13	-	(1,538)
Other		44	(94)
Net cash used for investing activities		(72,331)	(285,922)
Financing activities			
Net repayments of short-term debt		(250)	(48,316)
Repayments of long-term debt		(30,612)	(45,553)
Proceeds from long-term loans		-	15,793
Principal payments of capital lease obligations		(1,326)	(1,438)
Change in long-term accounts receivable		-	716
Distribution to minority		-	(8)
Net cash generated used for financing activities		(32,188)	(78,806)
Effect of foreign exchange on cash balances		(79,240)	(68,909)
Net change in cash and cash equivalents		632,303	5,026
Cash and cash equivalents at beginning of period	4	297,379	159,320
Change in restricted cash	5	(412,877)	133,033
Cash and cash equivalents at end of period	4	516,805	297,379
Supplemental cash flow information			
Interest paid		73,166	118,829
Income tax paid		1,196	-

MAŽEIKIŲ NAFTA AB

Consolidated Statements of Shareholders' Equity and of Comprehensive Income

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

	Number of ordinary shares issued (thousand)	Ordinary shares	Additional paid in capital	Revaluation reserve	Accumulated other comprehensive losses	Accumulated surplus (deficit)	Total shareholders' equity
Balance at December 31, 2002	707,454	707,454	342,484	437	(44,794)	(685,484)	320,097
Reclassification of decrease in share capital (Note 28)	-	-	517,495	-	-	(517,495)	-
Balance at December 31, 2002 as restated	707,454	707,454	859,979	437	(44,794)	(1,202,979)	320,097
Net income for the year	-	-	-	-	-	220,946	220,946
Other comprehensive losses, net of tax	-	-	-	-	(69,973)	-	(69,973)
Balance at December 31, 2003	707,454	707,454	859,979	437	(114,767)	(982,033)	471,070
Net income for the year	-	-	-	-	-	721,883	721,883
Other comprehensive losses, net of tax	-	-	-	-	(96,285)	-	(96,285)
Balance at December 31, 2004	707,454	707,454	859,979	437	(211,052)	(260,150)	1,096,668

Comprehensive income for the years ended December 31, 2004 and 2003 was as follows:

	Year ended December 31, 2004	2003
Net income	721,883	220,946
Other comprehensive losses, net of tax		
Foreign currency translation adjustment	(96,285)	(70,008)
Unrealized gain on cash flow hedge	-	35
Total comprehensive income	625,598	150,973

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. In 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 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 at Yukos

During 2003 and 2004 the Russian tax authorities issued numerous tax claims against YUKOS in amounts in excess of USD 28 billion (equivalent LTL 71 billion as of December 31, 2004), including penalties and interest for the years 2000 through 2003. YUKOS has been unable to successfully defend itself against these claims in the Russian court system and, accordingly, demands for payment of these claims were presented to YUKOS by the tax authorities. To secure payment of these tax claims the tax authorities obtained a court ruling prohibiting YUKOS from disposing or encumbering its assets and court bailiffs took control of certain YUKOS bank accounts and seized the shares of YUKOS' main production subsidiaries Yuganskneftegaz, Tomskneft and Samaraneftegaz and announced their intention auction the shares of Yuganskneftegaz, YUKOS's main crude oil production subsidiary on December 19, 2004.

In an attempt to prevent the auction of Yuganskneftegaz by the Russian court bailiffs, management of YUKOS filed for protection under the bankruptcy laws in the United States of America on December 14, 2004. On December 16, 2004 a US bankruptcy judge issued an injunction to block the auction of Yuganskneftegaz. Despite the injunction the auction was held on December 19, 2004 as scheduled and Yuganskneftegaz was sold to a company for USD 9.35 billion (equivalent LTL 23.7 billion as of December 31, 2004). Subsequent to December 31, 2004, the US bankruptcy judge ruled the United States of America was not the proper jurisdiction for the YUKOS bankruptcy.

The proceeds from the auction of Yuganskneftegaz were insufficient to cover YUKOS' outstanding tax liabilities. The ruling of the US bankruptcy judge may encourage the Russian authorities to continue with their efforts to collect the outstanding tax liabilities. Accordingly, additional assets of YUKOS, including the production subsidiaries Tomskneft and Samarneftegaz may be auctioned off by the Russian authorities to repay the remaining tax liabilities of YUKOS.

As discussed in Note 33, the Company has entered into a crude oil supply agreement with YUKOS, although during 2004 its commitments under this agreement were transferred to its subsidiary, OAO Samaraneftegaz. The actions of the Russian tax authorities noted above had a clear impact on the ability of YUKOS Oil Company to supply crude oil to the Company but through intermediaries OAO Samaraneftegaz continues to be the major source of crude oil for the Company. Should the Russian authorities continue to auction off YUKOS' production subsidiaries including OAO Samaraneftegaz, there can be no assurance that the new owners would honor its commitment to supply crude oil, either directly or indirectly, to the Company.

