

**AB “MAŽEIKIŲ NAFTA“
Annual Prospectus-Report
for Year 2004**

(Prepared in accordance with the Rules on Periodic Disclosure of Information about Issuer's Activities and Their Securities approved by Lithuanian Securities Commission)

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I. GENERAL PROVISIONS

1. Accountable period for which the annual prospectus-report has been prepared

The year of 2004.

2. Main data about the Issuer

Company name of the Issuer	Public Company MAŽEIKIŲ NAFTA
Authorised capital	707 454 130 Lit
Registered office	Juodeikiai, 89467 Mažeikiai distr., Lithuania
Telephone	(443) 9 22 86
Fax	(443) 9 25 25
E-mail address	post@nafta.lt
Legal and organizational form	Public Company
Date and place of registration	January 24, 1991, Mažeikiai district municipality
Date and place of re-registration	October 12, 1998, Ministry of Economy of the Republic of Lithuania
Code in the Register of Enterprises	004267

3. The nature of the Issuer's principal activities

AB Mažeikių Nafta is an oil refining and transportation company engaged in production as well as the wholesale trade of hard, liquid, gas fuel and similar products and their transportation by roads, railway and pipeline.

4. Information about where and how one can get acquainted with the report and the documents on the basis of which it was prepared (financial statements, the auditor's report, etc.) and the name of the means of mass media

The report and other documents on the basis of which it was prepared are available in AB Mažeikių Nafta at the address: Juodeikiai, 89467 Mažeikiai, on working days from 8⁰⁰ a.m. till 16⁰⁰ p.m.

All major events related to Company's activities and information on the date and place of General Shareholders' Meeting as well as other notices to be presented to shareholders and other persons shall be announced in a daily paper "Lietuvos rytas" in accordance with the laws of the Republic of Lithuania.

5. Persons responsible for the accuracy of information in the report:

5.1. Members of the managing bodies of the Issuer, employees and the head of the administration responsible for the report:

English P. Nelson, General Director of AB Mažeikių Nafta, tel.: (443) 92121, fax: (443) 92525.

Vita Petrošienė, Chief Financial Officer of AB Mažeikių Nafta, tel.: (443) 92420, fax: (443) 92600.

6. Declaration by the members of the Issuer's managing bodies, employees and the head of the administration responsible for the report that the

information contained in the report is in accordance with the facts and that there are no omissions likely to affect the investors' decision concerning purchase, sale or valuation of the Company's securities or the market price of these securities

AB MAŽEIKIŲ NAFTA, represented by General Director English P. Nelson and Chief Financial Officer Vita Petrošienė, shall declare that the information contained in the report is in accordance with the facts and that there are no omissions likely to affect the investors' decision concerning purchase, sale or valuation of the Company's securities or the market price of these securities.

Financial Planning and Control Department of AB MAŽEIKIŲ NAFTA, represented by the Manager of Financial Planning and Reporting Group Vida Mažrimienė, shall declare that the report provides the overall information which was submitted to Financial Planning and Control Department by Company's employees and managers. Financial Planning and Control Department shall be responsible for the appropriate execution of the information submitted and the Company shall be responsible for the accuracy of the information hereof.

AB MAŽEIKIŲ NAFTA
General Director

English P. Nelson

.....

May 31, 2005

L.S

AB MAŽEIKIŲ NAFTA
Chief Financial Officer

Vita Petrošienė

.....

May 31, 2005

AB MAŽEIKIŲ NAFTA
Financial Planning and Control Dept.
Senior Economist

Vida Mažrimienė

.....

May 31, 2005

May 2005, Mažeikiai

II. DATA ABOUT ISSUER'S AUTHORIZED CAPITAL AND SECURITIES ISSUED

7. The Issuer's authorized capital:

7.1. Authorized capital registered in the Register of Enterprises

The Company is registered with the Register of Enterprises of the Republic of Lithuania and administrated by the State Enterprise Centre of Registers (V. Kudirkos 18, LT - 03105 Vilnius). The Company's authorized capital makes up to 707 454 130,00 litas. The following is the composition of AB Mažeikių Nafta authorized capital according to types of shares:

Type of shares	Number of shares	Nominal value per share (LTL)	Total nominal value	Weight in authorized capital (%)
Ordinary registered shares	707 454 130	1	707 454 130	100,00
Total:	707 454 130	-	707 454 130	100,00

All AB Mažeikių Nafta shares are paid up.

7.2. Information about the projected increase of the authorized capital through the conversion or exchanging into share of debt securities or derivative securities issued

8. Shareholders

Total number of AB Mažeikių Nafta shareholders at the last General Shareholders Meeting held on April 29, 2005 amounted to 2 073.

667 584 352 ordinary registered shares (ORS) by the right of ownership belong to two shareholders: Yukos Finance B.V. (379 918 411 ORS) and the State, represented by the Ministry of Economy of the Republic of Lithuania, (287 665 941 ORS).

39 869 778 ordinary registered shares (5,64% of authorized capital) by the right of ownership belong to 2 284 individual shareholders.

The following is the data about the major shareholders that by the right of ownership held more than 5 % of the Company's authorized capital on January 1, 2004:

Name and surname of a shareholder (name of enterprise, type, registered office, code in the register of enterprises)	Number of ordinary registered shares (units)	Percentage of the authorized capital (%)	Percentage of votes held (%)	Percentage of votes held in concert with other persons (%)
Yukos Finance B.V. Locatellikade 1, Parnassustoren 1076 AZ Amsterdam, The Netherlands. Company code 34107730	379 918 411	53.7	53.7	53.7 %

The State, Ministry of Economy of the Republic of Lithuania, Gedimino pr. 38/2, 2600 Vilnius. Company code 8862191	287 665 941	40.66	40.66	40.66 %
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9. Main characteristics of the shares issued for public trading

Type of shares	Number of shares	Nominal value (LTL)	Total nominal value (LTL)	Issued
Ordinary registered shares	707 454 130	1	707 454 130	Due to reorganization of state enterprise into joint stock company by merging AB Būtingės Nafta and AB Naftotiekis into its partnership; due to implementation of Company's privatization program.
Total:	707 454 130	-	707 454 130	-

On June 17, 2002 Lithuanian Securities Commission registered 58 139 029 and 131 820 176 ordinary registered AB Mažeikių Nafta shares with a nominal value of one litas for public trading (License No.AB-5084 and AB-5085). Securities in the new issue were sold to Yukos Finance B.V.for the purpose of increase of AB Mažeikių Nafta authorized capital by additional contributions.

Securities issues as of September 13, 2002 with the following ISIN codes and units, respectively: LT0000115552 – 346 721 600 units, LT0000125205 – 170 773 325 units, LT0000126518 – 58 139 029 units, LT0000126526 – 131 820 176 units, were transferred into one account. After assimilation of securities issues the ISIN code to be used thereafter is LT0000115552, the amount of issue – 707 454 130 units.

10. Data about the shares registered for private placing and distributed as such

11. Information about depositary receipts representing shares

12. Main characteristics of the debt securities issued for public trading

13. Data about the debt securities registered for private placement and distributed as such

All debt securities were redeemed in 2000 and the Company held none of such debt securities for the date of December 31, 2003.

14. Securities not representing capital, the trading whereof is governed by the Law on Securities Market of the Republic of Lithuania, except debt securities

III. DATA ABOUT THE SECONDARY TRADING IN SECURITIES ISSUED BY THE ISSUER

15. Securities admitted to the trading lists of the Stock Exchanges

On February 5, 1996 the securities of AB Mažeikių Nafta were admitted to the trading lists of the National Stock Exchange (hereinafter – the Exchange). On December 31, 2003 the ordinary registered AB Mažeikių Nafta shares (the identification code granted by Central Securities Depository of Lithuania is LT0000 11555 2 (hereinafter – the CD code of securities)) in the amount of 707 454 130 and with a nominal value of one litas each appeared on the trading list of the Exchange, the total nominal value amounting to 707 454 130 litas.

16. Dealing in the Issuer's securities on Stock Exchanges and other organized markets

Trading in ordinary registered shares of AB Mažeikių Nafta on the central market of the Exchange is as follows:

Trading session	Price (LTL)		Turnover (LTL)	
	Highest	Lowest	Highest	Lowest
01/01/2003 – 03/31/2003	1,02	0,74	259 123,00	0, 00
04/01/2003 – 06/30/2003	1,68	1,02	367 488,00	0, 00
07/01/2003 – 09/30/2003	2,75	1,65	493 154,00	0, 00
10/01/2003 – 12/31/2003	2,65	1,96	1 153 791,00	0, 00
01/01/2004 – 03/31/2004	2,85	2,20	13 058 857,00	0, 00
04/01/2004 – 06/30/2004	3,30	2,63	796 487,00	0, 00
07/01/2004 – 09/30/2004	3,05	2,60	1 097 455,00	0, 00
10/01/2004 – 12/31/2004	4,40	3,02	642 869,00	3 437,00

Trading session	Latest trading session		Total turnover	
	Price (LTL)	Turnover (LTL)	Units	In Litas
01/01/2003 – 03/31/2003	1,02	31 157,00	1 890 612	1 712 464,00
04/01/2003 – 06/30/2003	1,68	11 068,00	2 406 928	3 327 528,00
07/01/2003 – 09/30/2003	2,44	92 835,00	2 730 367	5 788 685,00
10/01/2003 – 12/31/2003	2,20	77 153,00	2 542 589	5 485 464,00
01/01/2004 – 03/31/2004	2,85	118 237,00	8 652 494	21 053 638,00
04/01/2004 – 06/30/2004	2,80	16 973,00	2 256 189	6 715 465,00
07/01/2004 – 09/30/2004	3,00	53 903,00	2 108 465	6 168 409,00
10/01/2004 – 12/31/2004	4,38	6 035,00	2 429 062	9 070 323,00

Trading in ordinary registered shares of AB Mažeikių Nafta under negotiated deals:

Trading session	Average price	Total turnover
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	LTL	Units	In Litas
01/01/2003 – 03/31/2003	0,87	550 545	478 232,00
04/01/2003 – 06/30/2003	1,23	8 560 482	10 498 352,00
07/01/2003 – 09/30/2003	1,81	1 457 745	2 637 360,00
10/01/2003 – 12/31/2003	2,12	545 297	1 155 195,00
01/01/2004 – 03/31/2004	2,47	2 181 224	5 386 122,00
04/01/2004 – 06/30/2004	3,02	834 789	2 517 537,00
07/01/2004 – 09/30/2004	2,94	1 218 793	3 579 598,00
10/01/2004 – 12/31/2004	3,80	490 737	1 865 570,00

16.2. Trading on other exchanges

There is no trading in Company's securities on other Stock Exchanges.

16.3. Trading on other organized markets

There is no trading in Company's securities on other markets.

17. Capitalization of securities

Capitalization of AB Mažeikių Nafta ordinary registered shares (the CD code of securities – LT0000 11555 2) on the current trading list of the Exchange for 2002 – 2003 is shown in the below table:

Date	Capitalization, LTL	Price per share, LTL
03/31/2003	721 603 213,00	1,02
06/30/2003	1 188 522 938,00	1,38
09/30/2003	1 726 188 077,00	2,44
12/31/2003	1 556 399 086,00	2,20
03/31/2004	2 016 244 271,00	2,85
06/30/2004	1 980 871 564,00	2,80
09/30/2004	2 122 362 390,00	3,00
12/31/2004	3 098 649 089,00	4,38

18. Dealing in the Issuer's securities on the OTC market

The OTC trading in securities which are admitted to the official and current trading lists of the Exchange is prohibited by the laws of the Republic of Lithuania.

19. Data about the Issuer's buying up of its shares

20. Submission of a tender offer

21. The Issuer's paying agents

22. Agreements with intermediaries of public trading in securities

In December, 2003, AB Mažeikių Nafta and Securities Services and Custody Department in bank Vilniaus bankas (Gedimino 12, 01103 Vilnius) concluded a Securities Account Handling Agreement according to which the Bank accepted and conducts the accounting of Company's securities.

IV. DATA ABOUT THE ISSUER'S ACTIVITY

23. Legal basis for the Issuer's activity

In its activities AB Mažeikių Nafta shall be guided by the Law on Enterprises, Company Law, Law on Public Trading in Securities and other laws and Government Resolutions of the Republic of Lithuania and the Company Regulations.

24. Membership in associated structures

AB Mažeikių Nafta participates in and is the member of the following associations and confederations:

- Lithuanian Confederation of Industrialists since 1989.
- Šiauliai Regional Chamber of Commerce, Industry and Crafts since 1996.
- Association of Lithuanian Chemical Industry Enterprises (ALChIE) since 1997.
- Association of International Chamber of Commerce – Lithuania since 1994.
- Association of Engineering Ecology since 1995.
- Lithuanian Association of Energy Engineers since 1996.
- MEDICHEM (Occupational and Environmental Health on the chemic).

