MAŽEIKIŲ NAFTA AB

CONSOLIDATED INTERIM FINANCIAL STATEMENTS

FOR THE THREE MONTH PERIOD ENDED 31 MARCH 2005

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(all tabular amounts are in USD '000 and LTL '000 unless otherwise stated)

Consolidated interim balance sheet

	Note	At 31 March 2005		At 31 December 2004	
ASSETS		**USD**	**LTL**	**USD**	**LTL**
Non-current assets					
Property, plant and equipment	7	500,539	1,333,687	497,811	1,261,702
Goodwill	8	444	1,183	-	-
Intangible assets	8	75,801	201,971	4,686	11,877
Investment in associates	9	1,297	3,456	1,336	3,386
Deferred income tax assets	21	579	1,542	13	33
Available-for-sale financial assets		2	6	20	51
Non-current receivables and prepayments	10	8,556	22,798	9,522	24,135
		587,218	1,564,643	513,388	1,301,184
Current assets					
Inventories	11	195,610	521,202	193,846	491,302
Trade and other receivables	12	156,580	417,209	136,102	344,952
Prepaid current income tax		63	168	66	168
Derivative financial instruments	13	113	301	-	-
Cash and cash equivalents	14	532,834	1,419,737	393,719	997,881
		885,200	2,358,617	723,733	1,834,303
Non-current assets classified as held for sale	15	235	626	267	677
		885,435	2,359,243	724,000	1,834,980
Total assets		1,472,653	3,923,886	1,237,388	3,136,164
EQUITY					
Capital and reserves attributable to the Company's equity holders					
Share capital	16	181,366	707,454	181,366	707,454
Share premium		72,752	283,040	72,752	283,040
Reserves	17	109	437	109	437
Cumulative translation adjustment		3,552	(154,214)	4,344	(211,052)
Retained earnings		248,483	512,217	174,125	316,789
		506,262	1,348,934	432,696	1,096,668
Minority interest		612	1,631	686	1,739
Total equity		506,874	1,350,565	433,382	1,098,407
LIABILITIES					
Non-current liabilities					
Borrowings	20	462,715	1,232,904	465,916	1,180,865
Other non-current liabilities	18	53,773	143,278	4,985	12,634
		516,488	1,376,182	470,901	1,193,499
Current liabilities					
Trade and other payables	19	371,871	990,852	264,966	671,561
Current income tax liabilities		62,782	167,283	53,286	135,053
Borrowings	20	11,738	31,276	11,953	30,294
Provisions	22	2,900	7,728	2,900	7,350
		449,291	1,197,139	333,105	844,258
Total liabilities		965,779	2,573,321	804,006	2,037,757
Total equity and liabilities		1,472,653	3,923,886	1,237,388	3,136,164

The General Director an the Chief Financial Officer approved the consolidated interim financial statements on pages 4 to 55 on 31 May 2005.

Paul Nelson English
General Director

Vita Petrošienė
Chief Financial Officer

The notes on pages 9 to 55 are an integral part of these consolidated interim financial statements.

(all tabular amounts are in USD '000 and LTL '000 unless otherwise stated)

Consolidated interim income statement

	Note	Three months ended 31 March			
		2005		2004	
		USD	LTL	USD	LTL
Sales		838,052	2,202,569	552,716	1,525,695
Cost of sales	24	(679,134)	(1,784,900)	(447,788)	(1,236,321)
Gross profit		158,918	417,669	104,928	289,374
Other operating income	23	2,669	7,014	325	900
Selling and marketing costs	24	(52,593)	(138,225)	(44,618)	(123,176)
Administrative expenses	24	(14,665)	(38,542)	(13,705)	(37,961)
Other operating expenses	24	-	-	(26)	(78)
Operating profit		94,329	247,916	46,904	129,059
Finance costs – net	25	(8,893)	(23,370)	(8,482)	(23,490)
Share of profit/(losses) of associates	9	26	68	(19)	(52)
Profit before income tax		85,462	224,614	38,403	105,517
Income tax expense	26	(11,607)	(30,506)	(550)	(1,519)
Profit for the period		73,855	194,108	37,853	103,998
Attributable to:					
Equity holders of the Company		74,358	195,428	37,932	104,216
Minority interest		(503)	(1,320)	(79)	(218)
		73,855	194,108	37,853	103,998
Earnings per share for profit attributable to the equity holders of the Company during the period (expressed in USD or LTL per share)					
– basic	27	0.105	0.276	0.054	0.147
– diluted	27	0.075	0.198	0.041	0.114

The notes on pages 9 to 55 are an integral part of these consolidated interim financial statements.

(all tabular amounts are in USD '000 and LTL '000 unless otherwise stated)

Consolidated interim statement of changes in shareholders' equity (in USD'000)

	Note	Attributable to equity holders of the Company						Minority interest	Total equity
		Share capital	Share premium	Revaluation reserve	Fair value reserve	Cumulative translation adjustments	Retained earnings		
Balance at 1 January 2004		181,366	87,613	109	12	3,286	(101,839)	906	171,453
Fair value loss on cash flow hedges		-	-	-	(445)	-	-	-	(445)
Currency translation adjustments		-	-	-	-	(368)	-	(16)	(384)
Net (expenses) recognised directly in equity		-	-	-	(445)	(368)	-	(16)	(829)
Profit for the period		-	-	-	-	-	37,932	(79)	37,853
Total recognised income for the period		-	-	-	(445)	(368)	37,932	(95)	37,024
Balance at 31 March 2004		181,366	87,613	109	(433)	2,918	(63,907)	811	208,477
Balance at 1 April 2004		181,366	87,613	109	(433)	2,918	(63,907)	811	208,477
Fair value gain on cash flow hedges		-	-	-	433	-	-	-	433
Currency translation adjustments		-	-	-	-	1,426	-	56	1,482
Net income recognised directly in equity		-	-	-	433	1,426	-	56	1,915
Profit for the period		-	-	-	-	-	223,171	(181)	222,990
Total recognised income for the period		-	-	-	433	1,426	223,171	(125)	224,905
Increase in retained earnings by decreasing share premium	5.2.2	-	(14,861)	-	-	-	14,861	-	-
Balance at 31 December 2004		181,366	72,752	109	-	4,344	174,125	686	433,382
Balance at 1 January 2005		181,366	72,752	109	-	4,344	174,125	686	433,382
Currency translation adjustments recognised directly in equity		-	-	-	-	(792)	-	(18)	(810)
Profit for the period		-	-	-	-	-	74,358	(503)	73,855
Total recognised income for the period		-	-	-	-	(792)	74,358	(521)	73,045
Increase in share in subsidiary		-	-	-	-	-	-	447	447
Balance at 31 March 2005		181,366	72,752	109	-	3,552	248,483	612	506,874

The notes on pages 9 to 55 are an integral part of these consolidated interim financial statements.

(all tabular amounts are in USD '000 and LTL '000 unless otherwise stated)

Consolidated interim statement of changes in shareholders' equity (in LTL'000)

	Note	Attributable to equity holders of the Company						Minority interest	Total equity
		Share capital	Share premium	Revalua-tion reserve	Fair value reserve	Cumulative translation adjustments	Retained earnings		
Balance at 1 January 2004		707,454	342,484	437	35	(114,802)	(464,538)	2,502	473,572
Fair value loss on cash flow hedges		-	-	-	(1,260)	-	-	-	(1,260)
Currency translation adjustments		-	-	-	-	13,809	-	12	13,821
Net income/(expenses) recognised directly in equity		-	-	-	(1,260)	13,809	-	12	12,561
Profit for the period		-	-	-	-	-	104,216	(218)	103,998
Total recognised income for the period		-	-	-	(1,260)	13,809	104,216	(206)	116,559
Balance at 31 March 2004		707,454	342,484	437	(1,225)	(100,993)	(360,322)	2,296	590,131
Balance at 1 April 2004		707,454	342,484	437	(1,225)	(100,993)	(360,322)	2,296	590,131
Fair value gain on cash flow hedges		-	-	-	1,225	-	-	-	1,225
Currency translation adjustments		-	-	-	-	(110,059)	-	(52)	(110,111)
Net income/(expenses) recognised directly in equity		-	-	-	1,225	(110,059)	-	(52)	(108,886)
Profit for the period		-	-	-	-	-	617,667	(505)	617,162
Total recognised income for the period		-	-	-	1,225	(110,059)	617,667	(557)	508,276
Increase in retained earnings by decreasing share premium	5.2.2	-	(59,444)	-	-	-	59,444	-	-
Balance at 31 December 2004		707,454	283,040	437	-	(211,052)	316,789	1,739	1,098,407
Balance at 1 January 2005		707,454	283,040	437	-	(211,052)	316,789	1,739	1,098,407
Currency translation adjustments recognised directly in equity		-	-	-	-	56,838	-	22	56,860
Profit for the period		-	-	-	-	-	195,428	(1,320)	194,108
Total recognised income for the period		-	-	-	-	56,838	195,428	(1,298)	250,968
Increase in share in subsidiary		-	-	-	-	-	-	1,190	1,190
Balance at 31 March 2005		707,454	283,040	437	-	(154,214)	512,217	1,631	1,350,565

The notes on pages 9 to 55 are an integral part of these consolidated interim financial statements.

(all tabular amounts are in USD '000 and LTL '000 unless otherwise stated)

Consolidated interim cash flow statement

		Three months ended 31 March			
		2005		2004	
	Note	USD	LTL	USD	LTL
Cash flows from operating activities					
Cash generated from operations	30	161,378	481,945	43,031	118,528
Interest paid		(6,846)	(18,092)	(7,033)	(19,477)
Net cash generated from operating activities		154,532	463,853	35,998	99,051
Cash flows from investing activities					
Purchases of property, plant and equipment (PPE)		(12,246)	(32,181)	(7,315)	(21,102)
Proceeds from sale of non-current assets classified as held for sale	30	129	340	8	-
Purchases of intangible assets		(135)	(354)	-	-
Proceeds from sale of available-for-sale financial assets		18	45	-	-
Interest received		2,300	6,045	325	900
Net cash used in investing activities		(9,934)	(26,105)	(6,982)	(20,202)
Cash flows from financing activities					
Repayments of borrowings		(2,940)	(7,727)	(2,975)	(8,084)
Finance lease principle payments		(116)	(221)	(94)	(259)
Contribution of minority shareholders to the share capital of subsidiary		3	7	-	-
Net cash used in financing activities		(3,053)	(7,941)	(3,069)	(8,343)
Net increase in cash and bank overdrafts	14	141,545	429,807	25,947	70,506
Cash and bank overdrafts at beginning of period	14	393,639	997,681	132,192	365,128
Exchange gains/(losses) on cash and bank overdrafts		(2,350)	(7,751)	(60)	11,838
Cash and bank overdrafts at end of period	14	532,834	1,419,737	158,079	447,472

The notes on pages 9 to 55 are an integral part of these consolidated interim financial statements.

(all tabular amounts are in USD ‘000 and LTL ‘000 unless otherwise stated)

Notes to the consolidated interim financial statements

1. General information

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 privatisation 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 Judeikiai, LT-89467 Mažeikių raj., Lithuania.

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

The Company’s two primary shareholders are Yukos Finance B.V. (part of Yukos Group) with 53.7 percent and the Government of Lithuania with 40.7 percent of shares. The remaining shares are widely held.

According to the Investment Agreement Yukos Finance B.V. has management control rights of the Company.

Current situation at Yukos Group

As a result of numerous claims issued by the Russian tax authorities during 2003 and 2004, Yukos Group has been placed in serious financial and operating difficulties. In addition to being the Company’s major shareholder, Yukos Group has in the past been its major supplier of crude based on long term supply agreements.

In February 2005, Yukos Group suspended crude supplies to the Group.

However, management has taken steps to ensure the continuity of supply by signing agreements with five separate oil traders for a total of approximately 8 million tones to be delivered to the refinery during 2005, plus an option for a further 2 million. Crude will be sourced from four main producers: Lukoil, TNK-BP, Sibneft and Rosneft.

A significant and lengthy disruption of crude supply would have material adverse effects on the Group’s financial position, results of operations and liquidity. However, the management believes that based on its actions and the Group’s capital, financing and operating plans for 2005 there will be no material adverse impact on the Group of the operating difficulties being experienced by Yukos Group.

(all tabular amounts are in USD '000 and LTL '000 unless otherwise stated)

1. General information (continued)

The consolidated group

The consolidated group (hereinafter "the Group") consists of the Company and its eight subsidiaries and one associate. The subsidiaries and associate included in the Group's consolidated financial statements are indicated below:

Subsidiary / associate	Country of incorporation	Year of establishment /acquisition	Group's share (%) as at		Profile
			31 March 2005	31 December 2004	
Subsidiaries					
Uotas UAB	Lithuania	2002	100	100	Rent of petrol stations
Ventus Nafta AB	Lithuania	2002	97.52	95.2	Retail of refined oil products
Mažeikių Naftos Prekybos Namai UAB	Lithuania	2003	100	100	The Company's sales commissioner in Lithuania
Mazeikiu nafta tirdcniecibas nams SIA	Latvia	2003	100	100	Wholesale of refined oil products in Latvia
Mazeikiu nafta trading house OU	Estonia	2003	100	100	Wholesale of refined oil products in Estonia
Mazeikiu nafta trading house Sp.z.o.o.	Poland	2003	100	100	Wholesale of refined oil products in Poland
Biržietiška aibė UAB	Lithuania	1999	100	100	Bakery, food retail stores
Juodeikių nafta UAB	Lithuania	1995	60	60	Fill up of tanks with oil products
Associates					
Naftelf UAB	Lithuania	1996	34	34	Sales of aviation fuel and construction of aviation fuel storage facilities

Yukos Oil Company is the ultimate parent of the Group.

