MAŽEIKIŲ NAFTA AB
Consolidated financial statements
Prepared in accordance with accounting principles generally accepted in the United States of America presented in US Dollars
December 31, 2004

PRICEWATERHOUSECOOPERS

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Report of Independent Auditor

To the Shareholders and Board of Directors of
Mažeikių Nafta AB

1. We have audited the accompanying consolidated balance sheets of Mažeikių Nafta AB and Subsidiaries (the "Company") as of December 31, 2004 and December 31, 2003 and the related consolidated statements of income, changes in shareholders' equity and comprehensive income, and cash flows for the years then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.
2. Except as discussed in paragraph 3, we conducted our audits 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 audits provide a reasonable basis for our opinion.
3. United States Generally Accepted Accounting Principles require presentation of property, plant and equipment on the basis of historical cost less accumulated depreciation. In accordance with resolutions of the Government of Lithuania, the Company has revalued property, plant and equipment four times prior to January 1, 1996 resulting in an initial cumulative increase in the net book value of tangible assets of USD 115,090 thousand. Due to many movements and lack of separate registration of the indexed amounts per asset, the Company is unable to quantify the effect of the indexations on the balance sheets as of December 31, 2004 and 2003 and on the consolidated statements of income for the years then ended.
4. In our opinion, except for the effect of the matter referred to in paragraph 3, the financial statements referred to above present fairly, in all material respects, the consolidated financial position of Mažeikių Nafta AB and Subsidiaries at December 31, 2004 and December 31, 2003, and the results of their operations and their cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.
5. As discussed in Note 1 to the financial statements, although the Company now purchases most of its crude oil through intermediaries, it is currently still dependent on oil produced by YUKOS. The remaining production assets of YUKOS are under threat of being auctioned off by the Russian authorities to settle that company's tax liabilities. Should this occur, there can be no assurance that the new owners of these facilities would honor their commitment to supply crude oil to the Company. 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. The ultimate outcome of the matter cannot presently be determined, and no adjustment to the financial statements that may result from these possible future events has been made.

Vilnius, Lithuania
March 25, 2005

PricewaterhouseCoopers UAB

MAŽEIKIŲ NAFTA AB

Consolidated Balance Sheets

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

	Notes	December 31, 2004	December 31, 2003
Assets			
Cash and cash equivalents, net	4	203,908	107,664
Current portion of restricted cash	5	178,606	976
Trade accounts receivable, net	6	50,385	52,457
Accounts receivable from related parties, net	33	72,321	36,355
Inventories, net	7	194,113	117,397
Other current assets, net	8	13,462	12,322
Current portion of deferred income tax asset, net	27	13	857
Total current assets		712,808	328,028
Non-current portion of restricted cash	5	11,205	23,715
Equity investees and long-term investments at cost, net	12	1,356	1,585
Property, plant and equipment, net	9	501,629	530,279
Intangible assets, net	10	4,812	2,620
Non-current accounts receivable, net	11	5,578	7,477
Non-current portion of deferred income tax asset, net	27	-	24
Total assets		1,237,388	893,728
Liabilities and shareholders' equity			
Short-term debt and current portion of long-term debt	20	11,598	12,068
Current portion of capital lease liabilities	19	355	392
Trade accounts payable	15	136,299	29,754
Accounts payable to/advances received from related parties	33	75,159	150,327
Advances received	16	1,897	3,136
Taxes payable and accrued	17	97,331	32,779
Other current liabilities	18	10,466	12,172
Total current liabilities		333,105	240,628
Long-term debt, net of current maturities	20	465,593	475,636
Capital lease liabilities, net of current maturities	19	323	692
Subsidies	21	4,985	5,010
Non-current portion of deferred income tax liability	27	-	309
Total liabilities		804,006	722,275
Minority interest		686	906
Ordinary shares (707,454,130 authorized and issued at December 31,2004 and December 31, 2003; nominal value – LTL 1 per share)		181,366	181,366
Additional paid in capital	28	216,986	216,986
Revaluation reserve		109	109
Accumulated other comprehensive income		4,344	3,298
Accumulated surplus (deficit)	28	29,891	(231,212)
Total shareholders' equity		432,696	170,547
Commitments and contingent liabilities	31	-	-
Total liabilities and shareholders' equity		1,237,388	893,728

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Paul Nelson English — Vita Petrošienė