25. Brief description of the Issuer's background

AB Mažeikių Nafta is the only crude oil refinery in Lithuania and the Baltic States operating as a typical complex refinery.

Operating since the year of 1980 Mažeikiai Crude Oil Refinery was the most modern refinery in this branch of industry in the former Soviet Union.

A State Enterprise Mažeikių Nafta with total authorized capital belonging to the State was registered on January 24, 1991.

Under the Resolution of the Government of the Republic of Lithuania as of April 7, 1995, the State Enterprise AB Mažeikių Nafta was reorganized into the Public Company Mažeikių Nafta granting the Company's employees the right to purchase a portion of shares.

In the end of 1998 AB Mažeikių Nafta was reorganized in the way of merging the companies AB Būtingės Nafta and AB Naftotiekis into it. Consequently, the Company's authorized capital for December 1, 1998 increased from LTL 584 634 390 to LTL 693 443 200. The State held 613 703 642 ordinary registered shares which represented 88,5% of votes.

On October 29, 1999 AB Mažeikių Nafta sold 341 546 650 ordinary registered shares of a new issue (nominal value of the issue - 341 546 650 litas) to the strategic investor Williams International Company for the amount of USD 150 million.

Having acquired these shares the strategic investor obtained 33% of votes and the authorized capital of AB Mažeikių Nafta increased to LTL 1 034 989 850.

Pursuant to the laws of the Republic of Lithuania, in February 4, 2002, AB Mažeikių Nafta reduced the authorized capital by the amount of 517 495 thousand litas thus lessening an accrued Company's loss. The reduce in the authorized capital did not change the structure of the Company's shareholders.

On June 18, 2002 AB Mažeikių Nafta distributed 189 959 205 ordinary registered shares having a par value 1 (one) litas each, which were acquired by Yukos Finance B.V. (26,85%).

The amount of this issue increased the authorized capital of AB Mažeikių Nafta up to 707 454 130 litas. As a result of these share issues 26,85% of the stock belonged to Williams International Company and 40,66% - to the Ministry of Economy.

On September 19, 2002 Yukos Finance B.V. and Williams International Company signed a package of agreements according to which Yukos Finance B.V. additionally obtained 189 959 206 of AB Mažeikių Nafta ordinary registered shares. After this deal Yukos Finance B.V. holds 53,7% and the Ministry of Economy - 40.66 % of AB Mažeikių Nafta ordinary registered shares.

The Investment and Shareholders' Agreements as of October 29, 1999 and June 18, 2002, respectively, were amended on July 8, 2003. Additionally, the Parties agreed on termination of the Management Agreement dated October 29, 1999 and concluded the Services Agreement between the Company and Limited liability company of Netherlands Yukos Finance B.V. providing for reduction in general and administrative expenses in the way of eliminating 15 per cent of the premium to the actual administrative expenses.

AB Mažeikių Nafta Management Plans were approved at the Board meeting on October 15, 2004. One of the main parts included in the Management Plans is Modernization Program forecasting the required investments of approximately 400 million USD to meet the EU clean fuel standard requirements effective from 2009.

26. Characteristics of production (services)

The Group of enterprises of AB Mažeikių Nafta (hereinafter - Mažeikių Nafta Group) consists of four main segments: the Oil Refinery, the Oil Terminal, the Pipeline operator and the Operator of petrol stations chain.

The revenue of Mažeikių Nafta Group is as follows:

	2004		2003		2002	
	thous.LTL	%	thous.LTL	%	thous.LTL	%
Oil Refinery	7 397 499	96.7	4 955 276	93.5	4 442 868	94.1
Oil Terminal	112 500	1.5	170 161	3.2	111 647	2.4
Pipeline operator	80 741	1.0	103 870	2.0	111 091	2.3
Operator of petrol stations chain	45 285	0.6	51 164	1.0	50 271	1.1
Other revenue	13 829	0.2	16 744	0.3	5 312	0.1
Total revenue:	7 663 481	100.0	5 297 215	100.0	4 721 189	100.0

The following is the main indices characterizing the activity of Mažeikių Nafta Group:

Ratio	2004	2003	2002
Profit margin (%)	9.4	4.2	(2.4)
Average return on assets (%)	23.0	8.95	(4.34)
Debt ratio	0.65	0.81	0.88
Debt-to-equity ratio	1.08	2.8	5.02
Assets turnover	2.44	2.15	1.79
Liquidity	0.54	0.24	0.14
Net earnings per share (in Litas)	1.02	0.31	(0.17)
Book value per share (in Litas)	1.55	0.67	0.49
Average number of shares	707,454	707,454	654,572

Oil Refinery

In 2004 the Refinery processed 8.68 million tons of feedstock, 8.66 million tons of which were crude oil. Processing volume of feedstock in 2004 increased by 21.06% compared to 2003. Operational capacities in 2004 made 87.9 % (after reconstruction in 2004 the projected capacity increased from 8 million up to 9.8 million tons) when in 2003 the operational capacities constituted 89.7 %. The maximum processing capacity reached in the last year was 27,6 thousand tons per day.

The volume of processed crude oil and refined products of AB Mažeikių Nafta and its dynamics over the past 3 years are shown in the table below:

Products groups	Processing volume of crude oil and its products					
	2004		2003		2002	
	thous.t	%	thous.t	%	thous.t	%
Own feedstock						
Crude oil	8 661.1	99.72	7 100.8	98.9	6 448.0	98.2
Alkylate	0.9	0.01	-	-	-	-
Atmospheric residue			-	-	3.5	0.0
Vacuum distillate			-	-	7.1	0.1
Methanol	21.4	0.25	20.4	0.3	18.1	0.3
Metilretbutil ether	1.8	0.02	-	-	1.7	0.0

Gas condensate			56.1	0.8	89.4	1.4
Total:	8 685.2	100.00	7 177.2	100.0	6 567.7	100.0

The main production of the Oil Refinery includes high-octane unleaded gasoline, diesel, jet fuel, bitumen, LPG and sulphur.

Production volume according to types of finished products of AB Mažeikių Nafta and its dynamics over the past 3 years (excluding processing) are shown in the table below:

Products groups	Production volume					
	2004		2003		2002	
Year	thous.t	%	thous.t	%	thous.t	%
Gasoline	2 488.6	30.9	2 064.7	31.2	1 899.6	31.5
Diesel fuel	2 819.8	35.1	2 336.7	35.4	2 015.0	33.4
Kerosene	553.4	6.9	420.3	6.4	491.3	8.2
Fuel oil	1 530.8	19.0	1 252.8	18.9	1 064.5	17.7
LPG	453.5	5.6	382.2	5.8	411.1	6.8
Oil bitumen	133.4	1.7	103.9	1.6	95.4	1.6
Sulphur	67.1	0.8	48.5	0.7	49.8	0.8
Total:	8 046.6	100.0	6 609.1	100.0	6 026.7	100.0

Products prices according to types of finished products of AB Mažeikių Nafta and their dynamics over the past 3 years (excluding processing) are shown in the table below:

Products groups	Prices, LTL		
	2004	2003	2002
Gasoline	1114.04	881.68	857.90
Diesel fuel	1050.64	848.70	808.03
Kerosene	1142.47	877.89	822.2
Fuel oil	352.57	406.51	407.62
LPG	978.29	817.81	736.76
Oil bitumen	479.42	481.95	487.7
Sulphur	70.70	54.47	33.9

Throughout 2004 the Company proceeded the works initiated in 2003 under the Investment Projects and began the second phase of Modernization program. Special attention in 2004 was

dedicated to the projects intended for ensuring the compliance with the EU clean fuel requirements and air emission standards.

A new gasoline blending optimization program was launched in the Company with the purpose to process data every two minutes received from quality analysers and accordingly to optimize the composition of gasolines being prepared for blending. Optimized recalculation starts every five minutes and the flows of components as well as the blending process are correspondingly corrected. This program also controls such indicators as surplus quality reserve, limits between a minimum and maximum value of indicators, even residual quantities in the tanks and their characteristics are being evaluated.

In 2004 the Company started to produce fuel oil under new specification. Up to the present, marketable fuel oil for Lithuanian market has been produced according to the former USSR's standard. Now the standard of Lithuanian Standards Board LST 1956 provides four marks of fuel oil. The mark indicates two major parameters – flash point and sulphur content. For Lithuanian market the Company started production of M -110- 2,5 fuel oil. The innovation is that up to now we used external standard, besides, the latter had more determinable indicators. Two indicators in this standard show viscosity of the product - kinematic viscosity, which is determined at 100 °C, and the indicator that indirectly specifies product's viscosity – fluidity temperature indicating the lowest temperature at which the product remains fluid. And the most important parameter defining product's safety is the flash point - the lowest temperature at which sufficient quantity of vapor is produced over the product that may cause ignition.

Oil Terminal

The Oil Terminal was built at the Baltic Sea as a supplemental source of crude oil supply to Lithuania, also, for the purpose of granting a possibility to export crude oil to Europe. While designing the Terminal it was anticipated to export 8 million tons of crude oil and import another 6 million tons through the Terminal every year. The export/import capacity of the Terminal amounts up to 14 million tons annually. The construction of two new crude oil tanks at Būtingė Terminal began in 2003. The adjustment works of the tanks were completed in 2004. 8,9 million litas was spent for execution of these works. In June, 2004, the State Commission granted a permit to operate the crude oil tanks of Būtingė Terminal.

7,2 million tons of crude oil were transshipped through Būtingė Terminal in 2004, i.e. by 32,4 percent less than in 2003. Crude oil transshipment through Būtingė Terminal decreased due to intensifying competition amongst the Baltic Sea ports, especially – the new port of Primorsk, towards which the largest quantities of Russian crude oil are directed.

Transportation volume of the Oil Terminal and its dynamics over the past 3 years are given in the table below:

	2004	2003	2002
	thous.t	thous.t	thous.t
Crude oil	7 242.6	10 715.5	6 073.8

Pipeline

The Pipeline segment is constituted by a part of the Druzhba pipeline situated in the territory of the Republic of Lithuania and the pipelines connecting the Pipeline with the Oil Refinery

and the Terminal. The Pipeline operator transports crude oil to the Oil Refinery and the terminals in Būtingė and Ventspils (Latvia).

Transportation volume of Biržai Pipeline as compared with the previous year has decreased by 4,3 percent and amounted to 19,7 million tons. Transportation volume reduced due to the lower transportation volume towards Būtingė – by 3,9 million tons less, however, transportation volume in the direction of Oil Refinery was higher as well as transportation volume of diesel fuel towards Ventspils. In 2003 transportation capacities reached 60,5%, while in 2002 were 68,8 %.

Transportation volume and dynamics over the past 3 years is shown in the table below:

Direction	Transportation volume					
	2004		2003		2002	
	tous.t	%	thous.t	%	thous.t	%
Crude oil						
to Mažeikiai	7 013.8	35.7	5 215.3	25.4	5 736.0	24.4
to Ventspils					7 460.0	32.0
to Būtingė	7 106.4	36.1	10 792.2	52.5	6 082.0	26.1
Total:	14 120.2	71.8	16 007.5	77.9	19 278.0	82.5
Diesel fuel						
Total:	5 547.3	28.2	4 551.5	22.1	4 113.0	17.5
TOTAL:	19 667.5	100.0	20 559.0	100.0	23 391.0	100.0

Retail network operator

In 2002, the Company acquired 85 percent of UAB Uotas share capital thus obtaining an 81 percent investment in AB Ventus Nafta. In February, 2004 AB Mažeikių Nafta invested 10,5 million litas in UAB Uotas Group and acquired 10,5 thousand of UAB Uotas shares. The said investment was intended for reorganization of gas filling stations and merger of the stations into a chain operating under a single name VENTUS.

27. Sales markets

World crude oil prices and the development of world economics have a considerable impact on Company's products sales in certain markets, as well as products prices and the productivity of the Company.

