AB Mažeikių Nafta Annual Report

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Board

Ronald A. Majors -	Chairman of the Board, AB Mažeikių Nafta General Director, UAB Williams Lietuva
Gediminas Vaičiūnas -	Advisor, State and Municipal Economy Department, Government of the Republic of Lithuania
Tom Schneider -	Deputy General Director for Refining and Marketing, AB Mažeikių Nafta
Jim Scheel -	General Director, AB Mažeikių Nafta
Vita Petrošienė -	Director of Finance, AB Mažeikių Nafta
Vytautas Valys -	Senior Economist, Ministry of Finance
Kipras Balkevičius -	Manager, Fuel Strategy Division, Ministry of Economy

General Director's Review

Dear AB Mažeikių Nafta Shareholder,

I will not mince words. Last year was a difficult year for AB Mažeikių Nafta. Though our business plan for the year did not foresee a profit from our activities, the company's losses were still greater than expected.

The largest single factor contributing to last year's losses was a more than a two-fold increase in debt servicing and interest payments, while increased amortization costs also played their role. However, we also processed less crude oil, sold fewer products and paid more for our feedstock than planned. Additionelly, Mažeikių Nafta felt the financial effects of being unable to refine products meeting new European Union standards until late into the year, as well as losses associated with the inability to export products through Lithuanian terminals. Planned and unplanned shutdowns of the refinery also left their mark on the year's financials.

Nevertheless, last year's balance sheet does show progress in key areas. Mažeikių Nafta's EBITDA tripled and both turnover, as well as income almost doubled. Though not as much as planned, overall refining levels, as well as the export and transportation of crude oil and petroleum products did grow. We believe last year's investments into cost and energy savings will begin showing positive effects on the company's financials as soon as next year.

Considerable time was spent last year improving Mažeikių Nafta's relationships with Russian and other CIS crude oil suppliers. We entered into a long-term supply agreement for the Būtinge terminal with YUKOS, which meets half of the terminal's needs for five years. Another long-term agreement was signed with the Kazakh company KBM, though continued work with both Kazakh and Russian government officials is still necessary for the agreement to begin functioning. Although negotiations on the creation of a joint marketing alliance with Lukoil ended without reaching a mutually beneficial agreement, our companies maintain stable day-to-day business dealings.

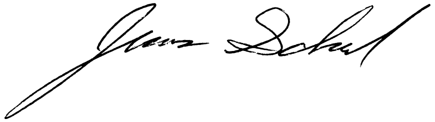
Mažeikių Nafta is optimistic that long-term supply agreements with a number of Russian crude oil suppliers will be signed this year, giving the company the supply stability to begin the start of the large-scale modernization program. To move this process forward and broaden our crude import options, we began expanding our rail off-loading facilities at the refinery last year. This should allow us choose from a broader range of suppliers and avoid further interruptions in supplies.

On the product side, the company signed off-take agreements with a number of Western partners including Shell, Statoil, Neste, Texaco and BP. Agreements signed with Shell Polska and Preem Polska at the end of the year should increase Mažeikių Nafta's share of Poland's imported petroleum products market to 25-30 percent. Considerable efforts were started to increase Mažeikių Nafta's share of the Estonian and Latvian petroleum markets, as well.