2. Summary of significant accounting policies

2.1 Basis of preparation

These March 2005 interim consolidated financial statements of Mažeikių Nafta AB are for the three months ended 31 March 2005. They have been prepared in accordance IAS 34, Interim Financial Reporting and are covered by IFRS 1, First-time Adoption of IFRS, because they are part of the period covered by the Group's first IFRS financial statements for the year ending 31 December 2005. These consolidated interim financial statements have been prepared in accordance with those IFRS standards and IFRIC interpretations issued and effective or issued and early adopted as at the time of preparing these statements (May 2005). The IFRS standards and IFRIC interpretations that will be applicable at 31 December 2005, including those that will be applicable on an optional basis, are not known with certainty at the time of preparing these consolidated interim financial statements.

The Group has elected to early adopt IFRIC 3, Emission Rights and apply it for a period beginning 1 January 2005. In addition, the Group has elected to early adopt IFRS 5, Non-current Assets Held for Sale and Discontinued Operations and apply it for a period beginning 1 January 2004.

The policies set out below have been consistently applied to all the periods presented.

(all tabular amounts are in USD '000 and LTL '000 unless otherwise stated)

2.1 Basis of preparation (continued)

Mažeikių Nafta AB consolidated financial statements were prepared in accordance with Accounting Principles Generally Accepted in the United States of America (GAAP) until 31 December 2004. GAAP differs in some areas from IFRS. In preparing Mažeikių Nafta AB 2005 consolidated interim financial statements, management has amended certain accounting and consolidation methods applied in the GAAP financial statements to comply with IFRS. The comparative figures in respect of 2004 were restated to reflect these adjustments.

Reconciliations and descriptions of the effect of the transition from GAAP to IFRS on the Group's equity and its net income and cash flows are provided in Note 5.

These consolidated interim financial statements have been prepared under the historical cost convention, as modified by the revaluation of financial assets and financial liabilities (including derivative instruments) at fair value through profit or loss.

The preparation of financial statements in accordance with IAS 34 requires the use of certain critical accounting estimates. It also requires management to exercise judgement in the process of applying the Company's accounting policies. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the consolidated interim financial statements, are disclosed in Note 4.

2.2 Consolidation

(a) Subsidiaries

Subsidiaries are all entities over which the Group has the power to govern the financial and operating policies generally accompanying a shareholding of more than one half of the voting rights. The existence and effect of potential voting rights that are currently exercisable or convertible are considered when assessing whether the Group controls another entity. Subsidiaries are fully consolidated from the date on which control is transferred to the Group. They are deconsolidated from the date on which control ceases.

The purchase method of accounting is used to account for the acquisition of subsidiaries by the Group. The cost of an acquisition is measured as the fair value of the assets given, equity instruments issued and liabilities incurred or assumed at the date of exchange, plus costs directly attributable to the acquisition. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values at the acquisition date, irrespective of the extent of any minority interest. The excess of the cost of acquisition over the fair value of the Group's share of the identifiable net assets acquired is recorded as goodwill. If the cost of acquisition is less than the fair value of the group's share of the net assets of the subsidiary acquired, the difference is recognised directly in the income statement (see Note 2.6).

Inter-company transactions, balances and unrealised gains on transactions between group companies are eliminated. Unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred. Subsidiaries' accounting policies have been changed where necessary to ensure consistency with the policies adopted by the Group.

(b) Associates

Associates are all entities over which the Group has significant influence but not control, generally accompanying a shareholding of between 20% and 50% of the voting rights. Investments in associates are accounted for by the equity method of accounting and are initially recognised at cost.

The Group's investment in associates includes goodwill (net of any accumulated impairment loss) identified on acquisition (see Note 2.6).

2.2 Consolidation (continued)

The Group’s share of its associates’ post-acquisition profits or losses is recognised in the income statement, and its share of post-acquisition movements in reserves is recognised in reserves. The cumulative post-acquisition movements are adjusted against the carrying amount of the investment. When the Group’s share of losses in an associate equals or exceeds its interest in the associate, including any other unsecured receivables, the Group does not recognise further losses, unless it has incurred obligations or made payments on behalf of the associate.

Unrealised gains on transactions between the Group and its associates are eliminated to the extent of the Group’s interest in the associates. Unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred.

2.3 Segment reporting

A business segment is a group of assets and operations engaged in providing products or services that are subject to risks and returns that are different from those of other business segments. A geographical segment is engaged in providing products or services within a particular economic environment that is subject to risks and returns that are different from those of segments operating in other economic environments.

2.4 Foreign currency translation

(a) Functional and presentation currency

Items included in the financial statements of each of the Group’s entities are measured using the currency of the primary economic environment in which the entity operates (the ‘functional currency’). The functional currency of the Company is the US dollar (USD) as a significant portion of its business is conducted in the US dollars and management uses the USD to manage business risks and exposures and to measure performance of the business.

The consolidated interim financial statements are presented in US dollars, which is the Company’s functional and presentation currency, and Lithuanian Litas (LTL) which is the Company’s presentation currency.

The financial statements of the Company, prepared in US dollars, the functional currency of the Company, are translated to presentation currency, Lithuanian Litas by using period end exchange rate for translation of assets and liabilities and average exchange rate for the period for translation of income and expenses (unless this average is not a reasonable approximation of the cumulative effect of the rates prevailing on the transaction dates, in which case income and expenses are translated at the dates of the transactions). All resulting exchange differences are recognised as cumulative translation adjustments as a separate component of equity.

From 2 February 2002 the exchange rate of the Litas has been pegged to the euro at a rate of LTL 3.4528 = EUR 1.

(b) Transactions and balances

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of foreign currency transactions and from the translation at year-end exchange rate of monetary assets and liabilities denominated in foreign currencies are recognised in the income statement, except where hedge accounting is applied as explained in Note 3.2.

(all tabular amounts are in USD '000 and LTL '000 unless otherwise stated)

2.4 Foreign currency translation (continued)

(c) Group companies

The results and financial position of all group entities (none of which has the currency of a hyperinflationary economy) that have a functional currency different from the Company's functional currency USD being a presentation currency are translated into the presentation currency as follows:

(i) assets and liabilities for each balance sheet presented are translated at the closing rate at the date of that balance sheet;

(ii) income and expenses for each income statement are translated at average exchange rates (unless this average is not a reasonable approximation of the cumulative effect of the rates prevailing on the transaction dates, in which case income and expenses are translated at the dates of the transactions); and

(iii) all resulting exchange differences are recognised as a separate component of equity (cumulative translation adjustment).

Exchange differences arising from the translation of the net investment in subsidiaries are taken to shareholders' equity on consolidation. When a subsidiary is sold, such exchange differences are recognised in the income statement as part of the gain or loss on sale.

Goodwill and fair value adjustments arising on the acquisition of a subsidiary are treated as assets and liabilities of the subsidiary and translated at the closing rate.

2.5 Property, plant and equipment

Property, plant and equipment is shown at cost less subsequent depreciation and impairment. Land is shown at cost less impairment. Pipeline fill is shown at cost less impairment. Cost includes expenditure that is directly attributable to the acquisition of the items.

Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably. All other repairs and maintenance are charged to the income statement during the financial period in which they are incurred.

Depreciation on assets, except for catalysts which are depreciated using the unit of output method, is calculated using the straight-line method to allocate the cost of each asset to its residual value over its estimated useful life, as follows:

– buildings	10-90 years
– plant and machinery	2-70 years
– other property, plant and equipment	2-32 years

Major renovations are depreciated over the remaining useful life of the related asset or to the date of the next major renovation, whichever is sooner.

The assets' residual values and useful lives are reviewed, and adjusted if appropriate, annually at each year end.

An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount (see Note 2.7).

Gains and losses on disposals are determined by comparing proceeds with carrying amount. These are included in the income statement.

(all tabular amounts are in USD '000 and LTL '000 unless otherwise stated)

2.5 Property, plant and equipment (continued)

Borrowing costs incurred for the construction of any qualifying assets are capitalised during the period of time that is required to complete and prepare the asset for its intended use. Other borrowing costs are expensed.

2.6 Intangible assets

(a) Goodwill

Goodwill represents the excess of the cost of an acquisition over the fair value of the Group's share of the net identifiable assets of the acquired subsidiary/associate at the date of acquisition. Goodwill on acquisitions of subsidiaries is included in intangible assets. Goodwill on acquisitions of associates is included in investments in associates. Goodwill is tested annually for impairment and carried at cost less accumulated impairment losses. Gains and losses on the disposal of an entity include the carrying amount of goodwill relating to the entity sold.

Goodwill is allocated to cash-generating units for the purpose of impairment testing. Each of those cash-generating units represents the Group's investment in each country of operation by each primary reporting segment (Note 2.7).

(b) Patents and licences

Patents and licences include acquired patents and costs of manufacturing technology used by the refinery. Patents and licences are recognised at cost. They have a definite useful life and are carried at cost less accumulated amortisation less impairment. Amortisation is calculated using the straight-line method to allocate the cost of patents and licences over their estimated useful lives (2-5 years).

(c) Computer software

Acquired computer software licences are capitalised on the basis of the costs incurred to acquire and bring to use the specific software. These costs are amortised over their estimated useful lives (3 years).

Costs associated with maintaining computer software programs are recognised as an expense as incurred.

(d) Allowances

Allowances include allowances issued by the Government of the Republic of Lithuania to emit certain amount of carbon dioxide. Allowances are measured initially at fair value and amortised based on the actual emissions made during the period.

2.7 Impairment of assets

Assets that have an indefinite useful life are not subject to amortisation and are tested annually for impairment and whenever events or changes in circumstance indicate that the carrying amount may not be recoverable. Assets that are subject to amortisation are tested for impairment whenever events or changes in circumstance indicate that the carrying amount may not be recoverable. An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows (cash-generating units).

2.8 Investments

The Group classifies its investments in the following categories: financial assets at fair value through profit or loss, loans and receivables, held-to-maturity investments, and available-for-sale financial assets. The classification depends on the purpose for which the investments were acquired. Management determines the classification of its investments at initial recognition and re-evaluates this designation at every reporting date.

(a) Financial assets at fair value through profit or loss

This category has two sub-categories: financial assets held for trading, and those designated at fair value through profit or loss at inception. A financial asset is classified in this category if acquired principally for the purpose of selling in the short term or if so designated by management. Derivatives are also categorised as held for trading unless they are designated as hedges. Assets in this category are classified as current if they are either held for trading or are expected to be realised within 12 months of the balance sheet date.

(b) Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market and with no intention of trading. They are included in current assets, except for maturities greater than 12 months after the balance sheet date. These are classified as non-current assets and are included in non-current receivables and prepayments in the balance sheet. Loans and receivables are included in trade and other receivables in the balance sheet (see Note 2.10).

(c) Held-to-maturity investments

Held-to-maturity investments are non-derivative financial assets with fixed or determinable payments and fixed maturities that the Group's management has the positive intention and ability to hold to maturity. The Group did not hold any investments in this category during the period.

(d) Available-for-sale financial assets

Available-for-sale financial assets are non-derivatives that are either designated in this category or not classified in any of the other categories. They are included in non-current assets unless management intends to dispose of the investment within 12 months of the balance sheet date.

Purchases and sales of investments are recognised on trade-date – the date on which the Group commits to purchase or sell the asset. Investments are initially recognised at fair value plus transaction costs for all financial assets not carried at fair value through profit or loss. Investments are derecognised when the rights to receive cash flows from the investments have expired or have been transferred and the Group has transferred substantially all risks and rewards of ownership. Available-for-sale financial assets and financial assets at fair value through profit or loss are subsequently carried at fair value. Loans and receivables and held-to-maturity investments are carried at amortised cost using the effective interest method. Realised and unrealised gains and losses arising from changes in the fair value of the 'Financial assets at fair value through profit or loss' category are included in the income statement in the period in which they arise. Unrealised gains and losses arising from changes in the fair value of non-monetary securities classified as available-for-sale are recognised in equity. When securities classified as available for sale are sold or impaired, the accumulated fair value adjustments are included in the income statement as gains and losses from investment securities.

The fair values of quoted investments are based on current bid prices. If the market for a financial asset is not active (and for unlisted securities), the Group establishes fair value by using valuation techniques. These include the use of recent arm's length transactions, reference to other instruments that are substantially the same and discounted cash flow analysis refined to reflect the issuer's specific circumstances.

(all tabular amounts are in USD '000 and LTL '000 unless otherwise stated)

2.8 Investments (continued)

The Group assesses at each balance sheet date whether there is objective evidence that a financial asset or a group of financial assets is impaired. In the case of equity securities classified as available for sale, a significant or prolonged decline in the fair value of the security below its cost is considered in determining whether the securities are impaired. If any such evidence exists for available-for-sale financial assets, the cumulative loss – measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that financial asset previously recognised in profit or loss – is removed from equity and recognised in the income statement. Impairment losses recognised in the income statement on equity instruments are not reversed through the income statement

2.9 Inventories

Inventories are stated at the lower of cost and net realisable value. Cost is determined using the first-in, first-out (FIFO) method. The cost of finished goods and work in progress comprises raw materials, direct labour, other direct costs and related production overheads (based on normal operating capacity). It excludes borrowing costs. Net realisable value is the estimated selling price in the ordinary course of business, less applicable variable selling expenses.

