MAŽEIKIŲ NAFTA AB

Consolidated financial statements
Prepared in accordance with accounting principles generally accepted in the United States of America
(presented in US dollars)
December 31, 2005

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DRAFT

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Report of Independent Auditors

To the shareholders and the board of directors of Mažeikių Nafta AB

In our opinion, the accompanying consolidated balance sheets and the related consolidated statements of income, changes in shareholders' equity and comprehensive income, and cash flows present fairly, in all material respects, the financial position of Mažeikių Nafta AB ("the Company") and its subsidiaries at December 31, 2005 and December 31, 2004, 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. 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. We conducted our audits of these statements 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, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion

PricewaterhouseCoopers UAB

Vilnius, Lithuania
April 19, 2006

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

	Notes	December 31, 2005	December 31, 2004
Assets			
Cash and cash equivalents, net	4	172,610	203,908
Current portion of restricted cash	5	465,203	178,606
Trade accounts receivable, net	6	75,693	50,385
Accounts receivable from related parties, net	32	53,038	72,321
Inventories, net	7	258,072	194,113
Current portion of deferred income tax asset, net	24	1,733	13
Other current assets, net		16,042	13,462
Total current assets		1,042,391	712,808
Non-current portion of restricted cash		-	11,205
Equity investees and long-term investments at cost, net		1,263	1,356
Property, plant and equipment, net	8	515,653	493,097
Intangible assets, net	9	6,537	4,812
Long term inventories	10	8,532	8,532
Non-current portion of deferred income tax asset, net	24	588	-
Non-current accounts receivable, net	30	12,812	5,578
Total assets		1,587,776	1,237,388
Liabilities and shareholders' equity			
Short-term debt and current portion of long-term debt	17	9,559	11,598
Current portion of capital lease liabilities	16	253	355
Trade accounts payable	13	311,353	136,299
Accounts payable to/advances received from related parties	32	6,848	75,159
Taxes payable and accrued	14	92,976	97,331
Other current liabilities	15	36,606	12,363
Total current liabilities		457,595	333,105
Long-term debt, net of current maturities	17	454,048	465,593
Capital lease liabilities, net of current maturities	16	28	323
Other non-current liabilities	18	19,828	4,985
Total liabilities		931,499	804,006
Minority interest		1,005	686
Ordinary shares (707,454,130 authorized and issued at December 31, 2005 and December 31, 2004; nominal value – LTL 1 per share)		181,366	181,366
Additional paid in capital		216,986	216,986
Legal reserve	27	13,494	-
Revaluation reserve		109	109
Foreign currency translation adjustment		1,437	4,344
Accumulated surplus	25	241,880	29,891
Total shareholders' equity		655,272	432,696
Total liabilities and shareholders' equity		1,587,776	1,237,388

Paul Nelson English
General Director

Vita Petrošienė
Chief Financial Officer

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

	Notes	Year ended December 31, 2005	2004
Sales and other operating revenues*		4,005,521	2,760,772
Operating costs and other deductions			
Cost of sales, excluding depreciation and amortization	20	(3,305,778)	(2,169,391)
Selling and distribution expenses, excluding depreciation and amortization	21	(200,438)	(163,158)
General and administrative expenses, excluding depreciation and amortization	22	(80,852)	(68,608)
Depreciation and amortization	23	(39,098)	(38,315)
Total operating costs and other deductions		(3,626,166)	(2,439,472)
Other income (expenses)			
Interest income		14,854	3,563
Interest expense		(28,635)	(26,625)
Exchange gain (loss), net		(3,185)	8,433
Other income (expenses), net		1,075	(47)
Total other expenses, net		(15,891)	(14,676)
Income before income tax and minority interest		363,464	306,624
Income tax			
Current income tax expense		(48,949)	(45,222)
Deferred income tax benefit (expense)		2,308	(559)
Total income tax expense, net	24	(46,641)	(45,781)
Income before minority interest		316,823	260,843
Minority interest		1,331	260
Net income		318,154	261,103
Earnings per share (USD per share)			
Basic		0.450	0.369
Diluted		0.313	0.280
Weighted-average shares outstanding (thousands of shares)			
Basic	26	707,454	707,454
Diluted	26	1,016,612	933,035
* excludes excise taxes on sold refined oil products		464,972	324,916

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

	Year ended December 31, 2005	2004
Operating activities		
Net income	318,154	261,103
Adjustments to reconcile net income to cash provided by operations:		
Depreciation and amortization	39,098	38,315
Equity in losses (earnings) of associates	(103)	163
Minority interest	(1,331)	(260)
Loss on sales and retirements of property, plant and equipment and intangible assets	2,376	951
Impairment of property, plant and equipment and assets held for resale	1,694	10,368
Changes in deferred income taxes	(2,308)	559
Other	-	(59)
Changes in operating assets and liabilities net of effects from purchase of Mažeikių Elektrinė AB:		
Trade accounts receivable and accounts receivable from related parties	(12,733)	(32,863)
Inventories	(60,716)	(71,709)
Other current assets	(2,580)	(5,100)
Trade accounts payable and accounts payable to related parties	100,214	35,342
Taxes payable, other current liabilities and other non-current liabilities	40,734	58,149
Restricted cash	(275,392)	(165,120)
Net cash generated from operating activities	147,107	129,839
Investing activities		
Purchases of property, plant and equipment and intangible assets	(58,973)	(28,101)
Proceeds from sale of property, plant and equipment	514	2,749
Proceeds from sale of investments	19	232
Dividends received from associates and investees	-	3
Acquisition of minority shares in subsidiary	(208)	-
Acquisition of subsidiary, net of cash acquired	(5,733)	-
Other	-	13
Net cash used for investing activities	(64,381)	(25,104)
Financing activities		
Net (repayments of) proceeds from short-term debt	(80)	(90)
Repayments of long-term debt	(15,387)	(11,153)
Proceeds from long-term loans	726	-
Principal payments of capital lease obligations	(331)	(476)
Dividends paid	(92,665)	-
Contribution of minority to share capital of subsidiary	3	-
Net cash used for financing activities	(107,734)	(11,719)
Effect of foreign exchange on cash balances	(6,290)	3,228
Net change in cash and cash equivalents	(31,298)	96,244
Cash and cash equivalents at beginning of period	203,908	107,664
Cash and cash equivalents at end of period	172,610	203,908

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

	Year ended December 31,	
	2005	2004
Supplemental cash flow information		
Interest paid	28,356	26,385
Income tax paid	59,219	430

Supplemental schedule of non-cash investing and financing activities

In 2005, the Company purchased 85.72 percent of the capital stock of Mažeikių Elektrinė AB for USD 6,198 thousand (Note 11). In conjunction with the acquisition, liabilities were assumed as follows:

Fair value of assets acquired	14,435
Cash paid for the capital stock	(6,198)
Liabilities assumed	8,237

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

	Note	Number of ordinary shares issued (thousand)	Ordinary shares	Additional paid in capital	Revaluation reserve	Legal reserve	Accumulated other comprehensive income (foreign currency translation adjustment)	Accumulated surplus (deficit)	Total shareholders' equity
Balance at December 31, 2003		707,454	181,366	216,986	109	-	3,298	(231,212)	170,547
Net income for the year		-	-	-	-	-	-	261,103	261,103
Other comprehensive income, net of tax		-	-	-	-	-	1,046	-	1,046
Balance at December 31, 2004		707,454	181,366	216,986	109	-	4,344	29,891	432,696
Net income for the year		-	-	-	-	-	-	318,154	318,154
Other comprehensive income, net of tax		-	-	-	-	-	(2,907)	-	(2,907)
Transfer to legal reserve	27	-	-	-	-	13,494	-	(13,494)	-
Dividend	28	-	-	-	-	-	-	(92,671)	(92,671)
Balance at December 31, 2005		707,454	181,366	216,986	109	13,494	1,437	241,880	655,272

Comprehensive income for the years ended December 31, 2005 and 2004 was as follows:

	Year ended December 31, 2005	2004
Net income	318,154	261,103
Other comprehensive income, net of tax		
Foreign currency translation adjustment	(2,907)	1,046
Total comprehensive income	315,247	262,149

Note 1: Nature of Business

Mažeikių Nafta AB (hereinafter – the Company) was originally established in 1980 to refine crude oil and market refined oil products. In 1995, the Company was reorganized into a public company following a partial privatization by the Company's employees. In 1998, the Company merged with Būtingės Nafta AB, an oil terminal operator, and Naftotiekis AB, a pipeline operator.

The Company is a limited liability company incorporated and domiciled in Lithuania. The address of its registered office is Juodeikiai, LT-89467 Mažeikių raj., Lithuania.

The Company has its primary listing on the Vilnius Stock Exchange (Lithuania).

As of December 31, 2005 the Company's two primary shareholders were Yukos International UK B.V. (part of the Yukos Group) with 53.7 percent and the Government of the Republic of Lithuania (hereinafter – the Government) with 40.7 percent of shares. The remaining shares are widely held.

According to the Investment Agreement Yukos Finance B.V. provides management services to the Company. In May 2005, Yukos Finance B.V. transferred its shareholding in the Company to Yukos International UK B.V.

Current situation at the Yukos Group

As a result of numerous claims issued by the Russian tax authorities during 2003 and 2004, the Yukos Group has been placed in serious financial and operating difficulties. As a consequence as at the date of these financial statements, the Yukos Group is negotiating the sale of its shareholding in the Company. In addition to being the Company's major shareholder, the Yukos Group has in the past been its major supplier of crude oil based on long term supply agreements.

(1) Sale of shares
In October 2005, the Netherlands court imposed a temporary freeze on Yukos International UK B.V.'s shareholding in the Company as security for claims received from the creditors of the Yukos Group. In November 2005, this restriction on disposal of shares was abolished, which resulted in a right to dispose of shares to an extent such disposal was without prejudice to the interests of the Yukos Group creditors. In December 2005, the Netherlands court approved a group of experts who will advise the court on the sale of Yukos International UK B.V. assets, including its shareholding in the Company. Yukos International UK B.V. expects to sell the shares by itself. The Government has, according to the Investment Agreement, right of first refusal to purchase the shares owned by Yukos International UK B.V. and according to a law passed in November 2005 is authorized to buy out Yukos International UK B.V. 53.7 percent stake in the Company and to sell it on to another investor along with about half of the state-owned 40.7 percent stake. Currently the Yukos Group is negotiating with a number of potential purchasers. The outcome of these negotiations is not known.

(2) Supply of crude oil
In February 2005, the Yukos Group suspended crude supplies to the Company. However, management has taken steps to ensure the continuity of supply by signing agreements with several separate oil traders and 9 million tons of crude oil were delivered to the refinery during 2005 (2004: 8.9 million tons). Management expects that approximately 8.6 million tons will be delivered to the refinery in 2006. Crude is being sourced from three main producers: Lukoil, TNK-BP and Tomksneft.

Although the Company has been successful in maintaining crude oil delivery from other suppliers, the Company is dependent on receiving its crude oil deliveries from pipelines carrying oil through the Russian Federation. A significant and lengthy disruption of crude supply would have material adverse effects on the Company's financial position, results of operations and liquidity. However, the management believes that based on its actions and the Company's capital, financing and operating plans for 2006 there will be no material adverse impact on the Company of the operating difficulties being experienced by the Yukos Group.

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

Note 2: Basis of preparation

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

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

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

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

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

LTL per USD	2005	2004
December 31,	2.9102	2.5345
September 30,	2.8617	2.8029
June 30,	2.8679	2.8375
March 31,	2.6645	2.8307

Note 3: Significant accounting policies

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

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

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

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

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

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

Accounts receivable. Accounts receivable are presented at their respective face values, less any valuation allowances, as appropriate, and include value-added taxes which are payable to tax authorities upon collection of such receivables. Bad debts are written off during the year in which they are identified as not recoverable.

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

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

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

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

In accordance with resolutions of the Government, tangible assets have been revalued/indexed four times prior to December 31, 1995 and, as a result, are neither stated at historical cost less accumulated depreciation nor accounted for using the provisions of SFAS 52, *Foreign Currency Translation* concerning hyper-inflationary accounting, as required by US GAAP. The initial cumulative effect of indexations performed amounting to LTL 470,000 thousand (USD 117,500 thousand) was originally accounted for as a revaluation reserve in shareholders' equity. All except LTL 437 thousand (USD 109 thousand) of this reserve was later converted to share capital with the balance remaining in the revaluation reserve. The net book value of indexed property, plant and equipment amounted to app. USD 23,880 thousand as of December 31, 2005 (December 31, 2004: app. USD 26,500 thousand). The management of the Company believes that the remaining balance of indexed property, plant and equipment is not material to the consolidated financial statements.

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

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

The Company's long-lived assets are tested for impairment whenever events or changes in circumstances indicate that the carrying value of these assets may not be recoverable. Impairment is measured as the amount by which the carrying value of an asset or a group of assets exceeds their fair value.

The interest cost recognized on borrowings used to finance tangible assets acquisitions and incurred during the period required to complete the asset is capitalized as a part of historical asset cost. The interest rate for capitalization is based on the rates charged on the outstanding Company's borrowings. For expenditures not covered by specific new borrowings, a weighted average of the rates on other borrowings is applied.

