AB MAŽEIKIŲ NAFTA
Semi-Annual Prospectus Report for Year 2005

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

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I. GENERAL PROVISIONS

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

The first six months of the year 2005.

2. Main data about the Issuer

Company name of the Issuer	PUBLIC COMPANY *MAŽEIKIŲ NAFTA*
Authorised capital	707,454,130 Litas
Registered office	Juodeikiai, LT 89467 Mažeikiai distr., Lithuania
Telephone	(443) 9 22 86
Fax	(443) 9 25 25
E-mail address	post@nafta.lt
Legal and organizational form	Public Company
Date and place of registration	January 24, 1991, Mažeikiai District Municipality
Date and place of re-registration	October 12, 1998, Ministry of Economy of the Republic of Lithuania
Code in the Register of Enterprises	166451720

3. The nature of the Issuer's principal activities

AB Mažeikių Nafta is an oil refining company engaged in wholesale trade and road, railway and pipeline transportation of solid, liquid and gas fuel, and similar products.

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

The report and other documents on the basis of which it was prepared are available in *AB Mažeikių Nafta* at the address: Juodeikiai, 89467 Mažeikiai r., on working days from 8.00 a.m. till 4.00 p.m.

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

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

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

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

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

5.2. Declaration by the members of the Issuer's managing bodies, employees and the head of the administration responsible for the report that the information contained in the report is in accordance with the facts and that there are no omissions likely to affect the investors' decision concerning

purchase, sale or valuation of the Company's securities or the market price of these securities

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

Financial Planning and Control Department of Public Company MAŽEIKIŲ NAFTA, represented by Manager of Financial Planning and Reporting Group Vida Mažrimienė, declares that the report provides the complete information as submitted to Financial Planning and Control Department by the Company's employees and managers. Financial Planning and Control Department is responsible for the appropriate execution of the information submitted and the Company is responsible for the accuracy of the information.

AB MAŽEIKIŲ NAFTA
General Director English P. Nelson

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August 31, 2005

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AB MAŽEIKIŲ NAFTA
Chief Financial Officer Vita Petrošienė

....

August 31, 2005

AB MAŽEIKIŲ NAFTA
Financial Planning and Control Dept.
Manager of Financial Planning and
Reporting Group Vida Mažrimienė

....

August 31, 2005

August 2005, Mažeikiai

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

6. The Issuer's authorized capital:

6.1. Authorized capital registered in the Register of Enterprises

The Company is registered with the Register of Enterprises of the Republic of Lithuania and administered by the State Enterprise Centre of Registers (V. Kudirkos 18, LT 03105 Vilnius). The Company's authorized capital amounts to 707,454,130.00 litas. The following is the composition of *AB Mažeikių Nafta* authorized capital according to types of shares:

Type of shares	Number of shares	Nominal value (LTL)	Total nominal value	Weight in the authorized capital (%)
Ordinary registered shares	707,454,130	1	707,454,130	100.00
Total:	**707,454,130**	**-**	**707,454,130**	**100.00**

All *AB Mažeikių Nafta* shares are paid up.

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

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7. Shareholders

Total number of *AB Mažeikių Nafta* shareholders as of the date of the last General Meeting of Shareholders held on April 29, 2005, amounted to 2,366.

667,584,352 ordinary registered shares (ORS) by the right of ownership are held by two major shareholders: Yukos International UK B.V. (379,918,411 ORS) and the State of the Republic of Lithuania represented by the Ministry of Economy of the Republic of Lithuania (287,665,941 ORS).
39,869,778 ordinary registered shares (5.64% of the authorized capital) by the right of ownership are held by 2,364 individual shareholders.

The following is the data on the major shareholders who by the right of ownership held more than 5% of the Company's authorized capital as of June 30, 2005:

Name and surname of a shareholder (name of enterprise, type, registered office, code in the register of enterprises)	Number of ordinary registered shares (units)	Percentage of the authorized capital (%)	Percentage of votes held (%)	Percentage of votes held in concert with other persons (%)
Yukos International UK B.V. Locatellikade 1, Parnassustoren 1076 AZ Amsterdam, The Netherlands. Company code 34109466	379,918,411	53.7	53.7	53.7 %

The State, represented by Ministry of Economy of the Republic of Lithuania, Gedimino pr. 38/2, 2600 Vilnius. Company code 188621919	287,665,941	40.66	40.66	40.66 %

8. Securities not representing capital, the trading whereof is governed by the Law on Securities Market of the Republic of Lithuania

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9. The secondary trading in securities issued by the Issuer

On February 5, 1996 the securities of *AB Mažeikių Nafta* were admitted to the trading lists of *Vilnius Stock Exchange* (hereinafter – the Exchange). On June 30, 2005 the ordinary registered shares of *AB Mažeikių Nafta* (the identification code granted by Central Securities Depository of Lithuania is LT0000 11555 2 (hereinafter – the CD code of securities)) in the amount of 707,454,130 and with a nominal value of one litas each appeared on the Baltic Main list with a the total nominal value amounting to 707,454,130 litas.

Data on *AB Mažeikių Nafta* securities quoted and sold on the central market in the first half of 2005:

Trading session	Price (LTL)		Turnover
	Highest	Lowest	LTL (units)
01/01/2005 – 03/31/2005	5.75	4.17	33,408,373.69 (6,756,997 units)
04/01/2005 – 06/30/2005	9.74	5.50	46,699,763.90 (5,970,484 units)

Trading session	Latest trading session	Latest session's turnover	
	Price (LTL)	units	In Litas
01/01/2005 – 03/31/2005	5.50	59,014	329,997.59
04/01/2005 – 06/30/2005	9.10	249,373	2,246,521.98

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

10. Agreements with intermediaries of public trading in securities

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

11. Members of the Managing Bodies

Managing bodies of *AB Mažeikių Nafta* are as follows:

- General Meeting of Shareholders;
- Supervisory Council;
- Board;
- Head of Administration.

The Company's activities are supervised by its Auditor *UAB PricewaterhousCoopers*.

Articles of Association of *AB Mažeikių Nafta* provide that the Supervisory Council is elected by the General Meeting of Shareholders for a period of four years. Members of the Board are appointed by the Supervisory Council for a period of four years.

Supervisory Council (June 30, 2005)

Piotr S. Zolotariov – Chairman of the Supervisory Council. General Director of OOO Russkye Mashini. None of the Company's shares are in his possession. Not participating in the management and capital of other Lithuanian companies.

Genovaitė Geleževičienė – Member of the Supervisory Council. Head of the Division of Analysis and Forecasts of the Economy Strategy Department of the Ministry of Economy of the Republic of Lithuania. None of the Company's shares are in her possession. Member of the Board of Directors of *UAB Toksika*, State Enterprise *Ignalina Nuclear Power Plant*, *AB Lietuvos Energija*; Chairperson of the Supervisory Council of *AB Alytaus tekstilė*; Member of the Council of Lithuanian Development Agency for Small and Medium-sized Business Enterprises (SMEDA).

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

Oleg Sheyko - Member of the Supervisory Council. None of the Company's shares are in his possession. Not participating in the management and capital of other Lithuanian companies.

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

Bruce K. Misamore - Member of the Supervisory Council. None of the Company's shares are in his possession. Not participating in the management and capital of other Lithuanian companies.

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

Vladas Kazimieras Gagilas - Member of the Council. Director of the Energy Resources Department of the Ministry of Economy. None of the Company's shares are in his possession. Member of the Board of Directors of *AB Lietuvos Dujos*. Chairman of the Board of Directors of *AB Klaipėdos Nafta*.

THE BOARD (June 30, 2005)

Nerijus Eidukevičius - Chairman of the Board. Vice Minister of Economy. None of the Company's shares are in his possession. Chairman of the Board of Directors of *AB Alytaus Tekstilė*.

Juri V. Kalner - Member of the Board. None of the Company's shares are in his possession. Not participating in the management and capital of other Lithuanian companies.

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

Mikhail V. Elfimov - Member of the Board. None of the Company's shares are in his possession. Not participating in the management and capital of other Lithuanian companies.

Vladislavas Paulius - Member of the Board. None of the Company's shares are in his possession. Not participating in the management and capital of other Lithuanian companies.

Petras Lepeška – Member of the Board. Chief Specialist of Oil Division of Energy Resources Department of the Ministry of Economy. Member of the Board of *UAB Mažeikių Nafta Trading House*. None of the Company's shares are in his possession.

Gediminas Vaičiūnas - Member of the Board. Advisor on Energy Matters of the Office of the Government of the Republic of Lithuania. None of the Company's shares are in his possession. Deputy Chairman of the Council of the State Nuclear Energy Safety Inspection. Not participating in the management and capital of other Lithuanian companies.

ADMINISTRATION (June 30, 2005)

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

Vita Petrošienė – Chief Financial Officer of *AB Mažeikių Nafta*. None of the Company's shares are in her possession. Not participating in the management and capital of other Lithuanian companies.

AB Mažeikių Nafta does not possess any information on convictions in effect of the members of the management bodies for crimes in respect of any ownership, business and finance.

III. FINANCIAL STATUS

This consolidated interim financial statement of *AB Mažeikių Nafta* has been prepared for the period of six months of the year 2005. The statement has been prepared in accordance with the reporting standards being valid in the European Union (EU) and applicable to interim financial statements as well as in accordance with the International Reporting Standards (IRS) No. 34 "Interim Financial Statement" and International Financial Reporting Standards (IFRS) No. 1 "First-time application of IFRS" as the present statement is a constituent part of the period including the first financial statement of the Group prepared under IFRS for the year ending on December 31, 2005.

The present financial statement has been prepared based on those IFRS standards and interpretations of IFRS Interpretation Committee announced and enforced or announced and applied in advance in the course of preparation of this financial statement (August 2005). IFRS standards and interpretations of IFRS Interpretation Committee to be applied as of December 31, 2005, including those to be applied selectively, were not exactly known in the course of preparation of this consolidated interim financial statement. During preparation of the annual financial statement for the year ending on December 31, 2005 under requirements of IFRS No. 1 the Group will apply IFRS standards and interpretations of IFRS Interpretation Committee applicable as of December 31, 2005. Therefore due to any new or changed standards or interpretations the group may change the reporting policy and make adjustments to the initial numbers of IFRS statement balance.

In the course of preparation of AB *Mažeikių Nafta* Consolidated Interim Financial Statement for the year 2005 the management of the Company changed certain accounting and consolidation methods applied to GAAP financial statements in order such methods would conform to the requirements of IFRS. The date of transition by the Group to IFRS is January 1, 2004. As of that day the Group prepared the balance sheet for the period commencement according to IFRS. The present consolidated interim financial statement was prepared as of June 30, 2005. The application date of IFRS by the Group is January 1, 2005. in the course of preparation of this consolidated interim financial statement under IFRS No. 1, the Group applied the mandatory exclusions and certain non-mandatory exemptions provided by IFRS for complete retrospective application.

Items of financial statements of each company of the Group are indicated in the currency of the primary economic environment in which the specific company operates. The Group's functional currency is the U.S. Dollar since the majority of the Group's business operations is in U.S. Dollars and the management uses this currency for risk management and performance evaluation. The consolidated interim financial statement is in U.S. Dollars, functional and submission currency, and Lithuanian litas, the Group's submission currency.

The amounts indicated in the Group's financial statement prepared in U.S. Dollars, functional currency of the Group, are converted into the submission currency, Lithuanian litas, by applying the currency exchange rate as of the end of the period for conversion of assets and liabilities and by applying the average exchange rate of the period for conversion of revenues and expenses. All differences due to currency conversion are included under the separate item of shareholders' equity as accumulated adjustments of currency conversions.

12. Balance Sheet (thous. LTL)

	2005-06-30	2004-12-31	2004-06-30*
ASSETS			
Long-term assets			
Tangible long-term assets	1,428,354	1,261,702	1,463,559
Intangible assets	195,602	11,877	13,217
Prestige	1,183	-	-
Investment in associated companies	3,556	3,386	3,788
Deferred income tax	3,984	33	539
Financial assets for potential sales	2	51	908
Long-term receivables and prepayments	52,674	24,135	27,058
Total long-term assets	1,685,355	1,301,184	1,509,069
Current assets			
Inventories	461,251	491,302	409,303
Trade and other receivables	521,930	344,952	336,201
Prepaid income tax	-	168	
Derivative financial instruments	11	-	
Cash and cash equivalents	1,611,804	997,881	562,483
	2,594,996	1,834,303	1,307,987
Long-term assets intended for sales	450	677	2,088
Total of current assets	2,595,446	1,834,980	1,310,075
TOTAL ASSETS	4,280,801	3,136,164	2,819,144
SHAREHOLDERS' EQUITY			
Capital and reserves attributable to the Company's equity holders			
Share capital	707,454	707,454	707,454
Share premium	283,040	283,040	283,040
Reserves	35,480	437	437
Cumulative translation adjustment	(64,908)	(211,052)	(101,603)
Profit brought forward	413,116	316,789	(172,852)
	1,374,182	1,096,668	716,476
Minority interest	749	1,739	2,117
Total shareholders' equity	1,374,931	1,098,407	718,593
LIABILITIES			
Long-term liabilities			
Loans	1,310,108	1,180,865	1,335,275
Other long-term liabilities	138,890	12,634	14,153
Provisions	31,567	-	877
	1,480,565	1,193,499	1,350,305
Current liabilities			
Trade and other accounts payable	1,013,731	671,561	679,802
Current income tax liabilities	205,957	135,053	9,386
Loans	187,300	30,294	52,829
Provisions	18,317	7,350	8,229
	1,425,305	844,258	750,246
Total liabilities	2,905,870	2,037,757	2,100,551
TOTAL SHAREHOLDERS' EQUITY AND LIABILITIES	4,280,801	3,136,164	2,819,144

NOTE* - Balance Sheet as of June 30, 2004 not reviewed by auditors.

13. Consolidated Profit (Loss) Account (thous. LTL)

	2005-06-30	2004-06-30
Sales	4,818,765	3,063,175
Cost of goods sold	(3,982,055)	(2,476,674)
Gross profit	836,710	586,501
Other operating income	16,426	2,871
Sales and marketing expenses	(276,332)	(213,907)
Administrative expenses	(93,832)	(77,763)
Other operating expenses	-	-
Profit from operations	482,972	297,702
Expenses of financial activities	(42,075)	(39,773)
Share of profit(losses) of associated companies	170	(48)
Profit before taxes	441,067	257,881
Income taxes	(63,459)	(26,044)
Profit for the period	377,608	231,837
Profit attributable to:		
Equity holders of the Company	378,979	232,242
Minority interest	(1,371)	(405)
	377,608	231,837

14. Explanatory note

General financial statements of *AB Mažeikių Nafta* Group for the first six months of the year 2005 include the financial statements of the parent company *AB Mažeikių Nafta* (Juodeikiai, LT-89467 Mažeikiai r.) and its subsidiaries: *UAB Juodeikių Nafta* (Juodeikiai, LT- 89467 Mažeikiai r.), *UAB Uotas* (Laisvės 30, LT- 89223 Mažeikiai), *UAB Mažeikių Nafta Trading House* (J. Jasinskio 16a, LT-01112 Vilnius) and the associated company – Lithuanian-French Joint Venture *UAB Naftelf* (Šeimyniškių 22, LT- 09312 Vilnius) as well as *UAB Biržietiška Aibė* under liquidation (Vilniaus 47, LT-41149 Biržai).

AB Mažeikių Nafta (hereinafter – the Company) was established in 1980 for refining crude oil and sales of petroleum products. On April 7, 1995, the Company was reorganized into the public company and employees of the Company were granted the right to purchase part of the Company's shares. In 1998 the Company was merged with an oil terminal operator *AB Būtingės Nafta* and pipeline operator *AB Naftotiekis*.