2.10 Trade receivables

Trade receivables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method, less provision for impairment. A provision for impairment of trade receivables is established when there is objective evidence that the Group will not be able to collect all amounts due according to the original terms of the receivables. The amount of the provision is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the effective interest rate. The amount of the provision is recognised in the income statement.

2.11 Non-current assets classified as held for sale

Non-current assets are classified as assets held for sale and stated at the lower of carrying amount and fair value less costs to sell if their carrying amount is recovered principally through a sale transaction rather than through a continuing use. The Group measures non-current assets classified as held for sale at the lower of the carrying amount and fair value less costs to sell.

The Group early adopted IFRS 5 from 1 January 2004 prospectively in accordance with the standard's provisions. Under previous GAAP the non-current assets held for sale were classified as inventory under current assets. There was no difference in measurement for non-current assets held for sale or inventory. The application of IFRS 5 does not impact on the comparatives other than a change in the presentation on the balance sheet.

2.12 Cash and cash equivalents

Cash and cash equivalents includes cash in hand, deposits held at call with banks and other short-term highly liquid investments with original maturities of three months or less.

2.13 Share capital

Ordinary shares are classified as equity.

2.14 Borrowings

Borrowings are recognised initially at fair value, net of transaction costs incurred. Borrowings are subsequently stated at amortised cost; any difference between the proceeds (net of transaction costs) and the redemption value is recognised in the income statement over the period of the borrowings using the effective interest method.

Borrowings are classified as current liabilities unless the Group has an unconditional right to defer settlement of the liability for at least 12 months after the balance sheet date.

2.15 Deferred income tax

Deferred income tax is provided in full, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the consolidated financial statements. The deferred income tax is not accounted for if it arises from initial recognition of an asset or liability in a transaction, other than a business combination, that at the time of the transaction affects neither accounting nor taxable profit or loss. Deferred income tax is determined using tax rates (and laws) that have been enacted or substantially enacted by the balance sheet date and are expected to apply when the related deferred income tax asset is realised or the deferred income tax liability is settled.

Deferred income tax assets are recognised to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilised.

2.16 Provisions

Provisions for environmental restoration, restructuring costs and legal claims are recognised when: the Group has a present legal or constructive obligation as a result of past events; it is more likely than not that an outflow of resources will be required to settle the obligation; and the amount has been reliably estimated. Provisions are not recognised for future operating losses.

Provisions are measured at the present value of management's best estimate of the expenditure required to settle the present obligation at the balance sheet date. The discount rate used to determine the present value reflects current market assessments of the time value of money and the increases specific to the liability.

2.17 Revenue recognition

Revenue comprises the fair value of the sale of goods and services, net of value-added tax, rebates and discounts and after eliminating sales within the Group. Revenue is recognised as follows:

(a) Sales of goods

Sales of goods are recognised when a Group entity has delivered products to the customer; the customer has accepted the products; and collectibility of the related receivables is reasonably assured.

(b) Sales of services

Sales of services are recognised in the accounting period in which the services are rendered, by reference to completion of the specific transaction assessed on the basis of the actual service provided as a proportion of the total services to be provided.

(c) Interest income

Interest income is recognised on a time-proportion basis using the effective interest method. When a receivable is impaired, the Group reduces the carrying amount to its recoverable amount, being the estimated future cash flow discounted at original effective interest rate of the instrument, and continues accreting the discount as interest income. Interest income on impaired loans is recognised either as cash is collected or on a cost–recovery basis as conditions warrant.

2.18 Leases – the Group is the lessee

Leases of property, plant and equipment where the Group has substantially all the risks and rewards of ownership are classified as finance leases. Finance leases are capitalised at the lease's inception at the lower of the fair value of the leased property and the present value of the minimum 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 long-term payables. The interest element of the finance cost is charged to the income statement over the lease period so as to produce a constant periodic rate of interest on the remaining balance of the liability for each period. The property, plant and equipment acquired under finance leases is depreciated over the shorter of the asset's useful life and the lease term.

Leases where the lessor retains substantially all the risks and rewards of ownership are classified as operating leases. Payments made under operating leases are charged to the income statement on a straight-line basis over the period of the lease.

2.19 Dividend distribution

Dividend distribution to the Company's shareholders is recognised as a liability in the Group's financial statements in the period in which the dividends are approved by the Company's shareholders.

2.20 Emission rights

The Group participates in a carbon dioxide cap and trade scheme. It is set a target to reduce its emissions of carbon dioxide to a specified level (the cap). The Group is issued allowances equal in number to its cap by the Government of the Republic of Lithuania. Allowances are issued free of charge. For accounting policy on allowances see Note 2.6. When allowances are issued for less than fair value, the difference between the amount paid and fair value is a government grant and is recognised as deferred income in the balance sheet and subsequently recognised as income on a systematic basis over the compliance period for which the allowances were issued.

As emissions are made, a liability is recognised for the obligation to deliver allowances equal to emissions that have been made. It is measured at the best estimate of the expenditure required to settle the present obligation at the balance sheet date.

The Group early adopted IFRIC 3 Emission Rights from 1 January 2005 prospectively in accordance with the interpretation's provisions. The application of IFRIC 3 does not impact on the comparatives because the Group entered into a carbon dioxide cap and trade scheme in 2005.

2.21 Government grants

Grants from the government are recognised at their fair value where there is a reasonable assurance that the grant will be received and the Group will comply with all attached conditions.

Government grants relating to costs are deferred and recognised in the income statement over the period necessary to match them with the costs that they are intended to compensate.

2.22 Interim measurement note

(a) Seasonality of the business

The Group's operations are not subject to significant seasonal fluctuations.

(b) Current income tax

Current income tax expense is recognised in these interim consolidated financial statements based on management's best estimates of the weighted average annual income tax rate expected for the full financial year.

(all tabular amounts are in USD '000 and LTL '000 unless otherwise stated)

2.22 Interim measurement note (continued)

(c) Costs

Costs that incur unevenly during the financial year are anticipated or deferred in the interim report only if it would also be appropriate to anticipate or defer such costs at the end of the financial year.

2.23 New accounting standards and IFRIC interpretations

Certain new accounting standards and IFRIC interpretations have been published that are mandatory for accounting periods beginning on or after 1 January 2006. The Group's assessment of the impact of these new standards and interpretations is set out below.

(a) IFRS 6, Exploration for and Evaluation of Mineral Resources

The Group does not have any exploration and evaluation assets. This standard will not affect the Group's financial statements.

(b) IFRIC 3, Emission Rights

The Group early adopted IFRIC 3 from 1 January 2005, for accounting policies see Note 2.20.

(b) IFRIC 4, Determining whether an Asset Contains a Lease

IFRIC 4 is applicable to annual periods beginning on or after 1 January 2006. The Group has not elected to adopt IFRIC 4 early. It will apply IFRIC 4 in its 2006 financial statements under the IFRIC 4 transition provisions. The Group will therefore apply IFRIC 4 on the basis of facts and circumstances that existed at 1 January 2005. Implementation of IFRIC 4 is not expected to change the accounting for any of the Group's current arrangements.

(c) IFRIC 5, Rights to Interests arising from Decommissioning, Restoration and Environmental Rehabilitation Funds

The Group does not have interests in decommissioning, restoration and environmental rehabilitation funds. This interpretation will not affect the Group's financial statements.

3. Financial risk management

3.1 Financial risk factors

The Group's activities expose it to a variety of financial risks: market risk (including foreign exchange risk and price risk), credit risk, liquidity risk, cash flow risk and fair value interest-rate risk. The Group's overall risk management programme focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on the Group's financial performance. The Group uses derivative financial instruments to hedge certain risk exposures.

Risk management is carried out by a Company's treasury department under policies approved by the Board of Directors. The Board provides written principles for overall risk management, as well as written policies covering specific areas, such as foreign exchange risk, interest-rate risk, credit risk, use of derivative financial instruments and non-derivative financial instruments, and investing excess liquidity.

3.1 Financial risk factor (continued)

(a) Market risk

(i) Foreign exchange risk

The Group operates internationally and is exposed to foreign exchange risk arising from various currency exposures, primarily with respect to the Polish zloty and Lithuanian Litas. Foreign exchange risk arises from future commercial transactions, recognised assets and liabilities and net investments in foreign operations.

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

The Group uses forward and options contracts to manage their foreign exchange risk arising from future commercial transactions, recognised assets and liabilities. Foreign exchange risk arises when future commercial transactions, recognised assets and liabilities are denominated in a currency that is not the entity's functional currency.

(ii) Price risk

The Group occasionally enters into commodity swap contracts to reduce risk relating to the price volatility.

(b) Credit risk

Financial instruments that potentially subject the Group to a concentration of credit risk consist principally of temporary cash investments and accounts receivable.

The Group restricts placement of cash investments to financial institutions evaluated as highly creditworthy.

Concentrations of customers in the oil industry may impact the Group's overall exposure to credit risk, as these customers may be similarly effected by the changes in economic conditions. The Group 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 Group beyond the provisions already established.

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 Yukos Group (Note 34). In 2003 - 2004 Yukos Group was also the major supplier of crude oil to the Group. Therefore, negative changes in relationships with Yukos Group could have an adverse impact on the operations of the Group. Management actions in order to reduce the dependency on Yukos Group are summarized in Note 1.

(c) Liquidity risk

Prudent liquidity risk management implies maintaining sufficient cash, the availability of funding through an adequate amount of committed credit facilities. The Group aims to maintain flexibility in funding by keeping committed credit lines available.

(all tabular amounts are in USD '000 and LTL '000 unless otherwise stated)

3.1 Financial risk factors (continued)

(d) Cash flow and fair value interest rate risk

The Group's income and operating cash flows are substantially independent of changes in market interest rates. The interest rates of finance leases to which the Group is lessor are fixed at inception of the lease. These leases expose the Group to fair value interest rate risk. The Group's cash flow and fair value interest rate risk arises from long-term borrowings. Borrowings issued at variable rates expose the Group to cash flow interest rate risk. Borrowings issued at fixed rates expose the Group to fair value interest rate risk.

3.2 Accounting for derivative financial instruments and hedging activities

Derivatives are initially recognised at fair value on the date a derivative contract is entered into and are subsequently remeasured at their fair value. The method of recognising the resulting gain or loss depends on whether the derivative is designated as a hedging instrument, and if so, the nature of the item being hedged. The Group designates certain derivatives as either: hedges of the fair value of recognised assets or liabilities or a firm commitment (fair value hedge); hedges of highly probable forecast transactions (cash flow hedge); or hedges of net investments in foreign operations.

The Group documents at the inception of the transaction the relationship between hedging instruments and hedged items, as well as its risk management objective and strategy for undertaking various hedge transactions. The Group also documents its assessment, both at hedge inception and on an ongoing basis, of whether the derivatives that are used in hedging transactions are highly effective in offsetting changes in fair values or cash flows of hedged items.

(a) Fair value hedge

Changes in the fair value of derivatives that are designated and qualify as fair value hedges are recorded in the income statement, together with any changes in the fair value of the hedged asset or liability that are attributable to the hedged risk.

(b) Cash flow hedge

The effective portion of changes in the fair value of derivatives that are designated and qualify as cash flow hedges are recognised in equity. The gain or loss relating to the ineffective portion is recognised immediately in the income statement.

Amounts accumulated in equity are recycled in the income statement in the periods when the hedged item will affect profit or loss (for example, when the forecast sale that is hedged takes place). However, when the forecast transaction that is hedged results in the recognition of a non-financial asset (for example, inventory) or a liability, the gains and losses previously deferred in equity are transferred from equity and included in the initial measurement of the cost of the asset or liability.

When a hedging instrument expires or is sold, or when a hedge no longer meets the criteria for hedge accounting, any cumulative gain or loss existing in equity at that time remains in equity and is recognised when the forecast transaction is ultimately recognised in the income statement. When a forecast transaction is no longer expected to occur, the cumulative gain or loss that was reported in equity is immediately transferred to the income statement.

c) Derivatives that do not qualify for hedge accounting

Certain derivative instruments do not qualify for hedge accounting. Such derivatives are classified as at fair value through profit or loss, and changes in the fair value of any derivative instruments that do not qualify for hedge accounting are recognised immediately in the income statement.

3.3 Fair value estimation

The fair value of financial instruments traded in active markets (such as publicly traded derivatives, and trading and available-for-sale securities) is based on quoted market prices at the balance sheet date. The quoted market price used for financial assets held by the Group is the current bid price; the appropriate quoted market price for financial liabilities is the current ask price.

The fair value of financial instruments that are not traded in an active market (for example, over-the-counter derivatives) is determined by using valuation techniques. The Group uses a variety of methods and makes assumptions that are based on market conditions existing at each balance sheet date. Quoted market prices or dealer quotes for similar instruments are used for long-term debt. Other techniques, such as estimated discounted cash flows, are used to determine fair value for the remaining financial instruments. The fair value of interest-rate swaps is calculated as the present value of the estimated future cash flows. The fair value of forward foreign exchange contracts is determined using forward exchange market rates at the balance sheet date.

The nominal value less estimated credit adjustments of trade receivables is assumed to approximate their fair values. The fair value of financial liabilities for disclosure purposes is estimated by discounting the future contractual cash flows at the current market interest rate that is available to the Group for similar financial instruments.

4. Critical accounting estimates and judgements

Estimates and judgements are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

4.1 Critical accounting estimates and assumptions

The Group makes estimates and assumptions concerning the future. The resulting accounting estimates will, by definition, seldom equal the related actual results. The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are discussed below.