(Expressed in Lithuanian Litas (tabular amounts in thousands))

A significant and lengthy disruption of crude oil supply would have material adverse affects on the Company's financial position, results of operations and liquidity. Accordingly, management of the Company has taken steps to ensure the continued supply of crude oil. These actions include:

- diversifying crude oil supply sources by signing annual crude oil supply agreements for 2005 with four separate oil traders for a total of approximately 8 million tones to be delivered to the refinery. Oil traders will supply crude oil principally from three major Russian oil producers – YUKOS, Rosneft (Yuganskneftegaz) and Rusneft;

- signing a new long term agreement with Vitol SA for the supply of 7 million tones of crude oil to Butinge Oil Terminal annually. The agreement is valid until December 31, 2009. The Company also has an option to 2 million metric tones of crude oil for refinery operations annually.

Based on the actions taken above and its capital, financing and operating plans for 2005, management believe the Company will continue as a going concern.

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 Vilnius Stock Exchange. 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.

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	2004	2003
December 31,	2.5345	2.7621
September 30,	2.8029	3.0133
June 30,	2.8375	3.0196
March 31,	2.8307	3.2287

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

Note 3: Significant accounting policies

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

Foreign currencies transactions and translation. Foreign currency transactions are accounted for at the exchange rates prevailing at the date of the transactions; gains and losses resulting from the settlement of such transactions are recognised in the statement of income. Monetary assets and liabilities are translated at each reporting date using period end exchange rates and non-monetary items are translated at historic exchange rates. Exchange difference from the use of these exchanges rates have been included as an exchange gain or loss in the statement of income.

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

Cash and cash equivalents. Cash includes cash on hand and in bank and term deposits. The Company considers all liquid investments with an 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 not recoverable.

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 inventories 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 over estimated useful life of the asset, except for catalysts which are depreciated using the unit of output method. The useful lives for different tangible assets groups are as follows:

(Expressed in Lithuanian Litas (tabular amounts in thousands))

	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 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 a 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.

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.

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 statement of the income 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 changes in fair value of derivatives from hedging 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. Results from hedging 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).

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 assets and liabilities 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 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

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

In November 2004, the Financial Accounting Standards Board issued SFAS No. 151, *Inventory Costs – An Amendment of ARB No. 43, Chapter 4*. SFAS No. 151 amends the guidance in Accounting Research Bulletin No. 43, Chapter 4, "Inventory Pricing," to clarify the accounting for abnormal amounts of idle facility expense, freight, handling costs, and wasted material (spoilage). Among other provisions, the new rule requires that items such as idle facility expense, excessive spoilage, double freight, and rehandling costs be recognized as current-period charges regardless of whether they meet the criterion of "so abnormal" as stated in ARB No. 43. Additionally, SFAS No. 151 requires that the allocation of fixed production overheads to the costs of conversion be based on the normal capacity of the production facilities. SFAS No. 151 is effective for fiscal years beginning after June 15, 2005, and is required to be adopted by the Company effective January 1, 2006. The Company does not expect SFAS No. 151 to have a material impact on its consolidated results of operations or financial condition.

In December 2004, the FASB issued SFAS No. 153, "Exchanges of Nonmonetary Assets – An Amendment of APB Opinion No. 29". SFAS No. 153 eliminates the exception from fair value measurement for nonmonetary exchanges of similar productive assets in paragraph 21(b) of APB Opinion No. 29, "Accounting for Nonmonetary Transactions," and replaces it with an exception for exchanges that do not have commercial substance. SFAS No. 153 specifies that a nonmonetary exchange has commercial substance if the future cash flows of the entity are expected to change significantly as a result of the exchange. SFAS No. 153 is effective for the fiscal periods beginning after June 15, 2005, and is required to be adopted by the Company effective January 1, 2006. The Company does not expect SFAS No. 153 to have a material impact on the Company's consolidated results of operations or financial condition.

(Expressed in Lithuanian Litas (tabular amounts in thousands))

Note 4: Cash and cash equivalents, net

	December 31, 2004	December 31, 2003
Cash in banks	161,436	25,567
Short-term bank deposits	355,188	292,973
Cash on hand	181	38
Total cash and cash equivalents	516,805	318,578
Less: allowance for cash held in Vneshekonombank	-	(8,524)
allowance for cash held in Litimpeks Bank	-	(12,675)
Total cash and cash equivalents, net	516 805	297,379

As of December 31, 2004, the weighted average effective annual interest rate on short-term bank deposits was 2.55 per cent (December 31, 2003: 1.47 per cent).

In 2004, the Company wrote-off non recoverable amounts held in bank accounts at Vneshekonombank and Litimpeks Bank.