General Director — Chief Financial Officer

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

	Notes	Year ended December 31, 2004	2003
Sales and other operating revenues*	22	2,760,772	1,736,929
Operating costs and other deductions			
Cost of sales, excluding depreciation and amortization	23	(2,169,391)	(1,453,230)
Selling and distribution expenses, excluding depreciation and amortization	24	(163,158)	(97,253)
General and administrative expenses, excluding depreciation and amortization	25	(68,608)	(59,764)
Depreciation and amortization	26	(38,315)	(32,344)
Total operating costs and other deductions		(2,439,472)	(1,642,591)
Other income (expenses)			
Loss from equity affiliates		(163)	(102)
Interest income		3,563	2,541
Interest expense		(26,625)	(36,970)
Exchange gain, net		8,433	11,257
Write-down of long-term investments		-	(519)
Insurance compensation		18	3,857
Other income (expenses), net		98	58
Total other expenses, net		(14,676)	(19,878)
Income before income tax and minority interest		306,624	74,460
Income tax			
Current income tax expense		(45,222)	(3,381)
Deferred income tax benefit (expense)		(559)	519
Total income tax expense, net	27	(45,781)	(2,862)
Income before minority interest		260,843	71,598
Minority interest		260	364
Net income		261,103	71,962
Earnings per share (USD per share)			
Basic		0.369	0.102
Diluted		0.318	0.095
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		324,916	268,623

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

	Notes	Year ended December 31, 2004	2003
Operating activities			
Net income		261,103	71,962
Adjustments to reconcile net income to cash provided by operations:			
Depreciation and amortization	26	38,315	32,344
Equity in losses of associates		163	102
Minority interest		(260)	(364)
Loss on sales and retirements of property, plant and equipment and intangible assets		951	1,045
Impairment of construction in progress and assets held for resale		10,368	624
Write down of investments		-	519
Discounting of long-term receivables		(133)	363
Inventories allowance		5,900	-
Other		(59)	(64)
Changes in operating assets and liabilities:			
Trade accounts receivable and accounts receivable from related parties		(32,730)	(3,469)
Inventories		(77,609)	(26,340)
Other current assets		(5,100)	14,023
Trade accounts payable and accounts payable to related parties		35,342	49,812
Taxes payable, advances and other current liabilities		58,708	2,842
Net cash generated from operating activities		294,959	143,399
Investing activities			
Additions to property, plant and equipment and intangible assets		(28,101)	(94,234)
Proceeds from sales of property, plant and equipment		2,749	641
Proceeds from sales of investments		232	-
Dividends received from associates and investees		3	60
Acquisition of minority shares in subsidiary	13	-	(530)
Other		13	(34)
Net cash used for investing activities		(25,104)	(94,097)
Financing activities			
Net repayments of short-term debt		(90)	(15,082)
Repayments of long-term debt		(11,153)	(15,153)
Proceeds from long-term loans		-	5,132
Principal payments of capital lease obligations		(476)	(470)
Change in long-term accounts receivable		-	234
Distribution to minority		-	(3)
Net cash generated from (used for) financing activities		(11,719)	(25,342)
Effect of foreign exchange on cash balances		3,228	(487)
Net change in cash and cash equivalents		261,364	23,473
Cash and cash equivalents at beginning of period	4	107,664	48,113
Change in restricted cash	5	(165,120)	36,078
Cash and cash equivalents at end of period	4	203,908	107,664
Supplemental cash flow information			
Interest paid		26,385	39,949
Income tax paid		430	-

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

	Number of ordinary shares issued (thousand)	Ordinary shares	Additional paid in capital	Revaluation reserve	Accumulated other comprehensive income	Accumulated surplus (deficit)	Total shareholders' equity
Balance at December 31, 2002	707,454	181,366	87,613	109	1,378	(173,801)	96,665
Reclassification of decrease in share capital (Note 28)	-	-	129,373	-	-	(129,373)	-
Balance at December 31, 2002 as restated	707,454	181,366	216,986	109	1,378	(303,174)	96,665
Net income for the year	-	-	-	-	-	71,962	71,962
Other comprehensive income, net of tax	-	-	-	-	1,920	-	1,920
Balance at December 31, 2003	707,454	181,366	216,986	109	3,298	(231,212)	170,547
Net income for the year	-	-	-	-	-	261,103	261,103
Other comprehensive income, net of tax	-	-	-	-	1,046	-	1,046
Balance at December 31, 2004	707,454	181,366	216,986	109	4,344	29,891	432,696