(a) Income taxes

The Investment Agreement, signed between the OAO Yukos Oil Corporation, Yukos Finance B.V., Williams International Company, the Company and the Government of Lithuania guaranteed that starting from 29 October 1999 for a period of 10 years a portion of taxable profit of the Company utilised for investment in property, plant and equipment may be taxed at a corporate profit tax rate of 0 percent. If the Government fails to ensure for at least for a period of 10 years application of this investment credit, the Government shall be responsible for and shall indemnify and hold harmless the Company from any and all losses, liabilities and expenses incurred or sustained by the Company as a result of such failure. Uncertainties relating to the application of the provisions of Investment Agreement based on the Constitutional Court decision are described in Note 31. Deferred income tax is determined using tax rates that are expected to apply when the related deferred income tax asset is realised or the deferred income tax liability is settled. Expected tax rates are based on the Company's budgeted investment in property, plant and equipment. Where the actual capital investments differ from the estimated investment, such differences will impact the deferred tax in the period in which such differences occur. Deferred tax assets amounted to USD 579 thousand or LTL 1,542 thousand as at 31 March 2005.

(all tabular amounts are in USD ‘000 and LTL ‘000 unless otherwise stated)

5. Transition to IFRS

5.1 Basis of transition to IFRS

5.1.1 Application of IFRS 1

The Group’s financial statements for the year ending 31 December 2005 will be the first annual financial statements that comply with IFRS. These interim financial statements have been prepared as described in Note 2.1. The Group has applied IFRS 1 in preparing these consolidated interim financial statements.

The Group’s transition date is 1 January 2004. The Group prepared its opening IFRS balance sheet at that date. The reporting date of these interim consolidated financial statements is 31 March 2005. The Group’s IFRS adoption date is 1 January 2005.

In preparing these interim consolidated financial statements in accordance with IFRS 1, the Group has applied the mandatory exceptions and certain of the optional exemptions from full retrospective application of IFRS.

5.1.2 Exemptions from full retrospective application – elected by the Group

The Group has elected to apply the following optional exemptions from full retrospective application.

(a) Business combinations exemption

The Group has applied the business combinations exemption in IFRS 1. It has not restated business combinations that took place prior to the 1 January 2004 transition date.

(b) Fair value as deemed cost exemption

The Group has elected to use a previous GAAP revaluation of items of property plant and equipment acquired before 1 January 1996 as deemed cost at the date of revaluation because, in the opinion of the management, the revaluation was broadly comparable to cost or depreciated cost under IFRSs, adjusted to reflect changes in a general price index. The application of this exemption is detailed in Note 7.

(c) Employee benefits exemption

The Group does not have defined employee benefit plans; this exemption is not applicable.

(d) Cumulative translation differences exemption

The Group has not applied this exemption.

(e) Compound financial instruments exemption

The Group has not issued any compound instruments; this exemption is not applicable.

(f) Assets and liabilities of subsidiaries, associates and joint ventures exemption

This exemption is not applicable, as the use of the exemption is made at the level of the subsidiary, associate or joint venture that adopts IFRS later than its parent company.

(g) Exemption from restatement of comparatives for IAS 32 and IAS 39.

As there were no differences between previous GAAP rules to derivatives, financial assets and financial liabilities and to hedging relationships and IFRS, this exemptions is not applicable.

(all tabular amounts are in USD ‘000 and LTL ‘000 unless otherwise stated)

5.1 Basis of transition to IFRS (continued)

(h) Designation of financial assets and financial liabilities exemption

The Group reclassified various securities as available-for-sale investments and as financial assets at fair value through profit and loss.

(i) Share-based payment transaction exemption

The Group does not have share plans and share option plans, therefore this exemption is not applicable.

(j) Insurance contracts exemption

The Group does not issue insurance contracts; this exemption is not applicable.

5.1.3 Exceptions from full retrospective application followed by the Group

The Group has applied the following mandatory exceptions from retrospective application.

(a) Derecognition of financial assets and liabilities exception

Financial assets and liabilities derecognised before 1 January 2004 are not re-recognised under IFRS. The Group had no financial assets and liabilities derecognised since 1 January 2004 that do not meet the IAS 39 derecognition criteria.

(b) Hedge accounting exception

Management has claimed hedge accounting from 1 January 2004 only if the hedge relationship meets all the hedge accounting criteria under IAS 39. No differences in hedge accounting exist between previous GAAP and IFRS for the Group.

(c) Estimates exception

Estimates under IFRS at 1 January 2004 should be consistent with estimates made for the same date under previous GAAP, unless there is evidence that those estimates were in error.

(d) Assets held for sale and discontinued operations exception

Management applies IFRS 5 prospectively from 1 January 2004, see Note 2.11.

(all tabular amounts are in USD '000 and LTL '000 unless otherwise stated)

5.2 Reconciliations between IFRS and GAAP

The following reconciliations provide a quantification of the effect of the transition to IFRS. The below reconciliations provide an overview of the impact on equity of the transition at 1 January 2004, 31 March 2004 and 31 December 2004 and impact on the balance sheet as at 31 December 2004. There was no effect on the income statement of the transition to IFRS.

5.2.1 Summary of the effect of the transition to IFRS on equity

USD

	Note	Attributable to equity holders of the Company						Minority interest	Total equity
		Share capital	Share premium	Revaluation reserve	Fair value reserve	Cumulative translation adjustment	Retained earnings		
Balance at 1 January 2004									
Under previous GAAP		181,366	216,986	109	12	3,286	(231,212)	906	171,453
Restatement of increase in share premium	5.2.2	-	(129,373)	-	-	-	129,373	-	-
Under IFRS		181,366	87,613	109	12	3,286	(101,839)	906	171,453
Balance at 31 March 2004									
Under previous GAAP		181,366	216,986	109	(433)	2,918	(193,280)	811	208,477
Restatement of increase in share premium	5.2.2	-	(129,373)	-	-	-	129,373	-	-
Under IFRS		181,366	87,613	109	(433)	2,918	(63,907)	811	208,477
Balance at 31 December 2004									
Under previous GAAP		181,366	216,986	109	-	4,344	29,891	686	433,382
Restatement of increase in share premium	5.2.2	-	(129,373)	-	-	-	129,373	-	-
Increase in retained earnings by decreasing share premium	5.2.2	-	(14,861)	-	-	-	14,861	-	-
Under IFRS		181,366	72,752	109	-	4,344	174,125	686	433,382

(all tabular amounts are in USD '000 and LTL '000 unless otherwise stated)

5.2.1 Summary of the effect of the transition to IFRS on equity (continued)

LTL

	Note	Attributable to equity holders of the Company						Minority interest	Total equity
		Share capital	Share premium	Revaluation reserve	Fair value reserve	Cumulative translation adjustment	Retained earnings		
Balance at 1 January 2004									
Under previous GAAP		707,454	859,979	437	35	(114,802)	(982,033)	2,502	473,572
Restatement of increase in share premium	5.2.2	-	(517,495)	-	-	-	517,495	-	-
Under IFRS		707,454	342,484	437	35	(114,802)	(464,538)	2,502	473,572
Balance at 31 March 2004									
Under previous GAAP		707,454	859,979	437	(1,225)	(100,993)	(877,817)	2,296	590,131
Restatement of increase in share premium	5.2.2	-	(517,495)	-	-	-	517,495	-	-
Under IFRS		707,454	342,484	437	(1,225)	(100,993)	(360,322)	2,296	590,131
Balance at 31 December 2004									
Under previous GAAP		707,454	859,979	437	-	(211,052)	(260,150)	1,739	1,098,407
Restatement of increase in share premium	5.2.2	-	(517,495)	-	-	-	517,495	-	-
Increase in retained earnings by decreasing share premium	5.2.2	-	(59,444)	-	-	-	59,444	-	-
Under IFRS		707,454	283,040	437	-	(211,052)	316,789	1,739	1,098,407

5.2.2 Explanation of the effect on equity of the transition to IFRS

During 2002 the share premium of the Company and the accumulated retained loss was subject to a statutory reduction amounting to USD 129,373 thousand (LTL 517,495 thousand). Under previous GAAP this reduction was not recognised. Under IFRS the reduction in the share premium was recognized as at 1 January 2004 by decreasing share premium and retained loss by USD 129,373 thousand (LTL 517,495 thousand).

In 2004 according to the resolution of the Company's shareholders share premium was reduced and retained earnings were increased by USD 14,861 thousand (LTL 59,444 thousand). Under previous GAAP this reduction was not recognised. Under IFRS the reduction in the share premium was recognized in 2004 by decreasing share premium and increasing retained earnings by USD 14,861 thousand (LTL 59,444 thousand).

(all tabular amounts are in USD ‘000 and LTL ‘000 unless otherwise stated)

5.2.3 Summary of the effect of the transition to IFRS on the balance sheet

	Note	At 31 December 2004 USD			At 31 December 2004 LTL		
ASSETS		**GAAP**	**Effect of transition to IFRS**	**IFRS**	**GAAP**	**Effect of transition to IFRS**	**IFRS**
Non-current assets							
Property, plant and equipment	5.2.4 (a)	501,629	(3,818)	497,811	1,271,379	(9,677)	1,261,702
Intangible assets	5.2.4 (b)	4,812	(126)	4,686	12,197	(320)	11,877
Investment in associates		1,336	-	1,336	3,386	-	3,386
Deferred income tax assets		-	13	13	-	33	33
Available-for-sale financial assets		20	-	20	51	-	51
Non-current receivables and prepayments	5.2.4 (c)	5,578	3,944	9,522	14,138	9,997	24,135
Non-current portion of restricted cash	5.2.4 (d)	11,205	(11,205)	-	28,399	(28,399)	-
		524,580	(11,192)	513,388	1,329,550	(28,366)	1,301,184
Current assets							
Inventories		194,113	(267)	193,846	491,979	(677)	491,302
Trade and other receivables		136,102	-	136,102	344,952	-	344,952
Prepaid current income tax		66	-	66	168	-	168
Current portion of deferred income tax asset		13	(13)	-	33	(33)	-
Cash and cash equivalents	5.2.4 (d)	382,514	11,205	393,719	969,482	28,399	997,881
		712,808	10,925	723,733	1,806,614	27,689	1,834,303
Non-current assets classified as held for sale		-	267	267	-	677	677
		712,808	11,192	724,000	1,806,614	28,366	1,834,980
Total assets		1,237,388	-	1,237,388	3,136,164	-	3,136,164
EQUITY							
Capital and reserves attributable to the Company’s equity holders							
Share capital		181,366	-	181,366	707,454	-	707,454
Share premium	5.2.2	216,986	(144,234)	72,752	859,979	(576,939)	283,040
Reserves		109	-	109	437	-	437
Cumulative translation adjustment		4,344	-	4,344	(211,052)	-	(211,052)
Retained earnings	5.2.2	29,891	144,234	174,125	(260 150)	576,939	316,789
		432,696	-	432,696	1,096,668	-	1,096,668
Minority interest		686	-	686	1,739	-	1,739
Total equity		433,382	-	433,382	1,098,407	-	1,098,407
LIABILITIES							
Non-current liabilities							
Borrowings		465,916	-	465,916	1,180,865	-	1,180,865
Other non-current liabilities		4,985	-	4,985	12,634	-	12,634
		470,901	-	470,901	1,193,499	-	1,193,499
Current liabilities							
Trade and other payables		264,966	-	264,966	671,561	-	671,561
Current income tax liabilities		53,286	-	53,286	135,053	-	135,053
Borrowings		11,953	-	11,953	30,294	-	30,294
Provisions		2,900	-	2,900	7,350	-	7,350
		333,105	-	333,105	844,258	-	844,258
Total liabilities		804,006	-	804,006	2,037,757	-	2,037,757
Total equity and liabilities		1,237,388	-	1,237,388	3,136,164	-	3,136,164

(all tabular amounts are in USD '000 and LTL '000 unless otherwise stated)

5.2.4 Explanation of the effect on the balance sheet of the transition to IFRS

The following explains the material adjustments to the balance sheet

(a) Property, plant and equipment

	USD	LTL
Reclassification of software to intangible assets	(3,436)	(8,709)
Reclassification of prepayments for PPE to non-current receivables and prepayments	(382)	(968)
Total impact – decrease in PPE	(3,818)	(9,677)

(b) Intangible assets

	USD	LTL
Reclassification of software from PPE	3,436	8,709
Reclassification of prepayments for intangible assets	(3,562)	(9,029)
Total impact – decrease in intangible assets	(126)	(320)

(c) Non-current receivables and prepayments

	USD	LTL
Reclassification of prepayments from PPE	382	968
Reclassification of prepayments from intangible assets	3,562	9,029
Total impact – increase in non-current receivables and prepayments	3,944	9,997

(d) Non-current portion of restricted cash

	USD	LTL
Reclassification of non-current portion of restricted cash to cash and cash equivalents	(11,205)	(28,399)
Total impact – decrease in non-current portion of restricted cash	(11,205)	(28,399)

Restricted cash under GAAP represented cash received from Yukos Oil Company under a loan agreement for financing of the oil refinery modernisation project. This loan was refinanced by Vilniaus Bankas AB, but the same restrictions applied. Under IFRS the cash balance was reclassified to cash and cash equivalents balance under current assets.