In 2002 the Company acquired 85 per cent of *UAB Uotas* authorized capital at the same time acquiring 81 per cent investment into *AB Ventus Nafta*. In 2003 the Company acquired the remaining 15 per cent of *UAB Uotas* authorized capital. Both companies are engaged in retail sales of petroleum products. In May 2003 the Company established its subsidiary UAB *Mažeikių Nafta Trading House* which operated as a trader in Lithuania. Subsidiaries of *UAB Mažeikių Nafta Trading House* are also engaged in wholesales of petroleum products in Latvia, Estonia and Poland.

UAB Biržietiška Aibė is engaged in retail sales of foodstuffs and consumer goods, bakery and catering. The Company is negotiating regarding sales of this entity.

UAB Juodeikių Nafta provides the services of petroleum products loading onto tank trucks.

The following are the companies with a portion of *AB Mažeikių Nafta* exceeding 30 per cent as of June 30, 2005:

Company	UAB Juodeikių Nafta	UAB Uotas	UAB Mažeikių Nafta Trading House	Lithuanian-French Joint Venture UAB Naftelf	UAB Biržietiška Aibė under liquidation
Company ID	166688363	166578511	126237146	110765252	154868478
Registered Office	Juodeikiai, Mažeikių r.	Laisvės g. 30, Mažeikiai	Jasinskio g. 16a, Vilnius	Šeimyniškių g.22, Vilnius	Vilniaus g. 47, Biržai
Business Activities	Services of petroleum products loading onto tank trucks	Rental of gas stations	Agency services	Retail and wholesale of fuel	Retail sales of foodstuff and consumer goods, public catering
Authorized capital (LTL)	1,385,000	84,800,000	7,060,000	12,000,000	2,596,250
Percentage of votes granted by shares owned by *AB Mažeikių Nafta*	100 %	100 %	100 %	34 %	100 %

Subsidiaries associated changes within the first half of the year 2005:

AB Mažeikių Nafta acquired newly issued ordinary registered shares of its subsidiary *UAB Uotas* at par value of 1,000 (one thousand) litas for 15.5 million litas. *AB Mažeikių Nafta* owns 100 per cent of *UAB Uotas* authorized capital.

AB Mažeikių Nafta acquired ordinary registered shares of *UAB Juodeikių Nafta* from *UAB Lukoil Baltija* at par value of 100 (one hundred) litas for 0.5 million litas. As a result of this transaction *AB Mažeikių Nafta* owns 100 per cent of *UAB Juodeikių Nafta's* authorized capital.

Subsidiaries with more than 50 per cent of voting shares directly or indirectly controlled by the Company are consolidated in the Company's consolidated financial statement. Significant joint ventures and entities where the Company owns 20 to 50 per cent of voting shares or has any other significant influence are recorded based on the equity method and adjusted by the assessment of value decrease.

The following are the key performance indicators of *Mažeikių Nafta* Group:

Indicator	1st half of 2005	1st half of 2004	Difference (%)
Revenue, thous. litas	4,818,765	3,063,175	57.3
EBITDA	568,886	349,791	62.6
Profit (loss) before profit taxes and portion of minority in subsidiaries	441,067	257,881	71.0
Net profit	378,979	232,242	63.2

Cash flow from ordinary business	813,908	220,100	269.8
Net profit per share (litas) Ordinary shares	0.54	0.33	63.2
Average number of shares (thous.)	707,454	707,454	

CRUDE SUPPLY AND TRANSPORTATION

Due to the large number of claims initiated against Yukos by Russian tax authorities in 2003 and 2004 Yukos faced significant financial and operations associated difficulties. Earlier it was the Company's main crude oil supplier under long-term crude oil supply agreement. In February 2005 Yukos discontinued supply of crude oil to the Group.

However the management took actions in order to ensure continuous supply of crude oil by signing agreements with five individual traders for approx. 8 million tons of crude to be delivered to the Refinery in 2005 plus an option of extra 2 million tons. Crude oil will be supplied by four main suppliers: Lukoil, TNK-BP, Sibneft and Rosneft.

In 2005 the Company signed an agreement with Vitol for transshipment of 7.00 million tons of crude through Būtingė Terminal.

The following are the volumes of refining, transshipment and transportation by *AB Mažeikių Nafta*:

Indicator	1st half of 2005	1st half of 2004	Difference (%)
Volumes refined, thous. t	4,429	3,915	13.1
Transportation volumes, thous. t	9,631	10,409	(7.5)
Transshipment volumes, thous. t	2,597	4,623	(43.8)

The above data show that during the first six months of 2005 the Company refined a record quantity of feedstock amounting to 4.4 million tons, i.e. by 13.1% more than in the same period of 2004.

Volumes of crude oil transshiped through Būtingė Terminal decreased by 43.8 % if compared to the same period of 2004 due to the increasing competition among the Baltic Seaports and especially with the new Primorsk seaport through which majority of the Russian crude is transshipped.

Transportation volumes dicreased by 7.5 %. Reduction of the transportation volumes was mainly due to the reduced transportation in Būtingė direction (by 2.6 million tons less). Transportation volumes in the Refinery direction increased by 33.9%, and diesel transportation volumes to Ventspils increased by 5.7%.

REVENUE AND MARGIN

AB Mažeikių Nafta reports profit for the first six month of the year 2005. Net profit of the Company for the first six months of the year amounts to 378.979 million litas as calculated according to the International Financial Reporting Standards (IFRS), i.e. by 63.2% more than during the same period last year.

Revenues of *Mažeikių Nafta* Group for the first six months of the year amounted to 4,818.8 million litas compared to 3,063.2 million litas during the same period last year, i.e. the revenue increased by 57.3 %.

Dynamics of *Mažeikių Nafta* Group's revenue:

	1st half of 2005	1st half of 2004	Difference
	thous. litas	thous. litas	%
Refinery	4,710,537	2,917,672	61.4
Terminal	37,504	76,814	(51.2)
Pipeline	36,411	43,935	(17.1)
Gas Stations	34,313	24,112	42.3
Other	-	642	(100)
Total revenues	**4,818,765**	**3,063,175**	**57.3**

Increase of world prices for crude oil and petroleum products and high crack margins during the first six months of 2005 had a direct impact on the Company's performance results. The greatest impact on the Company's petroleum product sales, prices and profitability in the first six months of 2005 was made by increase of the world prices for crude oil and petroleum products as well as increase of crack margins if compared to the first six months of 2004.

Urals 5-2-2-1 crack margin during the first six months of 2005 was 103.92 USD/t, i.e. by 23.6 per cent higher than the Urals crack margin for the same period of 2004. Since the beginning of 2005 the mandatory quality indicators of petroleum products became more stringent in Europe, the USA and other countries. World industry entered the year 2005 having no incremental refining capacities facing new quality requirements which cold not be immediately met by some refineries. Therefore prices for petroleum products (gasoline, diesel) increased from 380-320 US dollars per ton in the first six months of 2004 up to 480-510 US dollars in the same period of 2005 (structure of fuel demand changed: demand for distillates is higher than for gasoline).

In addition the following factors had impact on high price for crude oil and petroleum products and high crack margins in the first six months of 2005: increased world consumption of crude oil due to developing economies in China, India and the USA; interruptions in crude oil production and delivery, political disturbances; lower level of crude oil and petroleum product reserves in the USA if compared to the same period of 2004.

Positive performance results of the Company for the first six months of 2005 were influenced by performance efficiency of *Mažeikių Nafta Trading House* as well as waterborne sales, crude oil supply, logistics, operations and other departments. The Company continuously increased the volumes refined and sales of petroleum products on the target markets as well as export to the Western Europe.

During the first six months of 2005 the revenue of the Company was by 1.8 billion litas higher if compared to the same period of 2004. The increase by 1.2 billion litas was influenced by the growth of world prices, increase by 0.6 billion litas – by efficient performance of *Mažeikių Nafta Trading House* and Waterborne Sales Group. The significant impact on the increased revenues was made by higher refining volumes.

In the first six months of 2005 *Mažeikių Nafta Trading House* sold 1.6 million tons of petroleum products, i.e. by 0.24 million tons more than in the same period of 2004. The majority of the products were sold to the Lithuanian, Estonian and Polish markets.

Sales of petroleum products by Waterborne Sales Group of the Company amounted to 2.6 million tons per the first six months of the year 2005, i.e. by 0.38 million tons more than in the same period of 2004. Reasons for the increased export of petroleum products through the sea terminals are associated with the volumes refined which increased by 13 per cent.

Volumes of crude oil transshiped through Būtingė Terminal decreased by 43.8 % if compared to the first six months of 2004, and consequently the Company's revenue decreased by 26.7 million litas. This reduction was due to the increasing competition among the Baltic Seaports and especially with the new Primorsk seaport through which majority of the Russian crude is transshipped.

Transportation volumes through Birzai pipeline system were by 16.9% less than last year, and consequently the Company's revenue decreased by 7.4 million litas. Reduction of the transportation volumes was due to the reduced transportation in Būtingė direction (by 2.6 million tons less), however the transportation volumes in the Refinery direction and diesel transportation volumes to Ventspils increased.

EXPENSES

Major part of the Company's expenses comprises expenses for crude oil influenced by the fluctuation of market prices and crack margins that could not be impacted by the Company. Expenses that may be controlled by the Company itself are the refining, transportation, operating and financial activities expenses. Cost reduction was and still remains one of the main tasks associated with *AB Mažeikių Nafta* performance improvement.

It should be noted that in the first six months of 2005 the Company refined a record quantity of crude that amounted to 4.4 million tons, i.e. by 13.1% more than in the same period of 2004.

Notwithstanding the significant increase of the refined crude volumes, refining expenses directly dependant on the refined volumes increased by 7.3 % only. As such expenses are calculated per ton of refined crude, it may be stated that expenses per ton in the first six months of 2005 were by 5.1% less than in the same period of 2004. Actual expenses for catalysts, chemicals and product additives in the first six months of 2005 were 3.3 LTL/t, i.e. by 8.7 % less than in the same period last year. The major impact on such reduction was made by more efficient consumption of chemicals and catalyst.

Expenses for heat and electricity per ton of refined crude in the first six months of 2005 amounted to 15.1 LTL/t or by 5.7 % less than last year. This was due to the increased refining volumes, more efficient utilization of capacities and energy resources tracking.

Indirect refining expenses, i.e. salaries, social insurances, auxiliary materials, maintenance services and other, reduced by 4.7 % (for the comparison purposes expenses associated with carbon dioxide emissions have not been accounted). Reduction of these expenses was due to lower expenses for auxiliary materials and maintenance services. The Company seeks implementation of cost reduction, financial control and analysis in each division as well as efficient utilization of its human resources.

The Group is participating in the trading system of the carbon dioxide emissions permits. The Group has a goal of reducing the carbon dioxide emissions up to the established level (upper limit). Emissions at the beginning are recorded at their actual value and depreciated by applying directly proportionate (linear) method within the period of 3 years. In the first six months of this year the Company depreciated in its expenses of 45.5 million litas of carbon dioxide emissions and, based on the actual emissions within the period, recorded 35.1 million litas in its expenses.

Financial activities associated expenses during the first six months of 2005 increased by 20.2 % if compared to the same period of 2004. Such increased was due to the provisions made by the Company of 10.0 million litas for a possible fine by the Competition Council. Interest expenses remained on the same level as last year notwithstanding the fact that the loan balance decreased; however there was no decrease of expenses due to increasing U.S. dollar exchange rate as all the Company's loans are in U.S. dollars.

In May of 2005 *AB Mažeikių Nafta* signed an agreement regarding establishment of limits for issue of guarantees and LCs with *AB SEB Vilniaus bankas*. The agreement grants the right to *AB Mažeikių Nafta* for issuing guarantees and LCs within the limits of 60 million US dollars and with validity period ending on May 1, 2006 at latest. Each time when the Company issues an LC (guarantee) it has to deposit no less than 50% of the LC's amount requested.

For ensuring fulfillment of *AB Mazeikiu Nafta's* obligations the Company uses mortgage of its inventories (crude oil, diesel, jet, bitumen, gas, fuel oil) with a total value no less than 90 million US dollars.

Interest rate is 1 month USD LIBOR + 1.35% by establishing the rate each quarter for the next three-month period.

In July 2005 the international ratings agency Fitch Ratings announced the long-term and short-term ratings of *AB Mažeikių Nafta* which are B-/B.

The following is the information on *Mažeikių Nafta* Group's long-term loans as of June 30, 2005:

Lender/Purpose	Currency	Interest rate	Repayment period/frequency	Loan balance, thous. litas
Current assets				
GoL	USD	7 %*	2013-07-31 semi-annual	828,614
AB Vilniaus bankas	USD	3 months LIBOR +1.1%	2013-07-31 semi-annual	215,093

Investment program				
AB Vilniaus bankas	USD	3 months LIBOR +1.1%	2013-07-31 semi-annual	215,093
Investments in oil terminal				
Kreditanstalt fur Wiederaufbau	USD	7.16%	2004-09-30 semi-annual	94
Kreditanstalt fur Wiederaufbau	USD	6 months LIBOR+0,875%	Until 2006-06-30 semi-annual	2,593
Kreditanstalt fur Wiederaufbau	USD	8.065%	Until 2006-09-30 semi-annual	1,313
Kreditanstalt fur Wiederaufbau	USD	6 months LIBOR+0.875%	Until 2006-12-31 semi-annual	1,305
Kreditanstalt fur Wiederaufbau	USD	6 months LIBOR+0.875%	Until 2006-12-31 semi-annual	5,380
Kreditanstalt fur Wiederaufbau	USD	6 months LIBOR+0.875%	Until 2006-12-31 semi-annual	7,196
AB Hansabankas	USD	6 months LIBOR+0.9%	Until 2009-01-31 semi-annual	60,378
Trading House investments				
Nordea Bank Finland Plc	USD	3.90%	Until 2006-12-31 monthly	34
Minus current year portion of long-term loans				(27,859)
Total of long-term loans				**1,309,139**

First repayment in 2009

Balance of the long-term loans in litas increased due to the increasing US dollar exchange rate as all loans of the Company are in US dollars.

The total amount of loans includes obligations of 55,933,000 US dollars or 160,410,000 litas (as of December 2004 – 6,059,000 US dollars or 15,358,000 litas) for which the Company's assets are pledged. The Group's inventories are pledged for the bank loans (as of December 2004 – long-term tangible assets). In case of failure to fulfill the obligations the right to the assets acquired by leasing shall automatically be transferred to a lessor. Loans for the total amount of 466,182,000 US dollars or 1,336,964,000 litas (as of December 2004 – 441,035,000 US dollars or 1,117,803,000 litas) are covered by the sovereign guarantee of the Government of the Republic of Lithuania.

The bank loans for the amount of 232,284,000 US dollars or 666,167,000 litas (as of December 2004 – 181,577,000 US dollars or 460,207,000 litas) are applied a floating interest rate that are revised every 3 or 6 months. The bank loans for the amount of 289,397,000 US dollars or 829,962,000 litas (as of December 2004 – 295,614,000 US dollars or 749,233,000 litas) are applied a fixed interest rate.

For the loans not repaid as of June 30, 2005 certain contractual obligations are applied, i.e. exclusive purpose of the loan utilization and the management's limited possibilities to pledge, mortgage or sell assets acquisition of which was financed form loans during the entire period of loan agreements' validity without a lender's consent. In the management's opinion the Group has complied with such contractual obligations.

BALANCE

As of June 30, 2005, the total value of *Mažeikių Nafta* Group's assets was 4,280.8 million litas whereas as of December 31, 2004, the total value of assets was 3,136.2 million litas. Based on the data as of June 30, 2005, the total value of *Mažeikių Nafta* Group's assets increased by 1,144.6 million litas within 6 months. The main reason for the increase of the assets was increase of short-term assets due to increase of cash by 613.9 million litas. This was due to the profitable and successful operations of the Company; within six months of 2005 the operating cash flows comprised 813.9 million litas (77.7 million litas in the same period last year).