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

	Year ended December 31, 2004	2003
Net income	261,103	71,962
Other comprehensive income, net of tax		
Foreign currency translation adjustment	1,046	1,908
Unrealized gain on cash flow hedge	-	12
Total comprehensive income	262,149	73,882

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, 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. 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 US Dollars (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) as a significant portion of its business is conducted in the US dollars and management uses the USD to manage business risks and exposures and to measure performance of its businesses. The functional currencies of the Company's subsidiaries are official currencies of the countries in which subsidiaries operate. The financial statements of the subsidiaries were translated to US Dollars, the reporting currency of the Company, in accordance with the relevant provisions of SFAS No. 52, *Foreign Currency Translation.*

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

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 US Dollars (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 (USD 115,090 thousand) was originally accounted for as a revaluation reserve in shareholders' equity. All except LTL 437 thousand (USD 109 thousand) of this reserve was later converted to share capital with the balance remaining in the revaluation reserve.

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

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

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 US Dollars (tabular amounts in thousands))

Note 4: Cash and cash equivalents, net

	December 31, 2004	December 31, 2003
Cash in banks	63,696	9,256
Short-term bank deposits	140,194	106,069
Cash on hand	18	14
Total cash and cash equivalents	203,908	115,339
Less: allowance for cash held in Vneshekonombank	-	(3,086)
allowance for cash held in Litimpeks Bank	-	(4,589)
Total cash and cash equivalents, net	203,908	107,664

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	11,205	23,715
Current portion of restricted cash	178,606	976
Total restricted cash	189,811	24,691

Current portion of restricted cash of USD 178,606 thousand (December 31, 2003: USD 976 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 (December 31, 2003: USD 23,546 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	65,659	67,716
Oil terminal	804	921
Retail network operators	1,020	739
Pipeline operator	36	806
Other	1	13
Total gross trade accounts receivable	67,520	70,195
Less: allowance for doubtful trade accounts receivable	(17,135)	(17,738)
Total trade accounts receivable, net	50,385	52,457

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

Note 7: Inventories, net

	December 31, 2004	December 31, 2003
Raw and supplementary materials	64,774	20,120
Finished goods and goods for resale	96,652	66,411
Semi-finished goods	12,501	9,959
Assets held for resale	267	44
Spare parts and other (net of allowance of USD 5,900 thousand as at December 31, 2004 and nil at December 31, 2003, respectively)	19,919	20,863
Total inventories	194,113	117,397

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	5,467	3,927
Accrued income and deferred expenses	6,272	6,754
Advances to suppliers (net of allowances for doubtful accounts of USD 118 thousand and USD 503 thousand at December 31, 2004 and December 31, 2003 respectively)	607	1,206
Other current assets (net of allowances for doubtful accounts of USD 1,233 thousand and USD 1,208 thousand at December 31, 2004 and December 31, 2003 respectively)	1,116	435
Total other current assets, net	13,462	12,322

Note 9: Property, plant and equipment, net

	December 31, 2004	December 31, 2003
Machinery and equipment	668,278	621,725
Buildings	86,371	88,339
Pipeline fill	8,532	8,326
Other tangible assets	74,522	84,283
Construction in progress and prepayments	18,211	51,771
Total property, plant and equipment at cost	855,914	854,444
Less: accumulated depreciation	(354,285)	(324,165)
Total property, plant and equipment, net	501,629	530,279

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 US Dollars (tabular amounts in thousands))

Construction in progress and prepayments consists of the following:

	December 31, 2004	December 31, 2003
Oil refinery	14,025	37,035
Oil terminal	3,106	14,230
Pipeline operator	812	39
Retail network operator	268	467
Total construction in progress and prepayments	18,211	51,771

No interest has been capitalised during the year ended December 31, 2004 (December 31, 2003: USD 3,240 thousand).