(all tabular amounts are in USD '000 and LTL '000 unless otherwise stated)

5.2.5 Reconciliation of cash flows for the three months ended 31 March 2004

	Note	Three months ended 31 March 2004 USD			Three months ended 31 March 2004 LTL		
		GAAP	Effect of transition to IFRS	IFRS	GAAP	Effect of transition to IFRS	IFRS
Cash flows from operating activities							
Cash generated from operations		42,962	69	43,031	118,337	191	118,528
Interest paid		(7,033)	-	(7,033)	(19,477)	-	(19,477)
Net cash generated from operating activities		35,929	69	35,998	98,860	191	99,051
Cash flows from investing activities							
Purchases of property, plant and equipment (PPE)		(7,315)	-	(7,315)	(21,102)	-	(21,102)
Proceeds from sale of PPE		8	-	8	-	-	-
Interest received		325	-	325	900	-	900
Net cash used in investing activities		(6,982)	-	(6,982)	(20,202)	-	(20,202)
Cash flows from financing activities							
Proceeds from borrowings		2,282	(2,282)	-	6,296	(6,296)	-
Repayments of borrowings		(2,975)	-	(2,975)	(8,084)	-	(8,084)
Finance lease principal payments		(94)	-	(94)	(259)	-	(259)
Change in long-term accounts receivable		69	(69)	-	191	(191)	-
Net cash used in financing activities		(718)	(2,351)	(3,069)	(1,856)	(6,487)	(8,343)
Net increase in cash and bank overdrafts		28,229	(2,282)	25,947	76,802	(6,296)	70,506
Cash and bank overdrafts at beginning of period		132,355	(163)	132,192	365,578	(450)	365,128
Exchange gains/(losses) on cash and bank overdrafts		(103)	43	(60)	11,892	(54)	11,838
Cash and bank overdrafts at end of period		160,481	(2,402)	158,079	454,272	(6,800)	447,472

The main IFRS transition effect presented by the Group in its statement of cash flow for the three months ended 31 March 2004, was:

- under GAAP, borrowings included 'Bank overdrafts'. 'Bank overdrafts' under IFRS should be classified as part of 'Cash and cash equivalents' because they form an integral part of the entity's cash management.

(all tabular amounts are in USD '000 and LTL '000 unless otherwise stated)

6. Segment information

(a) Primary reporting format – business segments

The Group 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 Group 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 Group owns approximately 30 petrol stations in Lithuania.

The Group allocates costs between segments directly.

The segment results for the three months ended 31 March 2005 are as follows:

USD

	Oil refinery	Oil terminal	Pipeline	Petrol stations	Other	Group
Total gross segment sales	823,416	5,637	6,191	5,259	256	840,759
Inter-segment sales	(2,451)	-	-	-	(256)	(2,707)
Sales	820,965	5,637	6,191	5,259	-	838,052
Operating profit	90,898	(533)	3,723	582	(341)	94,329
Finance costs – net	(6,370)	(2,422)	13	(114)	-	(8,893)
Share of profit of associates (Note 9)	26	-	-	-	-	26
Profit before income tax	84,554	(2,955)	3,736	468	(341)	85,462
Income tax expense						(11,607)
Profit for the period						73,855

LTL

	Oil refinery	Oil terminal	Pipeline	Petrol stations	Other	Group
Total gross segment sales	2,164,103	14,815	16,271	13,822	673	2,209,684
Inter-segment sales	(6,442)	-	-	-	(673)	(7,115)
Sales	2,157,661	14,815	16,271	13,822	-	2,202,569
Operating profit	238,897	(1,400)	9,784	1,531	(896)	247,916
Finance costs – net	(16,738)	(6,366)	34	(300)	-	(23,370)
Share of profit of associates (Note 9)	68	-	-	-	-	68
Profit before income tax	222,227	(7,766)	9,818	1,231	(896)	224,614
Income tax expense						(30,506)
Profit for the period						194,108

(all tabular amounts are in USD '000 and LTL '000 unless otherwise stated)

6. Segment information (continued)

The segment results for the three months ended 31 March 2004 are as follows:

USD

	Oil refinery	Oil terminal	Pipeline	Petrol stations	Other	Group
Total gross segment sales	528,598	13,604	8,323	3,733	309	554,567
Inter-segment sales	(1,664)	-	-	-	(187)	(1,851)
Sales	526,934	13,604	8,323	3,733	122	552,716
Operating profit	34,412	8,006	5,132	(516)	(130)	46,904
Finance costs – net	(5,675)	(2,527)	7	(287)	-	(8,482)
Share of profit of associates (Note 9)	(19)	-	-	-	-	(19)
Profit before income tax	28,718	5,479	5,139	(803)	(130)	38,403
Income tax expense						(550)
Profit for the period						37,853

LTL

	Oil refinery	Oil terminal	Pipeline	Petrol stations	Other	Group
Total gross segment sales	1,459,121	37,552	22,974	10,304	853	1,530,804
Inter-segment sales	(4,593)	-	-	-	(516)	(5,109)
Sales	1,454,528	37,552	22,974	10,304	337	1,525,695
Operating profit	94,689	22,028	14,120	(1,420)	(358)	129,059
Finance costs – net	(15,716)	(6,998)	19	(795)	-	(23,490)
Share of loss of associates (Note 9)	(52)	-	-	-	-	(52)
Profit before income tax	78,921	15,030	14,139	(2,215)	(358)	105,517
Income tax expense						(1,519)
Profit for the period						103,998

Other segment items included in the income statement are as follows:

USD	**Three months ended 31 March 2005**					
	Oil refinery	Oil terminal	Pipeline	Petrol stations	Other	Group
Depreciation (Note 7)	5,937	2,200	781	708	40	9,666
Amortisation (Note 8)	5,873	10	-	12	-	5,895
Reversal of impairment loss (Note 7)	-	-	-	1,287	-	1,287

LTL	**Three months ended 31 March 2005**					
	Oil refinery	Oil terminal	Pipeline	Petrol stations	Other	Group
Depreciation (Note 7)	15,603	5,782	2,053	1,861	106	25,405
Amortisation (Note 8)	15,435	26	-	32	-	15,493
Reversal of impairment loss (Note 7)	-	-	-	3,382	-	3,382

USD	**Three months ended 31 March 2004**					
	Oil refinery	Oil terminal	Pipeline	Petrol stations	Other	Group
Depreciation	5,989	1,761	1,121	451	46	9,368
Amortisation	318	3	-	3	-	324

LTL	**Three months ended 31 March 2004**					
	Oil refinery	Oil terminal	Pipeline	Petrol stations	Other	Group
Depreciation	16,537	4,862	3,095	1,245	127	25,866
Amortisation	878	8	-	8	-	894

(all tabular amounts are in USD '000 and LTL '000 unless otherwise stated)

6. Segment information (continued)

Inter-segment transfers or transactions are entered into under the normal commercial terms and conditions that would also be available to unrelated third parties.

The segment assets and liabilities at 31 March 2005 and capital expenditure for the three months then ended are as follows:

USD

	Oil refinery	Oil terminal	Pipeline	Petrol stations	Other	Unallocated	Group
Assets	1,201,714	221,432	17,155	29,493	918	644	1,471,356
Associates	1,297	-	-	-	-	-	1,297
Total assets	1,203,011	221,432	17,155	29,493	918	644	1,472,653
Liabilities	831,237	30,370	827	7,607	123	95,615	965,779
Capital expenditure (Notes 7 and 8)	89,109	1	79	564	22	-	89,775

LTL

	Oil refinery	Oil terminal	Pipeline	Petrol stations	Other	Unallocated	Group
Assets	3,201,968	590,006	45,710	78,584	2,446	1,716	3,920,430
Associates	3,456	-	-	-	-	-	3,456
Total assets	3,205,424	590,006	45,710	78,584	2,446	1,716	3,923,886
Liabilities	2,214,832	80,921	2,204	20,269	328	254,767	2,573,321
Capital expenditure (Notes 7 and 8)	234,196	3	208	1,482	58	-	235,947

The segment assets and liabilities at 31 December 2004 and capital expenditure for the three months ended at 31 March 2004 are as follows:

USD

	Oil refinery	Oil terminal	Pipeline	Petrol stations	Other	Unallocated	Group
Assets	968,958	224,131	17,665	24,251	948	99	1,236,052
Associates	1,336	-	-	-	-	-	1,336
Total assets	970,294	224,131	17,665	24,251	948	99	1,237,388
Liabilities	664,426	33,196	539	8,419	95	97,331	804,006
Capital expenditure	3,189	2,069	-	65	5	-	5,328

LTL

	Oil refinery	Oil terminal	Pipeline	Petrol stations	Other	Unallocated	Group
Assets	2,455,826	568,061	44,772	61,464	2,403	252	3,132,778
Associates	3,386	-	-	-	-	-	3,386
Total assets	2,459,212	568,061	44,772	61,464	2,403	252	3,136,164
Liabilities	1,683,991	84,135	1,366	21,338	241	246,686	2,037,757
Capital expenditure	9,361	5,724	-	169	15	-	15,269

Segment assets consist primarily of property, plant and equipment, intangible assets, inventories, receivables and operating cash. They exclude deferred taxation, prepaid income tax and available-for-sale financial assets.

Segment liabilities comprise operating liabilities. They exclude items such as income tax and other taxation.

Capital expenditure comprises additions to property, plant and equipment (Note 7) and intangible assets (Note 8)

(all tabular amounts are in USD '000 and LTL '000 unless otherwise stated)

6. Segment information (continued)

(b) Secondary reporting format – geographical segments

The home-country of the Company – which is also the main operating company – is Lithuania.

	Three months ended 31 March 2005		Three months ended 31 March 2004	
Sales	**USD**	**LTL**	**USD**	**LTL**
Singapore	505,984	1,329,828	-	-
Lithuania	140,191	368,450	86,074	237,595
Estonia	48,519	127,518	23,108	63,786
Latvia	44,366	116,603	28,758	79,382
Switzerland	42,254	111,052	355,640	981,694
Poland	34,063	89,524	20,971	57,888
Russia	7,213	18,957	19,530	53,910
Ukraine	4,779	12,560	3,960	10,931
Austria	4,732	12,437	2,428	6,702
Other countries	5,951	15,640	12,247	33,807
	838,052	2,202,569	552,716	1,525,695

Sales are allocated based on the country in which the customer or commissioner is located.

Sales through sales commissioner Petroval PTE Ltd., a related party (Note 34), comprised 60 percent of total sales during the three month period ended 31 March 2005 (March 2004: nil) and were reported as sales to Singapore. The commissioner made the majority of sales to the Western Europe and USA.

In 2004 sales were made through sales commissioner Petroval SA, a related party (Note 34) and comprised 60 percent of total sales during the three month period ended 31 March 2004 (March 2005: 5 percent). These sales were reported as sales to Switzerland. The commissioner made the majority of sales to the Western Europe and USA.

	At 31 March 2005		At 31 December 2004	
Total assets	**USD**	**LTL**	**USD**	**LTL**
Lithuania	1,406,256	3,746,971	1,172,605	2,971,970
Other countries	64,456	171,743	63,348	160,556
	1,470,712	3,918,714	1,235,953	3,132,526
Associates (Note 9)	1,297	3,456	1,336	3,386
	1,472,009	3,922,170	1,237,289	3,135,912

Total assets are allocated based on where the assets are located.

	Three months ended 31 March 2005		Three months ended 31 March 2004	
Capital expenditure	**USD**	**LTL**	**USD**	**LTL**
Lithuania	89,764	235,918	5,298	15,182
Other countries	11	29	30	87
	89,775	235,947	5,328	15,269

Capital expenditure is allocated based on where the assets are located.

(all tabular amounts are in USD '000 and LTL '000 unless otherwise stated)

7. Property, plant and equipment

USD

	Land & buildings	Plant and machinery	Other property, plant and equipment	Construction in progress	Total
At 1 January 2005					
Cost	86,464	669,771	75,100	17,829	849,164
Accumulated depreciation and impairment	(30,817)	(290,689)	(29,847)	-	(351,353)
Net book amount	55,647	379,082	45,253	17,829	497,811
Three months ended 31 March 2005					
Opening net amount at 1 January 2005	55,647	379,082	45,253	17,829	497,811
Exchange differences	(548)	(368)	(134)	(13)	(1,063)
Additions	135	152	10	12,018	12,315
Retirements	(41)	-	(3)	(101)	(145)
Reclassifications	664	(108)	591	(1,147)	-
Reversal of impairment charge	1,287	-	-	-	1,287
Depreciation charge	(595)	(7,322)	(1,749)	-	(9,666)
Closing net amount at 31 March 2005	56,549	371,436	43,968	28,586	500,539
At 31 March 2005					
Cost	84,459	669,090	75,239	28,586	857,374
Accumulated depreciation and impairment	(27,910)	(297,654)	(31,271)	-	(356,835)
Net book amount	56,549	371,436	43,968	28,586	500,539

(all tabular amounts are in USD '000 and LTL '000 unless otherwise stated)

7. Property, plant and equipment (continued)

LTL

	Land & buildings	Plant & machinery	Other property, plant and equipment	Construction in progress	Total
At 1 January 2005					
Cost	219,143	1,697,535	190,341	45,187	2,152,206
Accumulated depreciation and impairment	(78,106)	(736,751)	(75,647)	-	(890,504)
Net book amount	141,037	960,784	114,694	45,187	1,261,702
Three months ended 31 March 2005					
Opening net amount at 1 January 2005	141,037	960,784	114,694	45,187	1,261,702
Exchange differences	5,826	48,003	5,484	2,715	62,028
Additions	355	399	26	31,586	32,366
Retirements	(109)	-	(8)	(269)	(386)
Reclassifications	1,748	(251)	1,554	(3,051)	-
Reversal of impairment charge	3,382	-	-	-	3,382
Depreciation charge	(1,564)	(19,244)	(4,597)	-	(25,405)
Closing net amount at 31 March 2005	150,675	989,691	117,153	76,168	1,333,687
At 31 March 2005					
Cost	225,041	1,782,790	200,475	76,168	2,284,474
Accumulated depreciation and impairment	(74,366)	(793,099)	(83,322)	-	(950,787)
Net book amount	150,675	989,691	117,153	76,168	1,333,687

The management has applied the fair value as deemed cost exemption in respect of the property, plant and equipment acquired before 1 January 1996 and adjusted for indexation, using the indexation rates set by the Lithuanian Government for the different asset categories. In the opinion of the management, the revaluation was broadly comparable to cost or depreciated cost under IFRSs, adjusted to reflect changes in a general price index.