Intangibles. Intangible assets mainly represent patents and licenses acquired stated at cost less accumulated amortization less impairment. Amortization is provided over the estimated useful lives of the assets, generally 4 years. Goodwill is not amortized and is tested for impairment annually.

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

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

Environmental liabilities. Liabilities for environmental remediation are recorded when it is probable that obligations have been incurred and the amounts can be reasonably estimated. Costs of future expenditures for environmental remediation obligations are not discounted to their present value.

Comprehensive income. Comprehensive income is composed of net income and other comprehensive income. Other comprehensive income includes changes in equity that are excluded from net income, such as translation adjustments and changes in fair value of derivatives from hedging activities.

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

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

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

Advertising costs. Advertising costs are expensed when incurred.

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

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

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

Recent accounting pronouncements

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

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

In December 2004, the FASB issued SFAS Statement No. 123 (revised 2004), "Share-Based Payment," which is a revision of SFAS No. 123, "Accounting for Stock-Based Compensation." SFAS No. 123(R) supersedes APB Opinion No. 25, Accounting for Stock Issued to Employees, and amends SFAS No. 95, Statement of Cash Flows. Generally, the approach in Statement 123(R) is similar to the approach described in SFAS No. 123. However, SFAS No. 123(R) requires all share-based payments to employees, including grants of employee stock options, to be recognized in the income statement based on their fair values. SFAS No. 123 (revised 2004) is effective for the fiscal periods beginning after December 15, 2005, and is required to be adopted by the Company effective January 1, 2006. The Company does not expect SFAS No. 123 to have a material impact on the Company's consolidated results of operations or financial condition.

In May 2005, the FASB issued SFAS No.154, "Accounting Changes and Error Corrections", which is effective for accounting changes and corrections of errors made in fiscal years beginning after December 15, 2005. SFAS 154 replaces APB Opinion No. 20, "Accounting Changes," and FASB Statement No. 3, "Reporting Accounting Changes in Interim Financial Statements," and changes the requirements for the accounting for and reporting of a change in accounting principle. SFAS 154 requires retrospective application to prior periods' financial statements of changes in accounting principle, unless it is impracticable to do so, in which case other alternatives are required. SFAS 154 is effective for accounting changes and corrections of errors made in fiscal years beginning after December 15, 2005, and is required to be adopted by the Company effective January 1, 2006. The Company does not expect SFAS No. 154 to have a material impact on the Company's consolidated results of operations or financial condition.

In February 2006, the FASB issued SFAS No.155, "Accounting for Certain Hybrid Financial Instruments", an amendment of FASB Statements No. 133 and 140. This Statement permits fair value remeasurement for any hybrid financial instrument that contains an embedded derivative that otherwise would require bifurcation, clarifies which interest-only strips and principal-only strips are not subject to the requirements of Statement 133, establishes a requirement to evaluate interests in securitized financial assets to identify interests that are freestanding derivatives or that are hybrid financial instruments that contain an embedded derivative requiring bifurcation, clarifies that concentrations of credit risk in the form of subordination are not embedded derivatives and amends Statement 140 to eliminate the prohibition on a qualifying special-purpose entity from holding a derivative financial instrument that pertains to a beneficial interest other than another derivative financial instrument. SFAS 155 is effective for all financial instruments acquired or issued after the beginning of an entity's first fiscal year that begins after September 15, 2006, and is required to be adopted by the Company effective January 1, 2007. The Company does not expect SFAS No. 155 to have a material impact on the Company's consolidated results of operations or financial condition.

Note 4: Cash and cash equivalents, net

Cash amounting to USD 54,377 thousand (December 31, 2004: nil) is provided as collateral for bank borrowings and for letters of credit and guarantees issued by the banks on behalf of the Company.

As of December 31, 2005 cash and cash equivalents include short-term time deposits of USD 17,319 thousand (December 31, 2004: USD 140,194 thousand).

Note 5: Restricted cash

Current portion of restricted cash of USD 465,203 thousand (December 31, 2004: USD 178,606 thousand) is required to be maintained under the terms of letters of credit issued for settlements with suppliers and guarantees provided to third parties for settlement of liabilities.

As of December 31, 2005 restricted cash include short-term time deposits of USD 83,878 thousand (December 31, 2004: nil).

As of 31 December 2004 the Company had cash amounting USD 11,205 thousand received from Yukos Oil Company OAO under a loan agreement. These funds could be used only for financing of the oil refinery modernisation project. In 2005 the Company used the whole amount.

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

Note 6: Trade accounts receivable, net

	December 31, 2005	December 31, 2004
Oil refinery	83,114	65,659
Other	7,945	1,861
Total gross trade accounts receivable	91,059	67,520
Less: allowance for doubtful trade accounts receivable	(15,366)	(17,135)
Total trade accounts receivable, net	75,693	50,385

Receivables amounting up to USD 16,240 thousand (2004: nil) are provided as collateral for letters of credit issued by the banks on behalf of the Company.

Note 7: Inventories, net

	December 31, 2005	December 31, 2004
Raw and supplementary materials	25,016	64,774
Finished goods and goods for resale	178,550	96,652
Semi-finished goods	32,976	12,501
Spare parts and other (net of allowance of USD 8,748 thousand and USD 5,900 thousand as of December 31, 2005 and December 31, 2004, respectively)	20,577	19,919
Other	953	267
Total inventories	258,072	194,113

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

Inventory amounting to USD 90,000 thousand (December 31, 2004: nil) is provided as collateral for letters of credit and guarantees issued by the banks on behalf of the Company.

Note 8: Property, plant and equipment, net

	December 31, 2005	December 31, 2004
Machinery and equipment	677,158	668,278
Buildings	83,888	86,371
Other tangible assets	75,169	74,522
Construction in progress and prepayments	59,373	18,211
Total property, plant and equipment at cost	895,588	847,382
Less: accumulated depreciation	(379,935)	(354,285)
Total property, plant and equipment, net	515,653	493,097

No interest has been capitalised during the year ended December 31, 2005 (December 31, 2004: nil).

As of December 31, 2005 property, plant and equipment for the net book value USD 2,031 thousand (December 31, 2004: USD 21,325 thousand) was provided as collateral for bank borrowings.

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

Note 9: Intangible assets, net

	December 31, 2005	December 31, 2004
Patents and licenses	6,075	6,057
Goodwill	1,842	-
Prepayments for patents and licenses	3,836	3,562
Total intangible assets at cost	11,753	9,619
Less: accumulated amortization	(5,216)	(4,807)
Total intangible assets, net	6,537	4,812

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

Amortization expenses amounted to USD 409 thousand during the year ended December 31, 2005 (December 31, 2004: USD 355 thousand).