Changes of Long-term assets:

The Government of the Republic of Lithuania has granted the Group the emission rights the number of which is equal to the upper limit. The emission rights include the carbon dioxide emission rights granted by the Government of the Republic of Lithuania and are recorded in the balance as long-term intangible assets which comprised 202.1 million litas in the first six months of this year.

The Refinery currently is carrying out the second phase of its Modernization Program, i.e. construction of Fluid Catalytic Cracking Gasoline Selective Hydrotreatment Unit (FCC SHU). The following activities have been already performed: basic design prepared, a construction permit received and construction activities started. Amount spent for this project during the first six months of 2005 was 41.0 million litas.

In 2005 the Company initiated reconstruction of Juodeikiai petroleum products terminal. The general contractor for detailed engineering has been selected. The purpose of this project is reduction of loading associated losses and hydrocarbons emissions into the atmosphere by installation of hydrocarbons' vapor recovery system complying with LAND-35-2000.

15. Information on audit

Audit of financial reports of Public Company *Mažeikių Nafta* for the first six months of 2005 is not performed.
UAB PricewaterhouseCoopers performed review of interim, quarterly and semi-annual condensed consolidated financial statements of *AB Mažeikių Nafta* and its subsidiaries in U.S. dollars as of June 30, 2005. Based on this review interim condensed consolidated financial statements in litas have been prepared.

IV. MATERIAL EVENTS IN THE ISSUER'S ACTIVITIES

16. Material events in the Issuer's activities

On January 18, 2005, *AB Mažeikių Nafta* reported that during the meeting of the Board of *AB Mažeikių Nafta* held on January 17, 2005, the Board decided to acquire 15,500 (fifteen thousand five hundred) newly issued ordinary registered shares of its subsidiary *UAB Uotas* (100 per cent of authorized capital is owned by *AB Mažeikių Nafta*) at a par value of 1,000 (one thousand) litas each.

On January 18, 2005, the Company also reported that during the meeting of the Board of *AB Mažeikių Nafta* held on January 17, 2005, the Board decided to acquire from *UAB Lukoil Baltija* 5,540 (five thousand five hundred forty) ordinary registered shares of its subsidiary *UAB Juodeikių Nafta* at a par value of 100 (one hundred) Litas each. Upon completion of this transaction, *AB Mažeikių Nafta* shall own 100 per cent of *UAB Juodeikių Nafta* authorized capital.

On January 28, 2005, *AB Mažeikių Nafta* posted that the target profit for the financial year of 2005 (taking into account the scheduled reduction of crude oil refining margins) is around 244 million litas.

On February 21, 2005, *AB Mažeikių Nafta* announced that the preliminary unaudited consolidated net profit according to the US GAAP for year 2004 was 721.858 million litas. On the same day the Company reported that its annual financial reports for the year 2004 would be obtained from the Auditor *UAB PricewaterhouseCoopers* and submitted by March 31, 2005.

On March 25, 2005, the Company reported that during the meeting of the Board of *AB Mažeikių Nafta* held on March 25, 2005, the Board decided to approve the annual financial statement of *AB Mažeikių Nafta* for the year 2004 prepared in accordance with the requirements established in the laws of the Republic of Lithuania and US GAAP standards. *AB Mažeikių Nafta's* audited consolidated net profit of 2004 as per US GAAP was 721.883 million litas.

On March 25, 2005, the Company also reported that the Board of *AB Mažeikių Nafta* (which initiated the convening of the General Meeting of Shareholders) decided to convene the General Meeting of Shareholders of *AB Mažeikių Nafta,* company code 166451720, located at Juodeikiai, 89467 Mažeikiai r., on April 29, 2005, at 11:00 a.m. The General Meeting of Shareholders will be held at the Culture Center of Mažeikiai Regional Municipality, at the address: Naftininkų st. 11, Mažeikiai. Record date: April 22, 2005. Agenda of the General Meeting of Shareholders of *AB Mažeikių Nafta:* 1) consideration of *AB Mažeikių Nafta* Auditor's report on the annual financial statement of the Company for the year 2004; 2) consideration of the comments and suggestions of the Supervisory Council of the Company on the annual financial statement of the Company for the year 2004 and the Company's Performance Report for the financial year 2004; 3) approval of *AB Mažeikių Nafta* Performance Report for the financial year 2004 as prepared by the Board of the Company; 4) approval of *AB Mažeikių Nafta* annual financial statement for the year 2004; 5) distribution of *AB Mažeikių Nafta's* profit for the financial year 2004; 6) establishment of payment conditions for the auditing services rendered by *AB Mažeikių Nafta* Auditor for the period of the financial year 2005; 7) election of the member of the Supervisory Council of *AB Mažeikių Nafta*; 8) current issues.

On the same day, the Company informed that during the meeting of the Board of *AB Mažeikių Nafta* held on March 25, 2005, the Board decided to approve the draft on distribution of *AB*

Mažeikių Nafta net profit for the financial year 2004 and transfer 5 per cent of net profit to legal reserves and carry forward the profit balance at the end of the current financial year;

On April 21, 2005, *AB Mažeikių Nafta* reported that on April 20, 2005, the Board of *AB Mažeikių Nafta* decided to approve the new draft on distribution of the Company‘s net profit for the financial year 2004: to transfer 34,782,345.00 litas of net profit to legal reserves, to allocate 247,608,946.00 litas - for dividends and to carry forward the profit balance at the end of the current financial year.

On April 29, 2005, the General Meeting of Shareholders of *AB Mažeikių Nafta* decided as follows: to take into consideration *AB Mažeikių Nafta* Auditor’s report when approving *AB Mažeikių Nafta* annual financial statement for the year 2004 and the Company‘s Performance Report for the financial year 2004; to take into consideration the comments and suggestions of the Supervisory Council of *AB Mažeikių Nafta* on the Company’s annual financial statement for the year 2004 and Performance Report for the financial year 2004; to approve *AB Mažeikių Nafta* Performance Report for the financial year 2004 as prepared by the Board of the Company; to approve *AB Mažeikių Nafta* annual financial statement for the year 2004; to approve distribution of *AB Mažeikių Nafta* net profit of the financial year 2004, according to which 34,782,345.00 litas is transferred to legal reserves and the balance, i.e. 409,132,607.00 litas, is carried forward to next year; to establish the Auditor’s fee amounting 845,000.00 litas for the audit services to be rendered by *AB Mažeikių Nafta* Auditor - *UAB PricewaterhouseCoopers* - during the financial year 2005.

On the same day, the Company reported that preliminary unaudited consolidated net profit for the first quarter of 2005 according to International Financial Reporting Standards (IFRS) amounted to 195.428 million litas, and financial statements of *AB Mažeikių Nafta* for the three-month period would be received from the Auditor *UAB PricewaterhouseCoopers* and submitted by May 31, 2005.

On July 29, 2005, *AB Mažeikių Nafta* reported that unaudited consolidated net profit for the first six months of 2005 according to IFRS amounted to 378.979 million litas (109.759 million euros). On the same day the Company reported that its financial statements for the first six months of 2005 would be received from the Auditor *UAB PricewaterhouseCoopers* and submitted by August 31, 2005.

17. Court and Arbitration Proceedings

In the financial year 2003 *AB Mažeikių Nafta’s* claim regarding the resolution of the Competition Council (under *UAB Klevo Lapas* submission) was finally settled. The resolution of the Competition Council establishing that the Company had violated the Law on Competition by abusing its dominant position in the market was not repealed. The fine of 100,000 litas paid by *AB Mažeikių Nafta* as imposed by the resolution of the Competition Council was not refunded. The above resolution granted an opportunity to request reimbursement of potential losses incurred by other *AB Mažeikių Nafta* petroleum product buyers whose economic activities could have been adversely affected by the Company’s actions non-compliant with the provisions of the Law on Competition of the Republic of Lithuania.

Based on the above, *UAB Klevo Lapas* filed a civil claim for the amount of 741,000 litas as of December 31, 2004. This claim, as per unilateral assessments of the plaintiff’s representatives, may be increased to 7,500,000 litas, yet the final amount mostly depends on the results of expert

examination ordered by the court. The additional expert examination ordered by the court regarding the amount of losses incurred by *UAB Klevo Lapas* is still in progress.
In case of the court's disadvantageous decision, the Company's financial position would not be substantially adversely affected considering the fact that the court had satisfied the Company's claim regarding liabilities of *UAB Klevo Lapas* amounting to 5,298,000 litas in relations to the payment for the supplied petroleum products. The latter decision of the court has not been implemented due to insolvency of the defendant.

In the financial year 2003 a civil claim was filed against the Company by a natural person requesting 400,000 litas regarding usage in 1998 of the upgraded process implemented in 1995 in the Refinery and patented in the Republic of Lithuania as per established procedure. The case was suspended and the process-economic analysis ordered by the court is still in progress.

In case of the court's disadvantageous decision, it is likely that the Company may receive a few similar additional claims. As the number of the co-authors of the above upgrading, including associated improvements implemented under two patents issued by the Republic of Lithuania, is 7 to 9 persons, and the Company earlier received similar claims for the period of 1996-2001 (not adjudicated in the court), the total claimed amount is likely to reach 14,000,000 litas. The Company considers such claims as unjustified and therefore they are rejected.

In the financial year 2003 the Company was a defendant in a civil case filed by the minor shareholders of the Company regarding the declaration of resolutions adopted by the General Meeting of Shareholders, including the resolutions on the election of the members of the Company's managing bodies and the approval of the Management Plans, as null and void. The claim is not expressed in financial terms, yet in case of the court's disadvantageous decision, the Company may suffer certain losses due to potential partial encumbrance or interruption of its operations.

The civil case was suspended as the court investigating the case addressed the Constitutional Court of the Republic of Lithuania in order to receive clarification regarding compliance of certain norms of applicable laws with the Constitution.

The Company acted as a civil plaintiff in a criminal case regarding recovery of 6,556,831.32 litas in damages as a result of failure by Porcol Trading Ltd to pay for the petroleum products supplied by the Company. In case of award the Company would be entitled to claim for reimbursement of the said amount from the convicted persons. The investigation of the criminal case is in progress.

Riga District Court awarded the Company the amount of 2,702,797.40 litas in damages under the criminal case associated with failure by *SIA Stimers* to pay for the petroleum products supplied by the Company (civil defendant - Maris Poliaks). The said award has been appealed.

The Company attended other proceeding in the first six months of the financial year 2005. However, the results of such proceedings, in the Company's opinion, did not and/or will not have any substantial effect on the Company's financial position.

MAŽEIKIŲ NAFTA AB

CONSOLIDATED INTERIM FINANCIAL STATEMENTS

FOR THE SIX MONTH PERIOD ENDED 30 JUNE 2005

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Review Report

To the Shareholders and the Board of Directors of Mažeikių Nafta AB

1. We have reviewed the accompanying consolidated interim balance sheet of Mažeikių Nafta AB (hereinafter "the Company") and its consolidated subsidiaries (hereinafter "the Group") as at 30 June 2005, and the related consolidated interim statements of income, cash flows and changes in shareholders' equity for the six month period then ended. These consolidated interim financial statements are the responsibility of the Company's management. Our responsibility is to issue a report on these financial statements based on our review.

2. We conducted our review in accordance with the International Standard on Review Engagements 2400. This Standard requires that we plan and perform the review to obtain moderate assurance as to whether the financial statements are free of material misstatement. A review is limited primarily to inquiries of company personnel and analytical procedures applied to financial data and thus provides less assurance than an audit. We have not performed an audit and, accordingly, we do not express an audit opinion.

3. Based on our review, nothing has come to our attention that causes us to believe that the accompanying consolidated interim financial statements do not give a true and fair view in accordance with accounting standard applicable to interim financial reporting as adopted for use in the European Union and International Accounting Standard No. 34 "Interim Financial Reporting".

4. Without qualifying our review report, we draw attention to Note 1 to these consolidated interim financial statements, which states that the financial and operating difficulties experienced by Yukos Group may result in material adverse effects on the Group's financial position, results of operations and liquidity. The ultimate outcome of this matter cannot presently be determined and no adjustment to the financial statements that may result from these possible future events has been made.

5. We draw attention to Note 2.1 which explains the Group's transition to IFRS and that these 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 (August 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 interim financial statements.

On behalf of PricewaterhouseCoopers UAB

Christopher C. Butler
Partner
Vilnius, Republic of Lithuania
31 August 2005

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

Consolidated interim balance sheet

	Note	At 30 June 2005		At 31 December 2004	
ASSETS		**USD**	**LTL**	**USD**	**LTL**
Non-current assets					
Property, plant and equipment	7	498,049	1,428,354	497,811	1,261,702
Intangible assets	8	68,204	195,602	4,686	11,877
Goodwill	9	412	1,183	-	-
Investment in associates	10	1,240	3,556	1,336	3,386
Deferred income tax assets	22	1,389	3,984	13	33
Available-for-sale financial assets		1	2	20	51
Non-current receivables and prepayments	11	18,367	52,674	9,522	24,135
		587,662	1,685,355	513,388	1,301,184
Current assets					
Inventories	12	160,832	461,251	193,846	491,302
Trade and other receivables	13	181,990	521,930	136,102	344,952
Prepaid current income tax		-	-	66	168
Derivative financial instruments	14	4	11	-	-
Cash and cash equivalents	15	562,015	1,611,804	393,719	997,881
		904,841	2,594,996	723,733	1,834,303
Non-current assets classified as held for sale	16	157	450	267	677
		904,998	2,595,446	724,000	1,834,980
Total assets		1,492,660	4,280,801	1,237,388	3,136,164
EQUITY					
Capital and reserves attributable to the Company's equity holders					
Share capital	17	181,366	707,454	181,366	707,454
Share premium		72,752	283,040	72,752	283,040
Reserves	18	13,220	35,480	109	437
Cumulative translation adjustment		2,051	(64,908)	4,344	(211,052)
Retained earnings		209,764	413,116	174,125	316,789
		479,153	1,374,182	432,696	1,096,668
Minority interest		261	749	686	1,739
Total equity		479,414	1,374,931	433,382	1,098,407
LIABILITIES					
Non-current liabilities					
Borrowings	21	456,818	1,310,108	465,916	1,180,865
Other non-current liabilities	19	48,429	138,890	4,985	12,634
Provisions	23	11,007	31,567	-	-
		516,254	1,480,565	470,901	1,193,499
Current liabilities					
Trade and other payables	20	353,481	1,013,731	264,966	671,561
Current income tax liabilities		71,815	205,957	53,286	135,053
Borrowings	21	65,309	187,300	11,953	30,294
Provisions	23	6,387	18,317	2,900	7,350
		496,992	1,425,305	333,105	844,258
Total liabilities		1,013,246	2,905,870	804,006	2,037,757
Total equity and liabilities		1,492,660	4,280,801	1,237,388	3,136,164

The General Director and the Chief Financial Officer approved the consolidated interim financial statements on pages 4 to 64 on 31 August 2005.