Sales markets of the main products of AB Mažeikių Nafta are shown in the table below:

Countries	Volumes of products sold					
	2004		2003		2002	
	thous. t.	%	thous. t.	%	thous. t.	%
GASOLINE						
Lithuania	331.4	13.5	371.7	18.1	367.1	20
Abroad	2115.0	86.5	1685.1	81.9	1 511.2	80
including: Latvia	262.0	10.7	367.3	17.9	420.8	27.8
Estonia	226.1	9.2	240.9	11.7	237.1	15.7
Russia	0.0	0.0	0.0	0.0	0.4	0.0
Ukraine	144.3	5.9	69.5	3.4	248.5	16.4
Belorussia	0.0	0.0	1.0	0.0	0.0	0.0
Poland	107.6	4.4	23.3	1.1	40.4	2.7
W Europe	1357.8	55.5	967.9	47.1	559.7	37.0

Other countries	17.2	0.7	15.4	0.7	4.3	0.3
DIESEL FUEL						
Lithuania	649.6	23.1	632.6	27.7	658.6	32.4
Abroad	2156.5	76.9	1649.4	72.3	1 371.1	67.6
including: Latvia	211.0	7.5	124.1	5.4	116.1	8.5
Poland	205.7	7.3	74.2	3.3	115.4	8.4
Ukraine	2.4	0.1	15.5	0.7	2	0.1
Estonia	165.7	5.9	77.4	3.4	68.3	5
W Europe	1571.0	56.0	1358.1	59.5	1 069.3	78
Other countries	0.8	0.0	0.1	0.0		
JET FUEL						
Lithuania	41.1	7.3	5.9	1.4	5.5	1.2
Abroad	524.0	92.7	423.7	98.6	469.3	98.8
including: Latvia	115.6	20.4	87.9	20.5	36.3	7.7
Estonia	11.7	2.1	3.4	0.8	14.8	3.2
W Europe	396.7	70.2	332.3	77.4	418.2	89.1
FUEL OIL						
Lithuania	211.5	13.4	236.0	19.6	341.5	31.7
Abroad	1363.9	86.6	967.8	80.4	735.6	68.3
including: Poland	0.4	0.0				
Latvia	0.8	0.1	2.1	0.2	3.6	0.5
W Europe	1362.6	86.5	965.7	80.2	732	99.5
LPG						
Lithuania	216.4	0.5	177.6	46.6	180.1	43.8
Abroad	238.2	0.5	203.2	53.4	231	56.2
including: Latvia	5.7	0.0	0.1	0.0	2.7	1.2
Estonia	0.0	0.0	0.2	0.1	0.2	0.1
Poland	232.4	0.5	202.9	53.3	227.2	98.4
Other countries					0.9	0.3

Effective performance of the Company's crude oil purchasing, waterborne sales, production, logistics divisions and UAB Mažeikių Nafta Trading House became a powerful inducement to the positive business results of the Company for the year 2004. The Company consecutively continued increase of petroleum products sales in target markets (Lithuania, Latvia, Estonia, Poland) and export to Western Europe in 2004. While pursuing active marketing and pricing policy, UAB Mažeikių Nafta Trading House, the subsidiary of AB Mažeikių Nafta (hereinafter – MNTH), tried to maintain the current position in Lithuanian market against import of petroleum products from the East, especially, after May 1, 2004, when a 15% customs duty on import of light petroleum products from the countries outside EU was abolished.

Sales increase in Latvia and Estonia, shows a growing recognition of AB Mažeikių Nafta petroleum products on the said markets, rising demand for high-quality products, stiffening products quality and ecology requirements, also persistent MNTH sales policy and its active sales related to these markets in cooperation with the largest as well as the minor clients, and moreover, the approach to the targeted goal.

Sales to the West Europe last year were executed under the Sales Commissioning Agreement signed with the company Petroval S.A. The bigger part of petroleum products to the West Europe countries and the USA the Company exports through marine terminals. 4 688,2 thous. t. of production on the whole were exported in 2004 or 26 per cent more than in 2003. The reasons of increased scope of export through marine terminals are associated with an increased processing volume by 21 per cent if compared with 2003. Tendencies of growing consumption of Jet and diesel fuel still persist in the West Europe. Structural gasoline surplus

in West Europe has existed for many years. This surplus is mostly forced into the gasoline shortage regions in the North East of the USA. The fuel oil demand, having historically declined, continues to shrink due to environmental requirements and fuel oil's replacement by gas; nevertheless, it is partly being compensated by a demand for tanker fuel.

28. Procurement

The Company operated steadily in 2004 without shutdowns related to feedstock shortage. Current repairs of the Refinery, having lasted for 15 days, were performed in April – May. 8.7 million tones of feedstock were processed (including 8.7 million tons of crude oil), i.e. 21.06 percent more than in 2003. In the year of 2004, feedstock to the Refinery was supplied from Russia. Roughly 79.4 % of the overall quantity of crude oil was supplied via the Druzhba pipeline, 19.4% of crude was brought by railway tank cars and 1.2% - by road transport. 102.3 thousand tons of Lithuanian crude oil in 2004 was purchased from AB Geonafta.

The largest part of crude oil was provided under the agreement with Yukos Oil Corporation (around 60.3 % of the overall volume of crude) and Petroval S.A. (around 12.3 % of the overall volume of crude oil supplied).

The main feedstock suppliers of AB Mažeikių Nafta in 2004 are given in the table below:

Supplier	Feedstock	Volume of supplies in 2004		Nature of relations
		thous. t	%	
Yukos Oil Corporation	crude oil	3900.6	44.2	long-term
Samaraneftegas	crude oil	900.0	10.2	long-term
Yukos Oil Corporation	crude oil	1419.8	16.1	short-term
Petroval S.A	crude oil	1089.8	12.3	short-term
MG Trade LTD	crude oil	552.2	6.2	short-term
Efremo-Kautschuk GMBH	crude oil	347.9	3.9	short-term
Sibneft Oil Trade Limited	crude oil	50.0	0.6	short-term
Coral Petroleum Ltd	crude oil	34.0	0.4	short-term
Alfa-Oil S.A.	crude oil	129.8	1.5	short-term
Samaraneftegas	crude oil	196.0	2.2	short-term
Belorusneft	crude oil	98.2	1.1	short-term
Aurora Business Enterprises LTD	crude oil	9.4	0.1	short-term
AB Geonafta	crude oil	102.3	1.2	short-term
Total of crude oil:		8830.0	100.0	
Petroval S.A	alkylate	5.5	100.0	short-term
Total of alkylate:		5.5	100.0	
Neste Latvia	MTBE	1.2	70.6	short-term
Citco Waren-Handelsgesellschaft	MTBE	0.5	29.4	short-term
Total MTBE		1.7	100.0	
Total feedstock:		8837.3		

Aiming to ensure the compliance with the EU clean fuel requirements and air emission standards, the Company additionally purchased and processed other feedstock in 2004 – MTBE and alkylate. MTBE and alkylate are used to improve gasoline octane number and reduce the level of aromatic compounds.

29. Immovable property and other main facilities

The total area of a land plot leased to AB Mažeikių Nafta covers 1 151,7 Ha.

Immovable property of AB Mažeikių Nafta (including the Refinery, Pipeline and Būtingė Terminal):

Item	Number of units	Balance-sheet value, thous.LTL
Buildings	353	176 832
Facilities and machinery	16 882	1 392 346
Vehicles	1 556	51 604
Other equipment and installation	3 691	3 399
Other tangible assets	30	48 570
Capital lease	30	124
Total tangible fixed assets	22 542	1 672 875

Construction in progress and prepayments of AB Mažeikių Nafta and its subsidiaries on December 31, 2004:

	Balance-sheet value, thous. LTL 12/31/2004	Balance-sheet value, thous. LTL 12/31/ 2003	Functional purpose	Prospective term for completion of construction
Oil Refinery	35 547	102 294	production	2005 -2006
Oil Terminal	7 872	39 305	production	2005 -2006
Pipeline operator	2 058	108	production	2005 -2006
Operator of petrol stations chain	679	1 290	production	2005 -2006
Total of construction in progress and prepayments:	46 156	142 997		

On-spot loading rack was completed and launched in 2004. The purpose of this project is installation of hermetic hydrocarbon recovery system in order to reduce hydrocarbon emissions and product losses. The value of the project amounts to 34,5 million litas.

Adjustment works of crude oil tanks in Būtingė Terminal were completed in 2004. In June, 2004 the State Commission granted a permit to operate crude oil tanks in Būtingė Terminal. The value of the project amounts to 47,3 mln. LTL.

Crude Sludge Preparation Unit was completed and launched in 2004. In the course of wastewater treatment process the accumulated crude sludge will be dissolved into petroleum products, water and soil and will not be accumulated in the sludge holding tanks, and therefore emissions of crude oil hydrocarbons from the surface of sludge holding tanks will decrease. The value of the project amounts to 5,9 million litas.

30. Risk factors related to the Issuer's activity

Economic factors

AB Mažeikių Nafta activity is related to foreign markets, therefore it encounters substantial commodity price, interest rate, credit and foreign exchange related risks. Risk management activities are executed by Company's Management in conformity with the written risk management policies.

Commodity price risk

The Company confronts market risk related to instability of crude oil and petroleum products prices. Sometimes, aiming to reduce risks related to price fluctuations, the Oil Refinery concludes price swap agreements.

Interest rate risk

AB Mažeikių Nafta exposes itself to risk of interest rate fluctuations in regard to short-term and long-term loans. The Company does not have any significant interest-earning assets except for short-term deposits.

Credit risk

Owing to concentration of customers in the oil market, the Company is exposed to increased credit risk, as these customers may be similarly effected by the changes in economic or other conditions. AB Mažeikių Nafta puts the procedures in place to ensure that the production is sold to reliable customers and the sales do not exceed an acceptable credit limit established by the management.

Foreign exchange risk

The base exchange risk which AB Mažeikių Nafta encounters arises from the fact the bigger part of local AB Mažeikių Nafta sales and purchases in the Baltic States and Poland are made in local currency, while US dollar stands for central currency for crude oil purchase and base loans. The company's policy is to adjust cash flows of the anticipated sales and purchases and cash flows of other expenses in each foreign currency. Moreover, to reduce exchange risk related to fluctuations of Poland Zloty AB Mažeikių Nafta utilizes derivative financial instruments.

Risk of crude oil supplies

In June, 2002 AB Mažeikių Nafta and Yukos Oil Company (hereinafter – YUKOS) 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 market terms. This agreement is valid until September 30, 2012. In 2004 Yukos Oil Company commitments under this agreement were transferred to OAO Samaraneftegas, a subsidiary company 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 Būtingė Terminal. The price for the transportation services is determined based on market terms. This agreement is valid until December 31, 2005.

The Oil Refinery has a crude oil supply agreement concluded with YUKOS, though in 2004 YUKOS commitments under this agreement were transferred to its subsidiary OAO Samaraneftegaz. The actions of Russian tax authorities had a clear impact on the ability of Yukos Oil Company and its subsidiary OAO Samaraneftegaz to supply crude oil to the Company, but through intermediaries OAO Samaraneftegaz continues to be the major source of crude oil for the Refinery. 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 to the Refinery.

A significant and lengthy disruption of crude oil supply would have material adverse affects on AB Mažeikių Nafta 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 tons of crude oil to Būtingė Oil Terminal annually. The agreement is valid until December 31, 2009. The patronizing company also has an option to 2 million metric tons of crude oil for the Refinery operations annually.

Political factors

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 to auction the shares of Yuganskneftegaz, YUKOS' 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.

Risk of arrears

For circulating funds and to finance its activities the Company has a fair amount of loans from the local as well as foreign creditors (See the table below). Despite constant decrease recently in total value of loans, the level of indebtedness continues to be high. In fact, all Company's loans are received in US dollars. In February, 2002 the Government of the Republic of Lithuania repegged the litas from the US dollar to the euro. In 2004 the US dollar exchange rate against the euro continued to fall and this had a negative impact on AB Mažeikių Nafta settlements with creditors. The fall in US dollar may have a negative financial impact on Company's activity as well.

Credit risk due to creditworthiness of finance institutions is deemed to be minimal, inasmuch the Company holds deposits in the financial institutions with a good credit rating. The Company complies with the provisions of agreements and financial institutions are deemed not to impose certain restrictions or sanctions on the Company.

Information on the loan status of Mažeikių Nafta Group on December 31, 2004:

Lender/purpose	Currency	Interest rate	Maturity date/ Repayment terms	Balance, thous.LTL
Working capital finance				
Government of Lithuania*	USD	7 %	07/31/2013 semi-annually	732 287
Vilniaus Bankas AB	USD	3 mth LIBOR +1,1%	07/31/2013 semi-annually	190 087
Investment program				
Vilniaus Bankas AB	USD	3 mth LIBOR +1,1%	07/31/2013 semi-annually	190 087
Investment in Oil Terminal				
Kreditanstalt fur Wiederaufbau	USD	6 mth LIBOR+0,875%	06/30/2006 semi-annually	3 438
Kreditanstalt fur Wiederaufbau	USD	8,065%	09/30/2006 semi-annually	1 549
Kreditanstalt fur Wiederaufbau	USD	6 mth LIBOR+0,875%	12/31/2006 semi-annually	1 538
Kreditanstalt fur Wiederaufbau	USD	6 mth LIBOR+0,875%	12/31/2006 semi-annually	6 348
Kreditanstalt fur Wiederaufbau	USD	6 mth LIBOR+0,875%	12/31/2006 semi-annually	8 477

Hansabankas AB	USD	6 mth LIBOR+0.9%	01/31/2009 semi-annually	60 028
Petrol Stations				
Karina International Ltd.	USD	9,00 %	05/31/2005 monthly	708
Bankas Snoras AB	USD	7,00 %	05/31/2008 monthly	14 649
Trading House				
Nordea Bank Finland Plc	USD	3,90%	12/31/2006 monthly	44
Less: current portion of long-term debt				(29 194)
Total long-term debt				1 180 046

* The repayment of loans shall begin in 2009

The debt outstanding as of December 31, 2004 was subject to a number of covenants, such as exclusive use of the loans and restricted 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.