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

	December 31, 2005
Year ending December 31:	
2006	403
2007	400
2008	52
2009	4
2010	-
Total estimated amortization	859

Note 10: Long term inventories

Long term inventory of USD 8,532 thousand (December 31, 2004: USD 8,532 thousand) represents pipeline fill - oil in the oil terminal's pipes and reservoirs. This volume of oil is required for the operation of the terminal equipment and cannot be extracted under normal operations.

Note 11: Acquisitions

In March 2005, the Company's wholly owned subsidiary Uotas UAB increased its ownership in the subsidiary Ventus Nafta AB by 2.32 percent from 95.2 percent to 97.52 percent. The purchase consideration of LTL 967 thousand (USD 363 thousand) exceeded share of net assets acquired by USD 444 thousand. The arising goodwill was recognized as an intangible asset (Note 9).

In October 2005, the Company's wholly owned subsidiary Uotas UAB increased its ownership in the subsidiary Ventus Nafta AB by 1.07 percent from 97.52 percent to 98.59 percent. The purchase consideration of LTL 326 thousand (USD 114 thousand) exceeded share of net assets acquired by USD 5 thousand. The arising goodwill was recognized as an intangible asset (Note 9).

In April 2005, the Company acquired the remaining 40 percent of shares in its subsidiary Juodeikiu Nafta UAB from the minority shareholders. The share of net assets acquired exceeded the purchase consideration of LTL 554 thousand (USD 208 thousand) by USD 104 thousand. Accordingly the carrying value of property, plant and equipment was reduced.

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

On 12 October 2005 the Company acquired 85.72 percent of the share capital of Mažeikių Elektrinė AB, an entity involved in manufacture, supply and distribution of electricity and thermal energy. The subsidiary was acquired due to the expected synergies from the acquisition. Before the acquisition the majority of sales of Mažeikių Elektrinė AB were made to the Company.

The fair value of assets and liabilities arising from the acquisition were as follows

	October 1, 2005
Cash and cash equivalents	465
Trade and other receivables	2,169
Inventories	3,300
Property, plant and equipment	8,501
Borrowings	(1,717)
Trade and other payables	(6,419)
Net assets	6,299
Minority interest	(1,530)
Net assets acquired	4,769

The purchase consideration of LTL 17,800 thousand (USD 6,198 thousand) exceeded the share of net assets acquired by USD 1,429 thousand and was recognized as goodwill (Note 9). All goodwill was allocated to the oil refinery reportable segment. The goodwill is not deductible for tax purposes. The results of operations of the subsidiary are included in the consolidated financial statements as from October 1, 2005.

No proforma information was disclosed in the financial statements because the management of the Company believes that it is not material to the financial statements.

Note 12: Financial instruments

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

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

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

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

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

Credit risk. Financial instruments that potentially subject the Company to a concentration of credit risk consist principally of temporary cash investments and accounts receivable. The Company restricts placement of cash investments to financial institutions evaluated as highly creditworthy.

Concentrations of customers in the energy industry may impact the Company's overall exposure to credit risk, as these customers may be similarly effected by the changes in economic conditions. The Company has procedures in place to ensure on a continuous basis that sales are made to customers with an appropriate credit history and do not exceed an acceptable credit exposure limit established by the management. Management believes that there is no significant risk of loss to the Company beyond the provisions already recorded.

Concentration of risk. In 2005, the majority of sales of refined oil products, except for domestic sales and sales to Latvia, Estonia and Poland were made through sales commissioner Petroval PTE (2003 - 2004: Petroval SA), an entity related to the Yukos Group. Accounts receivable from Petroval PTE amounted to USD 52,187 thousand as of December 31, 2005. In 2003 - 2004 the Yukos Group was also the major supplier of crude oil to the Company. Therefore, negative changes in relationships with the Yukos Group could have an adverse impact on the operations of the Company. Management actions in order to reduce the dependency on the Yukos Group are summarized in Note 1.

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

At December 31, 2004, the fair value of the Company's foreign currency derivatives was nil and the notional amount of PLN put options amounted to PLN 23,500 thousand. The Company had no derivative instruments as of December 31, 2005.

The Company occasionally enters into commodity swap contracts to reduce risk relating to the price volatility. The Company does not enter into derivatives for trading or other speculative purposes. No commodity swap contracts were outstanding as of December 31, 2005 and December 31, 2004.

Note 13: Trade accounts payable

	December 31, 2005	December 31, 2004
Oil refinery	307,080	134,748
Other	4,273	1,551
Total trade accounts payable	311,353	136,299

Note 14: Taxes payable and accrued

	December 31, 2005	December 31, 2004
Accrued income tax	36,879	53,286
VAT payable	31,637	24,564
Excise tax	22,090	16,842
Other taxes	2,370	2,639
Total taxes payable	92,976	97,331

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

Note 15: Other current liabilities

	December 31, 2005	December 31, 2004
Legal provisions (Note 30)	13,896	2,900
Insurance	6,887	-
Advances received	4,281	1,897
Accrued vacation pay	3,166	2,589
Salaries and social security	3,095	1,852
Accrued interest	1,134	906
Other accrued expenses and short-term liabilities	4,147	2,219
Total other current liabilities	36,606	12,363

Note 16: Capital lease liabilities

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

	December 31, 2005	December 31, 2004
Machinery and equipment	1,179	1,134
Land and buildings	802	945
Other tangible assets	43	46
Total costs of property, plant and equipment acquired under capital leases	2,024	2,125
Less: accumulated depreciation	(539)	(510)
Property, plant and equipment acquired under capital leases, net	1,485	1,615

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

	December 31, 2005	December 31, 2004
Year ending December 31:		
2005	-	397
2006	266	316
2007	29	29
2008	-	1
2009	-	-
Net minimum lease payments	295	743
Less: Future finance charges on capital leases	(14)	(65)
Present value of capital lease liabilities	281	678

As of December 31, 2005 the weighted average effective annual interest rate on the capital lease liabilities was 7.6 percent (December 31, 2004: 7.4 percent).

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

The present value of capital lease liabilities is as follows:

	December 31, 2005	December 31, 2004
Current portion of capital lease liabilities	253	355
Capital lease liabilities, net of current maturities	28	323
Present value of capital lease liabilities	281	678

Note 17: Debt

	December 31, 2005	December 31, 2004
Long-term debt	463,607	477,111
Current portion of long-term debt	(9,559)	(11,518)
Non-current portion of long-term debt	454,048	465,593
Current portion of long-term debt	9,559	11,518
Overdraft	-	80
Total short-term debt and current portion of long-term debt	9,559	11,598

The Company has an overdraft agreement for the issuance of guaranties and letters of credit for USD 60,000 thousand with SEB Vilniaus Bankas AB. Annual interest rate is 1 month USD LIBOR + 1.35 percent on the balance withdrawn. The agreement expires in May 2006. There was no balance withdrawn as of December 31, 2005.