Note 5: Restricted cash

	December 31, 2004	December 31, 2003
Non-current portion of restricted cash	28,399	65,503
Current portion of restricted cash	452,677	2,696
Total restricted cash	481,076	68,199

Current portion of restricted cash of USD 178,606 thousand or LTL 452,677 thousand (December 31, 2003: USD 976 thousand or LTL 2,696 thousand) is required to be maintained under the terms of letters of credit issued for settlements with suppliers.

Restricted cash in the amount of USD 11,205 thousand or LTL 28,399 thousand (December 31, 2003: USD 23,546 thousand or LTL 65,036 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, but the same restrictions apply.

Note 6: Trade accounts receivable, net

	December 31, 2004	December 31, 2003
Oil refinery	166,412	187,038
Oil terminal	2,585	2,041
Retail network operators	2,038	2,544
Pipeline operator	91	2,226
Other	3	36
Total gross trade accounts receivable	171,129	193,885
Less: allowance for doubtful trade accounts receivable	(43,428)	(48,994)
Total trade accounts receivable, net	127,701	144,891

(Expressed in Lithuanian Litas (tabular amounts in thousands))

Note 7: Inventories, net

	December 31, 2004	December 31, 2003
Raw and supplementary materials	164,170	55,573
Finished goods and goods for resale	244,963	183,434
Semi-finished goods	31,684	27,508
Assets held for resale	677	122
Spare parts and other (net of allowance of LTL 14,954 thousand as at December 31, 2004 and nil at December 31, 2003, respectively)	50,485	57,625
Total inventories	491,979	324,262

Semi-finished goods 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, 2004	December 31, 2003
Prepaid and recoverable taxes	13,856	10,847
Accrued income and deferred expenses	15,898	18,655
Advances to suppliers (net of allowances for doubtful accounts of LTL 299 thousand and LTL 1,389 thousand at December 31, 2004 and December 31, 2003 respectively)	1,538	3,331
Other current assets (net of allowances for doubtful accounts of LTL 3,125 thousand and LTL 3,337 thousand at December 31, 2004 and December 31, 2003 respectively)	2,829	1,202
Total other current assets, net	34,121	34,035

Note 9: Property, plant and equipment, net

	December 31, 2004	December 31, 2003
Machinery and equipment	1,693,751	1,717,267
Buildings	218,907	244,001
Pipeline fill	21,624	22,997
Other tangible assets	188,876	232,798
Construction in progress and prepayments	46,156	142,997
Total property, plant and equipment at cost	2,169,314	2,360,060
Less: accumulated depreciation	(897,935)	(895,376)
Total property, plant and equipment, net	1,271,379	1,464,684

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.

(Expressed in Lithuanian Litas (tabular amounts in thousands))

Construction in progress and prepayments consists of the following:

	December 31, 2004	December 31, 2003
Oil refinery	35,547	102,294
Oil terminal	7,872	39,305
Pipeline operator	2,058	108
Retail network operator	679	1,290
Total construction in progress and prepayments	46,156	142,997

No interest has been capitalised during the year ended December 31, 2004 (December 31, 2003: LTL 9,945 thousand).

Note 10: Intangible assets, net

	December 31, 2004	December 31, 2003
Patents and licenses	15,352	16,139
Prepayments for patents and licenses	9,028	3,395
Total intangible assets at cost	24,380	19,534
Less: accumulated amortization	(12,183)	(12,297)
Total intangible assets, net	12,197	7,237

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, 2004
Year ending December 31:	
2005	1,039
2006	1,004
2007	1,004
2008	122
Total estimated amortization	3,169

(Expressed in Lithuanian Litas (tabular amounts in thousands))

Note 11: Non-current accounts receivable, net

	December 31, 2004	December 31, 2003
Overpaid real estate tax	11,327	19,321
Mažeikių Vandenys SP UAB	6,164	6,530
Lifosa AB	-	865
Other	2,413	1,563
Gross non-current accounts receivable	19,904	28,279
Less: allowance for doubtful amounts	(4,266)	(5,624)
Non-current accounts receivable, net	15,638	22,655
Less: discounting effect	(1,500)	(2,003)
Total non-current accounts receivable, net	14,138	20,652

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

	December 31, 2004	December 31, 2003
Investments in associated companies	3,386	3,842
Other long-term investments (net of accumulated impairment of LTL 5,662 thousand and LTL 6,262 thousand at December 31, 2004 and December 31, 2003, respectively)	51	536
Total equity investees and long-term investments at cost, net	3,437	4,378

The balance of investments in associated companies as at December 31, 2004 and 2003 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. Its activity includes sales of aviation fuel and construction of aviation fuel storage facilities. Summarized financial information has not been presented as it is not material.

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

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. Accordingly the carrying value of property, plant and equipment was reduced.

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, current 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. In 2003-2004, the majority of sales of refined oil products, except for domestic sales and sales to Latvia, Estonia and Poland were made through sales commissioner Petroval SA, an entity related to Yukos group (Notes 32 and 33). Furthermore, a significant part of Pipeline and Oil Terminal services were provided to Yukos group companies. Yukos group was 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. Management actions in order to reduce the dependency on the Yukos Group are summarized in Note 1.