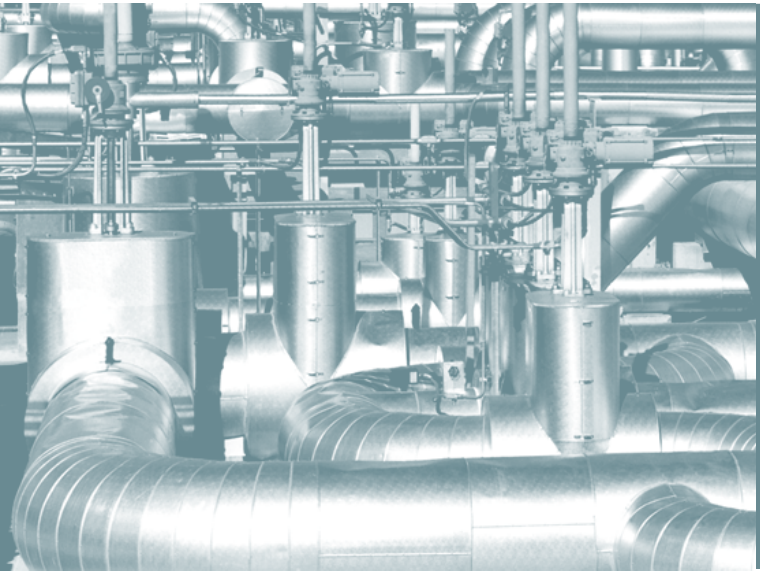
These off-take agreements are based on Mažeikių Nafta's reliability as a partner and its ability to supply high quality products on schedule and in amounts required by customers. To this end, approximately 80 million Litas was invested in various modernization and cost cutting operations at the refinery. Thirty percent of Mažeikių Nafta's production now meets current European Union (EU) product specifications. The goal of the next stages of the modernization program is to bring all of Mažeikių Nafta's production in line with future EU specifications and expand its reach into more profitable, high-end markets.

Regardless of the difficulties faced over the past year, considerable progress has been made by all the company's employees towards reaching our overall development goals – the start of our large-scale modernization program, the evolution of Mažeikių Nafta into the export location of choice for Russian and Kazakh crude oil producers and a return to profitability.

However, in order to reach our goals in the near future – we need to do better. I believe we will. Last year was a challenging "foundational" year for the company. This year will become a "building" year for Mažeikių Nafta.

Jim Scheel  General Director

Crude Oil Supply



Russian crude oil is supplied to Mažeikių Nafta primarily through a spur of the mainline "Druzhba" pipeline, which has an original design capacity of 16 million tons per year. Additionally, the refinery can import crude oil through the Būtinge terminal, which has an import capacity of 6 million tons per year. Up to 4 million tons of crude oil and other feedstocks can also be imported by railcar, while 200,000 tons of domestic Lithuanian crude oil production can be off-loaded at the refinery from tanker trucks each year.

Through much of 2000, Mažeikių Nafta battled to maintain consistent supplies of crude oil in a highly political environment. The processing of 4.26 million tons of crude oil imported via pipeline was supplemented by an additional 0.4 million tons of spot cargoes imported through Būtinge. By the end of the year, consistent Russian supplies were reestablished on a monthly contract basis as in previous years.

The refinery continued to increase the purchase of alternative feedstocks such as gas condensate, atmospheric residue, vacuum residue and middle distillates. This enabled the refinery to better utilize its production capabilities. Total alternate feedstocks processed at the refinery in 2000 reached 250,000 tons.

For the first time in recent years, the refinery did not provide processing of crude oil on a processing fee basis to other oil companies. This change was due to a combination of direct economics and consideration of the market impact on our own production.