The Company has an overdraft agreement for the issuance of letters of credit for USD 30,600 thousand with AB Bankas Hansabankas. The agreement expires in September 2006. There was no balance withdrawn as of December 31, 2005.

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

Lender/Purpose	Repayment terms	Annual interest rate	Maturity date (mm/yy)	Loan amount	Balance as of December 31, 2005
Working capital finance					
the Government	Semi-annually	7.00%	07/13	323,928	288,927
SEB Vilniaus Bankas AB	Semi-annually	3 months LIBOR + 1.100%	07/13	75,000	75,000
Investment program					
SEB Vilniaus Bankas AB	Semi-annually	3 months LIBOR + 1.100%	07/13	75,000	75,000

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

Lender/Purpose	Repayment terms	Annual interest rate	Maturity date (mm/yy)	Loan amount	Balance as of December 31, 2005
Investment in oil terminal					
Hansabankas AB	Semi-annually	6 months LIBOR + 0.900%	01/09	50,000	18,421
Kreditanstalt fur Wiederaufbau	Semi-annually	6 months LIBOR + 0.875%	12/06	17,395	1,672
Kreditanstalt fur Wiederaufbau	Semi-annually	6 months LIBOR + 0.875%	12/06	11,855	1,247
Kreditanstalt fur Wiederaufbau	Semi-annually	6 months LIBOR + 0.875%	06/06	7,235	452
Kreditanstalt fur Wiederaufbau	Semi-annually	8.065%	09/06	2,444	306
Kreditanstalt fur Wiederaufbau	Semi-annually	6 months LIBOR + 0.875%	12/06	4,294	304
Trading houses					
Nordea Bank Finland Plc	Monthly	3.900%	12/06	24	8

Lender/Purpose	Repayment terms	Annual interest rate	Maturity date (mm/yy)	Loan amount	Balance as of December 31, 2005
Petrol stations					
Bankas Snoras AB	Semi-annually	6 months LIBOR + 0.875%	10/07	2,749	726
Manufacturer of electricity					
the Government	Semi-annually	4.950%	04/11	2,213	1,544
Less: current portion of long-term debt					(9,559)
Total long term debt					454,048

Loans granted by SEB Vilniaus Bankas AB, Hansabankas AB and Kreditanstalt fur Wiederaufbau are guaranteed by the Government. Cash (Note 4) and property plant and equipment (December 31, 2004: property, plant and equipment) (Note 8) of the Company is provided as collateral for bank borrowings.

Scheduled maturity of long-term borrowings is as follows:

	2006	2007	2008	2009	2010	Later	Total
Principal amount of debt	9,559	5,657	5,676	57,930	110,185	274,600	463,607

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

The debt outstanding as of December 31, 2005 was subject to a number of covenants, such as exclusive use of the loans and restricted management ability to pledge, mortgage or sell the assets, the acquisition of which was financed by loans throughout the duration of the loan agreements without the lenders' approval. The management believes that the Company has complied with these covenants.

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

Note 18: Other non-current liabilities

	December 31, 2005	December 31, 2004
Accrual for environmental obligations (Note 30)	11,322	-
Other	8,506	4,985
Total other non-current liabilities	19,828	4,985

Note 19: Sales and other operating revenues

	Year ended December 31,	
	2005	2004
Products of the Oil refinery	3,909,470	2,664,952
Other services of the Oil refinery	5,404	4,909
Pipeline operator's services	28,093	29,087
Oil terminal services	30,158	40,528
Retail sales of oil products	26,500	16,314
Services and sales of non-production units	5,896	4,982
Total net sales and other operating revenues	4,005,521	2,760,772

Note 20: Cost of sales, excluding depreciation and amortization

	Year ended December 31,	
	2005	2004
Products of the Oil refinery	3,263,642	2,135,026
Other services of the Oil refinery	1,715	2,667
Pipeline operator services	5,806	5,038
Oil terminal services	7,450	9,498
Retail sales of oil products	22,645	13,129
Cost of sales of non-production units	4,520	4,033
Total cost of sales, excluding depreciation and amortization	3,305,778	2,169,391

Note 21: Selling and distribution expenses, excluding depreciation and amortization

	Year ended December 31,	
	2005	2004
Railway services	56,734	51,896
Terminal and laboratory services	27,076	26,191
Transit/freight	78,816	56,872
Intermediary services	12,307	991
Salaries and social security	6,159	5,377
Rent of rail tanks	4,171	3,810
Selling and distribution expenses of trading houses	3,973	6,861
Selling and distribution expenses of petrol stations	2,597	3,727
Repair and maintenance	1,100	1,482
Other	7,505	5,951
Total selling and distribution expenses, excluding depreciation and amortization	200,438	163,158

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

Note 22: General and administrative expenses, excluding depreciation and amortization

	Year ended December 31, 2005	2004
Salaries and social security	17,901	13,282
Penalty imposed by the Competition Council (Note 30)	11,044	-
Taxes, other than income tax	7,924	9,446
Insurance	7,392	7,633
Professional fees	5,428	3,627
General and administrative expenses of trading houses	5,242	3,442
Transport and service units expenses	3,402	3,968
Charitable donations	2,595	357
Materials, repairs and maintenance	2,073	1,086
Fire safety expenses	2,070	1,974
Utilities and communication	1,803	1,607
General and administrative expenses of petrol stations	1,608	2,185
Other	7,593	2,496
	76,075	51,103
Impairment of property plant and equipment	1,694	10,368
Allowance for inventories	3,191	5,900
(Reversal of) allowances for and write-off of trade accounts receivable	(108)	1,237
Total general and administrative expenses, excluding depreciation and amortization	80,852	68,608

Note 23: Depreciation and amortization

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

	Year ended December 31, 2005	2004
Cost of sales	30,996	31,164
General and administrative expenses	2,461	2,801
Selling expenses	5,641	4,350
Total depreciation and amortization	39,098	38,315

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

Note 24: Income tax

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

	December 31, 2005	December 31, 2004
Subsidiaries' taxable losses to be carried forward	2,742	2,764
Property, plant and equipment	-	3,103
Inventories	526	1,495
Accounts receivable	149	334
Accrued expenses	1,646	749
Gross deferred income tax assets	5,063	8,445
Property, plant and equipment	-	(1,222)
Gross deferred income tax liability	-	(1,222)
Deferred tax asset, net, before valuation allowances	5,063	7,223
Less: Valuation allowances against deferred tax assets	(2,742)	(7,210)
Total deferred tax asset, net	2,321	13

As of December 31, 2005 valuation allowances of USD 2,742 thousand (December 31, 2004: USD 2,764 thousand) were provided against deferred income tax assets arising in the subsidiaries where, according to the management, considering all the available objective evidence, both positive and negative, historical and prospective, with greater weight given to the historical evidence, it is not more likely than not that these assets will be realized. As of December 31, 2004 valuation allowances of USD 4,446 thousand were provided against deferred tax assets arising in the parent company due to expected utilization of investment credits to reduce taxable profits to nil during 2005-2009. No such valuation allowances were established as of December 31, 2005 because the implementation of investment plans for 2004 and 2005 were significantly delayed and the management believes that the Company no longer be able to reduce taxable profits to nil in 2005-2009.