Derivative instruments. In 2004, the Company introduced a foreign currency risk management strategy that utilizes derivatives to reduce its exposure to unanticipated fluctuations in cash flows derived from sales to Poland caused by changes in foreign currency exchange rates.

At December 31, 2004, the fair value of the Company's foreign currency derivatives was nil and notional amount of PLN put options amounted to PLN 23,500 thousand.

The Company occasionally enters into commodity swap contracts to reduce risk relating to the price volatility. The Company does not enter into derivatives for trading or other speculative purposes. No commodity swap contracts were outstanding as at December 31,2004.

(Expressed in Lithuanian Litas (tabular amounts in thousands))

Note 15: Trade accounts payable

	December 31, 2004	December 31, 2003
Oil refinery	341,519	75,386
Oil terminal	1,252	3,790
Retail network operator	1,163	2,359
Pipeline operator	1,516	533
Other	-	116
Total trade accounts payable	345,450	82,184

Note 16: Advances received

	December 31, 2004	December 31, 2003
Oil refinery	4,083	7,163
Oil terminal	58	594
Pipeline operator	203	588
Retail network operator	464	276
Other	-	41
Total advances received	4,808	8,662

Note 17: Taxes payable and accrued

	December 31, 2004	December 31, 2003
Accrued profit tax	135,053	9,339
VAT payables	62,257	38,721
Excise tax	42,686	34,907
Real estate	2,702	2,467
Natural persons income tax payable	200	2,779
Other taxes	3,787	2,326
Total taxes payable and accrued	246,685	90,539

Note 18: Other current liabilities

	December 31, 2004	December 31, 2003
Accrued claims from Oil terminal contractors (Note 31)	7,350	8,010
Accrued vacation pay	6,562	5,198
Salaries and social security	4,694	9,999
Accrued interest	2,296	1,840
Accrual for other claims	1,447	1,577
Accrued professional fees	527	848
Other accrued expenses and short-term liabilities	3,654	6,148
Total other current liabilities	26,530	33,620

(Expressed in Lithuanian Litas (tabular amounts in thousands))

Note 19: Capital lease liabilities

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

	December 31, 2004	December 31, 2003
Machinery and equipment	2,874	2,624
Land and buildings	2,395	1,914
Other tangible assets	117	842
Total costs of property, plant and equipment acquired under capital leases	5,386	5,380
Less: accumulated depreciation	(1,293)	(1,497)
Property, plant and equipment acquired under capital leases, net	4,093	3,883

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

	December 31, 2004	December 31, 2003
Year ending December 31:		
2004	-	1,279
2005	1,006	1,144
2006	801	925
2007	74	28
2008	3	-
Net minimum lease payments	1,884	3,376
Less: Future finance charges on capital leases	(165)	(382)
Present value of capital lease liabilities	1,719	2,994

As at December 31, 2004 the weighted average effective annual interest rate on the capital lease liabilities was 7.4 percent (December 31, 2003: 7.7 percent).

The present value of capital lease liabilities is as follows:

	December 31, 2004	December 31, 2003
Current portion of capital lease liabilities	900	1,083
Capital lease liabilities, net of current maturities	819	1,911
Present value of capital lease liabilities	1,719	2,994

(Expressed in Lithuanian Litas (tabular amounts in thousands))

Note 20: Debt

	December 31, 2004	December 31, 2003
Long-term debt	1,209,240	1,346,637
Current portion of long-term debt	(29,194)	(32,883)
Non-current portion of long-term debt	1,180,046	1,313,754
Current portion of long-term debt	29,194	32,883
Overdraft	200	450
Total short-term debt and current portion of long-term debt	29,394	33,333

The Company has an overdraft agreement for LTL 500 thousand with Bankas Snoras AB. Annual interest rate is 7 percent on the balance withdrawn. The agreement expires in April 2005.

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

					Balance as of December 31, 2004	
Lender/Purpose	Repayment terms	Annual interest rate	Maturity date (mm/yy)	Loan amount	In thousand USD	In thousand LTL
Working capital finance						
Government of Lithuania	Semi-annually	7.00%	07/13	323,928	288,927	732,285
Vilniaus Bankas AB	Semi-annually	3 m LIBOR +1.100%	07/13	75,000	75,000	190,088
Investment program						
Vilniaus Bankas AB	Semi-annually	3 m LIBOR +1.100%	07/13	75,000	75,000	190,088
Investment in oil terminal						
Hansabankas AB	Semi-annually	6 m LIBOR +0.900%	01/09	50,000	23,684	60,027
Kreditanstalt fur Wiederaufbau	Semi-annually	6 m LIBOR +0.875%	12/06	17,395	3,345	8,478
Kreditanstalt fur Wiederaufbau	Semi-annually	6 m LIBOR +0.875%	12/06	11,855	2,504	6,346
Kreditanstalt fur Wiederaufbau	Semi-annually	6 m LIBOR +0.875%	06/06	7,235	1,357	3,439
Kreditanstalt fur Wiederaufbau	Semi-annually	8.065%	09/06	2,444	611	1,549
Kreditanstalt fur Wiederaufbau	Semi-annually	6 m LIBOR +0.875%	12/06	4,294	607	1,538
Petrol stations						
Bankas Snoras AB	Monthly	7.000%	05/08	6,411	5,779	14,648
Karina International Ltd.	Monthly	9.000%	05/05	400	280	710