Certain property is mortgaged for the bank borrowings of petrol stations.

Social factors

AB Mažeikių Nafta employees do not encounter problems related to timely disbursement of the remuneration, salaries are always paid on a timely basis, two times a month. Should the Company confronts the above mentioned risks, there is no refutation that the problem would arise.

Technical and technological factors

In 2004 the projected capacity after reconstruction was increased from 8 million up to 9.8 million tons. Throughout 2004 the Company continued its activities initiated in 2003 under the Investment Projects and began the second phase of Modernization Program. The Modernization Program of the Refinery for the year 2004-2009 has been reviewed and radically revised. After execution of all necessary means stipulated in the program, the Company's production will meet EU product quality requirements of 2005 and 2009 and the tightened emission standards. Should the Modernization Program fail to be fully accomplished, the risk for nonconformance to the quality requirements posed by the European Union may arise causing loss in competitiveness to the Company.

Ecological factors

AB Mažeikių Nafta belongs to the group of enterprises of increased ecological risk. The latter being effected by the quality of Company's products, efficiency of crude oil processing, as well as the safety of the Būtingė Affiliate activities related to crude oil transshipment in the Baltic Sea.

In all times AB Mažeikių Nafta devoted special attention to ecology, prepared a sustained investment program. An ecological aspect prevail in basically all modernization projects. One

of the core project-related decisions allowing to significantly reduce general pollution is the technology of crude oil processing and namely gas fractionation. In the course of this process the gas consisting of methane, ethane and hydrogen is separated. This so called gas is used as the main fuel for furnaces. Fuel oil is used alongside with the gas to increase thermal load, though for energy purposes no more than 40 percent of it is consumed. The fact that gas is almost completely being purified from sulphur compounds allows to reduce general pollution.

The most important problem in the crude oil processing sector is aromatic hydrocarbons. Having determined their cancerogenic effect, the requirements for gasoline composition have been significantly tightened and in parallel the allowable level of sulphur compounds in all fuels are being reduced. Such situation requires large investments in oil refineries.

Problems to pollution minimization can be solved in several ways. One is to more strictly control the quality of products which has a direct link to technological novelties.

The second solution is to stiffen requirements for storage of volatile products. Striking results may be achieved having raised the fees for pollution and regulating installation properties as well as exploitation of storage tanks. In such way and with reference to the type of products pollution can be reduced up to 90 percent. Loading of volatile products is to be controlled as well.

Since 2000 AB Mažeikių Nafta rapidly modernizes the terminal of products reservoirs. During the first year, after the pontoon had been assembled in reservoir No. 13, the level of emissions of volatile organic compounds fell down to 30 tons per year. In 2001, pontoon assemblage in reservoirs No. 18 and 19 resulted in emission reduction by roughly 260 tons per year exclusively for these two tanks. In 2002, having completed the reconstruction of Sulphur Plant No.1, emissions of sulphur anhydride reduced to approx. 512 tons per year. Reconstruction of Section 1 of Sulphur Plant No.2 and reconstructions of other sulphur units were performed in 2003. This allows reduction of SO₂ concentrations in flue gas by 30-50 percent.

In 2004 the key project – modernization of the on-spot loading rack – was completed. This means that hydrocarbons vaporized during the load process will get into a closed system and will be then repeatedly processed. This allows reduction in volatile hydrocarbon emissions by approx. 570 tons per year.

To ensure safety and for ecological purposes the Company dedicates a special attention towards Būtingė Terminal. Progressive construction and assembling technologies, high-quality material and equipment, automatic control of technological processes were used when constructing the Terminal. Automated coastal and offshore spill detection systems have been implemented and are constantly modernized.

During periodical trainings and classes specialists are practicing to liquidate any incident in an effective and expedient way. Būtingė Terminal participates in the activity of Oil Companies International Marine Forum, exchanging the newest information on marine terminal operational aspects, requirements and compliance with them.

The Company applies internationally accepted ISGOTT rules and complies with HEL-COM 205 recommendations in regard to environment protection. It needs to be mentioned that Būtingė Terminal is the first-ever construction in the port in Lithuania having implemented the provisions of International Ship and Port Facility Security Code.

In 2004 the planned internal diagnostics of the main pipeline was carried out with a self-propelling ultrasound instrument for pipeline diagnostics. The ultrasound transmitters in the diagnostics instrument register data on wall thickness and transmit the information via 10 km long cable into computer. This allows viewing the data for the time being. The instrument can detect geometric and wall thickness defects in the pipeline. Having performed the diagnostics, geometric anomalies or other defects, also the breaks caused by corrosion were not found. Hence, the status of the marine terminal is stated good and it can be operated safely further.

On recommendation of the Marine Environment Protection Agency, the Klaipėda Regional Environmental Protection Department has approved new environment monitoring program for 2005-2006. Thorough inspection on the environment of Būtingė Terminal shall continue.

31. Termination and reductions of production that have exercised or are exercising material impact upon the performance of the issuer during the last two financial (economic) years

In 2004 the Oil Refinery did not experience shutdowns due to the feedstock shortage.

32. Patents, licenses, contracts

Patents and licenses represent patents acquired and costs of manufacturing technology used by the refinery. Patents, licenses, contracts and other rights acquired by AB Mažeikių Nafta are recorded in Company's balance sheets as intangible fixed assets.

In 2004 the Company acquired license for construction of FCC Gasoline Selective Hydrotreatment Unit in KT in the acquisition value of LTL 6 021 thousand.

Information on Mažeikių Nafta Group patents and licenses (thous. LTL)

	12/31/2004	12/31/2003	12/31/2002
Patents and licenses	15 352	16 139	14 742
Prepayments for patents and licenses	9 028	3 395	4 974
Total intangible assets at cost	24 380	19 534	19 716
Less: accumulated amortization	(12 183)	(12 297)	(14 742)
Total intangible assets, net	12 197	7 237	4 974

33. Court and Third Party Court (arbitration) proceedings

In the financial year of 2003 AB Mažeikių Nafta's appeal against the resolution of the Competition Council (in accordance with the UAB Klevo Lapas application) was finally settled. The resolution of the Competition Council establishing that the Company had infringed the Law on Competition by abusing the dominant position in the market was not repealed. The 100 thousand litas penalty paid by AB Mažeikių Nafta imposed by a certain resolution of the Competition Council was not refunded. The above resolution made it

possible for other AB Mažeikių Nafta oil product buyers, whose economic activities could have been adversely affected by the competitive actions of the Company, to demand the award of losses.

UAB Klevo Lapas lodged a civil claim in the court, the amount of which as on December 31, 2004 was equal to 741 thousand litas. This claim, as per individual assessments of the representative of the plaintiff, can be increased to 7500 thousand litas, yet the final amount mostly depends on the results of investigation prescribed by the court. Additional investigation ordered by the court of the amount of UAB Klevo Lapas losses is still in process.

In case of the court's ruling to the Company's disadvantage, the financial position of the Company would not be substantially affected on the account that the court had satisfied the Company's claim for UAB Klevo Lapas liability of 5298 thousand litas for the supplied oil products.

In the financial year of 2003 AB Mažeikių Nafta's appeal against the resolution of the Competition Council stating that the Company had infringed the Law on Competition by making competition restricting contracts was satisfied. The penalty of 100 thousand litas paid by AB Mažeikių Nafta had to be repaid. However in the financial year of 2004, the case was reopened at the request of the Competition Council and decided to the Company's disadvantage. The fine was not paid back.

In the financial year of 2004 a civil claim was lodged against the Company by a natural person requesting 400 thousand litas for the upgrading of certain technological process in 1995 licensed in accordance with laws of the Republic of Lithuania and its use at the Company's refinery in 1998. The case was suspended and the investigation prescribed by the court is still in process.

In case of the court's resolution to the Company's disadvantage, the Company can expect other claims on similar grounds. Given that the mentioned upgrading, including some related innovations implemented under two patents issued compliant with laws of the Republic of Lithuania, was invented by a group of 7 to 9 co-authors and that analogous claims were made to the Company over the period of 1996-2001 (not adjudicated in the court), the total claimed amount is likely to make 14 thousand litas. The Company disallowed these claims as ungrounded.

In the financial year of 2003 the Company was a defendant in a civil case brought up by minor shareholders in demand to invalidate resolutions adopted in the general shareholders' meeting, including the resolutions on the election of members of the managing bodies and the approval of management plans. The claim is not expressed in financial terms, yet in the case of the court's ruling to the Company's disadvantage, the Company may suffer some losses because of the partial aggravation or disturbance of its operations (management).

The civil case was suspended as the court investigating the case requested the Constitutional Court of the Republic of Lithuania to examine if there is no contradiction between some legal norms and the Constitution.

In the financial year of 2004 the Supreme Court of Lithuania adopted a resolution which repealed the ruling of the Arbitration Court of 2003 to reject the requirement of AB Lietuvos Geležinkeliai to award payment for the provision of transportation services in accordance with the Code of Railway Transport and related subordinate legislation (i.e. increased rates).

Thus new litigation or an agreement between the companies not to apply to any trial institutions may result in the Company having to pay AB Lietuvos Geležinkeliai higher rates for some additional services.

The Company acted as a civil plaintiff a criminal case committed to the court in an attempt to recover 6 556 831, 32 litas unpaid by company Porcol Trading Ltd for the petroleum products supplied. The hearing of the case and award of the claim would entitle the Company to demand payment of the said amount from the defendants.

The Company attended other trial procedures in the year of 2004. The results of these trials should have no substantial effect on the Company's finances.

34. Staff

The number of the Company staff enrolled as of December 31, 2003 and 2004 was 3471 and 3411 persons, respectively. During 2004 the number of employees reduced by 60 persons. Men comprised 74 percent (2 512 persons) and women - 26 percent (899 persons) of the total staff. The average employees' service period in the Company is 13 years.

An average number of the staff enrolled:

	2004	2003	2002
Mažeikiai Oil Refinery	3240	3296	3295
Pipeline and Terminal Operations Division	211	216	215
AB Mažeikių Nafta	3451	3512	3510

In 2004, for remuneration purposes the Company spent 132.9 million litas, i.e. by 1.7 million litas more as compared to 2003. During the last year an average monthly pay paid by the Company increased by 4.8 percent and amounted to 3198 litas, while an average monthly pay of a worker was 2748 litas.

Information about the average monthly pay of AB Mažeikių Nafta employees as of December 31, 2004:

	2004	2003	2002	Increase (decrease) comparison 2004-2003, (%)
Mažeikiai Oil Refinery	3041	3041	2835	4.8
Pipeline and Terminal Operations Division	3213	3213	2985	4.3
AB Mažeikių Nafta	3052	3052	2845	4.8

Information about the education of AB Mažeikių Nafta employees (according to categories):

Group of employees	Registered number		Education										Avg. monthly pay, LTL	
			university		colledge		vocational		secondary		secondary (not completed)			
	2004	2003	2004	2003	2004	2003	2004	2003	2004	2003	2004	2003	2004	2003
Managers	348	332	234	220	87	93	9	9	18	10	-	-	5866	5674
Specialists	635	648	375	384	199	209	20	31	41	24	-	-	3542	3313
Clerks	92	87	12	10	34	26	22	23	24	28	-	-	2713	2579
Workers	2336	2404	109	81	573	577	770	633	796	979	88	134	2748	2642
Total:	3411	3471	730	695	893	905	821	696	879	1041	88	134	3198	3052

Collective Agreement

The most important rights and guarantees for the personnel as stipulated under the Collective Agreement, in addition to those provided by laws, are as follows:

Company employees, who were notified of termination of their employment contracts due to economic, process engineering reasons or changes in the Company's structure or for any important reasons, shall have a pre-emption right to be employed to a vacant work places if their qualifications meet the requirements established for such vacancies.

Apart from the cases provided by law, the priority among employees of sufficient tenure to keep a job upon downsizing shall be granted to employees who have no more than 5 years left until their retirement age, provided they have served the company for no less than 10 continuous years, and provided that their qualification and performance is no lower than the same of other employees who are performing the same kind of work.

Taking into consideration the continuous service period at the Company, upon termination of Employment Contract with an employee due to economic, process engineering reasons or changes in the Company's structure the severance payment, greater than that provided by law, shall be paid (except for the cases when employees refuse another job that fits their background, qualifications and state of health):

- Service period of up to 5 years – 6 (six) average monthly wages;
- Service period from 5 to 10 years – 9 (nine) average monthly wages;
- Service period from 10 to 20 years – 12 (twelve) average monthly wages;
- Service period greater than 20 years – 15 (fifteen) average monthly wages, 12 (twelve) average monthly wages – from 2005.

When an employee is unfit for a job by reason of accident at work or diagnosed occupational disease as confirmed by the medical commission (except for the accidents that are not work-related), and if there is no other job in the Company that employee could do, severance payment, grater than that provided by laws, shall be paid taking into consideration the continuous service period at the company:

- Service period of up to 10 years – 6 (six) average monthly wages;
- Service period greater than 10 years – 12 (twelve) average monthly wages.