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

	December 31, 2005
Expiry date	
2005	3,298
2006	1,858
2007	1,379
2008	3,707
2009	6,790
Total tax loss carry forwards	17,032

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

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

	December 31, 2005	December 31, 2004
Non-current portion of deferred income tax asset, net	588	-
Current portion of deferred income tax asset, net	1,733	13
Total deferred income tax asset, net	2,321	13

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

	Year ended December 31,	
	2005	2004
Income before income tax and minority interest	363,464	306,624
Theoretical income tax expense at the statutory rate of 15 percent	54,520	45,994
Increase (decrease) in the theoretical income tax expense due to:		
Income taxed at other rates	(370)	(43)
Capital investment relief	(4,355)	-
Nondeductible/nontaxable items and foreign exchange effects	1,807	(7,845)
(Utilization of net operating loss) and other	(493)	(3,670)
Income tax expense before provisions	51,109	34,436
Change in provision for deferred income tax asset	(4,468)	11,345
Total income tax expense	46,641	45,781

According to the Investment Agreement signed on October 29, 1999 between the Company, the Government and Williams International Company (from September 19, 2002 replaced by Yukos Finance B.V.) the Company can reduce its taxable profits by the capital investment relief. The Investment Agreement guaranteed that starting from October 29, 1999 for a period of 10 years the portion of taxable profit of the Company utilised for investment in property, plant and equipment will be taxed at a corporate profit tax rate of 0 percent. Uncertainties relating to certain provisions of Investment Agreement based on the Constitutional Court decision are described in Note 30.

Note 25: Shareholders' equity

The accumulated surplus in these consolidated financial statements is different from the statutory profit available for distribution, which amounts to USD 330,907 thousand as of December 31, 2005.

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

Note 26: Earnings per share

Basic earnings per share is computed by dividing net income (the "numerator") by the weighted-average number of ordinary shares outstanding (the "denominator"). Diluted earnings per share is similarly computed, except that the denominator is increased to include the dilutive effect of outstanding stock options (Note 29) calculated using treasury share method.

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

	Year ended December 31, 2005	2004
Weighted – average shares outstanding – basic earnings per share	707,454	707,454
Add: incremental shares from assumed conversions of stock options (Note 29)	309,158	225,581
Weighted – average shares outstanding – diluted earnings per share	1,016,612	933,035

Note 27: Reserves

A legal reserve is a compulsory reserve under Lithuanian, Estonian and Polish legislation. In Lithuania and Estonia annual transfer of 5% of profit available for distribution is compulsory until the reserve reaches 10% of the share capital. In Poland annual transfer of 8% of the net profit for the financial year is compulsory until the reserve reaches 1/3 of the share capital. The legal reserve cannot be distributed as dividends and is formed to cover future losses. In Estonia and Poland the legal reserve can be also used to increase share capital. In 2005, the Company formed legal reserve because it had statutory profit available for distribution. As of December 31, 2005 the legal reserve amounted to USD 13,494 thousand (December 31, 2004: nil).

Note 28: Dividends per share

At the Annual General Shareholders' meeting on April 29, 2005, a dividend in respect of 2004 of LTL 0.35 per share equivalent to USD 0.131 per share amounting to a total dividend of LTL 247,609 thousand (USD 92,671 thousand) were declared.

Note 29: Stock options

According to the Investment Agreement as of June 18, 2002, Yukos Finance B.V. had an option to subscribe for a certain number of the Company's newly issued shares for the consideration of USD 75 million. Yukos Finance B.V. exercised this option by delivering to the Government and the Company a notice in writing on October 29, 2004. The Yukos Group claims that according to the Investment Agreement the increase in its share should be calculated based on the number of shares owned by Yukos Finance B.V. before the option is exercised and its share should increase from 53.7 percent to approximately 69.065 percent, whereas the Government is claiming that the increase in shares should be calculated based on the number of shares owned by Williams International Company before the shares were sold to Yukos Finance B.V. In that case the share of the Yukos Group would increase to approximately 63.426 percent.

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

The Government initiated negotiations with the Yukos Group regarding the above-mentioned options. As at the date of signing these financial statements, the management of the Company is not aware either of the timing or the substance of any decision that the Government and the Yukos Group may take, therefore in these financial statements diluted earnings per share were calculated based on the Yukos Group share increase to 69.065 percent (Note 26).

Note 30: Commitments and contingent liabilities

Claim from PPS Pipeline Systems

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

Management created a provision of USD 2,900 thousand for probable losses that would be incurred if legal proceedings were initiated against the Company and a judgment rendered against the Company, in the consolidated financial statements for the years ended December 31, 2005 and December 31, 2004.

Investigation of the Competition Council

In July 2004, the Lithuanian Competition Council commenced an investigation against the Company to determine whether the higher price of fuel in Lithuania is the result of violations and abuse of its dominant position in the market. The investigation resulted from the fact that the prices of fuel in Lithuania are higher than those in Latvia and Estonia, despite the fact that with effect from May 2004 all three countries have unified fuel excise and customs duties. The investigation was completed in July 2005. The Lithuanian Competition Council concluded that the Company abused its dominant position in Lithuania, Latvia and Estonia market of petrol and diesel in 2002 – 2004. The Lithuanian Competition Council obligated the Company to terminate the activities violating the laws of the Republic of Lithuania and European Union and imposed a penalty on the Company. Although the Company appealed the decision of the Competition Council in court, management accrued USD 10,996 thousand for the penalty imposed by the Lithuanian Competition Council in the financial statements as of December 31, 2005 (Note 15).

In November 2005, the Latvian Competition Council commenced an investigation against Mazeikiu Nafta Tridcniecibas Nams SIA whether it abused its dominant position in the Latvian market. The investigation is not completed and the results of investigation are not known at the date of these financial statements. The management has taken legal advice and believes that Mazeikiu Nafta Tridcniecibas Nams SIA has complied with Latvian competition law and, therefore, no accrual was deemed necessary as of December 31, 2005.