(Expressed in Lithuanian Litas (tabular amounts in thousands))

Lender/Purpose	Repayment terms	Annual interest rate	Maturity date (mm/yy)	Loan amount	Balance as of December 31, 2004 In thousand USD	In thousand LTL
Trading houses						
Nordea Bank Finland Plc	Monthly	3.900%	12/06	24	17	44
Less: current portion of long-term debt					(11,518)	(29,194)
Total long term debt					465,593	1,180,046

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

The bank borrowings of petrol stations are secured by certain of the property, plant and equipment with net book value of approx. LTL 54,048 thousand as of December 31, 2004 (December 31, 2003: LTL 59,560 thousand).

Scheduled maturity of long-term borrowings is as follows:

	2005	2006	2007	2008	2009	Later	Total
Principal amount of debt	29,192	27,573	18,000	15,339	145,729	973,405	1,209,238

The amounts payable in 2009 – 2013 include repayment of the loans granted by the 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, 2004 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 280 thousand (31 December 2004: LTL 710 thousand) granted by Karina International Ltd. (USA) with maturity on May 31, 2005. According to the loan agreement, one month before the 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", although Uotas UAB is unlisted. If this option is exercised, the Company's share in Uotas UAB will decrease.

Note 21: Subsidies

Subsidies include LTL 12,579 thousand (31 December 2003: LTL 13,708 thousand) financing received from the Government of Lithuania for construction of apartment blocks for Russian citizens in Vsevolotzk, St. Petersburg. The Government 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 a carrying value of include LTL 12,579 thousand (31 December 2003: LTL 13,708 thousand) were included within other tangible assets balance in property, plant and equipment. Subsidies will be netted off against tangible assets after an appropriate decision is taken by the Government of Lithuania supporting this course of action.

(Expressed in Lithuanian Litas (tabular amounts in thousands))

Note 22: Net sales and other operating revenues

	Year ended December 31, 2004	2003
Products of the Oil refinery	7,397,499	4,945,549
Other services of the Oil refinery	13,627	9,727
Pipeline operator's services	80,741	103,870
Oil terminal services	112,500	170,161
Retail sales of oil products	45,285	51,164
Services and sales of non-production units	13,829	16,744
Total net sales and other operating revenues	7,663,481	5,297,215

Sales of the Oil refinery products for the year ended December 31, 2004 include a negative result of LTL 3,605 thousand from the cash-flow hedge (for the year ended December 31, 2003 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, 2004	2003
Products of the Oil refinery	5,930,019	4,328,782
Other services of the Oil refinery	7,408	8,108
Pipeline operator services	13,993	18,487
Oil terminal services	26,381	22,033
Retail sales of oil products	36,466	40,784
Cost of services and sales of non-production units	11,202	13,778
Total cost of sales, excluding depreciation and amortization	6,025,469	4,431,972

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

	Year ended December 31, 2004	2003
Railway services	143,673	103,809
Terminal and laboratory services	72,509	54,443
Transit/freight	157,449	89,032
Salaries and social security	14,886	13,869
Rent of rail tanks	10,548	8,341
Selling and distribution expenses of petrol stations	10,318	8,191
Selling and distribution expenses of trading houses	19,034	496
Intermediary services	2,744	2,888
Repair and maintenance	4,103	2,632
Other	16,475	12,073
Total selling and distribution expenses, excluding depreciation and amortization	451,739	295,774

(Expressed in Lithuanian Litas (tabular amounts in thousands))

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

	Year ended December 31, 2004	2003
Salaries and social security	36,601	34,228
Taxes, other than income tax	26,030	24,412
Insurance	21,034	24,618
Transport and service units expenses	10,934	12,332
Professional fees	9,995	11,676
General and administrative expenses of trading houses	9,485	2,824
General and administrative expenses of petrol stations	6,021	4,563
Fire safety expenses	5,440	5,326
Utilities and communication	4,428	3,534
Materials, repairs and maintenance	2,993	3,126
Fixed plan overheads of idle production time	449	2,208
Settlement of Flour Daniels claim	-	16,655
Other	7,413	15,984
	140,823	161,486
Impairment of fixed assets held for resale and CIP	28,571	1,912
Allowance for inventories	16,258	-
(Reversal of) allowances for and write-off of trade accounts receivable	3,409	(1,578)
Provisions for claims	-	10,088
Allowance for overpaid real estate tax	-	8,339
Allowance for prepayments and other current assets write-off	-	255
Total general and administrative expenses, excluding depreciation and amortization	189,061	180,502