Employees who by the law are provided a shortened work time will be paid as for a full workday.

The base salary/hourly wages for employees working a shortened day is established at a higher rate (1.1 coefficient rate).

In the event of death of an employee or immediate family member of an employee, the Company shall pay a death benefit:

- In the event of death of an employee, the company shall make payment of 10 000 litas. In the event of death of an employee, who was employed for a limited term and had less than one year of uninterrupted service at the Company, the Company shall make payment of 2,000 litas;
- In the event of death of an employee's spouse or child, the Company shall make a payment of 1,000 litas;
- In the event of death of employee's parents, the Company shall make a payment of 500 litas.

The Company shall make available free transport to employees to and from work between Mažeikiai and Juodeikiai, Klaipėda, Palanga and Būtingė and between Biržai and Stačkūnai, and Joniškis and Valiūnai.

Employees achieving an anniversary of 5, 10, 15, 20, 25, 30 or 35 years of service with no records of disciplinary violations shall receive a one-time payment from the Company in recognition of their continuous service and contribution to the success of the Company. The payments shall be provided as follows:

- For 5 years of service the employee receives one day off with pay;
- For 10 years of service the employee receives 500 litas;
- For 15 years of service, the employee receives 1000 litas;
- For 20 years of service, the employee receives 2000 litas;
- For 25 years of service, the employee receives 3500 litas;
- For 30 and 35 years of service, the employee receives 5000 litas.

Employee who reaches his/her retirement age and terminates his/her employment contract at his/her own request within one month of retirement age date will be paid a severance payment of four average salaries.

Due to the nature of the Company's business and work conditions in the refinery, all employees are granted four additional vacation days (calendar days) except for the staff who have prolonged vacation as provided by law. In the event an employee is entitled by applicable law for longer than four days additional vacation due to his/her service period, then the person is provided the longer vacation period.

Three paid days will be granted in cases of marriage, child birth or death of immediate family member (parents, children, brothers, sisters, spouses and immediate in – laws).

Company employees may be offered a paid study leave, if the employees are students in good academic standing and are studying in higher educational institutions or university and/or their study program relates to their work functions or benefits the Company.

Employees' obligations and additional requirements agreed as per Collective Agreement:

Employees have committed to perform their duties in honest and fair manner and in compliance with work discipline, timely and exactly following instructions of the administration, complying with process regulations, safety and health requirements and preserving the property of the Company.

The joint representative team of the Trade Unions undertake to respect the Company interests and goals, follow the principles of the social partnership, fairly use the rights granted by laws and act honestly and in good faith introducing economic attitude towards the Company and encouraging professional improvement and work culture.

The following are the violations of work discipline considered as gross violations of the job responsibilities (except for those provided for by laws) and subject to termination of the employment agreement in accordance with the procedure established by laws:

- Illegal possession of weapons, ammunition and explosives in the Company territory or attempting to bring them into the territory without a special permit of the Company;
- Any possession and/or distribution of drugs or other intoxicating substances in the Company territory;
- Bringing in, possession, distribution of alcoholic beverages in the company territory without a special permit;
- Intentional violation of safety procedures, any other intentional actions causing traumas or potential losses to employees or danger to the Company or employees property;
- Transportation, possession in the Company territory or removal/attempted removal of the Company property, including vehicles, equipment, tools, products, any materials or other products without proper authorization or permission (if such is not associated with execution of job responsibilities);
- Any actions or activities by the Company administration officials beyond the authorizations granted by the Employer, while acting on behalf of the Employer;
- Immoral or indecent conduct of the administration officials at work or during the Company associated events while representing the Company;
- Entering the Company facilities (territories) under protection by employees while avoiding the security posts;
- Smoking in a non-designated area while staying in a hazardous environment with prohibiting signs;
- Reporting to work under the influence of alcohol or other intoxicating substances.

In order to avoid usage of alcohol and other intoxicating substances while at work or coming to work, employees when in doubt of their soberness, are permitted two excused absences in 12 months. For an absence to be excused, the notice in any form (except arrival to the territory of the Company) must be received by the direct supervisor or higher-level supervisor (or the company dispatcher) no later than one hour prior to work start and prior to entry to the territory of the Company (security post).

35. Investment policy

In 2004 the liquidation procedure of UAB Mažeikių Naftos Security Service under liquidation was completed and this enterprise was excluded from the Register of Enterprises.

Due to unprofitable operation of UAB Biržietiška Aibė and having failed to sell the said company for the non-occurrence of a single buyer, on September 1, 2004 it was declared being liquidated and the liquidation procedures were started.

The Company continues reorganization of UAB Uotas and its subsidiary AB Ventus-Nafta in order to improve the efficiency of these enterprises and reduce their losses. In February 2004, AB Mažeikių Nafta made an investment into UAB Uotas Group in the amount of 10,5 million litas and acquired 10,5 thousand UAB Uotas' shares. The said investment was intended for reorganization gas filling stations and merger of the stations into a chain operating under a single name VENTUS. In the end of 2004 the decision to increase the authorized capital of UAB Uotas by 15,5 million litas aiming to reduce financial commitments and expenditures of the subsidiary AB Ventus-Nafta was adopted.

Throughout the financial year of 2004 the Company did not acquire and/or transfer its shares or shares of any other enterprises excluding the above mentioned acquisition of UAB Uotas' stock.

The enterprises in the authorized capital of which AB Mažeikių Nafta's part on December 31 2004 comprises more than 30 percent:

Name of the company	UAB Biržietiška aibė under liquidation	UAB Juodeikių nafta	UAB Uotas	UAB Mažeikių Nafta Trading House	Joint venture with the French company UAB "Naftelf"
Company code	5486847	6668836	6657851	2623714	1076525
Registered office	Vilniaus 47, Biržai	Juodeikiai, Mažeikiai distr.	Laisvės 30, Mažeikiai	Jasinskio 16a, Vilnius	Šeimyniškių .22, Vilnius
Nature of activity	Under liquidation, operation interrupted	Truck loading with oil products	Lease of petrol stations	Commissioner's services	Retail and wholesale trade of fuels
Authorized capital (LTL)	2 596 250	1 385 000	69 300 000	7 060 000	12 000 000
Unpaid portion of AB MAŽEIKIŲ NAFTA authorized capital	-	-	-	-	-
Net profit (loss) of 2004 (LTL)	(1 756 744)	(546 746)	(3 167 750)	4 737 977	(1 274 127)
Ratio of current liabilities and current assets	0.056	0.398	0.029	0.229	0.317
Ratio of total liabilities and total assets	0.056	0.103	0.029	0.081	0.200
Type and class of AB MAŽEIKIŲ NAFTA shares	ORS	ORS	ORS	ORS	ORS

Number of shares held by AB MAŽEIKIŲ NAFTA	259 625	8 310	69 300	7 060 000	4 080
Nominal value (LTL)	10	100	1000	1	1000
Percentage of voting shares held by AB MAŽEIKIŲ NAFTA by the right of ownership	100 perc.	60 perc.	100 proc.	100 perc.	34 perc.
Percentage of AB MAŽEIKIŲ NAFTA votes alongside with associates	-	-	-	-	-
Paid dividends by AB MAŽEIKIŲ NAFTA in 2004 (LTL)	-	-	-	-	-
Loans extended to AB MAŽEIKIŲ NAFTA in 2004 (LTL)	-	-	-	-	-
Loans extended by AB MAŽEIKIŲ NAFTA in 2004 (LTL)	-	-	-	-	-
Characteristics of debt securities acquired by AB MAŽEIKIŲ NAFTA	-	-	-	-	-
Total nominal value of debt securities acquired by AB MAŽEIKIŲ NAFTA (LTL)	-	-	-	-	-

AB Mažeikių Nafta participates in an open competition announced by the state enterprise the State Property Fund in regard to privatization of 85.72 percent of AB Mažeikiai Power House shares.

36. Competitors

The Company does not have any competitors in the field of crude oil processing in Lithuania, however, while trading with petroleum products in the neighboring markets the Company competes with the Russian and Belarus oil enterprises.

37. Dividends paid

Year	Dividends paid (in litas)	Dividend per share (in litas)	Weight in nominal value of share (%)
1995	-	-	-
1996	-	-	-
1997	9 000 000	0.1539	1.539
1998	-	-	-
1999	-	-	-
2000	-	-	-
2001	-	-	-
2002	-	-	-
2003	-	-	-
2004	-	-	-

Allocation of AB Mažeikių Nafta profit of financial year of 2004, approved at the General Shareholder's Meeting of AB Mažeikių Nafta on April, 2005 provides payment of dividends in the amount of 247 608 946,00 litas.

V. FINANCIAL STATUS

38. Financial statements

This part shall present the audited consolidated statements of AB Mažeikių Nafta and subsidiaries (hereinafter - the Company) prepared in accordance with accounting principles generally accepted in the United States of America (US GAAP). Consolidated financial statements expressed in Lithuanian Litas derived from consolidated financial statements expressed in US Dollars. For a better understanding of the Company's financial position, the results of its operations and cash flows for the year, these consolidated financial statements expressed in Lithuanian litas should be read in conjunction with the consolidated financial statements expressed in US Dollars.

38.1. Consolidated Balance Sheets (thous.LTL)

	12/31/2004	12/31/2003	12/31/2002
Assets			
Net cash and cash equivalents	516 805	297 379	159 320
Trading securities	-	-	-
Current portion of restricted cash	452 677	2 696	1 932
Net trade accounts receivable	127 701	144 891	207 466
Net accounts receivable from related parties	183 298	100 416	111 071
Inventories	491 979	324 262	300 348
Other current assets, net	34 121	34 035	79 074
Current portion of deferred income tax, net	33	2 367	-
Total current assets	1 806 614	906 046	859 211
Non-current portion of restricted cash	28 399	65 503	199 300
Investments in associates and other long-term investment at cost	3 437	4 378	5 493
Net property, plant and equipment	1 271 379	1 464 684	1 563 683
Net intangible assets	12 197	7 237	4 974
Long-term receivables	14 138	20 652	2 208
Non-current portion of deferred income tax, net	-	66	-
TOTAL ASSETS	3 136 164	2 468 566	2 634 869
Liabilities and shareholders' equity			
Short-term debt and current portion of long-term debt	29 394	33 333	88 305
Current portion of capital lease liabilities	900	1 083	1 467
Trade accounts payable	345 450	82 184	117 271
Trade accounts payable to related parties/advances from related parties	190 491	415 218	314 618
Advances	4 808	8 662	12 554
Taxes payable	246 685	90 539	104 223
Other current liabilities	26 530	33 620	43 443
Total current liabilities	844 258	664 639	681 881
Long-term debt, net of current maturities	1 180 046	1 313 754	1 608 304
Capital lease liabilities, net of current maturities	819	1 911	2 503
Subsidies	12 634	13 837	16 537
Non-current portion of deferred income tax liabilities	-	853	-
Total liabilities	2 037 757	1 994 994	2 309 225
Minority interest	1 739	2 502	5 547

Authorized capital (707 454 130 shares authorized, issued and outstanding at par value LTL 1 each as of December 31, 2004 and 2003 respectively)	707 454	707 454	707 454
Additional paid in capital	859 979	859 979	342 484
Revaluation reserve	437	437	437
Accrued other comprehensive losses	(211 052)	(114 767)	(44 794)
Accrued loss	(260 150)	(982 033)	(685 484)
Total shareholders' equity	1 096 668	471 070	320 097
Off-balance sheet and potential liabilities	-	-	-
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY	3 136 164	2 468 566	2 634 869

38.2. Consolidated Statements of Income (thous.LTL)

	12/31/2004	12/31/2003	12/31/2002
Sales and other operating revenues*	7 663 481	5 297 215	4 721 189
Operating costs and other deductions			
Cost of sales, excluding depreciation and amortization	(6 025 469)	(4 431 972)	(4 231 284)
Selling and distribution expenses, excluding depreciation and amortization	(451 739)	(295 774)	(196 348)
General and administrative expenses, excluding depreciation and amortization	(189 061)	(180 502)	(127 794)
Depreciation and amortization	(106 476)	(98 909)	(118 510)
Total operating costs and other deductions	(6 772 745)	(5 007 157)	(4 673 936)
Other income (expenses)			
Loss from equity associates	(453)	(312)	(143)
Interest income	9 832	7 500	7 499
Interest expense	(74 050)	(113 484)	(156 699)
Exchange gain, net	22 801	34 197	8 166
Write-down of long-term investments	-	(1 645)	-
Impairment of goodwill	-	-	(32 202)
Government grant	-	-	13 206
Insurance compensation	51	11 112	-
Other income (expenses), net	430	163	1 224
Total other income (expenses)	(41 389)	(62 469)	(158 949)
Income (loss) before income tax nad minority interest	849 347	227 589	(111 696)
Income tax			
Current income tax expense	(126 622)	(9 340)	(3 041)
Deferred income tax benefit (expense)	(1 565)	1 583	
Total income tax expense, net	(128 187)	(7 757)	(3 041)
Income (loss) before minority interest	721 160	219 832	(114 737)
Minority interest	723	1 114	404
Cumulative effect of change in accounting principle for pipeline fill	-	-	-
Net income (loss)	721 883	220 946	(114 333)