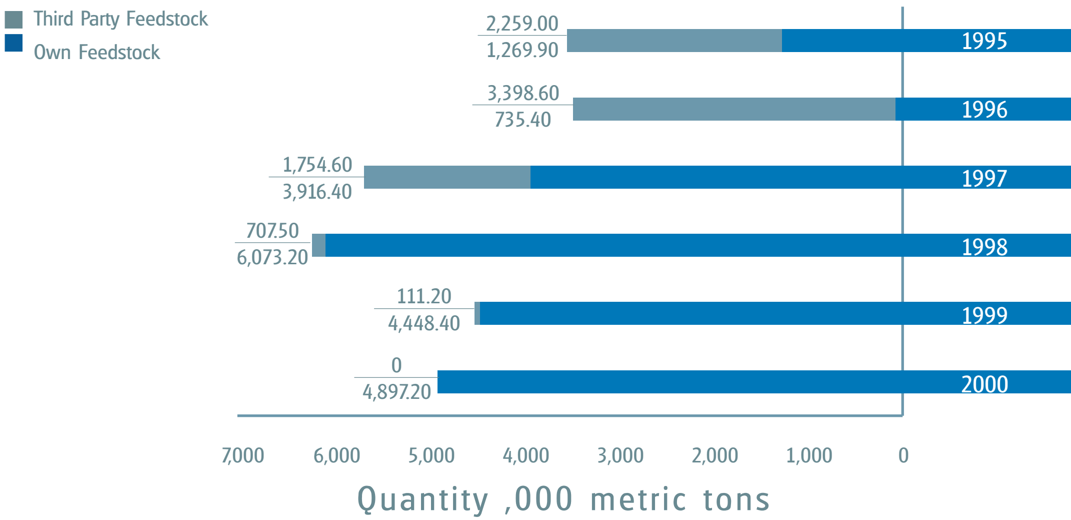
Feedstock Processing

The refinery's utilization rate sincreased 7.7 percent last year – up from 4.56 million tons in 1999 to 4.9 million tons in 2000. The highly political situation regarding Russian crude supplies faced by Mažeikių Nafta for most of the year and the 23-day, planned maintenance shutdown of the refinery influenced this rate of increase.

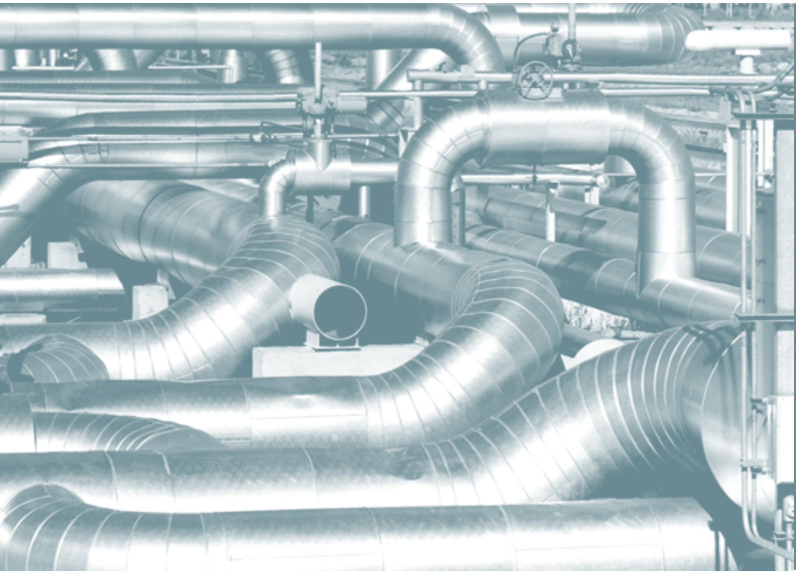
Refinery optimization changed significantly last year. The production of high priced, light oil products (gasoline, distillates, and LPG) increase from 69 percent of crude processed in 1999 to 72 percent of crude processed in 2000.

The maintenance shutdown of the entire refinery was a major success. The shutdown activities were completed in half of the historic schedule as a result of improved planning, scheduling, and control techniques along with increased utilization of contractors. This multi-million dollar project – requiring approximately 300,000 man-hours of work – was completed safely, on schedule, and under budget. Additional Government inspections were completed in order to allow the extension of the maintenance shutdown cycle to three years.

Feedstock Processing



Changes in Production

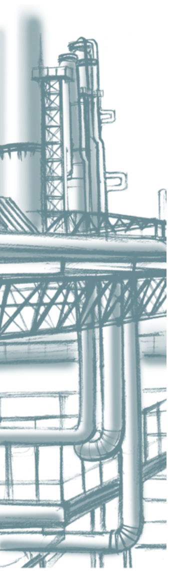


Mažeikių Nafta produces and markets products, which are environmentally safe and quality controlled based on published, international standards. In 2000, the refinery's processing systems underwent their first step of modernization with an interim project designed to allow approximately 40 percent of gasoline production to meet EN 228 specifications for export into Western Europe. All Diesel Fuel and Jet Fuel production for both domestic and export use continues to meet Western European standards.