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, 2004	2003
Cost of sales	86,603	77,913
General and administrative expenses	7,784	9,144
Selling expenses	12,089	11,852
Total depreciation and amortization	106,476	98,909

(Expressed in Lithuanian Litas (tabular amounts in thousands))

Note 27: Income tax

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

	December 31, 2004	December 31, 2003
Unrealized foreign exchange gain on monetary items denominated in USD	77,675	60,443
Subsidiaries' taxable losses to be carried forward	7,005	5,894
Property, plant and equipment	7,865	8,819
Inventories	3,789	928
Accounts receivable	847	301
Other assets	-	564
Accrued expenses	1,898	1,514
Gross deferred income tax assets	99,079	78,463
Property, plant and equipment	(3,097)	(3,599)
Other liabilities	-	(55)
Gross deferred income tax liability	(3,097)	(3,654)
Deferred tax asset, net, before valuation allowances	95,982	74,809
Less: Valuation allowances against deferred income tax	(95,949)	(73,229)
Total deferred tax asset, net	33	1,580

As of December 31, 2004 valuation allowances of LTL 95,949 thousand (2003: LTL 73,229 thousand) 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 and (3) deferred tax asset arising in the parent company due to expected utilization of investment credits to reduce taxable profits to nil during 2005-2009.

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

	December 31, 2004	December 31, 2003
Expiry date		
2004	-	2,442
2005	11,968	11,744
2006	9,598	9,598
2007	5,406	5,469
2008	8,812	9,988
2009	10,914	-
Total tax loss carry forwards	46,698	39,241

(Expressed in Lithuanian Litas (tabular amounts in thousands))

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

	December 31, 2004	December 31, 2003
Non-current portion of deferred income tax asset, net	33	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	33	1,580

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

	Year ended December 31,	
	2004	2003
Income before income tax and minority interest	849,347	227,589
Theoretical income tax expense (benefit) at the statutory rate of 15 percent	127,402	34,138
Increase (decrease) in the theoretical income tax expense due to:		
Income taxed at other rates	(120)	39
Investment tax credits and other rate effects	-	(5,113)
Nondeductible/nontaxable items and foreign exchange effects	(12,513)	18,059
(Utilization of net operating loss)/correction of prior periods tax	(9,302)	2,012
Income tax expense before provisions	105,467	49,135
Change in provision for deferred income tax asset	22,720	(41,378)
Total income tax expense	128,187	7,757

Funding of a significant part of the modernization program from operating cash flow of the Company will enable the Company to apply investment credit following the terms of the Investment Agreement in 2005 – 2009 and reduce effective income tax rate to zero.

The Investment Agreement, signed between the OAO Yukos Oil Corporation, Yukos Finance B.V., Williams International Company, the Company and the Government 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 application of the provisions of Investment Agreement based on the Constitutional Court decision are described in Note 31.

Note 28: Shareholders' equity

During 2002 the ordinary share capital of the Company was subject to a statutory reduction amounting to LTL 517,495 thousand. This reduction was previously accounted for as a corresponding reduction in accumulated deficit but has been restated in these financial statements as an increase in additionally paid in capital. The accumulated surplus (deficit) in these financial statements is different from the profit available for distribution, which amounts to LTL 692,801 thousands.

(Expressed in Lithuanian Litas (tabular amounts in thousands))

Note 29: Earnings 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 calculated using treasury share method.

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

	Year ended December 31, 2004	2003
Weighted – average shares outstanding – basic earnings per share	707,454	707,454
Add: incremental shares from assumed conversions of stock options (Note 30)	113,063	48,005
Weighted – average shares outstanding – diluted earnings per share	820,517	755,459

Note 30: Stock options

According to the Investment Agreement as of June 18, 2002, Yukos Finance B.V. had an option to subscribe for that number of the Company’s newly issued for the consideration of USD 75 million (December 31, 2004: LTL 190 million) which cause its holding in the Company to increase from 53.7 percent to approximately 63.4 percent after exercising this option. Yukos Finance B.V. exercised the option by delivering to the Government of Lithuania and the Company a notice in writing on October 29, 2004.

From the date of exercise of the first option, Yukos Finance B.V. have the second option to purchase from 1 to 11.5 percent of shares held by the Government of Lithuania 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 (December 31, 2004: LTL 12.4 million) for 1 percent. The option expires on October 29, 2006.

The Government of Lithuania initiated negotiations with Yukos Finance B.V. regarding the above-mentioned options. As at the date of signing these financial statements, the management of the Company is not aware either of the timing or the substance of any decision that the Government of Lithuania and Yukos Finance B.V. may take.