*excludes excise taxes on sold refined oil products image

38.3. Consolidated Statements of Cash Flows (thous.LTL)

	12/31/2003	12/31/2003	12/31/2002
Operating activities			
Net income (loss)	721 883	220 946	(114 333)
Adjustments to reconcile net income (loss) to cash provided by operations:			
Depreciation and amortization	106 476	98 909	118 510
Impairment of goodwill	-	-	32 202
(Income) from sales of securities			
Equity in losses of associates	453	312	143
Minority interest	(723)	(1 114)	(409)
Loss on sales and retirements of propert, plant and equipment and intangible assets	2 906	3 236	9 908
Impairment of construction in progress and assets held for sale	28 571	1 912	-
Write down of investments	-	1 645	-
Discounting of long-term receivables	(370)	1 111	1 329
Inventories allowance	16 258	-	-
Other	(172)	(199)	(330)
Changes in operating assets and liabilities:			
Trade accounts receivable and accounts receivable from related parties	(91 375)	(11 034)	(223 615)
Inventories	(216 637)	(80 689)	(76 207)
Other current assets	(14 181)	42 916	(48 828)
Trade accounts payable and accounts payable to related parties	99 499	152 710	162 381
Taxes payable, advances and other current liabilities	163 474	8 011	90 295
Net cash generated from operating activities	816 062	438 663	(48 954)
Investing activities			
Additions to property, plant and equipment and intangible assets	(80 531)	(286 556)	(202 165)
Proceeds from property, plant and equipment	7 512	2 055	72
Proceeds from sales of investments	644	-	-
Dividends received from associates and investees	-	211	-
Cash acquired with subsidiary undertakings	-	-	796
Acquisition of minority shares in subsidiary	-	(1 538)	-
Other	44	(94)	-
Net cash used in investing activities	(72 331)	(285 922)	(201 297)
Financing activities			
Increase in authorized capital	-	-	273 990
Net repayments of short-term debt	(250)	(48 316)	31 286
Repayments of long-term debt	(30 612)	(45 553)	(125 907)
Proceeds from long-term debt	-	15 793	273 990
Principal payments from capital lease obligations	(1 326)	(1 438)	(6 269)
Change in long-term accounts receivable	-	716	5 322
Distribution to minority	-	(8)	(400)
Dividends paid	-	-	-
Net cash generated used for financing activities	(32 188)	(78 806)	452 012
Effect of foreign exchange on cash balances	(79 240)	(68 909)	(58 261)
Net change in cash and cash equivalents	632 303	5 026	143 500
Cash and cash equivalents at beginning of period	297 379	159 320	107 546

Change in restricted cash	(412 877)	133 033	(91 726)
Cash and cash equivalents at end of period	516 805	297 379	159 320

38.4 Consolidated Statements of Shareholders' equity and of Comprehensive Income (thous.LTL)

	Number of ordinary shares (thous.)	Ordinary shares	Additio nal paid in capital	Reval uation reserv e	Share holder 's deben ture	Accumulat ed other comprehen sive losses	Accumulate d surplus (deficit)	Total shareholders ' equity
December 31, 2001	1 034 990	1 034 990	258 453	437	-	-	(1 088 646)	205 234
Net loss	-	-	-	-	-	-	(114 333)	(114 333)
Decrease in authorized capital	(517 495)	(517 495)	-	-	-	-	517 495	-
Increase in authorized capital	189 959	189 959	601 526	-	-	-	(517 495)	273 990
Other comprehensive losses, net of tax	-	-	-	-	-	(44 794)	-	(44 794)
December 31, 2002	707 454	707 454	859 979	437	-	(44 794)	(1 202 979)	320 097
Net income	-	-	-	-	-	-	220 946	220 946
Other comprehensive losses, net of tax	-	-	-	-	-	(69 973)	-	(69 973)
December 31, 2003	707 454	707 454	859 979	437	-	(114 767)	(982 033)	471 070
Net income	-	-	-	-	-	-	721 883	721 883
Other comprehensive losses, net of tax	-	-	-	-	-	(96 285)	-	(96 285)
December 31, 2004	707 454	707 454	859 979	437	-	(211 052)	(260 150)	1 096 668

38. Comments on the Financial Statements

General financial statements of AB Mažeikių Nafta Group shall comprise financial statements of the parent company AB Mažeikių Nafta” (Juodeikiai, LT-89467 Mažeikiai Distr.), its daughter companies: UAB Biržietška Aibė under liquidity (Vilnius 47, LT- 41149 Biržai), UAB Juodeikių Nafta (Juodeikiai, LT- 89467 Mažeikiai Distr.), UAB Uotas (Laisvės 30, LT-89223 Mažeikiai), UAB Mažeikių Nafta Trading House (J.Jasinskio 16a, LT-01112 Vilnius) and the associated company, a joint venture with the French company, UAB Naftelf (Šeimyniškių 22, LT- 09312 Vilnius). Financial statements of the daughter companies, whose more than 50 % of voting shares are directly or indirectly controlled by the Company, shall be consolidated and reflected in this Financial Statements. Significant joint venture companies or other companies in which the Company holds from 20 to 50 % of voting shares or has other substantial influence on them shall be recorded under the method of ownership and adjusted subject to impairment of value.

40. Report prepared by the managing board of the Issuer or any other managing body performing its functions

PUBLIC COMPANY MAŽEIKIŲ NAFTA PERFORMANCE REPORT FOR THE FINANCIAL YEAR 2004

Oil companies will remember the year 2004 for enjoying the prices and profit margins which continued to be exceptionally high. Increase of world oil and petroleum products prices, rise in refining margins and optimum crude oil refining and transportation volumes had direct impact on results of the Company. In addition, the effective performance of the Company's crude oil purchasing, waterborne sales, production, logistics divisions and UAB Mažeikių Nafta Trading House became a powerful inducement to the positive business results of the Company for the year 2004. The Company continued increase of petroleum products sales in the target markets and export to Western Europe.

2004 was the most successful and profitable year in the Company's history. Financial results for the year were beyond expectations followed by considerable increase of the equity value on the stock exchange. The value per share increased from LTL 2.20 to LTL 4.38 Lit. During the above period the Company earned LTL 707.1 million of net profit under the Lithuanian accounting principles governing the financial accounting in the Republic of Lithuania and USD 75.3 million (LTL 230.2 million) of net profit according to the U.S. Generally Accepted Accounting Principles (US GAAP). Below presented the main results on the Company's performance are calculated based on the Company's non-consolidated financial statements prepared in accordance with Lithuanian legislation regulating the financial accounting.

In the year 2004 the Company remained one of the largest companies, as well as one of the largest tax collectors and payers, not only in Lithuania but also in the Baltic States. Throughout 2004 the Company paid LTL 110.4 million of taxes (excluding value added tax and excise), which is by 2.0 percent more than in the previous year. The revenues of the Company increased up to LTL 7.6 billion or by 44.6 percent (by LTL 2.3 billion more than in 2003); and the net profit increased by LTL 340.4 million (92.8 percent) if compared to 2003. The profit predetermined the improvement of financial indicators: the return on assets was LTL/LTL 0.19 (0.12 LTL/LTL in 2003), the return on equity was LTL/LTL 0.42 (LTL/LTL 0.37 in 2003), the debt to equity ratio was 0.69 (1.31 in 2003), the total liquidity ratio was 1.45 (0.50 in 2003), the asset turnover ratio was 2.07 times (1.79 in 2003) more.

The Company was able to ensure the optimum throughputs in the year 2004. Last year 8.7 million tons of crude oil were processed, which is by 21.0 percent more than in 2003. Daily throughput reached 27.6 thousand tons last year. Throughout 2004 the Company transshipped 7.2 million tons of crude oil through Būtingė Terminal, which is by 32.4 percent less than during the previous year. The reduction in volumes transshipped through Butinge Terminal was due to the increased competition among the Baltic ports, especially with the new port of Primorsk receiving the most of the Russian crude oil. The transportation volumes via Biržai Pipelines decreased by 4.3 percent if compared to the previous year, and were 19.7 million tons.

Last year the Company continued increase of petroleum products sales in the target markets and export to Western Europe. Sales in Latvian, Estonian and Polish markets increased by 1.3 million tons compared to the year 2004. Sales increase in Latvian and Estonian markets witness the continued dynamic sales policy implemented by UAB Mažeikių Nafta Trading House, the subsidiary of Mažeikių Nafta, active sales in cooperation with the largest as well as the minor clients, pursuit of the strategic objectives and recognition of petroleum products by such markets as well as an increased demand for higher quality of petroleum products due to the quality and environmental requirements becoming stricter each year.

Crucial factor in the successful performance and good results of AB Mažeikių Nafta for the year 2004 was extraordinary positive situation in the market with the combined effect of increased world oil and petroleum products prices. In 2004 the average crude oil refining margin (the difference in price of crude oil and petroleum products) on world markets for the Urals 5-2-2-1 type crude oil was USD/t 92.4, while in 2003 it was USD/t 62.0. Due to increase in the refining margins the Company received LTL 352.0 million of profit more compared to the previous year. In 2004 the gross margin was LTL 1,325.1 million against LTL 580.5 million in the previous year which is more by LTL 744.6 million or 128.3 percent.

The cost reduction was and still remains one of the main tasks for improvement of the Company's performance. It should be noted that the increased refining volumes, optimum operating practices and cost control predetermined the decrease in refining cost per ton which reduced from LTL/t 61.9 (in 2003) to LTL/t 51.0. Such decrease made a considerable impact on the Company's profitability.

In 2004 the Company continued its activities under Modernization Program which were started in 2003. The projects of Modernization phase 2 were started. The total amount of investments into the long-term tangible and intangible assets comprised LTL 47.6 million, out of which LTL 20.8 million were spent for the projects within Modernization Program. The projects of Modernization were mainly intended for ensuring the compliance with the EU clean fuel requirements and air emission standards.

In 2004 the Company completed installation of the on-spot loading rack. The purpose of the project was reduction of hydrocarbon emissions and product losses by installation of hydrocarbon recovery system. For completion of this project the Company spent LTL 3.5 million in 2004.

The Company also started risk and performance assessment as well as detailed design of FCC Gasoline Selective Hydrotreatment Unit (SHU) by approving contractor Foster Wheeler Iberia SA (Spanish subsidiary of Foster Wheeler Ltd.). The purpose of this project is to ensure compliance of petroleum products with new standard requirements effective from 2005. The amount spent in 2004 for the project-associated front-end engineering activities comprised LTL 4.0 million.

One of the main process associated changes in 2004 was increase of crude oil distillation column capacity which allows increasing the refining capacities from 8 million tons to 10 million tons per year. The total value of this project amounts to LTL 5.4 million.

The Company employees were and still remain the most important asset of the Company. Diligent and conscientious work of our employees was one of the fundamental factors in our success. At the end of the year 2004 the Company employed 3,411 people compared to 3,471 people as of 31 December 2003. This way the reduction of the employees' number by 60 during the period indicated was recorded.

In 2004 the Company spent LTL 132.9 million for salaries or LTL 1.7 million more than in 2003. The average salary of the Company employees in 2004 increased by 4.4 percent and was LTL 3,198 (workers – LTL 2,748).

The Company dedicates special attention to employee qualification improvement and professional training. Learning and Development Center of the Company, in cooperation with

national educational institutions, grants the employees an opportunity of on-site studies thanks to seminars and courses held in the Company premises. In 2004 the Company continued its leadership development programs “Create the future together”. Training sessions were given by outside lecturers and managers of AB Mažeikių Nafta. In autumn of 2004 the Company conducted introductory seminar “Ethics in Life and Business” with participation of a number of Western and Lithuanian experts on business ethics. The seminar opened a new training program on business ethics, one of the key subjects today.

The Board of the Company approved AB Mažeikių Nafta Management Plans on October 15, 2005 defining the Company’s strategy for five years. One of the main parts included in the Management Plans is Modernization Program forecasting the required investments of approximately USD 400 million to meet the EU clean fuel standard requirements effective from 2009.

INVESTMENT IN OTHER COMPANIES

AB Mažeikių Nafta investments in 11 different companies comprise LTL 85.6 million. The investments of AB Mažeikių Nafta in subsidiary companies are as follows:

INVESTMENT IN SUBSIDIARY COMPANIES

Subsidiary	Number of shares owned by the Company	Par value, LTL	Percentage in share capital, %
UAB Biržietiška Aibė under liquidation	259 625	2 596 250	100
UAB Mažeikių Nafta Trading House	7 060 000	7 060 000	100
UAB Uotas	69 300	69 300 000	100
UAB Juodeikių Nafta	8 310	831 000	60

In 2004 the Company completed liquidation procedure of UAB Mažeikių naftos Security Service and excluded the subsidiary company from the Companies Register.