Claim from Klevo Lapas UAB

In 2003, based on a decision of the Competition Council, stating that the Company did not comply with the Competition Law and which allows the customers affected by the Company's pricing policy to claim damages from the Company, legal proceedings initiated by Klevo Lapas UAB against the Company in 2000 were renewed and the court appointed an independent expert committee to evaluate the possible amounts of damages caused to Klevo Lapas UAB. As of December 31, 2005, the claim from Klevo Lapas UAB amounted to LTL 741 thousand (equivalent to USD 255 thousand as of December 31, 2005). However, the possible amounts of damages caused to this customer evaluated by the expert committee appointed by the Court at an early stage of the dispute comprised approximately LTL 7,500 thousand (equivalent to USD 2,577 thousand as of December 31, 2005). As of December 31, 2005, the Company had a receivable from Klevo Lapas UAB amounting to LTL 5,298 thousand (equivalent of USD 1,820 thousand as of December 31, 2005), which was provided in full as of December 31, 2005. The management does not expect that the final amount of this claim will exceed the amount receivable from Klevo Lapas UAB, therefore, no accrual for the claim was made in the financial statements as of December 31, 2005.

Payment request from a group of inventors

The Company had received a payment request from a group of individuals in the amount of LTL 14,000 thousand (equivalent to USD 4,811 thousand as of December 31, 2005) related to a production improvement process invented and patented by the group and subsequently implemented by the Oil refinery covering the period 1996 – 2001. Management does not agree that the implementation of the invention did actually improve the output of production process and, therefore, rejected the payment request. In 2003, one of the inventors initiated legal proceedings against the Company and claimed an amount totalling LTL 400 thousand (equivalent to USD 137 thousand as of December 31, 2005). The first instance court rejected the claim as ungrounded in February 2006. The inventor appealed against the decision of the court. The management believes that the charges are without merit and, accordingly, no accrual has been made in these consolidated financial statements. In the event the Company loses this proceeding, the Company might raise the issue of compensation of the amounts of this claim under provisions of the Investment Agreement, signed between Yukos Oil Corporation OAO, Yukos Finance B.V., Williams International Company, the Company and the Government (see also decision of the Constitutional Court described further).

Claim from Rietumu Banka AS

In 1999, the Company received a claim from Rietumu Banka AS for the total amount of USD 1,250 thousand related to unperformed sales of oil products to Thornleigh Trust Ltd. in accordance with the agreement signed on March 23, 1998 with Rietumu Banka AS and Thornleigh Trust Ltd. The Company set-off the advance payment of USD 1,250 thousand received from Thornleigh Trust Ltd. against the receivable balance outstanding and did not perform the shipment of products. Management has taken legal advice and believes that the claim is without merit, therefore, no accrual for the claim was made in these consolidated financial statements.

Other litigations and claims

The Company is involved in other litigations and has claims against it for the matters arising in the ordinary course of business, which have not been described above. In the opinion of the Company's management, the outcome of these claims will not have a material adverse effect on the Company's operations.

Decision of the Constitutional Court of the Republic of Lithuania

On October 18, 2000, the Constitutional Court of the Republic of Lithuania concluded that certain provisions of the Law of the Republic of Lithuania on Reorganization of Public Companies Būtingės Nafta AB, Mažeikių Nafta AB and Naftotiekis AB, which entitled the Government to assume, on behalf of the State, major property-related obligations to the strategic investor and (or) Mažeikių Nafta AB, contravened the Constitution of the Republic of Lithuania. The Constitutional Court concluded that the provision in the Law on compensation of losses to the strategic investor and Mažeikių Nafta AB is formulated in such a way that the State would have an obligation to compensate from the State budget even if the losses were incurred due to the fault of the strategic investor Williams International Company and (or) Mažeikių Nafta AB, and thus contradicts the Constitution of the Republic of Lithuania.

The Investment Agreement signed on October 29, 1999 between the Company, the Government and Williams International Company (from September 19, 2002 replaced by Yukos Finance B.V.) established that the Government undertook to ensure the economic conditions for the Company's operations (i.e. laws and other legal acts of the Republic of Lithuania) will not be changed in a manner that would adversely affect or impede implementation of the Management Plans of the Company until the later of the termination of the Management Agreement, the Shareholders' Agreement or the Financing Agreements (as such Management Plans and agreements defined in contractual documentation signed by the parties). The strategic investor and/or the Company can claim compensation from the Government for any losses incurred due to the Government's failure to ensure these matters. In addition, under the provisions of the Investment Agreement the Company is indemnified by the Government from certain obligations and losses, if any, arising from the contingencies that were present when the agreement was signed. In 1999 and 2000, the Company received LTL 140,000 thousand (USD 35,000 thousand) as crude oil interruption compensation. In 2001 and 2002, the Government compensated to the Company LTL 33,431 thousand (USD 8,671 thousand) under provisions of the Investment Agreement for indemnification from certain obligations and losses. The management of the Company believes that the uncertainty related to the decision of the Constitutional Court may to some extent negatively influence the Government when fulfilling its obligations under the provisions of the Investment Agreement, however, no provisions have been established for the possible repayment of compensation already received.

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

Dispute with Klaipėdos nafta AB over surplus balance of oil products

The Company is a sole exporter of light oil products via a terminal owned by Klaipėdos nafta AB. During a stocktake at the terminal, a surplus balance of light oil products comprising USD 8.2 million at year-end oil products prices, which was accumulated during 1999 – 2004 was identified. On May 5, 2004 the Company and Klaipėdos nafta AB signed an agreement to share the surplus balance equally. However, this decision has not been implemented and the Company has not recognized its share of the surplus balance as an asset as of December 31, 2005.

Environmental liabilities

As required by a waste treatment plans approved by the Ministry of Environment in 2004, the Company issued guarantees to the regional departments of the Ministry of Environment for a total amount of LTL 11,970 thousand (equivalent of USD 4,113 thousand as of December 31, 2005). Payments under these guarantees should be made in cases when the Company is unable to continue treatment of waste accumulating in production process.

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

In the production process the oil refinery causes contamination. In the consolidated financial statements for the year ended December 31, 2005 the Company made a provision for the environmental obligations amounting to USD 11,322 thousand (Note 18) and recognized related reimbursement for environmental obligations receivable from the Government of USD 10,807 thousand recorded under non-current accounts receivable, net in the balance sheet. A provision of USD 10,807 thousand was recognized for the costs to be incurred for the treatment of the waste which was accumulated before 1999. According to the waste treatment plan agreed with the Ministry of Environment of the Republic of Lithuania, the Company has to clean up all contamination that it causes before 2012.