Note 31: Commitments and contingent liabilities

Claim from PPS Pipeline Systems

In 2000, the Company received a claim from PPS Pipeline Systems (PPS), the contractor of the Oil Terminal Project, to compensate Lithuanian VAT in the amount of USD 2,138 thousand (December 31, 2004: LTL 5,419 thousand) which was incurred until registration of PPS in Lithuania and, therefore, was not recovered from the state budget. Following advice of its lawyers the Company rejected these claims as ungrounded. In 2003, the Company received a repeated claim from PPS in the total amount of USD 2,900 thousand (December 31, 2004: LTL 7,350 thousand) which also included accumulated late payment of interest of USD 662 thousand (December 31, 2004: LTL 1,678 thousand) and PPS Pipeline Systems branch office costs of USD 100 thousand (December 31, 2004: LTL 253 thousand). Furthermore, in 2003 PPS Pipeline Systems submitted an additional claim of USD 646 thousand (December 31, 2004: LTL 1,637 thousand) to the Company for the extra works reimbursement according to the Oil Terminal contract. The dispute over the recovery of VAT first arose in 1997 and despite many threats, arbitration proceedings have still not been initiated by PPS.

Following the principle of prudence, management decided to create a provision of USD 2,900 thousand (December 31, 2004: LTL 7,350 thousand) for possible losses that would be incurred if legal proceedings were initiated against the Company and a judgment rendered against the Company, in the consolidated financial statements for the year ended December 31, 2004 and 2003.

Claim from Klevo Lapas UAB

In 2003, based on a decision of the Competition Council, stating that the Company has not complied with the Competition Law and 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 in 2000 were renewed and the Court appointed an independent expert committee to evaluate the possible amounts of damages caused to Klevo Lapas UAB. As of December 31, 2004, the claim from Klevo Lapas UAB amounted to LTL 741 thousand. However the possible amounts of damages caused to this customer evaluated by the expert committee appointed by the Court at an early stage of the dispute comprised approximately LTL 7,500 thousand. As of December 31, 2004, 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 this claim will exceed the amount receivable from Klevo Lapas UAB, therefore, no provision for the claim was made in the financial statements for the year ended December 31, 2004.

Payment request from a group of inventors

The Company had received a payment request from a group of individuals in the amount of LTL 14,000 thousand related to a production improvement process invented and patented by the group and subsequently implemented by the Oil refinery 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, rejected the payment request. In 2003, one of the inventors initiated legal proceedings against the Company and claimed an amount totaling LTL 400 thousand. Management has taken legal advice and believes that the charges are without merit and intends to vigorously defend its position. Accordingly, no accrual for this contingent liability has been made in these consolidated financial statements. 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 2004, there were no changes in the status of the claim received from Rietumu Banka AS for the total amount of USD 1,250 thousand (December 31, 2004: LTL 3,168 thousand). In 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. Management has taken legal advice and 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, 2004.

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' claim

In 2002, minority shareholders' petitioned a court to recognize the decisions made during the shareholders' meeting held on 21 September 2002 as invalid due to breach of the Law on Securities Market. The decisions made include election of the Supervisory Board, which subsequently appointed the Board of Directors.

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.

Investigation of the Competition Council

In August 2004, the Lithuanian Competition Council commenced an investigation against the Company to determine whether the higher price of fuel in Lithuania is the result of violations and abuse of its dominant position in the market. The investigation resulted from the fact that the prices of fuel in Lithuania are higher than those in Latvia and Estonia, despite the fact that with effect from May 2004 all three countries have unified fuel excise and customs duties. Management has taken legal advice and believes that the Company has complied with Lithuanian Competition Law and, therefore, no provision for possible outcome of this investigation is required.

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 Lithuania and Williams International Company (from September 19, 2002 replaced by Yukos Finance B.V.) established that the Government 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 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 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 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 Lithuania with the amounts payable to the Government was abolished.

(Expressed in Lithuanian Litas (tabular amounts in thousands))

Dispute with Klaipėdos nafta AB over surplus balance of oil products

The Company is a sole exporter of light oil products via terminal owned by Klaipėdos nafta AB. During a stocktake at the terminal, a surplus balance of light oil products comprising LTL 20.8 million at year-end oil products prices, which was accumulated during 1999-2004 was identified. On May 5, 2004 the Company and Klaipėdos nafta AB signed an agreement to share the surplus balance equally. However, practically this decision has not been implemented and the Company has not recognized its share of the surplus balance as an asset as of December 31, 2004.

Guarantees under waste treatment plans

As required by a waste treatment plans approved by the Ministry of Environment in 2004, the Company issued guarantees to the regional departments of the Ministry of Environment for a total amount of LTL 11,970 thousand. Payments under these guarantees should be made in cases when the Company is unable to continue treatment of waste accumulating in production process.

Purchase commitments

The Company has signed a number of contracts with various suppliers for purchase of tangible and intangible assets. The total tangible and intangible assets purchase commitments according to these contracts amounted to USD 658 thousand or LTL 1,668 thousand as of December 31, 2004.