Paul Nelson English	Vita Petrošienė
General Director	Chief Financial Officer

The notes on pages 9 to 64 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

		2005				2004			
		3 months ended 30 June		6 months ended 30 June		3 months ended 30 June		6 months ended 30 June	
	Note	USD	LTL	USD	LTL	USD	LTL	USD	LTL
Sales	6	955,863	2,616,196	1,793,915	4,818,765	537,145	1,537,480	1,089,861	3,063,175
Cost of sales	25	(802,760)	(2,197,155)	(1,481,894)	(3,982,055)	(433,469)	(1,240,353)	(881,257)	(2,476,674)
Gross profit		153,103	419,041	312,021	836,710	103,676	297,127	208,604	586,501
Other operating income	24	3,440	9,412	6,109	16,426	633	1,815	1,018	2,871
Selling and marketing costs	25	(50,459)	(138,107)	(103,052)	(276,332)	(31,722)	(90,731)	(76,340)	(213,907)
Administrative expenses	25	(20,201)	(55,290)	(34,866)	(93,832)	(13,924)	(39,802)	(27,629)	(77,763)
Operating profit		85,883	235,056	180,212	482,972	58,663	168,409	105,653	297,702
Finance costs	26	(6,835)	(18,705)	(15,728)	(42,075)	(5,604)	(16,049)	(14,172)	(39,773)
Share of profit/(losses) of associates	10	37	102	63	170	2	4	(17)	(48)
Profit before income tax		79,085	216,453	164,547	441,067	53,061	152,364	91,464	257,881
Income tax expense	27	(12,040)	(32,953)	(23,647)	(63,459)	(8,674)	(24,525)	(9,224)	(26,044)
Profit for the period		67,045	183,500	140,900	377,608	44,387	127,839	82,240	231,837
Attributable to:									
Equity holders of the		67,063	183,551	141,421	378,979	44,452	128,026	82,384	232,242
Minority interest		(18)	(51)	(521)	(1,371)	(65)	(187)	(144)	(405)
		67,045	183,500	140,900	377,608	44,387	127,839	82,240	231,837
Earnings per share for profit attributable to the equity holders of the Company during the period (expressed in USD or LTL per share)									
– basic	28	0.095	0.259	0.200	0.536	0.063	0.181	0.116	0.328
– diluted	28	0.066	0.181	0.141	0.378	0.047	0.136	0.089	0.252

The notes on pages 9 to 64 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	Statutory revaluation reserve	Legal 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
Changes in fair value of cash flow hedges		-	-	-	-	(779)	-	-	-	(779)
Transfer of accumulated loss on cash flow hedges to income statement		-	-	-	-	767	-	-	-	767
Currency translation adjustments		-	-	-	-	-	(417)	-	(16)	(433)
Net (expenses) recognised directly in equity		-	-	-	-	(12)	(417)	-	(16)	(445)
Profit for the period		-	-	-	-	-	-	82,384	(144)	82,240
Total recognised income for the period		-	-	-	-	(12)	(417)	82,384	(160)	81,795
Increase in retained earnings by decreasing share premium	5.2.2	-	(14,861)	-	-	-	-	14,861	-	-
Balance at 30 June 2004		181,366	72,752	109	-	-	2,869	(4,594)	746	253,248
Balance at 1 July 2004		181,366	72,752	109	-	-	2,869	(4,594)	746	253,248
Currency translation adjustments		-	-	-	-	-	1,475	-	56	1,531
Net income recognised directly in equity		-	-	-	-	-	1,475	-	56	1,531
Profit for the period		-	-	-	-	-	-	178,719	(116)	178,603
Total recognised income for the period		-	-	-	-	-	1,475	178,719	(60)	180,134
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		-	-	-	-	-	(2,293)	-	(39)	(2,332)
Profit for the period		-	-	-	-	-	-	141,421	(521)	140,900
Total recognised income for the period		-	-	-	-	-	(2,293)	141,421	(560)	138,568
Increase in share in subsidiary		-	-	-	-	-	-	-	135	135
Transfer to legal reserve	18	-	-	-	13,111	-	-	(13,111)	-	-
Dividend	30	-	-	-	-	-	-	(92,671)	-	(92,671)
Balance at 30 June 2005		181,366	72,752	109	13,111	-	2,051	209,764	261	479,414

The notes on pages 9 to 64 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	Statutory revaluation reserve	Legal 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
Changes in fair value of cash flow hedges		-	-	-	-	(2,272)	-	-	-	(2,272)
Transfer of accumulated loss on cash flow hedges to income statement		-	-	-	-	2,237	-	-	-	2,237
Currency translation adjustments		-	-	-	-	-	13,199	-	199	13,398
Net (expenses) recognised directly in equity		-	-	-	-	(35)	13,199	-	199	13,363
Profit for the period		-	-	-	-	-	-	232,242	(405)	231,837
Total recognised income for the period		-	-	-	-	(35)	13,199	232,242	(206)	245,200
Increase in retained earnings by decreasing share premium	5.2.2	-	(59,444)	-	-	-	-	59,444	-	-
Balance at 30 June 2004		707,454	283,040	437	-	-	(101,603)	(172,852)	2,296	718,772
Balance at 1 July 2004		707,454	283,040	437	-	-	(101,603)	(172,852)	2,296	718,772
Currency translation adjustments		-	-	-	-	-	(109,449)	-	(239)	(109,688)
Net income recognised directly in equity		-	-	-	-	-	(109,449)	-	(239)	(109,688)
Profit for the period		-	-	-	-	-	-	489,641	(318)	489,323
Total recognised income for the period		-	-	-	-	-	(109,449)	489,641	(557)	379,635
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		-	-	-	-	-	146,144	-	22	146,166
Profit for the period		-	-	-	-	-	-	378,979	(1,371)	377,608
Total recognised income for the period		-	-	-	-	-	146,144	378,979	(1,349)	523,774
Increase in share in subsidiary		-	-	-	-	-	-	-	359	359
Transfer to legal reserve	18	-	-	-	35,043	-	-	(35,043)	-	-
Dividend	30	-	-	-	-	-	-	(247,609)	-	(247,609)
Balance at 30 June 2005		707,454	283,040	437	35,043	-	(64,908)	413,116	749	1,374,931

The notes on pages 9 to 64 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

		Six months ended 30 June			
		2005		2004	
	Note	USD	LTL	USD	LTL
Cash flows from operating activities					
Cash generated from operations	31	253,689	851,101	91,013	257,619
Interest paid		(13,698)	(36,555)	(13,339)	(37,516)
Income tax paid		(233)	(638)	(1)	(3)
Net cash generated from operating activities		239,758	813,908	77,673	220,100
Cash flows from investing activities					
Purchases of property, plant and equipment		(23,068)	(61,796)	(13,947)	(39,521)
Proceeds from sale of property, plant and equipment		185	493	430	1,227
Proceeds from sale of non-current assets classified as held for sale		61	165	-	-
Purchases of intangible assets		(178)	(473)	-	-
Proceeds from sale of available-for-sale financial assets		19	49	-	-
Interest received		5,546	14,929	972	2,749
Cash received on liquidation of subsidiary		-	-	-	130
Acquisition of shares in subsidiary from minority	34	(208)	(554)	-	-
Net cash used in investing activities		(17,643)	(47,187)	(12,545)	(35,415)
Cash flows from financing activities					
Repayments of borrowings		(10,635)	(28,788)	(5,955)	(16,545)
Finance lease principal payments		(157)	(421)	(165)	(463)
Dividends paid to the Company's shareholders		(92,665)	(247,592)	-	-
Contribution of minority shareholders to the share capital of subsidiary		3	7	-	-
Net cash used in financing activities		(103,454)	(276,794)	(6,120)	(17,008)
Net increase in cash and bank overdrafts		118,661	489,927	59,008	167,677
Cash and bank overdrafts at beginning of period	15	393,639	997,681	132,192	365,128
Exchange gains/(losses) on cash and bank overdrafts		(5,772)	(34,935)	360	10,747
Cash and bank overdrafts at end of period	15	506,528	1,452,673	191,560	543,552

The notes on pages 9 to 64 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 reorganised 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 several separate oil traders for a total of approximately 9 million tones to be delivered to the refinery during 2005, plus an option for a further 2 million. Crude is being 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 listed below:

Subsidiary / associate	Country of incorporation	Year of establishment /acquisition	Group's share (%) as at 30 June 2005	Group's share (%) as at 31 December 2004	Profile
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	100	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

Group MENATEP Ltd (GIB) is the ultimate parent of the Group.

2. Summary of significant accounting policies

2.1 Basis of preparation

These June 2005 interim consolidated financial statements of Mažeikių Nafta AB are for the six months ended 30 June 2005. They have been prepared in accordance with accounting standard applicable to interim financial reporting as adopted for use in the European Union (EU) and 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.

All International Financial Reporting Standards issued by the International Accounting Standards Board (IASB) have been adopted for use in the EU through the endorsement procedure established by the European Commission, with the exception of the International Accounting Standard IAS 39 "Financial Instruments: Recognition and Measurement". Following the Accounting Regulatory Committee decision of October 2004, the Commission adopted the Regulation requiring the use of IAS 39, minus certain provisions on the full fair value option and portfolio hedging of core deposits, by all listed companies from 1 January 2005.

Since the Group has not elected to follow the fair value option in IAS 39 and is not affected by the provisions regarding portfolio hedging that are not required by the EU-endorsed version of IAS 39, the accompanying financial statements comply with both the accounting standards adopted for use in the European Union and with International Financial Reporting Standards.

2.1 Basis of preparation (continued)

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 (August 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. When preparing its annual financial statements for the year ending 31 December 2005 the Group will apply, in accordance with IFRS 1, IFRS standards and IFRIC interpretations that will be effective at 31 December 2005. The Group may therefore change its accounting policies and adjust opening IFRS balance sheet as a result of new or amended standards and interpretations.

In its interim consolidated financial statements for the three month period ended 31 March 2005 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.

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 Group’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).

2.2 Consolidation (continued)

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.

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

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 investment in an associate is initially recognised at cost and the carrying amount is increased or decreased to recognise the Group's share of the profit or loss of the associate after the date of acquisition. 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 Group, 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 rates prevailing 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.

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

2.4 Foreign currency translation (continued)

(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.

(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. 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

Property, plant and equipment include spare parts that can only be used in connection with specific item of property, plant and equipment.

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

2.5 Property, plant and equipment (continued)

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.

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 presented separately on the balance sheet. Goodwill on acquisitions of associates is included in investments in associates. Goodwill is tested annually and whenever events or changes in circumstances indicate that the carrying amount may not be recoverable 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 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 using the straight-line method over the period of 3 years.

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 and whether the investment is quoted in an active market. 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 quoted in an active market 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 or investment matures within 12 months of the balance sheet date in which case they are included in current assets.

2.8 Investments (continued)

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, in the case of financial assets not carried at fair value through profit or loss, transaction costs. 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.

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. If, in a subsequent period, the fair value of a debt instrument classified as available for sale increases and the increase can be objectively related to an event occurring after the impairment loss was recognised in profit or loss, the impairment loss is reversed, with the amount of the reversal recognised in 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 of the amount receivable and subsequently measured at amortised cost using the effective interest method. Amortised cost is the amount at which the receivable was recognised at initial recognition minus principal repayments, plus accrued interest, and minus any write-down 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.

2.11 Non-current assets classified as held for sale (continued)

The Group early adopted IFRS 5 from 1 January 2004 before its affective date on 1 January 2005 prospectively in accordance with the standard’s provisions. Non-current assets held for sale represent property, plant and equipment. Management expects that the carrying amount of these assets will be recovered principally though sale rather than continuing use. Under previous GAAP these assets were classified as inventory under current assets. Refer to Note 5.2.3 for adjustment made on transition to IFRS. 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

For the purposes of the cash flow statement cash and cash equivalents include cash in hand, deposits held at call with banks and other short-term highly liquid investments with original maturities of three months or less, and bank overdrafts. Bank overdrafts are shown within borrowings in current liabilities on the balance sheet.

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 amount at initial recognition 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 can be 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 consideration receivable for 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 the risk of loss of or damage to the goods, as well as any additional costs due to events occurring after the time the goods have been delivered to the carrier or to a specified destination, is transferred from the Group to the buyer in accordance with the standardised terms and conditions of sale (Incoterms) agreed with the buyer, and collectability of the related receivables is reasonably assured. Excise taxes collected by the Group on behalf of the state are excluded from sales revenue.

(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.

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 commencement 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 except for instalments due within 12 months which are included in current liabilities. 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.

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

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 Compound financial instruments

The Group - the issuer of a non-derivative financial instrument - evaluates the terms of the financial instrument to determine whether it contains both a liability and an equity component. The Group recognises separately the components of a financial instrument that (a) creates a financial liability of the Group and (b) grants an option to the holder of the instrument to convert it into an equity instrument of the Group. Classification of the liability and equity components of a convertible instrument is not revised as a result of a change in the likelihood that a conversion option will be exercised, even when exercise of the option may appear to have become economically advantageous to some holders. The Group’s contractual obligation to make future payments remains outstanding until it is extinguished through conversion, maturity of the instrument or some other transaction. When the initial carrying amount of a compound financial instrument is allocated to its equity and liability components, the equity component is assigned the residual amount after deducting from the fair value of the instrument as a whole the amount separately determined for the liability component. The value of any derivative features embedded in the compound financial instrument other than the equity component is included in the liability component. The sum of the carrying amounts assigned to the liability and equity components on initial recognition is always equal to the fair value that would be ascribed to the instrument as a whole. No gain or loss arises from initially recognising the components of the instrument separately.

2.23 Interim measurement note

(a) Seasonality of the business

The activities of the Group mostly depend on the supply of the crude oil and seasonal fluctuations are eliminated by the crude oil supply constraint. The Group produces and sells as much products as it receives crude oil. If the oil refinery worked in full capacity, the business of the Group would be affected by the 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.

(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.

2.24 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) IFRS 1 (Amendment) - First-time Adoption of International Financial Reporting Standards and IFRS 6 Exploration for and Evaluation of Mineral Resources

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

(c) IAS 39 (Amendment) - Cash Flow Hedge Accounting of Forecast Intragroup Transactions

IAS 39 (Amendment) is applicable to annual periods beginning on or after 1 January 2006. The Group has not elected to adopt the amendment early. It will apply the amendment in its 2006 financial statements under the IAS 39 (Amendment) transition provisions. The Group will need not apply the amendment to the comparative information relating to the periods before the date of application.

(d) IAS 19 (Amendment) - Employee Benefits

The Group does not have post-employment defined benefit plans. This amendment will not affect the Group's financial statements.

(e) IAS 39 (Amendment) - The Fair Value Option

IAS 39 (Amendment) is applicable to annual periods beginning on or after 1 January 2006. The Group has not elected to adopt the amendment early. It will apply the amendment in its 2006 financial statements under the IAS 39 (Amendment) transition provisions. The Group does not expect that implementation of IAS 39 (Amendment) will have a significant impact on the financial statements.

(f) 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.

(g) 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.

(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.

(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.

3.1 Financial risk factor (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.

(e) Risk of dependency on Yukos Group

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 35). 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 summarised in Note 1.

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.

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

3.2 Accounting for derivative financial instruments and hedging activities (continued)

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 Yukos Oil Corporation OAO, 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 32. 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 1,389 thousand or LTL 3,984 thousand as at 30 June 2005.

4.2 Critical judgements in applying the Group's accounting policies

(a) Accounting for pipeline fill

The Group recognises pipeline fill representing crude oil which is in the pipe connecting the refinery and Būtingė import-export oil terminal as property plant and equipment. The Group uses the pipeline to transport crude oil belonging to third parties. According to the technical specifications of equipment, there must be always certain level of crude oil in the pipe which belongs to the Group, although transported oil belongs to third parties. The Group has classified the pipe line fill as property, plant and equipment because the management of the Group believes that this crude oil will be used for more than one year and its balance in tons does not change and does not impact cost of sales. Pipeline fill is depreciated to its residual value which is equal to the crude oil market price at each balance sheet date. Pipeline fill is tested for impairment annually. The balance of pipeline fill amounted to USD 8,532 thousand or LTL 24,469 thousand as at 30 June 2005.

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 30 June 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 not applied this exemption.

(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.

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

5.1 Basis of transition to IFRS (continued)

(e) Compound financial instruments exemption

The Group has applied the compound financial instruments exemption and aggregated the original equity component with retained earnings.

(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.

Previous GAAP was similar to IFRS in treatment of derivatives, financial assets, financial liabilities and hedging relationships. As a result the Group has not applied the exemption from restating the 2004 comparatives for effects of IAS 32 and IAS 39.