Reversal of impairment loss of USD 1,287 thousand or LTL 3,382 thousand is included in administrative expenses in the income statement.

Depreciation expense has been allocated as follows:

	At 31 March 2005		At 31 December 2004	
	USD	LTL	USD	LTL
Cost of goods sold	7,754	20,379	7,643	21,103
Selling and marketing costs	520	1,367	690	1,905
Administrative expenses	1,392	3,659	1,035	2,858
	9,666	25,405	9,368	25,866

Bank borrowings are secured on land and buildings for the net book value of USD 13,176 thousand or LTL 35,107 thousand (December 2004: USD 21,325 thousand or LTL 54,048 thousand) (Note 20).

No borrowing costs were capitalised during the three month period ended 31 March 2005 and the year ended 31 December 2004.

(all tabular amounts are in USD ‘000 and LTL ‘000 unless otherwise stated)

7. Property, plant and equipment (continued)

The net book value of leased assets included in the table above, where the Group is a lessee under a finance lease:

	At 31 March 2005		At 31 December 2004	
	USD	LTL	USD	LTL
Land and building	1,153	3,073	713	1,807
Plant and machinery	537	1,430	862	2,185
Other PPE	36	96	40	101
	1,726	4,599	1,615	4,093

8. Intangible assets

USD

	Software	Patents & licences	Allowances	Subtotal	Goodwill	Total
At 1 January 2005						
Cost	7,952	6,057	-	14,009	-	14,009
Accumulated amortisation	(4,516)	(4,807)	-	(9,323)	-	(9,323)
Net book amount	3,436	1,250	-	4,686	-	4,686
Three months ended 31 March 2005						
Opening net amount at 1 January 2005	3,436	1,250	-	4,686	-	4,686
Exchange differences	(6)	-	-	(6)	-	(6)
Additions	135	-	76,881	77,016	444	77,460
Amortisation charge	(236)	(102)	(5,557)	(5,895)	-	(5,895)
Closing net amount at 31 March 2005	3,329	1,148	71,324	75,801	444	76,245
At 31 March 2005						
Cost	8,044	6,057	76,881	90,982	444	91,426
Accumulated amortisation	(4,715)	(4,909)	(5,557)	(15,181)	-	(15,181)
Net book amount	3,329	1,148	71,324	75,801	444	76,245

(all tabular amounts are in USD '000 and LTL '000 unless otherwise stated)

8. Intangible assets

LTL	Software	Patents & licences	Allowances	Subtotal	Goodwill	Total
At 1 January 2005						
Cost	20,154	15,352	-	35,506	-	35,506
Accumulated amortisation	(11,446)	(12,183)	-	(23,629)	-	(23,629)
Net book amount	8,708	3,169	-	11,877	-	11,877
Three months ended 31 March 2005						
Opening net amount at 1 January 2005	8,708	3,169	-	11,877	-	11,877
Exchange differences	427	158	2,588	3,173	16	3,189
Additions	355	-	202,059	202,414	1,167	203,581
Amortisation charge	(620)	(268)	(14,605)	(15,493)	-	(15,493)
Closing net amount at 31 March 2005	8,870	3,059	190,042	201,971	1,183	203,154
At 31 March 2005						
Cost	21,433	16,139	204,849	242,421	1,183	243,604
Accumulated amortisation	(12,563)	(13,080)	(14,807)	(40,450)	-	(40,450)
Net book amount	8,870	3,059	190,042	201,971	1,183	203,154

Amortisation expense has been allocated as follows:

	At 31 March 2005		At 31 December 2004	
	USD	LTL	USD	LTL
Cost of goods sold	5,674	14,912	104	287
Selling and marketing costs	14	37	3	8
Administrative expenses	207	544	217	599
	5,895	15,493	324	894

Goodwill is allocated to the Group's cash-generating units (CGUs) identified according to country of operation and business segment. All goodwill amounting to USD 444 thousand or LTL 1,183 thousand as at 31 March 2005 was allocated to the petrol stations business segment and the Lithuania geographical segment. The Group tests goodwill for impairment annually at 31 December.

The Group does not have internally generated intangible assets.

Allowances represent allowances issued by the Government of the Republic of Lithuania to the Group to emit 6,622,887 tons of carbon dioxide in 2005 – 2007. They were measured initially at fair value and are amortised based on the actual emissions made during the 3 years period.

9. Investments in associates

	USD	LTL
At 1 January 2004	1,391	3,842
Share of (loss) after tax	(19)	(52)
Exchange differences	(34)	(3)
At 31 March 2004	1,338	3,787
Share of (loss) after tax	(144)	(401)
Exchange differences	142	-
At 1 January 2005	1,336	3,386
Share of profit after tax	26	68
Exchange differences	(65)	2
At 31 March 2005	1,297	3,456

Investments in associates represent investment in a 34% interest held in Naftelf UAB, incorporated in Lithuania.

(all tabular amounts are in USD '000 and LTL '000 unless otherwise stated)

9. Investments in associates (continued)

The summarised financial information of the associate which is unlisted is as follows:

	At 31 March 2005		At 31 December 2004	
	USD	LTL	USD	LTL
Assets	4,490	11,965	4,940	12,521
Liabilities	664	1,770	987	2,501

	Three months ended 31 March 2005		Three months ended 31 March 2004	
	USD	LTL	USD	LTL
Revenues	4,179	10,983	1,605	4,433
Profit/(loss)	67	176	(57)	(158)

10. Non-current receivables and prepayments

	31 March 2005		31 December 2004	
	USD	LTL	USD	LTL
Trade receivables	2,426	6,463	2,899	7,346
Less provision for impairment of receivables	(1,566)	(4,174)	(1,683)	(4,266)
Trade receivables – net	860	2,289	1,216	3,080
Prepayments for PPE and intangible assets	4,248	11,319	3,944	9,997
Prepayment for real estate tax	3,500	9,327	4,469	11,326
Loans to employees	307	818	334	847
Other non-current receivables	131	351	151	384
Discounting effect	(490)	(1,306)	(592)	(1,499)
	8,556	22,798	9,522	24,135

All non-current receivables are due within five years from the balance sheet date. The fair values of non-current receivables and prepayments approximate their carrying values.

11. Inventories

	31 March 2005		31 December 2004	
	USD	LTL	USD	LTL
Raw and supplementary materials (at cost)	32,339	86,164	64,774	164,170
Raw and supplementary materials (at net realisable value)	921	2,457	-	-
Finished goods and goods for resale (at cost)	122,520	326,454	96,008	243,331
Finished goods and goods for resale (at net realisable value)	784	2,090	644	1,632
Semi-finished goods (at cost)	12,211	32,537	6,319	16,015
Semi-finished goods (at net realisable value)	6,835	18,210	6,182	15,669
Spare parts and other (at cost)	20,000	53,290	19,919	50,485
	195,610	521,202	193,846	491,302

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.

(all tabular amounts are in USD '000 and LTL '000 unless otherwise stated)

12. Trade and other receivables

	31 March 2005		31 December 2004	
	USD	LTL	USD	LTL
Trade receivables	57,139	152,247	67,520	171,130
Less provision for impairment of receivables	(15,948)	(42,493)	(17,135)	(43,429)
Trade receivables – net	41,191	109,754	50,385	127,701
Receivables from related parties (Note 34)	106,639	284,140	72,321	183,298
Prepaid and recoverable taxes	3,098	8,253	5,401	13,688
Accrued income and deferred charges	4,492	11,969	6,272	15,897
Other receivables	1,160	3,093	1,723	4,368
	156,580	417,209	136,102	344,952

The fair values of trade and other receivables approximate their carrying values.

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, an entity related to Yukos Group. Trade receivables from Petroval PTE amounted to USD 106,022 thousand or LTL 282,494 thousand as at 31 March 2005. Negative changes in relationships with Yukos Group could have an adverse impact on the recoverability of receivables. The management believes that all receivables outstanding will be collected.

13. Derivative financial instruments

Derivative financial instruments comprise forward foreign exchange contracts. As at 31 March 2005 the fair value of the Company's foreign currency derivatives was USD 113 thousand or LTL 301 thousand (December 2004: nil) and notional amount of PLN put options amounted to PLN 7,160 thousand (December 2004: PLN 23,500 thousand).

14. Cash and cash equivalents

	31 March 2005		31 December 2004	
	USD	LTL	USD	LTL
Cash at bank and in hand	411,257	1,095,794	253,525	642,693
Short-term bank deposits	121,577	323,943	140,194	355,188
	532,834	1,419,737	393,719	997,881

The effective interest rate on short-term bank deposits was 2.81% (December 2004: 2.55 %). These deposits have an average maturity of 39 days.

Cash at bank required to be maintained under the terms of letters of credits issued for settlements with suppliers is presented below:

	31 March 2005		31 December 2004	
	USD	LTL	USD	LTL
Cash held at banks to secure issued letters of credit	302,983	807,298	178,606	452,677

(all tabular amounts are in USD '000 and LTL '000 unless otherwise stated)

14. Cash and cash equivalents (continued)

Cash in the amount of USD 1,079 thousand or LTL 2,875 thousand (December 2004: USD 11,205 thousand or LTL 28,399 thousand) was received from Yukos Oil Company under a loan agreement. These funds can be used only for financing of the oil refinery modernization project. In July 2003, this loan was refinanced by Vilniaus Bankas AB, but the same restrictions apply.

Cash and bank overdrafts include the following for the purposes of the cash flow statement:

	31 March 2005		31 December 2004	
	USD	LTL	USD	LTL
Cash and cash equivalents	532,834	1,419,737	393,719	997,881
Bank overdrafts (Note 20)	-	-	(80)	(200)
	532,834	1,419,737	393,639	997,681

15. Non-current assets classified as held for sale

Non-current assets classified as held for sale comprise property, plant and equipment included in petrol stations segment assets which the Group plans to sell in 2005.

16. Share capital

As at 31 March 2005, the Company's authorised share capital comprised 707,454,130 (December 2004: 707,454,130) ordinary registered shares with a par value of LTL 1 per share. All issued shares are fully paid.

17. Reserves

As a result of revaluation of property, plant and equipment performed in 1992 - 1996 using the indexation rates established by the Government of the Republic of Lithuania, the revaluation reserve of USD 115,090 thousand or LTL 460,360 thousand was formed. The Company increased share capital by transferring USD 114,981 thousand or LTL 452,923 thousand from revaluation reserve into the share capital. As at 31 March 2005 the remaining balance of revaluation reserve amounted to USD 109 thousand or LTL 437 thousand (December 2004: USD 109 thousand or LTL 437 thousand).

18. Other non-current liabilities

	31 March 2005		31 December 2004	
	USD	LTL	USD	LTL
Non-current portion of deferred income	48,793	130,009	-	-
Government grant relating to purchases of PPE	4,980	13,269	4,985	12,634
	53,773	143,278	4,985	12,634

(all tabular amounts are in USD ‘000 and LTL ‘000 unless otherwise stated)

18. Other non-current liabilities (continued)

The non-current portion of deferred income amounting to USD 48,793 thousand or LTL 130,009 thousand as at 31 March 2005 represents allowances issued to the Group by the Government of the Republic of Lithuania for emission of 6,622,887 tons of carbon dioxide during the period 2005 – 2007. Allowances were issued free of charge and were treated by the Group as a government grant and recorded at fair value. Deferred income is recognised as income based on actual emissions over the compliance period for which the allowances were issued. The current portion of deferred income amounted to USD 22,470 thousand or LTL 59,871 thousand as at 31 March 2005 and was recorded under trade and other payables (Note 19).

Government grant relating to purchases of PPE includes financing of USD 4,963 thousand or LTL 13,223 thousand (December 2004: USD 4,963 thousand or LTL 12,579 thousand) received from the Government of Lithuania for construction of apartment blocks for Russian citizens in Vsevolotzk, St. Petersburg. The Government of Lithuania fully financed the construction of these apartment blocks as a part of an agreement to enable Russian citizens (former employees of Oil refinery) to move from Lithuania back to Russia. The construction was completed in 1998 and the buildings with a carrying value of USD 4,963 thousand were included within other PPE balance in property, plant and equipment of the Group. Subsidies will be netted off against property, plant and equipment after an appropriate decision is taken by the Government of Lithuania supporting this course of action.