Note 10: Intangible assets, net

	December 31, 2004	December 31, 2003
Patents and licenses	6,057	5,843
Prepayments for patents and licenses	3,562	1,229
Total intangible assets at cost	9,619	7,072
Less: accumulated amortization	(4,807)	(4,452)
Total intangible assets, net	4,812	2,620

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	410
2006	396
2007	396
2008	48
Total estimated amortization	1,250

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

Note 11: Non-current accounts receivable, net

	December 31, 2004	December 31, 2003
Overpaid real estate tax	4,469	6,995
Mažeikių Vandenys SP UAB	2,432	2,364
Lifosa AB	-	313
Other	952	566
Gross non-current accounts receivable	7,853	10,238
Less: allowance for doubtful amounts	(1,683)	(2,036)
Non-current accounts receivable, net	6,170	8,202
Less: discounting effect	(592)	(725)
Total non-current accounts receivable, net	5,578	7,477

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

	December 31, 2004	December 31, 2003
Investments in associated companies	1,336	1,391
Other long-term investments (net of accumulated impairment of USD 2,234 thousand and USD 2,267 thousand at December 31, 2004 and December 31, 2003, respectively)	20	194
Total equity investees and long-term investments at cost, net	1,356	1,585

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 (USD 530 thousand) by USD 469 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 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 US Dollars (tabular amounts in thousands))

Note 15: Trade accounts payable

	December 31, 2004	December 31, 2003
Oil refinery	134,748	27,293
Oil terminal	494	1,372
Retail network operator	459	854
Pipeline operator	598	193
Other	-	42
Total trade accounts payable	136,299	29,754

Note 16: Advances received

	December 31, 2004	December 31, 2003
Oil refinery	1,611	2,593
Oil terminal	23	215
Pipeline operator	80	213
Retail network operator	183	100
Other	-	15
Total advances received	1,897	3,136

Note 17: Taxes payable and accrued taxes

	December 31, 2004	December 31, 2003
Accrued profit tax	53,286	3,381
VAT payables	24,564	14,019
Excise tax	16,842	12,638
Real estate	1,066	893
Natural persons income tax payable	79	1,006
Other taxes	1,494	842
Total taxes payable	97,331	32,779

Note 18: Other current liabilities

	December 31, 2004	December 31, 2003
Accrued claims from Oil terminal contractors (Note 31)	2,900	2,900
Accrued vacation pay	2,589	1,882
Salaries and social security	1,852	3,620
Accrued interest	906	666
Accrual for other claims	571	571
Accrued professional fees	208	307
Other accrued expenses and short-term liabilities	1,440	2,226
Total other current liabilities	10,466	12,172

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

Note 19: Capital lease liabilities

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

	December 31, 2004	December 31, 2003
Machinery and equipment	1,134	950
Land and buildings	945	693
Other tangible assets	46	305
Total costs of property, plant and equipment acquired under capital leases	2,125	1,948
Less: accumulated depreciation	(510)	(542)
Property, plant and equipment acquired under capital leases, net	1,615	1,406

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

	December 31, 2004	December 31, 2003
Year ending December 31:		
2004	-	463
2005	397	414
2006	316	335
2007	29	10
2008	1	-
Net minimum lease payments	743	1,222
Less: Future finance charges on capital leases	(65)	(138)
Present value of capital lease liabilities	678	1,084

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	355	392
Capital lease liabilities, net of current maturities	323	692
Present value of capital lease liabilities	678	1,084

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

Note 20: Debt

	December 31, 2004	December 31, 2003
Long-term debt	477,111	487,541
Current portion of long-term debt	(11,518)	(11,905)
Non-current portion of long-term debt	465,593	475,636
Current portion of long-term debt	11,518	11,905
Overdraft	80	163
Total short-term debt and current portion of long-term debt	11,598	12,068

The Company has an overdraft agreement for LTL 500 thousand (equivalent to USD 197 thousand as of December 31, 2004) 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:

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

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

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

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. USD 21,325 thousand as of December 31, 2004 (December 31, 2003: USD 21,574 thousand).

Scheduled maturity of long-term borrowings is as follows:

	2005	2006	2007	2008	2009	Later	Total
Principal amount of debt	11,518	10,879	7,102	6,052	57,498	384,062	477,111

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 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 19,852 thousand (USD 4,963 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 USD 4,963 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 US Dollars (tabular amounts in thousands))

Note 22: Net sales and other operating revenues

	Year ended December 31, 2004	2003
Products of the Oil refinery	2,664,952	1,622,166
Other services of the Oil refinery	4,909	3,204
Pipeline operator's services	29,087	33,916
Oil terminal services	40,528	55,462
Retail sales of oil products	16,314	16,721
Services and sales of non-production units	4,982	5,460
Total net sales and other operating revenues	2,760,772	1,736,929