(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 and 31 December 2004 should be consistent with estimates made for the same date under previous GAAP, unless there is evidence that those estimates were in error. Estimates made by the Group under previous GAAP at 1 January 2004 and 31 December 2004 are consistent with estimates under IFRS.

(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, 30 June 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	Statutory 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)	-	170,547
Reclassification of minority interest to equity	5.2.2	-	-	-	-	-	-	906	906
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 30 June 2004									
Under previous GAAP		181,366	216,986	109	-	2,869	(148,828)	-	252,502
Reclassification of minority interest to equity	5.2.2	-	-	-	-	-	-	746	746
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	-	2,869	(4,594)	746	253,248
Balance at 31 December 2004									
Under previous GAAP		181,366	216,986	109	-	4,344	29,891	-	432,696
Reclassification of minority interest to equity	5.2.2	-	-	-	-	-	-	686	686
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	Statutory 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)	-	471,070
Reclassification of minority interest to equity	5.2.2	-	-	-	-	-	-	2,502	2,502
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 30 June 2004									
Under previous GAAP		707,454	859,979	437	-	(101,603)	(749,791)	-	716,476
Reclassification of minority interest to equity	5.2.2	-	-	-	-	-	-	2,296	2,296
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	-	(101,603)	(172,852)	2,296	718,772
Balance at 31 December 2004									
Under previous GAAP		707,454	859,979	437	-	(211,052)	(260,150)	-	1,096,668
Reclassification of minority interest to equity	5.2.2	-	-	-	-	-	-	1,739	1,739
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 recognised 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 recognised in 2004 by decreasing share premium and increasing retained earnings by USD 14,861 thousand (LTL 59,444 thousand).

Under previous GAAP minority interest was classified as a separate item in the balance. Under IFRS it was reclassified to equity.

(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 OAO 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 six months ended 30 June 2004

	Note	Six months ended 30 June 2004 USD			Six months ended 30 June 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		90,968	45	91,013	257,492	127	257,619
Interest paid		(13,339)	-	(13,339)	(37,516)	-	(37,516)
Income tax paid		(1)	-	(1)	(3)	-	(3)
Net cash generated from operating activities		77,628	45	77,673	219,973	127	220,100
Cash flows from investing activities							
Purchases of property, plant and equipment (PPE)		(13,947)	-	(13,947)	(39,521)	-	(39,521)
Proceeds from sale of PPE		430	-	430	1,227	-	1,227
Interest received		972	-	972	2,749	-	2,749
Cash received on liquidation of subsidiary		-	-	-	130	-	130
Net cash used in investing activities		(12,545)	-	(12,545)	(35,415)	-	(35,415)
Cash flows from financing activities							
Proceeds from borrowings		6,514	(6,514)	-	18,182	(18,182)	-
Repayments of borrowings		(5,955)	-	(5,955)	(16,545)	-	(16,545)
Finance lease principal payments		(165)	-	(165)	(463)	-	(463)
Change in long-term accounts receivable		45	(45)	-	127	(127)	-
Net cash generated from (used in) financing activities		439	(6,559)	(6,120)	1,301	(18,309)	(17,008)
Net increase in cash and bank overdrafts		65,522	(6,514)	59,008	185,859	(18,182)	167,677
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		355	5	360	11,046	(299)	10,747
Cash and bank overdrafts at end of period		198,232	(6,672)	191,560	562,483	(18,931)	543,552

The main IFRS transition effect presented by the Group in its statement of cash flow for the six months ended 30 June 2004, was:

- under GAAP, borrowings included 'Bank overdrafts'. 'Bank overdrafts' under IFRS should be classified as part of 'Cash and cash equivalents' for the purposes of the cashflow statement 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 coast. 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 three months ended 30 June 2005 are as follows:

USD

	Oil refinery	Oil terminal	Pipeline	Petrol stations	Other	Group
Total gross segment sales	936,503	8,325	7,364	7,515	337	960,044
Inter-segment sales	(3,844)	-	-	-	(337)	(4,181)
Sales	932,659	8,325	7,364	7,515	-	955,863
Operating profit / segment result	79,335	3,171	4,634	(1,082)	(175)	85,883
Finance costs						(6,835)
Share of profit of associates (Note 10)	37	-	-	-	-	37
Profit before income tax						79,085
Income tax expense						(12,040)
Profit for the period						67,045

LTL

	Oil refinery	Oil terminal	Pipeline	Petrol stations	Other	Group
Total gross segment sales	2,563,343	22,689	20,140	20,491	920	2,627,583
Inter-segment sales	(10,467)	-	-	-	(920)	(11,387)
Sales	2,552,876	22,689	20,140	20,491	-	2,616,196
Operating profit / segment result	217,292	8,478	12,660	(2,884)	(490)	235,056
Finance costs						(18,705)
Share of profit of associates (Note 10)	102	-	-	-	-	102
Profit before income tax						216,453
Income tax expense						(32,953)
Profit for the period						183,500

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

6. Segment information (continued)

The segment results for six months ended 30 June 2005 are as follows:

USD

	Oil refinery	Oil terminal	Pipeline	Petrol stations	Other	Group
Total gross segment sales	1,759,919	13,962	13,555	12,774	593	1,800,803
Inter-segment sales	(6,295)	-	-	-	(593)	(6,888)
Sales	1,753,624	13,962	13,555	12,774	-	1,793,915
Operating profit / segment result	170,233	2,638	8,357	(500)	(516)	180,212
Finance costs						(15,728)
Share of profit of associates (Note 10)	63	-	-	-	-	63
Profit before income tax						164,547
Income tax expense						(23,647)
Profit for the period						140,900

LTL

	Oil refinery	Oil terminal	Pipeline	Petrol stations	Other	Group
Total gross segment sales	4,727,446	37,504	36,411	34,313	1,593	4,837,267
Inter-segment sales	(16,909)	-	-	-	(1,593)	(18,502)
Sales	4,710,537	37,504	36,411	34,313	-	4,818,765
Operating profit / segment result	456,189	7,078	22,444	(1,353)	(1,386)	482,972
Finance costs						(42,075)
Share of profit of associates (Note 10)	170	-	-	-	-	170
Profit before income tax						441,067
Income tax expense						(63,459)
Profit for the period						377,608

The segment results for three months ended 30 June 2004 are as follows:

USD

	Oil refinery	Oil terminal	Pipeline	Petrol stations	Other	Group
Total gross segment sales	513,643	13,726	7,309	4,846	394	539,918
Inter-segment sales	(2,485)	-	-	-	(288)	(2,773)
Sales	511,158	13,726	7,309	4,846	106	537,145
Operating profit / segment result	48,416	6,029	4,468	(629)	379	58,663
Finance costs						(5,604)
Share of profit of associates (Note 10)	2	-	-	-	-	2
Profit before income tax						53,061
Income tax expense						(8,674)
Profit for the period						44,387

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

6. Segment information (continued)

LTL

	Oil refinery	Oil terminal	Pipeline	Petrol stations	Other	Group
Total gross segment sales	1,470,202	39,262	20,961	13,808	1,123	1,545,356
Inter-segment sales	(7,058)	-	-	-	(818)	(7,876)
Sales	1,463,144	39,262	20,961	13,808	305	1,537,480
Operating profit / segment result	138,889	17,400	12,856	(1,787)	1,051	168,409
Finance costs						(16,049)
Share of profit of associates (Note 10)	4	-	-	-	-	4
Profit before income tax						152,364
Income tax expense						(24,525)
Profit for the period						127,839

The segment results for six months ended 30 June 2004 are as follows:

USD

	Oil refinery	Oil terminal	Pipeline	Petrol stations	Other	Group
Total gross segment sales	1,042,241	27,330	15,632	8,579	703	1,094,485
Inter-segment sales	(4,149)	-	-	-	(475)	(4,624)
Sales	1,038,092	27,330	15,632	8,579	228	1,089,861
Operating profit / segment result	82,914	14,035	9,600	(1,145)	249	105,653
Finance costs						(14,172)
Share of loss of associates (Note 10)	(17)	-	-	-	-	(17)
Profit before income tax						91,464
Income tax expense						(9,224)
Profit for the period						82,240

LTL

	Oil refinery	Oil terminal	Pipeline	Petrol stations	Other	Group
Total gross segment sales	2,929,323	76,814	43,935	24,112	1,976	3,076,160
Inter-segment sales	(11,651)	-	-	-	(1,334)	(12,985)
Sales	2,917,672	76,814	43,935	24,112	642	3,063,175
Operating profit / segment result	233,812	39,428	26,976	(3,207)	693	297,702
Finance costs						(39,773)
Share of loss of associates (Note 10)	(48)	-	-	-	-	(48)
Profit before income tax						257,881
Income tax expense						(26,044)
Profit for the period						231,837

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

6. Segment information (continued)

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

USD	3 months ended 30 June 2005					
	Oil refinery	**Oil terminal**	**Pipeline**	**Petrol stations**	**Other**	**Group**
Depreciation	5,683	2,193	746	657	30	9,309
Amortisation	7,587	10	-	6	6	7,609
Reversal of impairment loss	124	-	-	-	-	124

LTL	3 months ended 30 June 2005					
	Oil refinery	**Oil terminal**	**Pipeline**	**Petrol stations**	**Other**	**Group**
Depreciation	15,555	6,002	2,042	1,798	82	25,479
Amortisation	20,767	27	-	16	16	20,826
Reversal of impairment loss	339	-	-	-	-	339

USD	6 months ended 30 June 2005					
	Oil refinery	**Oil terminal**	**Pipeline**	**Petrol stations**	**Other**	**Group**
Depreciation (Note 7)	11,620	4,393	1,527	1,365	70	18,975
Amortisation (Note 8)	13,460	20	-	18	6	13,504
Reversal of impairment loss (Note 7)	124	-	-	1,287	-	1,411

LTL	6 months ended June 2005					
	Oil refinery	**Oil terminal**	**Pipeline**	**Petrol stations**	**Other**	**Group**
Depreciation (Note 7)	31,158	11,784	4,095	3,659	188	50,884
Amortisation (Note 8)	36,202	53	-	48	16	36,319
Reversal of impairment loss (Note 7)	339	-	-	3,382	-	3,721

USD	3 months ended 30 June 2004					
	Oil refinery	**Oil terminal**	**Pipeline**	**Petrol stations**	**Other**	**Group**
Depreciation	5,556	1,780	1,076	429	21	8,862
Amortisation	298	4	-	3	4	309

LTL	3 months ended 30 June 2004					
	Oil refinery	**Oil terminal**	**Pipeline**	**Petrol stations**	**Other**	**Group**
Depreciation	15,941	5,100	3,086	1,231	61	25,419
Amortisation	855	12	-	9	11	887

USD	6 months ended 30 June 2004					
	Oil refinery	**Oil terminal**	**Pipeline**	**Petrol stations**	**Other**	**Group**
Depreciation (Note 7)	11,545	3,541	2,197	880	67	18,230
Amortisation (Note 8)	616	7	-	6	4	633
Impairment loss (Note 7)	472	-	-	-	-	472

LTL	6 months ended 30 June 2004					
	Oil refinery	**Oil terminal**	**Pipeline**	**Petrol stations**	**Other**	**Group**
Depreciation (Note 7)	32,478	9,962	6,181	2,476	188	51,285
Amortisation (Note 8)	1,733	20	-	17	11	1,781
Impairment loss (Note 7)	1,328	-	-	-	-	1,328

(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 30 June 2005 and capital expenditure for six months then ended are as follows:

USD

	Oil refinery	Oil terminal	Pipeline	Petrol stations	Other	Unallocated	Group
Assets	1,230,082	223,470	13,456	22,208	814	1,390	1,491,420
Associates	1,240	-	-	-	-	-	1,240
Total assets	1,231,322	223,470	13,456	22,208	814	1,390	1,492,660
Liabilities	861,906	28,387	1,038	1,982	113	119,820	1,013,246
Capital expenditure (Notes 7 and 8)	98,421	1,285	213	153	22	-	100,094

LTL

	Oil refinery	Oil terminal	Pipeline	Petrol stations	Other	Unallocated	Group
Assets	3,527,753	640,891	38,591	63,690	2,334	3,986	4,277,245
Associates	3,556	-	-	-	-	-	3,556
Total assets	3,531,309	640,891	38,591	63,690	2,334	3,986	4,280,801
Liabilities	2,471,843	81,411	2,977	5,684	324	343,631	2,905,870
Capital expenditure (Notes 7 and 8)	259,767	3,392	562	404	58	-	264,183

The segment assets and liabilities at 31 December 2004 and capital expenditure for six months ended on 30 June 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 (Notes 7 and 8)	8,907	3,082	74	460	16	-	12,539

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 (Notes 7 and 8)	25,058	8,671	208	1,294	45	-	35,276

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.

	2005				2004			
	3 months ended 30 June		6 months ended 30 June		3 months ended 30 June		6 months ended 30 June	
Sales	**USD**	**LTL**	**USD**	**LTL**	**USD**	**LTL**	**USD**	**LTL**
Lithuania	204,609	557,741	344,800	926,191	126,230	359,108	212,304	596,703
Estonia	63,550	173,519	112,069	301,037	32,426	92,298	55,534	156,084
Latvia	66,831	182,092	111,197	298,695	37,965	108,152	66,723	187,534
Poland	59,948	163,005	94,011	252,529	24,167	68,978	45,138	126,866
Ukraine	26,009	70,142	30,788	82,702	10,921	30,893	14,881	41,824
Virgin Islands	10,055	27,171	12,831	34,467	108	499	4,007	11,262
Russia	3,870	10,813	11,083	29,770	18,973	54,306	38,503	108,216
Austria	2,693	7,509	7,425	19,946	1,937	5,567	4,365	12,269
Other countries	4,255	11,612	7,430	19,956	6,860	19,699	15,208	42,743
Unallocated	514,043	1,412,592	1,062,281	2,853,472	277,558	797,980	633,198	1,779,674
	955,863	2,616,196	1,793,915	4,818,765	537,145	1,537,480	1,089,861	3,063,175

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

Sales through sales commissioner Petroval PTE Ltd. (2004 - Petroval SA), a related party (Note 35), were reported as unallocated sales. The commissioner made the majority of sales to the Western Europe and USA.