19. Trade and other payables

	31 March 2005		31 December 2004	
	USD	LTL	USD	LTL
Trade payables	283,055	754,200	136,296	345,442
Amounts due to related parties (Note 34)	12,912	34,404	75,159	190,490
Advances received	1,920	5,116	1,897	4,808
Accruals and deferred income	36,721	97,843	4,864	12,328
Social security and other taxes	34,429	91,736	45,735	115,915
Other current liabilities	2,834	7,553	1,015	2,578
	371,871	990,852	264,966	671,561

20. Borrowings

	31 March 2005		31 December 2004	
	USD	LTL	USD	LTL
Non-current				
Bank borrowings	173,575	462,489	176,666	447,761
Loans from related parties (Note 34)	288,927	769,847	288,927	732,285
Finance lease liabilities	213	568	323	819
	462,715	1,232,904	465,916	1,180,865
Current				
Bank overdrafts (Note 14)	-	-	80	200
Bank borrowings	11,389	30,346	11,518	29,194
Finance lease liabilities	349	930	355	900
	11,738	31,276	11,953	30,294
Total borrowings	474,453	1,264,180	477,869	1,211,159

(all tabular amounts are in USD '000 and LTL '000 unless otherwise stated)

20. Borrowings (continued)

Total borrowings include secured liabilities of USD 5,626 thousand or LTL 14,990 thousand (December 2004: USD 6,059 thousand or LTL 15,358 thousand). Bank borrowings are secured by the property, plant and equipment of the Group (Note 7). Lease liabilities are effectively secured as the rights to the leased asset revert to the lessor in the event of default. Borrowings amounting to USD 468,251 thousand or LTL 1,247,655 thousand are guaranteed by the Government of the Republic of Lithuania.

Bank borrowings amounting to USD 178,865 thousand or LTL 476,586 thousand are bearing floating interest rate with repricing period between 3 and 6 months. The borrowings of USD 295,588 thousand or LTL 787,594 thousand are bearing fixed interest rate.
The maturity of non-current borrowings (excluding finance lease liabilities) is as follows:

	31 March 2005		31 December 2004	
	USD	LTL	USD	LTL
Between 1 and 2 years	10,700	28,510	10,879	27,573
Between 2 and 5 years	196,222	522,834	70,652	179,068
Over 5 years	255,580	680,992	384,062	973,405
	462,502	1,232,336	465,593	1,180,046

The effective interest rates at the balance sheet date were as follows:

	31 March 2005		31 December 2004	
	USD	Other	USD	Other
Bank overdrafts	-	-	-	7.0%
Bank borrowings	4.0%	3.9%	4.0%	3.9%
Borrowings from related parties	7%	-	7%	-
Finance lease liabilities	-	7.6%	-	7.4%

The fair value of the non-current borrowings bearing fixed interest rate is as follows:

	31 March 2005		31 December 2004	
	USD	LTL	USD	LTL
Borrowings	511,510	1,362,919	516,526	1,309,136

The fair value is based on cash flows discounted using a rate based on the borrowings rate of 4.4% (2004: 3.78%). The carrying amounts of non-current borrowings bearing floating interest rate and short-term borrowings approximate their fair value.

The carrying amounts of the Group's borrowings are denominated in the following currencies:

	31 March 2005		31 December 2004	
	USD	LTL	USD	LTL
US dollar	473,877	1,262,645	477,094	1,209,195
Other currencies	576	1,535	775	1,964
	474,453	1,264,180	477,869	1,211,159

The Group has the following undrawn borrowing facilities:

	31 March 2005		31 December 2004	
	USD	LTL	USD	LTL
Floating rate				
– expiring within one year	15,000	39,968	10,030	25,423
Fixed rate				
– expiring within one year	188	500	118	300
	15,188	40,468	10,148	25,723

(all tabular amounts are in USD '000 and LTL '000 unless otherwise stated)

20. Borrowings (continued)

Finance lease liabilities - minimum lease payments:

	31 March 2005		31 December 2004	
	USD	LTL	USD	LTL
Not later than 1 year	384	1,023	397	1,006
Later than 1 year and not later than 5 years	225	600	346	877
	609	1,623	743	1,883
Future finance charges on finance leases	(47)	(125)	(65)	(164)
Present value of finance lease liabilities	562	1,498	678	1,719

The present value of finance lease liabilities is as follows:

	31 March 2005		31 December 2004	
	USD	LTL	USD	LTL
Not later than 1 year	349	930	355	900
Later than 1 year and not later than 5 years	213	568	323	819
	562	1,498	678	1,719

The borrowings outstanding as at 31 March 2005 were 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 Group has complied with these covenants.

Uotas UAB, a subsidiary of the Company, has a loan of USD 280 thousand granted by Karina International Ltd. (USA) with maturity on 31 May 2005. According to the loan agreement, one month before reimbursement due date Karina International Ltd or a person/company nominated by the lender has an option to convert the loan or a portion of loan into Uotas UAB share capital at today's price. In case this option is exercised, the Company's share in Uotas UAB will decrease. Karina International Ltd did not exercise the option on 30 April 2005, therefore loan will be repaid in cash by the Group.

21. Deferred income tax

Deferred income tax assets and liabilities are offset when there is a legally enforceable right to offset current tax assets against current tax liabilities and when the deferred income taxes relate to the same fiscal authority. The offset amounts are as follows:

	31 March 2005		31 December 2004	
	USD	LTL	USD	LTL
Deferred tax assets:				
– to be recovered after more than 12 months	948	2,526	-	-
– to be recovered within 12 months	831	2,214	13	33
	1,779	4,740	13	33
Deferred tax liabilities:				
– to be recovered after more than 12 months	(1,106)	(2,947)	-	-
– to be recovered within 12 months	(94)	(251)	-	-
	(1,200)	(3,198)	-	-
	579	1,542	13	33

(all tabular amounts are in USD '000 and LTL '000 unless otherwise stated)

21. Deferred income tax (continued)

The gross movement on the deferred income tax account is as follows:

	USD	LTL
1 January 2004	572	1,581
Income statement charge (Note 26)	(550)	(1,519)
End of the three month period 31 March 2004	22	62
1 April 2004	22	62
Exchange differences	-	18
Income statement charge	(9)	(47)
End of the nine month period 31 December 2004	13	33
1 January 2005	13	33
Exchange differences	-	21
Income statement charge (Note 26)	566	1,488
End of the three month period 31 March 2005	579	1,542

The movement in deferred tax assets and liabilities during the period, without taking into consideration the offsetting of balances in the same tax jurisdictions, is as follows:

USD

Deferred tax assets	Differences in depreciation rates and impairment of PPE	Unrealised profit in inventory and valuation at net realisable value	Other	Total
At 1 January 2004	-	-	881	881
(Charged) to income statement	-	-	(550)	(550)
At 31 March 2004	-	-	331	331
(Charged) to income statement	-	-	(318)	(318)
At 31 December 2004	-	-	13	13
Credited to income statement	944	697	125	1,766
At 31 March 2005	944	697	138	1,779

Deferred tax liabilities	Differences in depreciation rates	Total
At 1 January 2004	(309)	(309)
Charged/(credited) to income statement	-	-
At 31 March 2004	(309)	(309)
Credited to income statement	309	309
At 31 December 2004	-	-
(Charged) to income statement	(1,200)	(1,200)
At 31 March 2005	(1,200)	(1,200)

(all tabular amounts are in USD '000 and LTL '000 unless otherwise stated)

21. Deferred income tax (continued)

LTL

Deferred tax assets	Differences in depreciation rates and impairment of PPE	Unrealised profit in inventory and valuation at net realisable value	Other	Total
At 1 January 2004	-	-	2,434	2,434
Exchange differences	-	-	22	22
(Charged) to income statement	-	-	(1,519)	(1,519)
At 31 March 2004	-	-	937	937
Exchange differences	-	-	18	18
(Charged) to income statement	-	-	(922)	(922)
At 31 December 2004	-	-	33	33
Exchange differences	34	25	6	65
Credited to income statement	2,481	1,832	329	4,642
At 31 March 2005	2,515	1,857	368	4,740

Deferred tax liabilities	Differences in depreciation rates	Total
At 1 January 2004	(853)	(853)
Exchange differences	(22)	(22)
Charged/(credited) to income statement	-	-
At 31 March 2004	(875)	(875)
Exchange differences	-	-
Charged/(credited) to income statement	875	875
At 31 December 2004	-	-
Exchange differences	(44)	(44)
(Charged) to income statement	(3,154)	(3,154)
At 31 March 2005	(3,198)	(3,198)

Deferred income tax assets are recognised for tax loss carry-forwards to the extent that the realisation of the related tax benefit through the future taxable profits is probable. The Group did not recognise deferred income tax assets of USD 2,786 thousand or LTL 7,423 thousand (December 2004: USD 2,764 thousand or LTL 7,005 thousand) in respect of losses amounting to USD 18,571 thousand or LTL 48,807 thousand (December 2004: USD 18,425 thousand or LTL 46,698 thousand) that can be carried forward against future taxable income. Tax losses can be carried forward for five years to be offset against future taxable income. The expiry dates are as follows:

	31 March 2005		**31 December 2004**	
	USD	**LTL**	**USD**	**LTL**
Expiry date				
2005	4,491	11,803	4,722	11,968
2006	3,652	9,598	3,787	9,598
2007	1,954	5,135	2,133	5,406
2008	3,202	8,415	3,477	8,812
2009	3,979	10,458	4,306	10,914
2010	1,293	3,398	-	-
	18,571	48,807	18,425	46,698

(all tabular amounts are in USD '000 and LTL '000 unless otherwise stated)

22. Provisions

Provisions of USD 2,900 thousand or LTL 7,728 thousand (December 2004: USD 2,900 thousand or LTL 7,350 thousand) represent provision for possible losses in relation to claim received from PPS Pipeline Systems (PPS), the contractor of the Oil Terminal Project, to compensate Lithuanian VAT (Note 31). No changes in provisions were recorded in the three-month period ended 31 March 2005.

23. Other operating income

	31 March 2005		31 March 2004	
	USD	LTL	USD	LTL
Interest income	2,300	6,045	325	900
Other operating income	369	969	-	-
	2,669	7,014	325	900

24. Expenses by nature

	31 March 2005		31 March 2004	
	USD	LTL	USD	LTL
Depreciation and amortisation (Notes 7 and 8)	15,561	40,897	9,692	26,760
Wages and salaries	13,660	35,901	12,573	34,716
Social security costs	4,183	10,994	3,832	10,581
Costs of crude oil and feedstock reproduced	662,526	1,741,250	431,234	1,190,715
Additives and catalysts	2,087	5,485	1,734	4,788
Changes in inventories of finished goods and work in progress	(29,797)	(78,312)	(17,846)	(49,276)
Transit and freight	19,010	49,962	18,474	51,010
Railway services	15,134	39,775	12,878	35,558
Terminal and laboratory services	8,543	22,453	7,880	21,758
Electricity	8,942	23,501	8,542	23,586
Steam power	5,671	14,905	5,268	14,546
Carbon dioxide emission costs, net	3,318	8,720	-	-
Intermediary services	3,682	9,677	137	378
Tangibles expenses	3,098	8,142	2,660	7,345
Other logistics expenses	2,583	6,789	155	428
Taxes, other than income tax	2,601	6,836	1,957	5,404
Insurance	1,913	5,028	1,957	5,404
Operating lease	1,656	4,352	1,096	3,026
Professional fees	962	2,528	1,108	3,059
Other expenses	1,059	2,784	2,806	7,750
	746,392	1,961,667	506,137	1,397,536
Classified as:				
– cost of sales	679,134	1,784,900	447,788	1,236,321
– selling and marketing costs	52,593	138,225	44,618	123,176
– administrative expenses	14,665	38,542	13,705	37,961
– other operating expenses	-	-	26	78
	746,392	1,961,667	506,137	1,397,536

(all tabular amounts are in USD '000 and LTL '000 unless otherwise stated)

25. Finance costs – net

	31 March 2005		31 March 2004	
	USD	LTL	USD	LTL
Interest expense:				
– borrowings	(6,842)	(17,981)	(7,003)	(19,394)
– finance lease	(11)	(29)	(30)	(83)
	(6,853)	(18,010)	(7,033)	(19,477)
Net foreign exchange transaction (losses)	(2,111)	(5,547)	(1,436)	(3,977)
Other finance income (costs), net	71	187	(13)	(36)
	(8,893)	(23,370)	(8,482)	(23,490)

26. Income tax expense

	31 March 2005		31 March 2004	
	USD	LTL	USD	LTL
Current tax	12,173	31,994	-	-
Deferred tax (Note 21)	(566)	(1,488)	550	1,519
	11,607	30,506	550	1,519

The tax on the Group's profit before tax differs from the theoretical amount that would arise using the weighted average tax rate applicable to profits of the consolidated companies as follows:

	31 March 2005		31 March 2004	
	USD	LTL	USD	LTL
Profit before tax	85,462	224,614	38,403	105,517
Tax calculated at 15% (2004: 15%)	12,819	33,692	5,760	15,827
Effect of different tax rates in other countries	(266)	(699)	-	-
Exchange differences	(1,772)	(4,657)	(2,746)	(7,505)
Income not subject to tax	(292)	(767)	(75)	(207)
Expenses not deductible for tax purposes	1,221	3,208	930	2,568
Capital investment relief	-	-	(3,482)	(9,614)
Charity expenses deducted twice for tax purposes	(294)	(773)	-	-
Utilisation of previously unrecognised tax losses	(15)	(39)	-	-
Tax losses for which no deferred income tax asset was recognised	206	541	163	450
Tax charge	11,607	30,506	550	1,519

In 2003, the Company resumed its modernization program which includes significant investments in property, plant and equipment during 2004 – 2009 in order to meet more stringent quality requirements for gasoline and diesel, more stringent environmental requirements, to improve logistics and product handling and to increase efficiency. According to management plans, part of these investments should have been financed from the Company's operating cash flows and this should have enabled the Company to avoid income tax expenses during 2004 – 2009 by applying the investment credit following the terms of Investment Agreement.