Sales of the Oil refinery products for the year ended December 31, 2004 include a negative result of USD 1,272 thousand from the cash-flow hedge (for the year ended December 31, 2003 positive result of USD 782 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	2,135,026	1,419,558
Other services of the Oil refinery	2,667	2,636
Pipeline operator services	5,038	6,016
Oil terminal services	9,498	7,185
Retail sales of oil products	13,129	13,329
Cost of services and sales of non-production units	4,033	4,506
Total cost of sales, excluding depreciation and amortization	2,169,391	1,453,230

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

	Year ended December 31, 2004	2003
Railway services	51,896	34,175
Terminal and laboratory services	26,191	17,891
Transit/freight	56,872	29,373
Salaries and social security	5,377	4,555
Rent of rail tanks	3,810	2,742
Selling and distribution expenses of petrol stations	3,727	2,676
Selling and distribution expenses of trading houses	6,861	163
Intermediary services	991	903
Repair and maintenance	1,482	860
Other	5,951	3,915
Total selling and distribution expenses, excluding depreciation and amortization	163,158	97,253

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

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

	Year ended December 31, 2004	2003
Salaries and social security	13,282	11,185
Taxes, other than income tax	9,446	8,011
Insurance	7,633	8,033
Transport and service units expenses	3,968	4,047
Professional fees	3,627	4,050
General and administrative expenses of trading houses	3,442	957
General and administrative expenses of petrol stations	2,185	1,491
Fire safety expenses	1,974	1,746
Utilities and communication	1,607	1,163
Materials, repairs and maintenance	1,086	1,018
Fixed plan overheads of idle production time	163	717
Settlement of Flour Daniels claim	-	5,622
Other	2,690	5,282
	51,103	53,322
Impairment of fixed assets held for resale and CIP	10,368	624
Allowance for inventories	5,900	-
(Reversal of) allowances for and write-off of trade accounts receivable	1,237	(531)
Provisions for claims	-	3,471
Allowance for overpaid real estate tax	-	2,787
Allowance for prepayments and other current assets write-off	-	91
Total general and administrative expenses, excluding depreciation and amortization	68,608	59,764

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	31,164	25,478
General and administrative expenses	2,801	2,990
Selling expenses	4,350	3,876
Total depreciation and amortization	38,315	32,344

(Expressed in US Dollars (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	30,647	21,883
Subsidiaries' taxable losses to be carried forward	2,764	2,134
Property, plant and equipment	3,103	3,193
Inventories	1,495	336
Accounts receivable	334	109
Other assets	-	204
Accrued expenses	749	548
Gross deferred income tax assets	39,092	28,407
Property, plant and equipment	(1,222)	(1,303)
Other liabilities	-	(20)
Gross deferred income tax liability	(1,222)	(1,323)
Deferred tax asset, net, before valuation allowances	37,870	27,084
Less: Valuation allowances against deferred income tax	(37,857)	(26,512)
Total deferred tax asset, net	13	572

As of December 31, 2004 valuation allowances of USD 37,857 thousand (2003: USD 26,512 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	-	884
2005	4,722	4,252
2006	3,787	3,475
2007	2,133	1,980
2008	3,477	3,616
2009	4,306	-
Total tax loss carry forwards	18,425	14,207

(Expressed in US Dollars (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	13	24
Current portion of deferred income tax asset, net	-	857
Non-current portion of deferred income tax liability	-	(309)
Total deferred income tax asset, net	13	572

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	306,624	74,460
Theoretical income tax expense (benefit) at the statutory rate of 15 percent	45,994	11,169
Increase (decrease) in the theoretical income tax expense due to:		
Income taxed at other rates	(43)	13
Investment tax credits and other rate effects	-	(1,671)
Nondeductible/nontaxable items an foreign exchange effects	(7,845)	1,329
(Utilization of net operating loss)/correction of prior periods tax	(3,670)	658
Income tax expense before provisions	34,436	11,498
Change in provision for deferred income tax asset	11,345	(8,636)
Total income tax expense	45,781	2,862

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 USD 129,373 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 in these financial statements is different from the profit available for distribution, which amounts to LTL 692,801 thousands (December 31, 2004: USD 273,348 thousands).