	At 30 June 2005		At 31 December 2004	
Total assets	**USD**	**LTL**	**USD**	**LTL**
Lithuania	1,391,478	3,990,622	1,172,605	2,971,970
Other countries	98,552	282,637	63,348	160,556
	1,490,030	4,273,259	1,235,953	3,132,526
Associates (Note 10)	1,240	3,556	1,336	3,386
Unallocated assets	1,390	3,986	99	252
	1,492,660	4,280,801	1,237,388	3,136,164

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

	2005				2004			
	3 months ended 30 June		6 months ended 30 June		3 months ended 30 June		6 months ended 30 June	
Capital expenditure	**USD**	**LTL**	**USD**	**LTL**	**USD**	**LTL**	**USD**	**LTL**
Lithuania	10,233	28,001	99,997	263,919	7,141	19,813	12,439	34,995
Other countries	86	235	97	264	70	194	100	281
	10,319	28,236	100,094	264,183	7,211	20,007	12,539	35,276

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

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

6. Segment information (continued)

Analysis of sales by category:

	2005				2004			
	3 months ended 30 June		6 months ended 30 June		3 months ended 30 June		6 months ended 30 June	
	USD	LTL	USD	LTL	USD	LTL	USD	LTL
Sales of goods	939,487	2,571,375	1,764,237	4,738,984	515,006	1,474,415	1,044,875	2,936,736
Revenue from services	16,376	44,821	29,678	79,781	22,139	63,065	44,986	126,439
	955,863	2,616,196	1,793,915	4,818,765	537,145	1,537,480	1,089,861	3,063,175

7. Property, plant and equipment

USD

	Land and buildings	Plant and machinery	Other property, plant and equipment	Construction in progress	Total
At 1 January 2004					
Cost	88,402	633,528	74,595	51,283	847,808
Accumulated depreciation and impairment	(29,425)	(263,031)	(29,482)	-	(321,938)
Net book amount	58,977	370,497	45,113	51,283	525,870
Six months ended 30 June 2004					
Opening net amount at 1 January 2004	58,977	370,497	45,113	51,283	525,870
Exchange differences	(317)	(175)	(84)	(10)	(586)
Additions	26	3,351	4,238	4,713	12,328
Disposals	(290)	-	(57)	-	(347)
Retirements	(1,722)	(13)	(164)	(8)	(1,907)
Reclassifications	775	13,317	-	(14,092)	-
Reclassification to other assets	-	-	-	(866)	(866)
Impairment charge	(60)	(158)	-	(254)	(472)
Depreciation charge	(1,175)	(14,329)	(2,726)	-	(18,230)
Closing net amount at 30 June 2004	56,214	372,490	46,320	40,766	515,790
Six months ended 31 December 2004					
Opening net amount at 1 July 2004	56,214	372,490	46,320	40,766	515,790
Exchange differences	1,289	823	345	42	2,499
Additions	69	7,264	2,447	4,121	13,901
Disposals	(437)	(83)	(482)	-	(1,002)
Retirements	(538)	(371)	(272)	(3,322)	(4,503)
Reclassifications	334	13,340	148	(13,822)	-
Reclassification to other assets	(109)	-	(8)	(115)	(232)
Impairment charge	-	-	-	(9,841)	(9,841)
Depreciation charge	(1,175)	(14,381)	(3,245)	-	(18,801)
Closing net amount at 31 December 2004	55,647	379,082	45,253	17,829	497,811

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

7. Property, plant and equipment (continued)

USD

	Land and buildings	Plant and machinery	Other property, plant and equipment	Construction in progress	Total
At 31 December 2004					
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
Six months ended 30 June 2005					
Opening net amount at 1 January 2005	55,647	379,082	45,253	17,829	497,811
Exchange differences	(1,425)	(774)	(324)	(23)	(2,546)
Additions	137	689	1,463	20,769	23,058
Disposals	(57)	-	(2)	-	(59)
Retirements	-	(214)	(2,144)	(293)	(2,651)
Reclassifications	664	67	591	(1,322)	-
Reversal of impairment charge	1,411	-	-	-	1,411
Depreciation charge	(1,211)	(14,562)	(3,202)	-	(18,975)
Closing net amount at 30 June 2005	55,166	364,288	41,635	36,960	498,049
At 30 June 2005					
Cost	83,034	662,072	75,141	36,960	857,207
Accumulated depreciation and impairment	(27,868)	(297,784)	(33,506)	-	(359,158)
Net book amount	55,166	364,288	41,635	36,960	498,049

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

7. Property, plant and equipment (continued)

LTL

	Land and buildings	Plant and machinery	Other property, plant and equipment	Construction in progress	Total
At 1 January 2004					
Cost	244,175	1,749,868	206,039	141,649	2,341,731
Accumulated depreciation and impairment	(81,275)	(726,518)	(81,432)	-	(889,225)
Net book amount	162,900	1,023,350	124,607	141,649	1,452,506
Six months ended 30 June 2004					
Opening net amount at 1 January 2004	162,900	1,023,350	124,607	141,649	1,452,506
Exchange differences	3,490	27,491	3,193	3,584	37,758
Additions	73	9,427	11,923	13,259	34,682
Disposals	(816)	-	(160)	-	(976)
Retirements	(4,844)	(37)	(461)	(24)	(5,366)
Reclassifications	2,180	37,463	-	(39,643)	-
Reclassification to other assets	-	-	-	(2,436)	(2,436)
Impairment charge	(169)	(444)	-	(715)	(1,328)
Depreciation charge	(3,306)	(40,310)	(7,669)	-	(51,285)
Closing net amount at 30 June 2004	159,508	1,056,940	131,433	115,674	1,463,555
Six months ended 31 December 2004					
Opening net amount at 1 July 2004	159,508	1,056,940	131,433	115,674	1,463,555
Exchange differences	(13,369)	(112,014)	(12,857)	(7,323)	(145,563)
Additions	190	19,967	6,726	11,327	38,210
Disposals	(1,201)	(228)	(1,325)	-	(2,754)
Retirements	(1,479)	(1,020)	(748)	(9,131)	(12,378)
Reclassifications	918	36,668	407	(37,993)	-
Reclassification to other assets	(300)	-	(22)	(316)	(638)
Impairment charge	-	-	-	(27,051)	(27,051)
Depreciation charge	(3,230)	(39,529)	(8,920)	-	(51,679)
Closing net amount at 31 December 2004	141,037	960,784	114,694	45,187	1,261,702

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

7. Property, plant and equipment (continued)

LTL

	Land and buildings	Plant and machinery	Other property, plant and equipment	Construction in progress	Total
At 31 December 2004					
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
Six months ended 30 June 2005					
Opening net amount at 1 January 2005	141,037	960,784	114,694	45,187	1,261,702
Exchange differences	14,751	121,539	13,604	9,558	159,452
Additions	360	1,869	4,003	55,537	61,769
Disposals	(154)	-	(6)	-	(160)
Retirements	-	(586)	(5,868)	(792)	(7,246)
Reclassifications	1,745	195	1,552	(3,492)	-
Reversal of impairment charge	3,721	-	-	-	3,721
Depreciation charge	(3,250)	(39,060)	(8,574)	-	(50,884)
Closing net amount at 30 June 2005	158,210	1,044,741	119,405	105,998	1,428,354
At 30 June 2005					
Cost	238,133	1,898,756	215,497	105,998	2,458,384
Accumulated depreciation and impairment	(79,923)	(854,015)	(96,092)	-	(1,030,030)
Net book amount	158,210	1,044,741	119,405	105,998	1,428,354

Reversal of impairment loss of USD 1,411 thousand or LTL 3,721 thousand is included in administrative expenses in the income statement.

Depreciation expense has been allocated as follows:

	2005				2004			
	3 months ended 30 June		6 months ended 30 June		3 months ended 30 June		6 months ended 30 June	
	USD	LTL	USD	LTL	USD	LTL	USD	LTL
Cost of goods sold	7,487	20,493	15,241	40,873	7,437	21,320	15,080	42,423
Selling and marketing costs	1,409	3,856	2,874	7,706	996	2,856	2,031	5,714
Administrative expenses	413	1,130	860	2,305	429	1,243	1,119	3,148
	9,309	25,479	18,975	50,884	8,862	25,419	18,230	51,285

As at 31 December 2004 land and buildings for the net book value USD 21,325 thousand or LTL 54,048 thousand were provided as collateral for bank borrowings (Note 21).

No borrowing costs were capitalised during the six month period ended 30 June 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:

	30 June 2005		At 31 December 2004	
	USD	LTL	USD	LTL
Land and building	1,053	3,021	713	1,807
Plant and machinery	486	1,393	862	2,185
Other PPE	32	92	40	101
	1,571	4,506	1,615	4,093

8. Intangible assets

USD

	Software	Patents and licences	Allowances	Total
At 1 January 2004				
Cost	7,302	5,906	-	13,208
Accumulated amortisation	(3,673)	(4,452)	-	(8,125)
Net book amount	3,629	1,454	-	5,083
Six months ended 30 June 2004				
Opening net amount at 1 January 2004	3,629	1,454	-	5,083
Exchange differences	(3)	-	-	(3)
Additions	211	-	-	211
Amortisation charge	(455)	(178)	-	(633)
Closing net amount at 30 June 2004	3,382	1,276	-	4,658
Six months ended 31 December 2004				
Opening net amount at 1 July 2004	3,382	1,276	-	4,658
Exchange differences	12	-	-	12
Additions	294	151	-	445
Reclassifications from other assets	221	-	-	221
Amortisation charge	(473)	(177)	-	(650)
Closing net amount at 31 December 2004	3,436	1,250	-	4,686
At 31 December 2004				
Cost	7,952	6,057	-	14,009
Accumulated amortisation	(4,516)	(4,807)	-	(9,323)
Net book amount	3,436	1,250	-	4,686
Six months ended 30 June 2005				
Opening net amount at 1 January 2005	3,436	1,250	-	4,686
Exchange differences	(14)	-		(14)
Additions	155		76,881	77,036
Amortisation charge	(487)	(204)	(12,813)	(13,504)
Closing net amount at 30 June 2005	3,090	1,046	64,068	68,204
At 30 June 2005				
Cost	8,028	6,057	76,881	90,966
Accumulated amortisation	(4,938)	(5,011)	(12,813)	(22,762)
Net book amount	3,090	1,046	64,068	68,204

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

8. Intangible assets

LTL	Software	Patents and licences	Allowances	Total
At 1 January 2004				
Cost	20,169	16,314	-	36,483
Accumulated amortisation	(10,145)	(12,297)	-	(22,442)
Net book amount	10,024	4,017	-	14,041
Six months ended 30 June 2004				
Opening net amount at 1 January 2004	10,024	4,017	-	14,041
Exchange differences	258	104	-	362
Additions	594	-	-	594
Amortisation charge	(1,280)	(501)	-	(1,781)
Closing net amount at 30 June 2004	9,596	3,620	-	13,216
Six months ended 31 December 2004				
Opening net amount at 1 July 2004	9,596	3,620	-	13,216
Exchange differences	(1,003)	(379)	-	(1,382)
Additions	808	415	-	1,223
Reclassifications from other assets	607	-	-	607
Amortisation charge	(1,300)	(487)	-	(1,787)
Closing net amount at 31 December 2004	8,708	3,169	-	11,877
At 31 December 2004				
Cost	20,154	15,352	-	35,506
Accumulated amortisation	(11,446)	(12,183)	-	(23,629)
Net book amount	8,708	3,169	-	11,877
Six months ended 30 June 2005				
Opening net amount at 1 January 2005	8,708	3,169	-	11,877
Exchange differences	1,050	378	16,147	17,575
Additions	410	-	202,059	202,469
Amortisation charge	(1,307)	(547)	(34,465)	(36,319)
Closing net amount at 30 June 2005	8,861	3,000	183,741	195,602
At 30 June 2005				
Cost	23,024	17,371	220,487	260,882
Accumulated amortisation	(14,163)	(14,371)	(36,746)	(65,280)
Net book amount	8,861	3,000	183,741	195,602

Amortisation expense has been allocated as follows:

	2005				**2004**			
	3 months ended 30 June		**6 months ended 30 June**		**3 months ended 30 June**		**6 months ended 30 June**	
	USD	**LTL**	**USD**	**LTL**	**USD**	**LTL**	**USD**	**LTL**
Cost of goods sold	7,379	20,196	13,053	35,108	102	293	206	580
Selling and marketing costs	9	25	23	62	7	20	10	28
Administrative expenses	221	605	428	1,149	200	574	417	1,173
	7,609	20,826	13,504	36,319	309	887	633	1,781

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

8. Intangible assets (continued)

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 using the straight-line basis over the 3 years period.

9. Goodwill

	USD	LTL
At 1 January 2005	-	-
Acquisition of share in subsidiary (Note 34)	444	1,183
Exchange differences	(32)	-
At 30 June 2005	412	1,183

There were no movements in goodwill during the year ended 31 December 2004.

Goodwill is allocated to the Group's cash-generating units (CGUs) identified according to business segment. All goodwill amounting to USD 412 thousand or LTL 1,183 thousand as at 30 June 2005 was allocated to the petrol stations business segment and the Lithuania geographical segment. The Group tests goodwill for impairment annually at 31 December.

10. Investments in associates

	USD	LTL
At 1 January 2004	1,391	3,842
Share of (loss) after tax	(17)	(48)
Exchange differences	(39)	(6)
At 30 June 2004	1,335	3,788
Share of (loss) after tax	(146)	(405)
Exchange differences	147	3
At 1 January 2005	1,336	3,386
Share of profit after tax	63	170
Exchange differences	(159)	-
At 30 June 2005	1,240	3,556

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

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

	At 30 June 2005		At 31 December 2004	
	USD	LTL	USD	LTL
Assets	4,517	12,956	4,940	12,521
Liabilities	870	2,496	987	2,501

	2005				2004			
	3 months ended 30 June		6 months ended 30 June		3 months ended 30 June		6 months ended 30 June	
	USD	LTL	USD	LTL	USD	LTL	USD	LTL
Revenues	6,621	18,121	10,800	29,104	3,057	8,366	4,662	12,799
Profit/(loss)	96	264	163	440	7	17	(50)	(141)

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

11. Non-current receivables and prepayments

	30 June 2005		31 December 2004	
	USD	LTL	USD	LTL
Trade receivables	2,209	6,334	2,899	7,346
Less provision for impairment of receivables	(1,423)	(4,082)	(1,683)	(4,266)
Trade receivables – net	786	2,252	1,216	3,080
Reimbursement for environmental obligations receivable from the Government of Lithuania (Note 23)	11,007	31,567	-	-
Prepayments for PPE and intangible assets	3,977	11,407	3,944	9,997
Prepayment for real estate tax	2,556	7,330	4,469	11,326
Loans to employees	276	792	334	847
Other non-current receivables	189	542	151	384
Discounting effect	(424)	(1,216)	(592)	(1,499)
	18,367	52,674	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.

12. Inventories

	30 June 2005		31 December 2004	
	USD	LTL	USD	LTL
Raw and supplementary materials (at cost)	25,492	73,109	64,774	164,170
Raw and supplementary materials (at net realisable value)	744	2,134	-	-
Finished goods and goods for resale (at cost)	94,139	269,982	96,008	243,331
Finished goods and goods for resale (at net realisable value)	576	1,652	644	1,632
Semi-finished goods (at cost)	12,641	36,253	6,319	16,015
Semi-finished goods (at net realisable value)	6,325	18,139	6,182	15,669
Spare parts and other (at cost)	20,915	59,982	19,919	50,485
	160,832	461,251	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.

Inventory amounting to USD 88,927 thousand or LTL 255,033 thousand (December 2004: nil) is provided as collateral for bank borrowings (Note 21) and letters of credit and guarantees issued by the banks on behalf of the Group.

13. Trade and other receivables

	30 June 2005		31 December 2004	
	USD	LTL	USD	LTL
Trade receivables	89,401	256,393	67,520	171,130
Less provision for impairment of receivables	(15,767)	(45,219)	(17,135)	(43,429)
Trade receivables – net	73,634	211,174	50,385	127,701
Receivables from related parties (Note 35)	101,535	291,192	72,321	183,298
Prepaid and recoverable taxes	2,907	8,336	5,401	13,688
Accrued income and deferred charges	3,144	9,015	6,272	15,897
Other receivables	770	2,213	1,723	4,368
	181,990	521,930	136,102	344,952

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

13. Trade and other receivables (continued)

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 100,511 thousand or LTL 288,255 thousand as at 30 June 2005 (Note 35). 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.

14. Derivative financial instruments

Derivative financial instruments comprise forward foreign exchange contracts. As at 30 June 2005 the fair value of the Group's foreign currency derivatives was USD 4 thousand or LTL 11 thousand (December 2004: nil) and notional amount of PLN put options amounted to USD 1,085 thousand or LTL 3,111 thousand (December 2004: USD 7,858 thousand or LTL 19,915 thousand).

15. Cash and cash equivalents

	30 June 2005		31 December 2004	
	USD	LTL	USD	LTL
Cash at bank and in hand	487,414	1,397,856	253,525	642,693
Short-term bank deposits	74,601	213,948	140,194	355,188
	562,015	1,611,804	393,719	997,881

The effective interest rate on short-term bank deposits was 3.29% (December 2004: 2.55 %). These deposits have an average maturity of 55 days.