Due to unprofitable operation of UAB Biržietiška Aibė and failure to sell this company caused by absence of potential buyers on September 1, 2004 the Company announced about liquidation of UAB Biržietiška Aibė and initiated liquidation procedures.

In 2004 UAB Mažeikių Nafta Trading House and its subsidiaries in Latvia, Estonia and Poland continued their activities. The net profit of UAB Mažeikių Nafta Trading House group in 2004 amounted to LTL 4.261 million.

UAB Juodeikių Nafta engaged in rendering of the services of petroleum products loading onto trucks operated unprofitably during the year 2004 and incurred net loss of LTL 0.546 million. The loss occurred due to the reduced loading volumes.

The Company continues reorganization of UAB Uotas and its subsidiary AB Ventus-Nafta to support improvement of the indicated companies’ efficiency and reduction of losses incurred. The investment by the Company in UAB Uotas Group in February 2004 amounted to LTL 10.5 million, and the number of UAB Uotas shares acquired by AB Mažeikių Nafta comprised 10.5 thousand. The investment was intended for reorganization of gas filling stations and merger of the stations into a chain operating under a single name VENTUS. At

the end of 2004 the decision was made to increase the authorized capital of UAB Uotas by LTL 15.5 million to reduce financial liabilities and expenditures of AB Ventus-Nafta. The consolidated net loss of UAB Uotas during the year 2004 amounted to LTL 11.589 million.

MAJOR EVENTS AT THE END OF THE FINANCIAL YEAR 2003

Today the Company is looking for possibilities of diversifying crude oil supplies by negotiating with several potential suppliers of feedstock for the Company's refinery and is seeking for increase of transshipment volumes through Butinge Terminal. Recently the Company has signed an agreement with Vitol Baltic Ltd. for transshipment of 7.0 million tons of crude oil through Butinge Terminal.

THE COMPANY'S PLANS AND FORECASTS

In 2005 the forecasted throughput at the refinery is 9.5 million tons of feedstock, with export volumes through Būtingė Terminal comprising 5.0 million tons, and transportation volumes through Biržai pipeline reaching 5.5 million tons of diesel fuel in Ventspils direction, 6.9 million tons of crude to the refinery and 5.5 million tons to Būtingė Terminal. The forecast for revenues is 8.2 billion Litass. The company forecasts to finish the year 2005 with a profit.

The Investment Budget of the Company for the year 2005 has been prepared based on AB Mažeikių Nafta Management Plans approved by the Board of the Company on October 15, 2004. The Company continues the second modernization phase initiated in 2004, for implementation of which the investments amounting to LTL 129.0 million have been provided for in the Investment Budget. The Investment Budget also provides for the amount of LTL 84.0 million to support the sales network development projects and LTL 84.0 million of sustaining capital. This year the Company also plans an investment of LTL 20.0 million for acquisition of Mazeikiai Power House.

The company will further pursue the goal of creating shareholder value by trying to achieve the operational excellence in the spheres of crude refining, production, marketing, logistics, and financial management and organizational improvements, by becoming one of the most successful and efficient oil companies in North East Europe.

N. Eidukevičius
Chairman of the Board

41. Information about the audit

In 1998, 1999, 2000 and 2001 the audit of Mažeikių Nafta Group was conducted by UAB Arthur Andersen. The new auditors UAB Ernst & Young Baltic were approved under the agreement as of August 6, 2002. In 2002, the audit of Mažeikių Nafta Group was performed by UAB Ernst & Young Baltic auditors (company code 1087844, audit company's license No. 224).

At the shareholders' meeting held on April 30, 2003 the Company revoked the auditor UAB Ernst&Young Baltic and elected and approved the audit company UAB PricewaterhouseCoopers. UAB PricewaterhouseCoopers (audit company's license No. 173) was registered on December 29, 1993 in Vilnius. The company's registered office – T.Ševčenkos 21, LT – 03111 Vilnius.

In 2004 Mažeikių Nafta Group's audit was conducted by the auditors of UAB PricewaterhouseCoopers. Whereas the requirement for a certain auditor is not specified in the auditing standards generally accepted in the United States of America, the auditor's report on behalf of UAB PricewaterhouseCoopers was signed by Director Christopher C. Butler. The audit of the consolidated financial statements of Mažeikių Nafta Group of 2004 was completed on March 25, 2005.



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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 effects 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

VI. INFORMATION ABOUT THE ISSUER'S MANAGING BODIES

42. Members of the managing bodies

Managing bodies of AB Mažeikių Nafta are as follows:

- General Shareholders' Meeting;
- Supervisory Council;
- Board of Directors;
- Administration Manager.

Company's activities are under auditor's control.

Articles of Association of AB Mažeikių Nafta provides that the Supervisory Council is elected in a General Shareholders' Meeting for a four year period. Members of Board of Directors are appointed by the Supervisory Council for a four year period.

SUPERVISORY COUNCIL (January 1, 2004)

Vladas Kazimieras Gagilas – Chairman of the Supervisory Council. Director of Energy Resources Department of Ministry of Economy. None of the Company's shares is in his possession. Member of Board of Directors of AB Lietuvos Dujos.

Genovaitė Geleževičienė – Member of the Supervisory Council. Head of Analysis and Forecast Department of Department of Economy Strategy of Ministry of Economy. None of the Company's shares is in her possession. Member of the Council of Lithuanian Development Agency for Small and Medium Sized Enterprises

Vytautas Aršauskas - Member of the Supervisory Council. Chief Specialist of Petroleum Division of Energy Resources Department of Ministry of Economy. None of the Company's shares is in his possession. Member of the Supervisory Council of AB Klaipėdos Nafta.

Michail V. Elfimov - Member of the Supervisory Council. Vice President of OAO Yukos Oil Corporation. None of the Company's shares is in his possession. Not involved in management of other Lithuanian companies and their capital.

Oleg Sheyko - Member of the Supervisory Council. Vice President of Yukos Moscow and Company's Director of Finance. None of the Company's shares is in his possession. Not involved in management of other Lithuanian companies and their capital.

Lord David Owen - Member of the Supervisory Council. President of Yukos International UK BV. None of the Company's shares is in his possession. Not involved in management of other Lithuanian companies and their capital.

Vladimir N. Kasterin - Member of the Supervisory Council. Director of Development and Technical Support of ZAO Yukos RM. None of the Company's shares is in his possession. Not involved in management of other Lithuanian companies and their capital.

Bruce K. Misamore - Member of the Supervisory Council. CFO of OAO Yukos Oil Corporation. None of the Company's shares is in his possession. Not involved in management of other Lithuanian companies and their capital.

Pavel P. Ivlev - Member of the Supervisory Council. Lawyer of Lawyers' Bureau ALM-Feldmans. None of the Company's shares is in his possession. Not involved in management of other Lithuanian companies and their capital.

Supervisory Council (April 30, 2004)

Piotr S. Zolotoriov – Chairman of the Supervisory Council. First Vice President of ZAO Yukos RM. None of the Company's shares is in his possession. Not involved in management of other Lithuanian companies and their capital.

Genovaitė Geleževičienė – Member of the Council. Head of Analysis and Forecast Department of Department of Economy Strategy of Ministry of Economy of the Republic of

Lithuania. None of the Company's shares is in her possession. Not involved in management of other Lithuanian companies and their capital.

Vytautas Aršauskas - Member of the Council. Deputy Head of Petroleum Division of Energy Resources Department of Ministry of Economy of the Republic of Lithuania. None of the Company's shares is in his possession. Chairman of the Supervisory Council of AB Suskystintos Dujos. Member of the Supervisory Council of AB Klaipėdos Nafta.

Oleg Sheyko - Member of the Council. Vice President of OOO Yukos Moscow and Company's Director of Finance. None of the Company's shares is in his possession. Not involved in management of other Lithuanian companies and their capital.

Lord David Owen - Member of the Supervisory Council. President of Yukos International UK BV. None of the Company's shares is in his possession. Not involved in management of other Lithuanian companies and their capital.

Vladimir N. Kasterin - Member of the Supervisory Council. Director of Development and Technical Support of ZAO Yukos RM. None of the Company's shares is in his possession. Not involved in management of other Lithuanian companies and their capital.

Bruce K. Misamore - Member of the Supervisory Council. CFO of OAO Yukos Oil Corporation. None of the Company's shares is in his possession. Not involved in management of other Lithuanian companies and their capital.

Pavel P. Ivlev - Member of the Council. Lawyer of Lawyers' Bureau ALM-Feldmans. None of the Company's shares is in his possession. Not involved in management of other Lithuanian companies and their capital.

Vladas Kazimieras Gagilas – Member of the Supervisory Council. Director of Energy Resources Department of Ministry of Economy. None of the Company's shares is in his possession. Member of the Board of Directors of AB Lietuvos Dujos; Chairman of Board of Directors of AB Klaipėdos Nafta since November 9, 2004.

THE BOARD OF DIRECTORS (January 1, 2004)

Michail B. Brudno - Chairman of the Board of Directors. President of ZAO Yukos RM. None of the Company's shares is in his possession. Not involved in management of other Lithuanian companies and their capital.

Jurij V. Kalner - Member of the Board of Directors. Vice President of OOO Yukos Moscow, Head of Board of Directors for Strategic Planning. None of the Company's shares is in his possession. Not involved in management of other Lithuanian companies and their capital.

Vladislavas Paulius - Member of the Board of Directors. Vice President of ZAO Yukos RM. None of the Company's shares is in his possession.

Andrei M. Kalinin - Member of the Board of Directors. Head of Board of Directors for Planning, Budgeting and Control of OOO Yukos Moscow. None of the Company's shares is in his possession. Not involved in management of other Lithuanian companies and their capital.

Nerijus Eidukevičius - Member of the Board of Directors. Vice Minister of Ministry of Economy. None of the Company's shares is in his possession. The Company does not have any information about his involvement in management of other Lithuanian companies and their capital.

Kipras Balkevičius – Member of the Board of Directors. Head of Petroleum Division of Ministry of Economy. None of the Company's shares is in his possession. Not involved in management of the capital of other Lithuanian companies.

Gediminas Vaičiūnas - Member of the Board of Directors. Advisor of the Office of the Government on Energy Issues. None of the Company's shares is in his possession. Not involved in management of other Lithuanian companies and their capital.

THE BOARD OF DIRECTORS (February 26, 2004)

Michail B. Brudno - Chairman of the Board of Directors. President of ZAO Yukos RM. None of the Company's shares is in his possession. Not involved in management of other Lithuanian companies and their capital.

Jurij V. Kalner - Member of the Board of Directors. Vice President of OOO Yukos Moscow, Head of Board of Directors for Strategic Planning. None of the Company's shares is in his possession. Not involved in management of other Lithuanian companies and their capital.

Vladislavas Paulius - Member of the Board of Directors. Vice President of ZAO Yukos RM. None of the Company's shares is in his possession.

Andrei M. Kalinin - Member of the Board of Directors. Head of Board of Directors for Planning, Budgeting and Control of OOO Yukos Moscow. None of the Company's shares is in his possession. Not involved in management of other Lithuanian companies and their capital.

Nerijus Eidukevičius - Member of the Board of Directors. Vice Minister of Ministry of Economy. None of the Company's shares is in his possession. The Company does not have any information about his involvement in management of other Lithuanian companies and their capital.

Petras Lepeška – Member of the Board of Directors. Chief Specialist of Petroleum Division of Energy Resources Department of Ministry of Economy. Member of the Board of Directors of UAB Mažeikių Nafta Trading House.

Gediminas Vaičiūnas - Member of the Board of Directors. Advisor of the Office of the Government on Energy Issues. None of the Company's shares is in his possession. Not involved in management of other Lithuanian companies and their capital.

THE BOARD OF DIRECTORS (April 30, 2004)

Nerijus Eidukevičius - Member of the Board of Directors. Vice Minister of Ministry of Economy. None of the Company's shares is in his possession. Chairman of the Board of Directors of AB Alytaus Tekstilė. The Company does not have any information about his involvement in management of other Lithuanian companies and their capital.

Jurij V. Kalner - Member of the Board of Directors. Head of Board of Directors for Strategic Planning of OOO Yukos Moscow. Not involved in management of other Lithuanian companies and their capital.

Tomas Gižas – Member of the Board of Directors. Director of the representative office of Yukos Finance B.V. in Lithuania. Operates 100% of shares of UAB Gibrus and UAB Baltijos Atliekų Tvarkymas. None of the Company's shares is in his possession.

Mikchail V. Elfimov - Member of the Board of Directors. Vice President of OAO Yukos Oil Corporation. None of the Company's shares is in his possession. Not involved in management of other Lithuanian companies and their capital.

Vladislavas Paulius - Member of the Board of Directors. Vice President of ZAO Yukos Refining and Marketing. None of the Company's shares is in his possession. Not involved in management of other Lithuanian companies and their capital.