Carbon dioxide emissions allowances

The Company participates in a carbon dioxide cap and trade scheme. In 2005 the Company was set a target by the Government to reduce its emissions of carbon dioxide to 6,622,887 tons (the cap) in 2005 - 2007. The Company is issued allowances equal in number to its cap by the Government. Allowances are issued free of charge. Allowances obtained at no cost are recorded at a zero basis by the Company. In addition, in 2005 through the business combination with Mažeikių Elektrinė AB the Company acquired allowances to emit 2,651,020 tons of carbon dioxide in 2005 – 2007 (Note 11). The management believes that the actual emission of carbon dioxide will not exceed the allowances received, therefore no accrual for additional costs was established in the financial statements as of December 31, 2005.

Tax audits

No full-scope tax audits were carried out by the tax authorities at the Company for the years 2001-2005. The tax authorities may at any time inspect the books and records within 5 years subsequent to the reported tax year, and may impose additional tax assessments and penalties. The Company's management is not aware of any circumstances which may give rise to a potential material liability in this respect.

Purchase commitments

The Company has signed a number of contracts with various suppliers for purchase of tangible and intangible assets. The total tangible and intangible assets purchase commitments according to these contracts amounted to USD 44,002 thousand as of December 31, 2005 (USD 658 thousand as of December 31, 2004).

Operating lease commitments – the Company is lessee

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

	December 31, 2005
Year ending December 31:	
2006	448
2007	297
2008	191
2009	179
2010	157
2011 and later years	557
Total operating lease commitments	1,829

Operating leases rental expenses amounted to USD 7,190 thousand during the year ended December 31, 2005 (December 31, 2004: USD 6,708 thousand).

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

Note 31: Segment information

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

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

Summarized financial information concerning the Company's reportable segments for the year ended December 31, 2005 and 2004 is shown in the following tables:

Year ended December 31, 2005

	Oil refinery	Oil terminal	Pipeline operator	Petrol stations	Other	Intersegment balances	Total
Revenues	3,931,814	30,158	28,093	31,416	1,258	(17,218)	4,005,521
Depreciation and amortization	(24,803)	(8,713)	(2,797)	(2,640)	(145)	-	(39,098)
Segment operating (loss) profit	356,592	7,312	17,487	(1,950)	(119)	33	379,355
Interest revenue	14,849	-	-	2	3	-	14,854
Interest expense	(18,530)	(9,969)	-	(136)	-	-	(28,635)
Segment assets	1,351,775	223,543	15,199	21,454	800	(24,995)	1,587,776
Additions to segment assets	63,641	1,307	1,071	1,509	35	-	67,563

Year ended December 31, 2004

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

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

Total consolidated revenues earned by the Company in the years ended December 31, 2005 and 2004 can be split by country as follows:

	Year ended December 31,	
	2005	2004
Lithuania	872,932	565,872
Switzerland	503,135	319,813
UK	353,521	296,196
Latvia	304,416	287,742
Estonia	272,440	165,081
Poland	255,413	202,898
Canada	202,228	28,421
Norway	189,807	143,977
USA	179,044	317,698
Other	872,585	433,074
Total consolidated revenues	4,005,521	2,760,772

Sales are allocated based in the country in which the customers are located.

99.98% of the Company's long-lived assets are located in Lithuania (December 31, 2004: 99.94%).

Note 32: Related Parties

As of December 31, 2005 Yukos International UK B.V is the majority shareholder of the Company. According to the provisions of the Investment Agreement, Yukos Finance B.V. has management control rights over the Company.

In June 2002, the Company and Yukos Oil Company OAO signed a crude oil supply agreement for an annual quantity of 4,800 thousand metric tons of crude oil. The price of crude oil is determined based on open market terms. The agreement is valid until September 30, 2012. In 2004, Yukos Oil Company OAO commitments under this agreement were transferred to Samaraneftegas OAO, the Yukos Group company. Furthermore, according to an agreement with Yukos Oil Company OAO 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 OAO and to transport it through the oil terminal. The price for the transportation services is determined based on market terms. This agreement was valid until December 31, 2005. In February 2005 Yukos Oil Company OAO suspended the supply of crude oil to the Company both for refining and transportation purposes.

On January 1, 2005 the Company signed a sales commissioner agreement with Petroval PTE, an entity related to Yukos Oil Company OAO. According to this agreement Petroval PTE sells the Company's oil products for a defined fee. Accounts receivable balance represents receivables from the third parties which have to be collected by Petroval PTE on behalf of the Group. Prior to January 1, 2005 a sales commissioner agreement signed on November 1, 2002 with Petroval SA was valid. This agreement was terminated by mutual agreement of parties effective from December 31, 2004.

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

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

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

	December 31, 2005	December 31, 2004
Accounts receivable from related parties, net		
Petroval PTE (acting as a sales commissioner and direct sales client)	52,187	-
Naftelf UAB	701	900
Petroval SA (acting as a sales commissioner and direct sales client)	147	71,415
Yukos Group * (net of allowance for doubtful accounts of USD 2,159 thousand and USD 2,172 as of December 31, 2005 and December 31, 2004 respectively)*	3	6
Total accounts receivable from related parties, net	53,038	72,321

	December 31, 2005	December 31, 2004
Accounts payable (including accruals) to related parties		
Yukos Group * (crude oil purchases, management fee, accrual for claim)	891	64,176
Petroval SA (crude oil purchases, commission fee and compensation of expenses)	350	10,887
Petroval PTE (crude oil purchases, commission fee and compensation of expenses)	3,560	-
Naftelf UAB	-	40
Total accounts payable (including accruals) to related parties	4,801	75,103

	December 31, 2005	December 31, 2004
Advances received from related parties		
Yukos Group *	-	-
Petroval SA	-	-
Petroval PTE	2,031	-
Naftelf UAB	-	-
Total advances received from related parties	2,031	-
Accrued interest payable		
the Government	16	56
Total accrued interest payable	16	56
Total accounts payable to/advances received from related parties	6,848	75,159

	December 31, 2005	December 31, 2004
Loans received from related parties		
the Government	290,471	288,927
Total loans received from related parties	290,471	288,927

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

	Year ended December 31, 2005	2004
Sales of products and services to related parties		
Petroval SA	124,264	110,882
Petroval PTE	10,965	-
Yukos Group *	40	13,772
Naftelf UAB	23,584	12,544
Total sales to related parties	158,853	137,198
Interest on borrowings to related parties		
the Government	20,525	21,268
Total interest on borrowings to related parties	20,525	21,268
Crude oil and services purchases from related parties		
Yukos Group * (purchase of crude oil and management fee)	2,354	1,497,486
Petroval SA (commission fee and purchase of crude oil)	1,512	313,625
Petroval PTE (commission fee and purchase of crude oil)	90,227	-
Total purchases from related parties	94,093	1,811,111

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