(all tabular amounts are in USD '000 and LTL '000 unless otherwise stated)

26. Income tax expense (continued)

The Investment Agreement signed on 29 October 1999 between the Company, the Government of the Republic of Lithuania and Williams International Company (from 19 September 2002 replaced by Yukos Finance B.V.) guaranteed that starting from 29 October 1999 for a period of 10 years that portion of taxable profit of the Company utilised for investment in property, plant and equipment may be taxed at a corporate profit tax rate of 0 percent. If the Government fails to ensure for at least for a period of 10 years the application of this investment credit, the Government shall be responsible for and shall indemnify and hold harmless the Company from any and all losses, liabilities and expenses incurred or sustained by the Company as a result of such failure. Uncertainties relating to certain provisions of Investment Agreement based on the Constitutional Court decision are described in Note 31.

The implementation of capital investments plans for 2004 and 2005 were significantly delayed, therefore the management believes that the Company will not be able to reduce taxable profits to nil in 2005 – 2009. The effective tax rate for the three-month period ended 31 March 2005 was based on the Company's planned investment in property, plant and equipment for the year ending 31 December 2005.

27. Earnings per share

Basic

Basic earnings per share is calculated by dividing the profit attributable to equity holders of the Company by the weighted average number of ordinary shares in issue during the period.

	31 March 2005		31 March 2004	
	USD	LTL	USD	LTL
Profit attributable to equity holders of the Company	74,358	195,428	37,932	104,216
Weighted average number of ordinary shares in issue (thousands)	707,454	707,454	707,454	707,454
Basic earnings per share (USD or LTL per share)	0.105	0.276	0.054	0.147

Diluted

Diluted earnings per share is calculated adjusting the weighted average number of ordinary shares outstanding to assume conversion of all dilutive potential ordinary shares. The Company has only one category of dilutive potential ordinary shares: share options.

The calculation is performed for the share options to determine the number of shares that could have been acquired at fair value (determined as the average annual market share price of the Company's shares) based on the monetary value of the subscription rights attached to outstanding share options. The number of shares calculated as above is compared with the number of shares that would have been issued assuming the exercise of the share options.

	31 March 2005		31 March 2004	
	USD	LTL	USD	LTL
Profit attributable to equity holders of the Company	74,358	195,428	37,932	104,216
Weighted average number of ordinary shares in issue (thousands)	707,454	707,454	707,454	707,454
Adjustment for share options (thousands)	279,634	279,634	206,753	206,753
Weighted average number of ordinary shares for diluted earnings per share (thousands)	987,088	987,088	914,207	914,207
Diluted earnings per share (USD or LTL per share)	0.075	0.198	0.041	0.114

(all tabular amounts are in USD '000 and LTL '000 unless otherwise stated)

28. Stock – based compensation

According to the Investment Agreement as of 18 June 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 of Lithuania and the Company a notice in writing on 29 October 2004. Yukos Finance B.V. claims that according to the Investment Agreement its share should increase from 53.7 percent to approximately 69.065 percent, whereas the Government of the Republic of Lithuania is claiming that it would increase to approximately 63.426 percent.

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

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

29. Dividends per share

At the Annual General Shareholders' meeting on 29 April 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 247,608 thousand (USD 92,671 thousand) were declared. These interim financial statements do not reflect this dividend payable, which will be accounted for in the shareholders' equity as an appropriation of retained earnings in the three-month period ending 30 June 2005.

30. Cash generated from operations

	31 March 2005		31 March 2004	
	USD	**LTL**	**USD**	**LTL**
Profit for the period	73,855	194,108	37,853	103,998
Adjustments for:				
– tax (Note 26)	11,607	30,506	550	1,519
– depreciation (Note 7)	9,666	25,405	9,368	25,866
– amortisation (Note 8)	5,895	15,493	324	894
– profit on sale of non-current assets classified as held for sale	(89)	(234)	-	-
– retirement of PPE (Note 7)	145	386	1,019	2,814
– reversal of impairment charge of PPE (Note 7)	(1,287)	(3,382)	-	-
– interest income (Note 23)	(2,300)	(6,045)	(325)	(900)
– interest expense (Note 25)	6,853	18,010	7,033	19,477
– share of loss/(profit) from associates (Note 9)	(26)	(68)	19	52
– exchange (gains)/losses on borrowings	(280)	61,169	-	-
Changes in working capital:				
– inventories	(1,764)	(29,900)	(20,365)	(56,222)
– trade and other receivables	(19,593)	(71,170)	18,179	51,601
– trade and other payables	78,696	247,667	(10,624)	(30,571)
Cash generated from operations	161,378	481,945	43,031	118,528

Non-cash transactions

The principle non-cash transaction was acquisition of allowances amounting to USD 76,881 thousand or LTL 202,059 thousand by the means of government grant (Note 8).

(all tabular amounts are in USD ‘000 and LTL ‘000 unless otherwise stated)

31. Contingencies

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.

The management believes that it is more likely than not that an outflow of resources will be required to settle the obligation, therefore the Group recognised a provision of USD 2,900 thousand for possible losses that would be incurred if legal proceedings were initiated against the Company and a judgment rendered against the Company, in the financial statements for the three-month period ended 31 March 2005 and the year ended 31 December 2004 (Note 22).

Claim from Klevo Lapas UAB

In 2003, based on a decision of the Competition Council, stating that the Company has not complied with the Competition Law and which allows the customers affected by the Company’s pricing policy to claim damages from the Company, the legal proceedings initiated by Klevo Lapas UAB against the Company in 2000 were renewed and the Court appointed an independent expert committee to evaluate the possible amounts of damages caused to Klevo Lapas UAB. As at 31 March 2005, the claim from Klevo Lapas UAB amounted to LTL 741 thousand (equivalent to USD 278 thousand as at 31 March 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 2,815 thousand as at 31 March 2005). As at 31 March 2005 the Company had a receivable from Klevo Lapas UAB amounting to LTL 5,298 thousand (equivalent of USD 1,988 thousand as at 31 March 2005), which was provided in full. The management does not expect that the final amount of this claim will exceed the amount receivable from Klevo Lapas UAB, therefore, no provision for the claim was made in the financial statements for the three-month period ended 31 March 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 5,254 thousand as at 31 March 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 totaling LTL 400 thousand (equivalent to USD 150 thousand as at 31 March 2005). Management has taken legal advice and believes that the charges are without merit and intends to vigorously defend its position. Accordingly, no accrual for this contingent liability has been made in these financial statements. In the event the Company loses this proceeding, the Company might raise the issue of compensation of the amounts of this claim under provisions of the Investment Agreement, signed between OAO Yukos Oil Corporation, Yukos Finance B.V., Williams International Company, the Company and the Government of Lithuania (see also decision of the Constitutional Court described further).

(all tabular amounts are in USD '000 and LTL '000 unless otherwise stated)

31. Contingencies (continued)

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 23 March 1998 with Rietumu Banka AS and Thornleigh Trust Ltd. The Company set-off the advance payment of USD 1,250 thousand received from Thornleigh Trust Ltd. against the receivable balance outstanding and did not perform the shipment of products. Management has taken legal advice and believes that the claim is without merit, therefore, no provision for the claim amount was made in these financial statements for the three-month period ended 31 March 2005.

Other litigations and claims

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

Minority shareholders' claims

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

The final outcome of this claim has not been determined at the date of these consolidated interim consolidated financial statements. Management believes that the claim of the minority shareholders is not grounded.

Investigation of the Competition Council

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

Decision of the Constitutional Court of the Republic of Lithuania

On 18 October 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.

(all tabular amounts are in USD '000 and LTL '000 unless otherwise stated)

31. Contingencies (continued)

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

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

Dispute with Klaipėdos nafta AB over surplus balance of oil products

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

Guarantees under waste treatment plans

As required by a waste treatment plans approved by the Ministry of Environment in 2004, the Company issued guarantees to the regional departments of the Ministry of Environment for a total amount of LTL 11,970 thousand (USD 4,723 thousand). Payments under these guarantees should be made in cases when the Company is unable to continue treatment of waste accumulating in production process.

32. Commitments

(a) Capital commitments

Capital expenditure contracted for at the balance sheet date but not yet incurred is as follows:

	31 March 2005		31 December 2004	
	USD	LTL	USD	LTL
Property, plant and equipment	12,675	33,771	658	1,753

(all tabular amounts are in USD ‘000 and LTL ‘000 unless otherwise stated)

32. Commitments (continued)

(b) Operating lease commitments – where a Group Company is the lessee

The Group leases various property, plant and equipment under non-cancellable operating lease agreements. The leases have varying terms, escalation clauses and renewal rights.

The Group also leases various property, plant and machinery under cancellable operating lease agreements. The lease expenditure charged to the income statement during the period is disclosed in Note 24.

The future aggregate minimum lease payments under non-cancellable operating leases are as follows:

	31 March 2005		31 December 2004	
	USD	LTL	USD	LTL
No later than 1 year	451	1,203	498	1,262
Later than 1 year and no later than 5 years	829	2,209	977	2,476
Later than 5 years	515	1,372	581	1,473
	1,795	4,784	2,056	5,211

33. Acquisitions

In March 2005, the Company’s wholly owned subsidiary Uotas UAB acquired 2.32% of shares in its subsidiary Ventus Nafta AB from the minority shareholders increasing its ownership to 97.52%.

Details of net assets acquired and goodwill are as follows:

	USD	LTL
Purchase consideration:		
– cash paid	136	362
– fair value of other assets given	227	605
Total purchase consideration	363	967
Carrying value of net assets acquired	81	216
Goodwill (Note 8)	444	1,183

(all tabular amounts are in USD '000 and LTL '000 unless otherwise stated)

34. Related-party transactions

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

In June 2002, the Group and Yukos Oil Company signed a crude oil supply agreement for an annual quantity of 4,800 thousand metric tons of crude oil. The price of crude oil is determined based on open market terms. The agreement is valid until 30 September 2012. In 2004, Yukos Oil Company commitments under this agreement were transferred to Samaraneftegas OAO, Yukos Group company. Furthermore, according to an agreement with Yukos Oil Company signed in June 2002, the Group has committed to accept an annual quantity of 4,000 thousand metric tons of crude oil from Yukos Oil Company and to transport it through the oil terminal. The price for the transportation services is determined based on market terms. This agreement is valid until 31 December 2005. In February 2005 Yukos Oil Company suspended supply of crude oil to the Group both for refining and transportation purposes.

On 1 January 2005 the Group signed a sales commissioner agreement with Petroval PTE, an entity related to Yukos Oil Company. According to this agreement Petroval PTE sells the Group'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. Until 1 January 2005 a sales commissioner agreement signed on 1 November 2002 with Petroval SA was valid. This agreement was terminated by mutual agreement of parties effective from 31 December 2004.

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

The following transactions were carried out with related parties:

(a) Sales of goods and services	31 March 2005		31 March 2004	
	USD	LTL	USD	LTL
– Petroval PTE	505,984	1,329,828	-	-
– Petroval SA	41,593	109,315	4,356	12,028
– Naftelf UAB	3,952	10,387	1,474	4,070
– Yukos Group*	28	74	-	-
	551,557	1,449,604	5,830	16,098

(b) Purchases of goods and services	31 March 2005		31 March 2004	
	USD	LTL	USD	LTL
– Petroval PTE (commission fee and purchase of crude oil)	21,354	56,123	-	-
– Petroval SA (commission fee and purchase of crude oil)	1,065	2,799	77,034	212,706
– Yukos Group* (purchase of crude oil)	896	2,356	333,202	920,037
– Yukos Finance B.V. (management fee)	482	1,267	599	1,654
	23,797	62,545	410,835	1,134,397

(c) Key management compensation	31 March 2005		31 March 2004	
	USD	LTL	USD	LTL
Salaries and other short-term employee benefits	150	393	128	353

(all tabular amounts are in USD '000 and LTL '000 unless otherwise stated)

34. Related-party transactions (continued)

(d) Year-end balances arising from sales/purchases of goods/services

Receivables from related parties (Note 12):	31 March 2005		31 December 2004	
	USD	LTL	USD	LTL
Yukos Group* trade receivables	2,181	5,812	2,178	5,802
Less provision for impairment of receivables	(2,167)	(5,774)	(2,172)	(5,787)
Yukos Group* trade receivables - net	14	38	6	15
Petroval PTE	106,022	282,494	-	-
Petroval SA	-	-	71,415	181,001
Naftelf UAB	603	1,608	900	2,282
	106,639	284,140	72,321	183,298

Payables to related parties (Note 19):	31 March 2005		31 December 2004	
	USD	LTL	USD	LTL
Yukos Group*	572	1,524	64,052	162,340
Yukos Finance B.V.	501	1,335	124	314
Petroval SA	1,275	3,397	10,887	27,593
Petroval PTE	10,476	27,913	-	-
Naftelf UAB	32	85	40	101
Government of the Republic of Lithuania	56	150	56	142
	12,912	34,404	75,159	190,490

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

(e) Loans from related parties – Government of the Republic of Lithuania

	USD	LTL
Beginning of the period	288,935	798,075
Interest charged	5,819	16,137
Interest paid	5,827	16,167
Exchange differences	-	19,821
End of the three-month period 31 March 2004	288,927	817,866
Beginning of period	288,927	817,866
Interest charged	15,450	42,886
Interest paid	15,450	42,830
Exchange differences	-	(85,637)
End of the nine-month period 31 December 2004	288,927	732,285
Beginning of period	288,927	732,285
Interest charged	5,056	13,343
Interest paid	5,056	13,340
Exchange differences	-	37,559
End of the three-month period 31 March 2005	288,927	769,847

An interest of 7 percent per annum is payable on the loan granted by the Government of the Republic of Lithuania. Loan has to be repaid by 11 July 2013. First instalment is due in 2009.