Petras Lepeška – Member of the Board of Directors. Chief Specialist of Petroleum Division of Energy Resources Department of Ministry of Economy. Member of the Board of Directors of UAB Mažeikių Nafta Trading House. None of the Company's shares is in his possession. Not involved in management of other Lithuanian companies and their capital.

Gediminas Vaičiūnas - Member of the Board of Directors. Advisor of the Office of the Government on Energy Issues. None of the Company's shares is in his possession. Deputy Chairman of the Council of the State Nuclear Energy Safety Inspection. Not involved in management of other Lithuanian companies and their capital.

ADMINISTRATION

Paul Nelson English – General Director of AB Mažeikių Nafta. None of the Company's shares is in his possession. Not involved in management of other Lithuanian companies and their capital.

Vita Petrošienė - CFO of AB Mažeikių Nafta. None of the Company's shares is in her possession. Not involved in management of other Lithuanian companies and their capital.

AB Mažeikių Nafta does not have any information about convictions in effect of the members of the management bodies for crimes related to ownership, business and finance.

43. Information about payments and loans extended to the members of managing bodies
-----**44. Transactions with persons concerned**

VII. UPDATED AND MATERIAL EVENTS IN ISSUER'S ACTIVITIES AND PERSPECTIVES

45. Updated events in Issuer's activity

On January 18, 2005 AB Mažeikių Nafta reported that during the meeting of the Board of Directors of AB Mažeikių Nafta which was held on January 17, 2005 the Board decided to procure 15500 (fifteen thousand five hundred) of common registered shares of nominal value 1000 (one thousand) litas each of its subsidiary company UAB Uotas 100 percent of authorized capital of which is owned by AB Mažeikių Nafta.

On January 18, 2005 the Company also reported that during the meeting of the Board of Directors of AB Mažeikių Nafta on January 17, 2005, the Board decided to procure from UAB Lukoil Baltija 5540 (five thousand five hundred forty) of common registered shares of nominal value of 100 (one hundred) litas each of UAB Juodeikių Nafta which is a subsidiary company of AB Mažeikių Nafta. After the completion of this transaction AB Mažeikių Nafta is going to own 100 pct. of UAB Juodeikių Nafta authorized capital.

On January 28, 2005 AB Mažeikių Nafta posted that the target profit of the financial year of 2005 (taking into account the predicted reduction of crude refining margin) is 244 million litas.

On February 21, 2005 AB Mažeikių Nafta announced that the preliminary unaudited consolidated net profit as per US GAAP for year 2004 was 721.858 mln. litas. On the same day, the Company reported that annual financial reports of 2004 would be obtained from the Auditor UAB Pricewaterhouse Coopers and submitted until March 31, 2005.

On March 25, 2005 the Company posted that during the meeting held on March 25, 2005, the Board of Directors of AB Mažeikių Nafta decided to approve AB Mažeikių Nafta Annual Financial Statement of 2004 prepared in accordance with the requirements established in the laws of the Republic of Lithuania and US GAAP standards. AB Mažeikių Nafta audited consolidated net profit of 2004 as per US GAAP was 721,883 million litas.

On March 25, 2005 the Company also reported that the Board of Directors of AB Mažeikių Nafta (which originally instigated to convene the meeting of shareholders) decided to call a General Meeting of Shareholders of AB Mažeikių Nafta, company code 166451720, located at Juodeikiai, 89467 Mažeikiai District, on April 29, 2005, at 11:00 a.m. Juodeikiai, 89467. The General Shareholders' Meeting would be held in the Cultural House of Mažeikiai District Municipality located at Naftininkų St. 11, Mažeikiai. Record date: April 22, 2005. Agenda of the General Meeting of Shareholders of AB Mažeikių Nafta: (i) consideration of AB Mažeikių Nafta auditor's conclusions on Company's Annual Financial Statement for 2004; (ii) consideration of suggestions and comments of the Supervisory Council made on Company's Annual Financial Statement of 2004 and on Company's Performance Report for financial year 2004; (iii) approval of AB Mažeikių Nafta Performance Report for financial year 2004 by the Board of the Company; (v) appropriation of AB Mažeikių Nafta profit of the financial year 2004; (vi) definition of AB Mažeikių Nafta Auditor's remuneration rate for the financial period of 2005; (vii) election of AB Mažeikių Nafta Supervisory Council member; (viii) routine issues.

On the same day the Company informed that during the meeting on March 25, 2005 the Board of Directors of AB Mažeikių Nafta decided to give an approval to the Project of AB Mažeikių Nafta Appropriation Account 2004: to transfer 5 pct. of net profit to legal reserves and to carry forward the rest of the inappropriate profit at the end of accounting financial year;

On April 21, 2005 AB Mažeikių Nafta posted that on April 20, 2005 the Board of Directors of AB Mažeikių Nafta decided to approve the new project of Appropriation Account 2004: to transfer 34 782 345,00 litas of net profit to legal reserves, to allocate 247 608 946,00 litas to

the payout of dividends and to carry forward the rest of the inappropriate profit at the end of accounting financial year.

46. Material events in Issuer's activity

On January 27, 2004 the Company confirmed that AB Mažeikių Nafta unaudited net profit of 76 mln. US dollars (approximately 209 million litas) publicized in daily paper Lietuvos Rytas was the predicted 2003 result of the Company.

On February 27, 2004 the Company reported its preliminary unaudited profit of year 2003 of 230,249 million litas (as per US GAAP). On the same day AB Mažeikių Nafta announced that Annual Financial Reports of 2004 would be obtained from their Auditor UAB Pricewaterhouse Coopers and submitted until April 1, 2004.

On March 26, 2004, the Company reported that during the meeting held on March 26, 2004 the Board of Directors of AB Mažeikių Nafta approved AB Mažeikių Nafta Annual Financial Statement of 2003 prepared in accordance with the requirements established in the laws of the Republic of Lithuania and US GAAP standards. AB Mažeikių Nafta audited net profit as per US GAAP standards was 220 946 thousand litas. On the same day, the Company reported that the Board of Directors of AB Mažeikių Nafta (which originally instigated to convene the meeting of shareholders) decided to call a General Meeting of Shareholders of AB Mažeikių Nafta, company code 16645172, located at Juodeikiai, 98467 Mažeikiai District, on April 30, 2004, at 11:00 a.m. The General Shareholders' Meeting would be held in the Cultural House of Mažeikiai District Municipality located at Naftininkų St. 11, Mažeikiai. Record date: April 23, 2004. Agenda of the General Meeting of Shareholders of AB Mažeikių Nafta: Consideration of AB Mažeikių Nafta Auditor's report prepared on Company's Financial Statement of 2003 and on AB Mažeikių Nafta Performance Report for the financial year 2003; consideration of suggestions and comments of the Supervisory Council made regarding AB Mažeikių Nafta Annual Financial Statement of 2003 and AB Mažeikių Nafta Performance Report for the financial year 2003; approval of AB Mažeikių Nafta Performance Report for the financial period 2003 prepared by the Board of Directors; approval of AB Mažeikių Nafta Annual Financial Statement of 2003; appropriation of AB Mažeikių Nafta profit of 2003; (vi) amendment of articles of Association of AB Mažeikių Nafta; establishment of payment terms for the services provided by AB Mažeikių Nafta Auditor (auditing company); routine issues.

On April 20, 2004 the Company informed about the supplementation of the project of the Agenda of the General Shareholders' Meeting to be held on April 30, 2004. The Board of Directors of AB Mažeikių Nafta decided to supplement the project of Agenda of General Shareholders' Meeting to be held on April 30, 2004 by adding the following issue: election of a new member of AB Mažeikių Nafta Supervisory Council (in place of the resigned member of AB Mažeikių Nafta Supervisory Council).

On April 30, 2004 the Company posted decisions made during the General Shareholders' Meeting:

to take into consideration AB Mažeikių Nafta Auditor's report when approving AB Mažeikių Nafta Annual Financial Statement for the year 2003 and AB Mažeikių Nafta Performance Report for the financial year 2003;

to take into consideration suggestions and comments of AB Mažeikių Nafta Supervisory Council made on AB Mažeikių Nafta Annual Financial Statement for the year 2003 and AB Mažeikių Nafta Performance Report for the financial year 2003;

to approve AB Mažeikių Nafta Performance Report for the financial year 2003 prepared by the Board of the Company;

to approve AB Mažeikių Nafta Annual Financial Statement for the year 2003;

to approve AB Mažeikių Nafta Appropriation Account of 2003;

to approve the amended and supplemented Articles of Association of AB Mažeikių Nafta;

to commit General Director of the Company to register the amended and supplemented Articles of Association of AB Mažeikių Nafta, to sign and to submit to the Register of Legal Persons and/or other entities, establishments or institutions any and all documents necessary for this purpose and to perform any appropriate activities necessary to this matter;

to approve the terms of payment for the services to be provided during 2004 by AB Mažeikių Nafta Auditor UAB Pricewaterhouse Coopers stating that Auditor's remuneration cannot exceed 660 000 (six hundred sixty thousand) litas excluding VAT;

taking into account the fact that AB Mažeikių Nafta Supervisory Council member Michail V. Elfimov resigned from AB Mažeikių Nafta Supervisory Council, and observing the provisions established in Part 11 of Article 31 of the Law on Companies of the Republic of Lithuania, to elect Piotr Zolotariov as the new member of the Supervisory Council operating during the tenure term of Shareholders' Meeting for the remaining term of its office;

On the same day, the Company announced the changes in the staff of management bodies. On April 30, 2004 the Supervisory Council of AB Mažeikių Nafta elected Michail V. Elfimov and Tomas Gižas in place of the resigned Supervisory Council members Michail B. Brudno and Andrej Kalinin. In the meeting of the Supervisory Council of AB Mažeikių Nafta Piotr Zolotariov has been elected to be the Chairman of the Supervisory Council. In the meeting of the Board of Directors of AB Mažeikių Nafta, Nerijus Eidukevičius was elected to be the new Chairman of the Board. It was also reported about AB Mažeikių Nafta performance results (consolidated) of the 1st quarter of 2004: net audited profit as per US GAAP was 104, 216 million litas. It was also stated that financial reports of the 1st quarter of 2004 would be obtained from the Auditor UAB Pricewaterhouse Coopers and submitted until May 21, 2004. On December 30, 2003 the Company announced that starting from December 31, 2003, AB Mažeikių Nafta transfers the management of accounting of securities issued by it to Operations and Securities Services Department of Vilniaus Bankas.

On July 29, 2004, the Company pronounced its 1st half results. Net audited AB Mažeikių Nafta consolidated profit as per US GAAP was 232,242 million litas. On the same day, the Company reported that financial reports of the 1st half of 2004 would be obtained from the Auditor UAB Pricewaterhouse Coopers and submitted until August 31, 2004.

On October, 2004 AB Mažeikių Nafta announced performance results for the period of 9 months of 2004: AB Mažeikių Nafta audited net profit (consolidated) for the period of 9 months of 2004 as per US GAAP was 448,2 million litas. On the same day, the Company reported that financial reports for the period of 9 months of 2004 would be obtained from the Auditor UAB Pricewaterhouse Coopers and submitted until November 30, 2004.

On November 5, 2004 the Company announced that according to the information submitted by the Ministry of Economy, Yukos Finance B.V. which is the shareholder of AB Mažeikių Nafta (hereinafter - the "Company") on the strength of the provisions of Investment Agreement concluded on June 18, 2002, the parties of which currently are OAO Yukos Oil Corporation, Yukos Finance B.V., the Company and the Government of the Republic of Lithuania, presented a written notification to the Ministry of Economy regarding the implementation of its first option (purchase of new shares issued by the Company).

47. Strategy of activity and its prospective changes during current and coming financial (economic) years

In 2005 the Refinery's plans are to process 9,5 million tons of feedstock, to do transshipment of 5,0 million tons through Būtingė Terminal, and to transport 5,5 million tons of diesel towards Ventspils, 6,9 million tons of crude to the Refinery and 5,0 million tons of crude to Būtingė Terminal by Biržai Pipeline. In 2005, the Company set a task to achieve sales for 8,2 milliard litas and to end the year profitably.

The Company will purposefully strive for implementation of its tasks which are:

- Financial – striving for optimal profit, maximization of value of shareholders' assets;

- Economical – consolidation of financial control and analysis, striving for higher income and reduction of expenses in each department;
- Operation – use of full existing processing capacities, improvement of operation processes for a purpose to achieve financial tasks and ensure suitable readiness for advancement in the future;
- Sales and marketing – retention of market share and penetration into new profitable markets, development of services;
- Management – use of Company’s labor in most effective way with a purpose of its further strengthening in pursuance of career planning and training.

The Company will further seek for the benefit of its shareholders and will attempt to realize set tasks in crude refining, production, marketing, logistics, financial management and organizational activities development to become one of most successful and effective petroleum companies in Northeast Europe.