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

	30 June 2005		31 December 2004	
	USD	LTL	USD	LTL
Cash held at banks to secure issued letters of credit	386,577	1,108,663	178,606	452,677
Cash held at banks to secure issued guaranties	2,187	6,272	-	-
	388,764	1,114,935	178,606	452,677

As at 31 December 2004 the Group had cash amounting USD 11,205 thousand or LTL 28,399 thousand received from Yukos Oil Company OAO under a loan agreement. These funds could be used only for financing of the oil refinery modernisation project. During the six month period ended 30 June 2005 the Group used the whole amount.

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

	30 June 2005		31 December 2004	
	USD	LTL	USD	LTL
Cash and cash equivalents	562,015	1,611,804	393,719	997,881
Bank overdrafts (Note 21)	(55,487)	(159,131)	(80)	(200)
	506,528	1,452,673	393,639	997,681

Cash at bank amounting to USD 4,184 thousand or LTL 12,037 thousand (December 2004: nil) is provided as collateral for letters of credit and guarantees issued by the banks on behalf of the Group.

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

16. Non-current assets classified as held for sale

Non-current assets classified as held for sale represent property, plant and equipment included in petrol stations segment assets and no longer used in the activities of the Group which the Group plans to sell in 2005.

17. Share capital

As at 30 June 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. There were no movements in number of shares outstanding during 2005 and 2004. All issued shares are fully paid.

18. Reserves

A legal reserve is a compulsory reserve under Lithuanian legislation. Annual transfer of 5% of profit available for distribution is compulsory until the reserve reaches 10% of the share capital. The legal reserve cannot be distributed as dividends and is formed to cover future losses. As at 30 June 2005 legal reserve amounted to USD 13,111 thousand or LTL 35,043 thousand (December 2004: nil).

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 statutory 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 statutory revaluation reserve into the share capital. As at 30 June 2005 the remaining balance of statutory revaluation reserve amounted to USD 109 thousand or LTL 437 thousand (December 2004: USD 109 thousand or LTL 437 thousand).

19. Other non-current liabilities

	30 June 2005		31 December 2004	
	USD	**LTL**	**USD**	**LTL**
Non-current portion of deferred income	43,454	124,622	-	-
Government grant relating to purchases of PPE	4,975	14,268	4,985	12,634
	48,429	138,890	4,985	12,634

The non-current portion of deferred income amounting to USD 43,454 thousand or LTL 124,622 thousand as at 30 June 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 64,442 thousand as at 30 June 2005 and was recorded under trade and other payables (Note 20).

Government grant relating to purchases of PPE includes financing of USD 4,963 thousand or LTL 14,233 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.

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

20. Trade and other payables

	30 June 2005		31 December 2004	
	USD	LTL	USD	LTL
Trade payables	232,665	667,260	136,296	345,442
Amounts due to related parties (Note 35)	8,735	25,051	75,159	190,490
Advances received	4,503	12,915	1,897	4,808
Accruals and deferred income	55,688	159,690	4,864	12,328
Taxes other than income tax	48,005	137,674	44,045	111,632
Social security contributions	1,544	4,427	1,690	4,283
Other current liabilities	2,341	6,714	1,015	2,578
	353,481	1,013,731	264,966	671,561

21. Borrowings

	30 June 2005		31 December 2004	
	USD	LTL	USD	LTL
Non-current				
Bank borrowings	167,553	480,525	176,666	447,761
Loans from related parties (Note 35)	288,927	828,614	288,927	732,285
Finance lease liabilities	338	969	323	819
	456,818	1,310,108	465,916	1,180,865
Current				
Bank overdrafts (Note 15)	55,487	159,131	80	200
Bank borrowings	9,714	27,859	11,518	29,194
Finance lease liabilities	108	310	355	900
	65,309	187,300	11,953	30,294
Total borrowings	522,127	1,497,408	477,869	1,211,159

Total borrowings include collateralised liabilities of USD 55,933 thousand or LTL 160,410 thousand (December 2004: USD 6,059 thousand or LTL 15,358 thousand). Inventory (December 2004: property, plant and equipment (Note 7)) of the Group is provided as collateral for bank borrowings (Note 12). The rights to the asset leased under finance lease revert to the lessor in the event of default. Borrowings amounting to USD 466,182 thousand or LTL 1,336,964 thousand (December 2004: USD 441,035 thousand or LTL 1,117,803 thousand) are guaranteed by the Government of the Republic of Lithuania.

Bank borrowings amounting to USD 232,284 thousand or LTL 666,167 thousand (December 2004: USD 181,577 thousand or LTL 460,207 thousand) are bearing floating interest rate with repricing period between 3 and 6 months. Borrowings of USD 289,397 thousand or LTL 829,962 thousand (December 2004: USD 295,614 or LTL 749,233) are bearing fixed interest rate.

Maturity dates for borrowings bearing fixed interest rate are as follows:

	30 June 2005		31 December 2004	
	USD	LTL	USD	LTL
6 months or less	157	450	1,259	3,191
6-12 months	157	450	1,066	2,702
1-5 years	72,389	207,604	40,477	102,589
Over 5 years	216,694	621,458	252,812	640,751
	289,397	829,962	295,614	749,233

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

21. Borrowings (continued)

The maturity of non-current borrowings (excluding finance lease liabilities) is as follows:

	30 June 2005		31 December 2004	
	USD	**LTL**	**USD**	**LTL**
Between 1 and 2 years	7,026	20,150	10,879	27,573
Between 2 and 5 years	120,258	344,888	70,652	179,068
Over 5 years	329,196	944,101	384,062	973,405
	456,480	1,309,139	465,593	1,180,046

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

	30 June 2005		31 December 2004	
	USD	**Other**	**USD**	**Other**
Bank overdrafts	4.4%	-	-	7%
Bank borrowings	6%	3.9%	4%	3.9%
Borrowings from related parties	7%	-	7%	-
Finance lease liabilities	-	7.7%	-	7.4%

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

	30 June 2005		31 December 2004	
	USD	**LTL**	**USD**	**LTL**
Borrowings	336,288	964,440	346,547	878,323

The fair value is based on cash flows discounted using a rate based on the borrowings rate of 4.7% (December 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:

	30 June 2005		31 December 2004	
	USD	**LTL**	**USD**	**LTL**
US dollar	521,582	1,495,845	477,094	1,209,195
Other currencies	545	1,563	775	1,964
	522,127	1,497,408	477,869	1,211,159

The Group has the following undrawn borrowing facilities:

	30 June 2005		31 December 2004	
	USD	**LTL**	**USD**	**LTL**
Floating rate				
– expiring within one year	4,513	12,943	10,030	25,423
Fixed rate				
– expiring within one year	-	-	118	300
	4,513	12,943	10,148	25,723

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

21. Borrowings (continued)

Finance lease liabilities - minimum lease payments:

	30 June 2005		31 December 2004	
	USD	LTL	USD	LTL
Not later than 1 year	114	329	397	1,006
Later than 1 year and not later than 5 years	365	1,046	346	877
	479	1,375	743	1,883
Future finance charges on finance leases	(33)	(96)	(65)	(164)
Present value of finance lease liabilities	446	1,279	678	1,719

The present value of finance lease liabilities is as follows:

	30 June 2005		31 December 2004	
	USD	LTL	USD	LTL
Not later than 1 year	108	310	355	900
Later than 1 year and not later than 5 years	338	969	323	819
	446	1,279	678	1,719

The borrowings outstanding as at 30 June 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.

22. 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 Group did not have deferred tax liabilities. The recovery terms of deferred tax assets are as follows:

	30 June 2005		31 December 2004	
	USD	LTL	USD	LTL
Deferred tax assets:				
– to be recovered after more than 12 months	64	184	-	-
– to be recovered within 12 months	1,325	3,800	13	33
	1,389	3,984	13	33

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

22. Deferred income tax (continued)

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

	USD	LTL
1 January 2004	572	1,581
Exchange differences	-	(31)
Income statement charge (Note 27)	(561)	(1,519)
End of the six month period 30 June 2004	11	31
1 June 2004	11	31
Exchange differences	-	48
Income statement charge	2	(46)
End of the six month period 31 December 2004	13	33
1 January 2005	13	33
Exchange differences	-	246
Income statement charge (Note 27)	1,376	3,705
End of the six month period 30 June 2005	1,389	3,984

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	**Accrued expenses**	**Unrealised profit in inventory and valuation at net realisable value**	**Other**	**Total**
At 1 January 2004	-	-	881	881
(Charged) to income statement	-	-	(561)	(561)
At 30 June 2004	-	-	320	320
(Charged) to income statement	-	-	(307)	(307)
At 31 December 2004	-	-	13	13
Credited to income statement	663	617	96	1,376
At 30 June 2005	663	617	109	1,389

Deferred tax liabilities	**Differences in depreciation rates**	**Total**
At 1 January 2004	(309)	(309)
(Charged)/credited to income statement	-	-
At 30 June 2004	(309)	(309)
Credited to income statement	309	309
At 31 December 2004	-	-
(Charged)/credited to income statement	-	-
At 30 June 2005	-	-

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

22. Deferred income tax (continued)

LTL

Deferred tax assets	Accrued expenses	Unrealised profit in inventory and valuation at net realisable value	Other	Total
At 1 January 2004	-	-	2,434	2,434
Exchange differences	-	-	(7)	(7)
(Charged) to income statement	-	-	(1,519)	(1,519)
At 30 June 2004	-	-	908	908
Exchange differences	-	-	48	48
(Charged) to income statement	-	-	(923)	(923)
At 31 December 2004	-	-	33	33
Exchange differences	189	156	31	376
Credited to income statement	1,712	1,613	250	3,575
At 30 June 2005	1,901	1,769	314	3,984

Deferred tax liabilities	Differences in depreciation rates	Total
At 1 January 2004	(853)	(853)
Exchange differences	(24)	(24)
Charged/(credited) to income statement	-	-
At 30 June 2005	(877)	(877)
Exchange differences	-	-
Credited to income statement	877	877
At 31 December 2004	-	-
Exchange differences	(130)	(130)
Credited to income statement	130	130
At 30 June 2005	-	-

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 2,656 thousand or LTL 7,616 thousand (December 2004: USD 2,764 thousand or LTL 7,005 thousand) in respect of losses amounting to USD 17,704 thousand or LTL 50,773 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:

	30 June 2005		**31 December 2004**	
	USD	**LTL**	**USD**	**LTL**
Expiry date				
2005	4,088	11,723	4,722	11,968
2006	3,347	9,598	3,787	9,598
2007	1,790	5,134	2,133	5,406
2008	2,934	8,416	3,477	8,812
2009	3,627	10,402	4,306	10,914
2010	1,918	5,500	-	-
	17,704	50,773	18,425	46,698

As at 30 June 2005 the Group has not recognised deferred tax asset amounting to USD 20,181 thousand or LTL 57,877 thousand on the difference between the tax base and carrying amount of non-monetary assets arising on foreign exchange difference in measuring the Group’s taxable profit in a different currency than its functional currency because the management believes that no future taxable profit will be available against which the temporary difference can be utilised.

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

23. Provisions

USD

	Claim received from the supplier	Environmental obligations	Penalty imposed by Competition Council	Total
At 1 January 2004	2,900	-	-	2,900
Charged to income statement				
- additional provisions	-	-	-	-
Used during the period	-	-	-	-
At 30 June 2004	2,900	-		2,900
Charged to income statement				
- additional provisions	-	-	-	-
Used during the period	-	-	-	-
At 31 December 2004	2,900	-	-	2,900
Charged to income statement				
- additional provisions	-	11,007	3,487	14,494
Used during the period	-	-	-	-
At 30 June 2005	2,900	11,007	3,487	17,394

LTL

	Claim received from the supplier	Environmental obligations	Penalty imposed by Competition Council	Total
At 1 January 2004	8,010	-	-	8,010
Charged to income statement				
- additional provisions	-	-	-	-
Used during the period	-	-	-	-
Exchange differences	219	-	-	219
At 30 June 2004	8,229	-		8,229
Charged to income statement				
- additional provisions	-	-	-	-
Used during the period	-	-	-	-
Exchange differences	(879)	-	-	(879)
At 31 December 2004	7,350	-	-	7,350
Charged to income statement				
- additional provisions	-	30,126	9,543	39,669
Used during the period	-	-	-	-
Exchange differences	967	1,441	457	2,865
At 30 June 2005	8,317	31,567	10,000	49,884

Analysis of total provisions:	30 June 2005		31 December 2004	
	USD	LTL	USD	LTL
- non-current	11,007	31,567	-	-
- current	6,387	18,317	2,900	7,350
	17,394	49,884	2,900	7,350

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

23. Provisions (continued)

(a) Claim received from the supplier
Provisions of USD 2,900 thousand or LTL 8,317 thousand (December 2004: USD 2,900 thousand or LTL 7,350 thousand) represent provision for probable losses in relation to claim received from PPS Pipeline Systems (PPS), the contractor of the Oil Terminal Project, to compensate Lithuanian VAT (Note 32).

(b) Environmental obligations
In the production process the oil refinery causes contamination. A provision was recognised for the costs to be incurred for the treatment of the waste which was accumulated before 1999. According to the waste treatment plan agreed with the Ministry of Environment of the Republic of Lithuania, the Group has to clean up all contamination that it causes before 2012. It is expected that the provision will be used after 2006. The Group recognised related reimbursement for environmental obligations receivable from the Government of Lithuania (Note 11). According to the Investment Agreement signed between the Company, the Government of the Republic of Lithuania and Williams International Company (replaced by Yukos Finance B.V.) the Government of Lithuania committed itself to compensate all losses to the strategic investor and the Company incurred before the privatisation.

(c) Penalty imposed by the Competition Council
In July 2005 the Lithuanian Competition Council completed an investigation against the Company (Note 32). It concluded that the Company abused its dominant position in Lithuania, Latvia and Estonia market of petrol and diesel in 2002 – 2004. The Lithuanian Competition Council obligated the Company to terminate the activities violating the laws of the Republic of Lithuania and European Union and proposed to impose a penalty on the Company. The Group created provision for probable penalty amounting to USD 3,487 thousand or LTL 10,000 thousand as at 30 June 2005.