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

Note 29: 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 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 (loss) 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 (loss) 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 which cause its holding in the Company to increase from 53.7 percent to approximately 63.426 percent after exercising this option. Yukos Finance B.V. exercised this 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. has 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) multiplied by the percentage to be repurchased but not less than USD 4.9 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 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 which also included accumulated late payment of interest of USD 662 thousand and PPS Pipeline Systems branch office costs of USD 100 thousand. Furthermore, in 2003 PPS Pipeline Systems submitted an additional claim of USD 646 thousand to the Company for the extra works reimbursement according to the Oil Terminal contract. The 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 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 (equivalent to USD 292 thousand as of December 31 2004). 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 (equivalent to USD 2,959 thousand as of December 31, 2004). As of December 31, 2004, the Company had a receivable from Klevo Lapas UAB amounting to LTL 5,298 thousand (equivalent of USD 2,090 thousand as of December 31, 2004), 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 (equivalent to USD 5,524 thousand as of December 31, 2004) 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 (USD 158 thousand as of December 31, 2004). 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. 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 (USD 35,000 thousand) as crude oil interruption compensation. In 2001 and 2002, the Government of Lithuania compensated to the Company LTL 33,431 thousand (USD 8,671 thousand) under provisions of the Investment Agreement for indemnification from certain obligations and losses. The management of the Company believes that the uncertainty related to the decision of the Constitutional Court may to some extent negatively influence the Government of 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 US Dollars (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 USD 8.2 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 (USD 4,723 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 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	498
2006	437
2007	260
2008	140
2009	140
2010 and later years	581
Total operating lease commitments	2,056

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 US Dollars (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	2,680,811	40,528	29,087	20,116	1,450	(11,220)	2,760,772
Depreciation and amortization	24,578	7,484	4,259	1,821	173	-	38,315
Segment operating (loss) profit	292,116	15,690	17,653	(3,815)	(298)	(46)	321,300
Interest revenue	3,557	-	-	4	2		3,563
Interest expense	(16,587)	(9,588)	-	(450)	-	-	(26,625)
Segment assets	989,172	224,131	18,314	24,350	1,079	(19,658)	1,237,388
Additions to segment assets	22,214	1,597	2,573	1,678	39	-	28,101

Year ended December 31, 2003

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

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	1,457,759	900,521
Lithuania	566,942	426,149
Latvia	211,436	109,463
Poland	202,890	68,611
Estonia	165,102	73,569
Russia	56,969	78,331
Ukraine	38,042	23,047
USA	32,899	32,693
Austria	12,037	8,329
Other	17,968	15,434
Total consolidated revenues*	2,762,044	1,736,147

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

*excluding cash-flow hedge negative result of USD 1,272 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 USD 782 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)	71,415	35,224
Yukos Group (net of allowance for doubtful accounts of USD 2,172 thousand and nil at December 31, 2004 and December 31, 2003, respectively)*	6	728
Naftelf UAB	900	403
Total accounts receivable from related parties, net	72,321	36,355

	December 31, 2004	December 31, 2003
Accounts payable (including accruals) to related parties		
Yukos Group (crude oil purchases, management fee, accrual for claim)	64,176	129,337
Petroval SA (crude oil purchases, commission fee and compensation of expenses)	10,887	20,357
Naftelf UAB	40	37
Total accounts payable (including accruals) to related parties	75,103	149,731

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

	December 31, 2004	December 31, 2003
Advances received from related parties		
Yukos Group	-	500
Petroval SA	-	9
Naftelf UAB	-	23
Total advances received from related parties	-	532
Accrued interest payable		
Government of Lithuania	56	64
Total accrued interest payable	56	64
Total accounts payable to/advances received from related parties	75,159	150,327

	December 31, 2004	December 31, 2003
Loans received from related parties		
Government of Lithuania	288,927	288,927
Total loans received from related parties	288,927	288,927

	Year ended December 31,	
	2004	2003
Sales of products and services to related parties		
Petroval SA (acting as direct sales client)	110,882	-
Yukos Group	13,772	38,486
Naftelf UAB	12,544	7,703
Interest on borrowings to related parties		
Government of Lithuania	21,268	26,501
Yukos Group	-	7,958
Crude oil and services purchases from related parties		
Yukos Group (purchase of crude oil and management fee)	1,497,486	1,222,076
Petroval SA (commission fee and purchase of crude oil)	313,625	84,034

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