Operating lease commitments – the Company is lessee

The Company had entered into 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, 2004
Year ending December 31:	
2005	1,261
2006	1,108
2007	660
2008	354
2009	354
2010 and later years	1,472
Total operating lease commitments	5,209

Note 32: 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 terminal in Būtingė and crude oil and refined oil products to a terminal in Ventspils, Latvia. The Company 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).

(Expressed in Lithuanian Litas (tabular amounts in thousands))

Summarized financial information concerning the Company's reportable segments for the year ended December 31, 2004 and 2003 is shown in the following tables:

Year ended December 31, 2004

	Oil refinery	Oil terminal	Pipeline operator	Petrol stations	Other	Intersegment balances	Total
Revenues	7,441,521	112,500	80,741	55,839	4,025	(31,145)	7,663,481
Depreciation and amortization	68,301	20,797	11,836	5,061	481	-	106,476
Segment operating (loss) profit	809,830	43,497	48,939	(10,576)	(826)	(128)	890,736
Interest revenue	9,815	-	-	11	6	-	9,832
Interest expense	(46,132)	(26,666)	-	(1,252)	-	-	(74,050)
Segment assets	2,507,060	568,060	46,417	61,715	2,735	(49,823)	3,136,164
Additions to segment assets	63,659	4,577	7,374	4,809	112	-	80,531

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

Total consolidated revenues earned by the Company in the years ended December 31, 2004 and 2003 can be split by country as follows:

	Year ended December 31, 2004	2003
Switzerland	4,046,516	2,751,781
Lithuania	1,573,744	1,294,190
Latvia	586,914	333,987
Poland	563,192	208,606
Estonia	458,298	223,467
Russia	158,137	240,008
Ukraine	105,599	69,835
USA	91,323	99,808
Austria	33,413	32,496
Other	49,950	40,550
Total consolidated revenues*	7,667,086	5,294,728

(Expressed in Lithuanian Litas (tabular amounts in thousands))

*excluding cash-flow hedge negative result of LTL 3,605 thousand reported in sales and other operating revenue for the year ended December 31, 2004 (for the year ended December 31,2003 – positive result of LTL 2,487 thousand)

Sales through sales commissioner Petroval SA, a related party, comprised 52.7 percent of total sales during the year ended December 31, 2004 (45.5 percent during the ended December 31, 2003) and were reported as sales to Switzerland.

99.94% of the Company's long-lived assets are located in Lithuania.

Note 33: Related Parties

Yukos Finance B.V is a major shareholder of the Company. According to the provisions of the Investment Agreement, Yukos Finance B.V also has management control rights of the Company.

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. In 2004, Yukos Oil Company commitments under this agreement were transferred to Samaraneftegas OAO, a subsidiary of Yukos.

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 a defined fee. Accounts receivable balance represents receivables from the third parties which has to be collected by Petroval SA on behalf of the Company. The agreement was terminated by mutual agreement of parties effective from December 31, 2004.

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, 2004	December 31, 2003
Accounts receivable from related parties, net		
Petroval SA (acting as a sales commissioner and direct sales client)	181,002	97,292
Yukos Group (net of allowance for doubtful accounts of LTL 5,505 thousand and nil at December 31, 2004 and December 31, 2003, respectively)*	15	2,011
Naftelf UAB	2,281	1,113
Total accounts receivable from related parties, net	183,298	100,416

	December 31, 2004	December 31, 2003
Accounts payable (including accruals) to related parties		
Yukos Group (crude oil purchases, management fee, accrual for claim)	162,655	357,242
Petroval SA (crude oil purchases, commission fee and compensation of expenses)	27,593	56,228
Naftelf UAB	101	102
Total accounts payable (including accruals) to related parties	190,349	413,572

(Expressed in Lithuanian Litas (tabular amounts in thousands))

	December 31, 2004	December 31, 2003
Advances received from related parties		
Yukos Group	-	1,380
Petroval SA	-	25
Naftelf UAB	-	64
Total advances received from related parties	-	1,469
Accrued interest payable		
Government of Lithuania	142	177
Total accrued interest payable	142	177
Total accounts payable to/advances received from related parties	190,491	415,218

	December 31, 2004	December 31, 2003
Loans received from related parties		
Government of Lithuania	732,285	798,045
Total loans received from related parties	732,285	798,045

	Year ended December 31,	
	2004	2003
Sales of products and services to related parties		
Petroval SA (acting as direct sales client)	307,820	-
Yukos Group	38,816	118,177
Naftelf UAB	34,604	23,472
Interest on borrowings to related parties		
Government of Lithuania	59,024	80,693
Yukos Group	-	24,834
Crude oil and services purchases from related parties		
Yukos Group (purchase of crude oil and management fee)	4,168,473	3,707,472
Petroval SA (commission fee and purchase of crude oil)	867,863	261,578

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