24. Other operating income

	2005				**2004**			
	3 months ended 30 June		**6 months ended 30 June**		**3 months ended 30 June**		**6 months ended 30 June**	
	USD	**LTL**	**USD**	**LTL**	**USD**	**LTL**	**USD**	**LTL**
Interest income	3,246	8,884	5,546	14,929	562	1,615	972	2,749
Derivative instruments	39	107	73	196	-	-	-	-
Other operating income	155	421	490	1,301	71	200	46	122
	3,440	9,412	6,109	16,426	633	1,815	1,018	2,871

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

25. Expenses by nature

	2005				2004			
	3 months ended 30 June		6 months ended 30 June		3 months ended 30 June		6 months ended 30 June	
	USD	LTL	USD	LTL	USD	LTL	USD	LTL
Depreciation and amortisation (Notes 7 and 8)	16,918	46,305	32,479	87,203	9,171	26,306	18,863	53,066
Wages and salaries	14,353	39,366	28,013	75,267	12,511	35,767	25,084	70,483
Social security costs	4,401	12,070	8,584	23,064	3,893	11,125	7,725	21,706
Costs of crude oil and feedstock	714,194	1,957,814	1,376,720	3,699,064	405,196	1,159,534	836,430	2,350,249
Additives and catalysts	1,317	3,661	3,404	9,146	1,070	3,091	2,804	7,879
Changes in inventories of finished goods and work in progress	29,787	78,286	(10)	(27)	(9,788)	(28,373)	(27,634)	(77,649)
Transit and freight	18,499	50,819	37,509	100,781	11,055	31,962	29,529	82,972
Railway services	13,808	37,989	28,942	77,764	9,532	27,412	22,410	62,970
Terminal and laboratory services	7,979	21,938	16,522	44,391	5,447	15,690	13,327	37,448
Electricity	8,747	24,028	17,689	47,529	7,491	21,464	16,033	45,050
Steam power	3,084	8,620	8,755	23,525	3,052	8,833	8,320	23,379
Carbon dioxide emission costs, net	13,623	36,798	16,941	45,518	-	-	-	-
Intermediary services	3,811	10,456	7,493	20,133	1,382	3,889	1,519	4,267
Consumables and office supplies	3,574	9,785	6,672	17,927	3,846	10,936	6,506	18,281
Other logistics expenses	2,363	6,502	4,946	13,291	1,511	4,252	1,666	4,680
Taxes, other than income tax	2,872	7,869	5,473	14,705	2,213	6,313	4,170	11,717
Insurance	1,804	4,960	3,717	9,988	1,955	5,587	3,912	10,991
Operating lease	1,698	4,660	3,354	9,012	1,705	4,845	2,801	7,871
Professional fees	815	2,246	1,777	4,774	709	2,047	1,817	5,106
Change in provision for impairment of receivables	(1,345)	(3,681)	(1,364)	(3,732)	33	12	33	12
Other expenses	11,118	30,061	12,196	32,896	7,131	20,194	9,911	27,866
	873,420	2,390,552	1,619,812	4,352,219	479,115	1,370,886	985,226	2,768,344
Classified as:								
– cost of sales	802,760	2,197,155	1,481,894	3,982,055	433,469	1,240,353	881,257	2,476,674
– selling and marketing costs	50,459	138,107	103,052	276,332	31,722	90,731	76,340	213,907
– administrative expenses	20,201	55,290	34,866	93,832	13,924	39,802	27,629	77,763
	873,420	2,390,552	1,619,812	4,352,219	479,115	1,370,886	985,226	2,768,344

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

26. Finance costs

	2005				2004			
	3 months ended 30 June		6 months ended 30 June		3 months ended 30 June		6 months ended 30 June	
	USD	LTL	USD	LTL	USD	LTL	USD	LTL
Interest expense:								
– borrowings	6,890	18,860	13,732	36,841	6,292	18,061	13,308	37,429
– finance lease	9	25	20	54	14	41	31	87
	6,899	18,885	13,752	36,895	6,306	18,102	13,339	37,516
Foreign exchange transaction (gains)/losses	(152)	(420)	1,959	5,127	(702)	(2,053)	833	2,257
Other finance costs	88	240	17	53	-	-	-	-
	6,835	18,705	15,728	42,075	5,604	16,049	14,172	39,773

27. Income tax expense

	2005				2004			
	3 months ended 30 June		6 months ended 30 June		3 months ended 30 June		6 months ended 30 June	
	USD	LTL	USD	LTL	USD	LTL	USD	LTL
Current tax	12,850	35,170	25,023	67,164	8,663	24,525	8,663	24,525
Deferred tax (Note 22)	(810)	(2,217)	(1,376)	(3,705)	11	-	561	1,519
	12,040	32,953	23,647	63,459	8,674	24,525	9,224	26,044

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:

	2005				2004			
	3 months ended 30 June		6 months ended 30 June		3 months ended 30 June		6 months ended 30 June	
	USD	LTL	USD	LTL	USD	LTL	USD	LTL
Profit before tax	79,085	216,453	164,547	441,067	53,061	152,364	91,464	257,881
Tax calculated at 15% (2004: 15%)	11,863	32,468	24,682	66,160	7,960	22,855	13,720	38,682
Effect of different tax rates in other countries	(38)	(104)	(304)	(803)	(77)	(221)	(77)	(221)
Non-deductible exchange differences	(1,658)	(4,538)	(1,658)	(4,538)	(2)	(380)	(2)	(380)
Exchange differences for which no deferred income tax asset was recognised	(779)	(2,132)	(2,551)	(6,789)	132	378	(2,614)	(7,127)
Income not subject to tax	(284)	(777)	(576)	(1,544)	49	140	(26)	(67)
Expenses not deductible for tax purposes	3,695	10,113	4,916	13,321	(100)	(287)	830	2,281
Capital investment relief	(766)	(2,097)	(766)	(2,097)	589	1,688	(2,893)	(7,926)
Charity expenses deductible twice for tax purposes	(111)	(304)	(405)	(1,077)	-	-	-	-
Utilisation of previously unrecognised tax losses	4	11	(11)	(28)	(2)	(6)	(2)	(6)
Tax losses for which no deferred income tax asset was recognised	114	313	320	854	125	358	288	808
Tax charge	12,040	32,953	23,647	63,459	8,674	24,525	9,224	26,044

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

27. Income tax expense (continued)

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.

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 32.

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. The effective tax rate for the six-month period ended 30 June 2005 was based on the Company’s planned investment in property, plant and equipment for the year ending 31 December 2005.

28. 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.

	2005				2004			
	3 months ended 30 June		6 months ended 30 June		3 months ended 30 June		6 months ended 30 June	
	USD	LTL	USD	LTL	USD	LTL	USD	LTL
Profit attributable to equity holders of the Company	67,063	183,551	141,421	378,979	44,452	128,026	82,384	232,242
Weighted average number of ordinary shares in issue (thousands)	707,454	707,454	707,454	707,454	707,454	707,454	707,454	707,454
Basic earnings per share (USD or LTL per share)	0.095	0.259	0.200	0.536	0.063	0.181	0.116	0.328

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 market share price of the Company’s shares for the period) 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.

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

28. Earnings per share (continued)

	2005				2004			
	3 months ended 30 June		6 months ended 30 June		3 months ended 30 June		6 months ended 30 June	
	USD	LTL	USD	LTL	USD	LTL	USD	LTL
Profit attributable to equity holders of the Company	67,063	183,551	141,421	378,979	44,452	128,026	82,384	232,242
Weighted average number of ordinary shares in issue (thousands)	707,454	707,454	707,454	707,454	707,454	707,454	707,454	707,454
Adjustment for share options (thousands)	306,417	306,417	295,515	295,515	233,717	233,717	214,193	214,193
Weighted average number of ordinary shares for diluted earnings per share (thousands)	1,013,871	1,013,871	1,002,969	1,002,969	941,171	941,171	921,647	921,647
Diluted earnings per share (USD or LTL per share)	0.066	0.181	0.141	0.378	0.047	0.136	0.089	0.252

29. Share options

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 increase in its share should be calculated based on the number of shares owned by Yukos Finance B.V. before the option is exercised and its share should increase from 53.7 percent to approximately 69.065 percent, whereas the Government of the Republic of Lithuania is claiming that increase in shares should be calculated based on the number of shares owned by Williams International Company before the shares were sold to Yukos Finance B.V. In that case the share of Yukos Finance B.V. 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.

30. 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 247,609 thousand (USD 92,671 thousand) were declared.

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

31. Cash generated from operations

	30 June 2005		30 June 2004	
	USD	LTL	USD	LTL
Profit for the period	140,900	377,608	82,240	231,837
Adjustments for:				
– tax (Note 27)	23,647	63,459	9,224	26,044
– depreciation (Note 7)	18,975	50,884	18,230	51,285
– amortisation (Note 8)	13,504	36,319	634	1,781
– (profit) on sale of non-current assets classified as held for sale	(6)	(15)	-	-
– (profit) on sale of PPE	(126)	(341)	(478)	(1,346)
– retirement of PPE (Note 7)	2,651	7,246	1,907	5,366
– reversal of impairment charge of PPE (Note 7)	(1,411)	(3,721)	-	-
– impairment charge on PPE (Note 7)	-	-	472	1,328
– interest income (Note 24)	(5,546)	(14,929)	(972)	(2,749)
– interest expense (Note 26)	13,752	36,895	13,339	37,516
– net movement in provisions for liabilities	14,494	42,534	-	-
– share of loss/(profit) from associates (Note 10)	(63)	(170)	17	48
– Excess of the acquirer’s interest in the net assets acquired recognised as income (Note 34)	(104)	(278)	-	-
– exchange (gains)/losses on borrowings	(361)	163,590	-	-
Changes in working capital:				
– inventories	33,014	30,051	(26,675)	(75,458)
– trade and other receivables	(54,649)	(204,041)	(15,030)	(42,315)
– trade and other payables	55,018	266,010	8,105	24,282
Cash generated from operations	253,689	851,101	91,013	257,619

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).

32. 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 (equivalent to LTL 8,317 thousand as at 30 June 2005) for probable 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 six-month period ended 30 June 2005 and the year ended 31 December 2004 (Note 23).

32. Contingencies (continued)

Investigation of the Competition Council

In July 2004, the Lithuanian Competition Council commenced an investigation against the Company to determine whether the higher price of fuel in Lithuania is the result of violations and abuse of its dominant position in the market. The investigation resulted from the fact that the prices of fuel in Lithuania are higher than those in Latvia and Estonia, despite the fact that with effect from May 2004 all three countries have unified fuel excise and customs duties. The investigation was completed in July 2005. The Lithuanian Competition Council concluded that the Company abused its dominant position in Lithuania, Latvia and Estonia market of petrol and diesel in 2002 – 2004. The Lithuanian Competition Council obligated the Company to terminate the activities violating the laws of the Republic of Lithuania and European Union and proposed to impose a penalty on the Company.

The management created a provision of USD 3,487 thousand or LTL 10,000 thousand for probable penalty imposed by the Lithuanian Competition Council in the interim consolidated financial statements for the six-month period ended 30 June 2005 (Note 23).

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 30 June 2005, the claim from Klevo Lapas UAB amounted to LTL 741 thousand (equivalent to USD 258 thousand as at 30 June 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 2,615 thousand as at 30 June 2005). As at 30 June 2005 the Company had a receivable from Klevo Lapas UAB amounting to LTL 5,298 thousand (equivalent of USD 1,847 thousand as at 30 June 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 six-month period ended 30 June 2005.

Payment request from a group of inventors

The Company had received a payment request from a group of individuals in the amount of LTL 14,000 thousand (equivalent to USD 4,882 thousand as at 30 June 2005) related to a production improvement process invented and patented by the group and subsequently implemented by the Oil refinery covering the period 1996 – 2001. Management does not agree that the implementation of the invention did actually improve the output of production process and, therefore, rejected the payment request. In 2003, one of the inventors initiated legal proceedings against the Company and claimed an amount totalling LTL 400 thousand (equivalent to USD 139 thousand as at 30 June 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 Yukos Oil Corporation OAO, Yukos Finance B.V., Williams International Company, the Company and the Government of Lithuania (see also decision of the Constitutional Court described further).

Claim from Rietumu Banka AS

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 six-month period ended 30 June 2005.

32. Contingencies (continued)

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 interim consolidated financial statements. Management believes that the claim of the minority shareholders is not grounded.

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.

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.

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

32. Contingencies (continued)

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 30 June 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 4,174 thousand as at 30 June 2005). Payments under these guarantees should be made in cases when the Company is unable to continue treatment of waste accumulating in production process. In the consolidated interim financial statements for the six-month period ended 30 June 2005 the Group made a provision for the environmental obligations amounting to USD 11,007 thousand or LTL 31,567 thousand (Note 23) and recognised related reimbursement for environmental obligations receivable from the Government of Lithuania (Note 11).

33. Commitments

(a) Capital commitments

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

	30 June 2005		31 December 2004	
	USD	**LTL**	**USD**	**LTL**
Property, plant and equipment	27,272	78,212	658	1,753

(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 25.

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

	30 June 2005		31 December 2004	
	USD	**LTL**	**USD**	**LTL**
No later than 1 year	386	1,107	498	1,262
Later than 1 year and no later than 5 years	701	2,010	977	2,476
Later than 5 years	594	1,703	581	1,473
	1,681	4,820	2,056	5,211

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

34. 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 for shares issued	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 9)	444	1,183

In April 2005, the Company acquired 40% of shares in its subsidiary Juodeikių Nafta UAB from the minority shareholders increasing its ownership to 100%.

Details of net assets acquired and excess of the acquirer’s interest in the net assets acquired over cost are as follows:

	USD	LTL
Purchase consideration – cash paid	208	554
Carrying value of net assets acquired	(312)	(832)
Excess of the acquirer’s interest in the net assets acquired	(104)	(278)

Excess of the acquirer’s interest in the net assets acquired amounting to USD 104 thousand or LTL 278 thousand was recognised in the income statement immediately and was included in administrative expenses.

35. 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 OAO signed a crude oil supply agreement for an annual quantity of 4,800 thousand metric tons of crude oil. The price of crude oil is determined based on open market terms. The agreement is valid until 30 September 2012. In 2004, Yukos Oil Company OAO commitments under this agreement were transferred to Samaraneftegas OAO, Yukos Group company. Furthermore, according to an agreement with Yukos Oil Company OAO 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 OAO 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 OAO 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 OAO. 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.

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

35. Related-party transactions (continued)

The following transactions were carried out with related parties:

(a) Sales of goods and services

	2005				2004			
	3 months ended 30 June		6 months ended 30 June		3 months ended 30 June		6 months ended 30 June	
	USD	LTL	USD	LTL	USD	LTL	USD	LTL
– Naftelf UAB	6,413	17,552	10,365	27,939	2,740	7,837	4,214	11,907
– Yukos Group*	8	22	36	96	8,038	22,966	12,394	34,945
	6,421	17,574	10,401	28,035	10,778	30,803	16,608	46,852

(b) Purchases of goods and services

	2005				2004			
	3 months ended 30 June		6 months ended 30 June		3 months ended 30 June		6 months ended 30 June	
– Petroval PTE (commission fee and purchase of crude oil)	19,348	52,955	40,702	109,078	-	-	-	-
– Petroval SA (commission fee and purchase of crude oil)	(330)	(826)	735	1,973	24,729	81,133	101,763	284,787
– Yukos Group* (purchase of crude oil)	-	-	896	2,356	326,431	967,505	659,634	1,856,127
– Yukos Finance B.V. (management fee)	22	60	504	1,327	492	1,459	1,091	3,070
	19,040	52,189	42,837	114,734	351,652	1,050,097	762,488	2,143,984

(c) Key management compensation

	2005				2004			
	3 months ended 30 June		6 months ended 30 June		3 months ended 30 June		6 months ended 30 June	
Salaries and other short-term employee benefits	172	472	322	865	134	383	262	736

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

Receivables from related parties (Note 13):	30 June 2005		31 December 2004	
	USD	LTL	USD	LTL
Yukos Group* trade receivables	2,163	6,203	2,178	5,802
Less provision for impairment of receivables	(2,161)	(6,197)	(2,172)	(5,787)
Yukos Group* trade receivables - net	2	6	6	15
Petroval PTE	100,511	288,255	-	-
Petroval SA	205	588	71,415	181,001
Naftelf UAB	817	2,343	900	2,282
	101,535	291,192	72,321	183,298

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

35. Related-party transactions (continued)

Payables to related parties (Note 20):	30 June 2005		31 December 2004	
	USD	LTL	USD	LTL
Yukos Group*	572	1,640	64,052	162,340
Yukos Finance B.V.	479	1,374	124	314
Petroval SA	288	826	10,887	27,593
Petroval PTE	7,359	21,105	-	-
Naftelf UAB	37	106	40	101
Government of the Republic of Lithuania	-	-	56	142
	8,735	25,051	75,159	190,490

*Yukos Oil Company OAO, 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	10,931	30,834
Interest paid	(10,939)	(30,804)
Exchange differences	-	21,725
End of the six-month period 30 June 2004	288,927	819,830
Beginning of period	288,927	819,830
Interest charged	10,337	28,190
Interest paid	(10,337)	(28,193)
Exchange differences	-	(87,542)
End of the six-month period 31 December 2004	288,927	732,285
Beginning of period	288,927	732,285
Interest charged	10,169	27,436
Interest paid	(10,169)	(27,438)
Exchange differences	-	96,331
End of the six-month period 30 June 2005	288,927	828,614

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.