Transportation

Last year, more than 3.8 million tons of oil products were railed from the refinery to the markets of Lithuania and neighboring countries. Mažeikių Nafta also exported products to Western Europe via sea terminals in Riga (730,000 tons) and Klaipėda (589,000 tons).
In addition to crude oil supplied via pipeline, more than 250,000 tons of different feedstock (gas condensate, straight run atmospheric residue, kerosene, vacuum distillate and others) were delivered to the refinery by railway.
More than 487,000 tons of petroleum products were transported from Mažeikių Nafta by road transport. 46,000 tons were transported by Mažeikių Nafta owned tanker trucks. More than 13,000 tons of jet fuel were transported to Latvia and Estonia.

Marketing

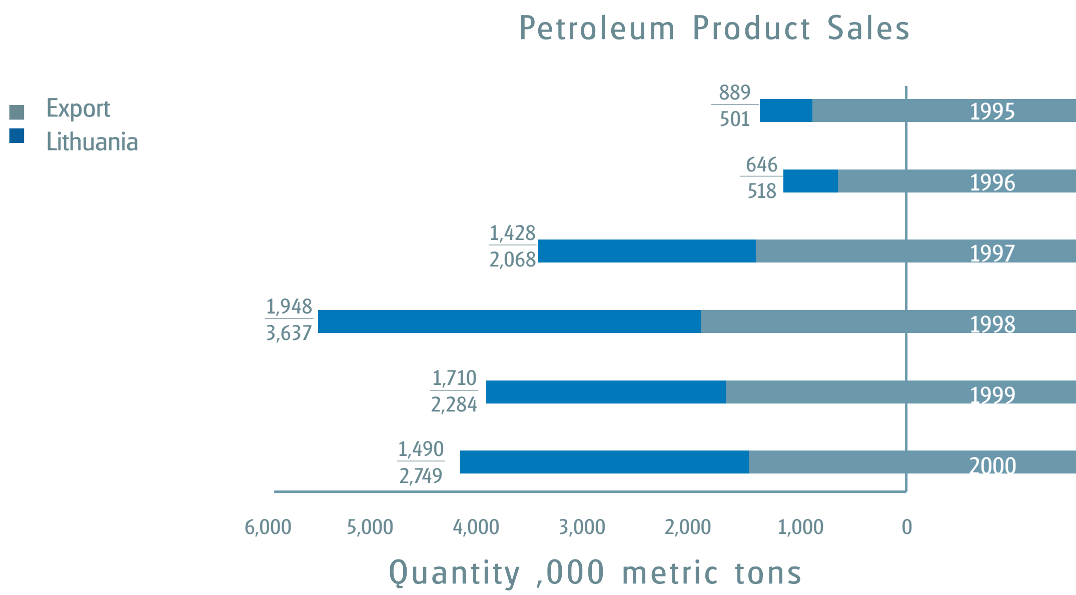


The continued increase of crude oil and petroleum product prices in 2000 negatively effected AB Mažeikių Nafta product sales in a variety of markets. Petroleum product prices in key Mažeikių Nafta markets did not increase as much as crude oil prices in 2000, thus influencing the results of the company's sales activities.

As always, the Lithuanian market was of primary importance to the company. Increases in retail and wholesale petroleum product prices resulted in an overall decrease in consumption of petroleum products in Lithuania. In June and July, low-priced Russian petroleum products flooded the Baltic market causing a fall in prices on the domestic market and thus forcing the company to export larger volumes of products to Western Europe. Unfortunately, during the first half of the year when Mažeikių Nafta was unable to produce products meeting EU requirements, the company had to export gasolines to Western Europe at high discounts to buyers. Only after the implementation of several quality improvement projects, was Mažeikių Nafta able to begin the production of EU specification products. This allows the company more flexibility in choosing which markets to sell its products.

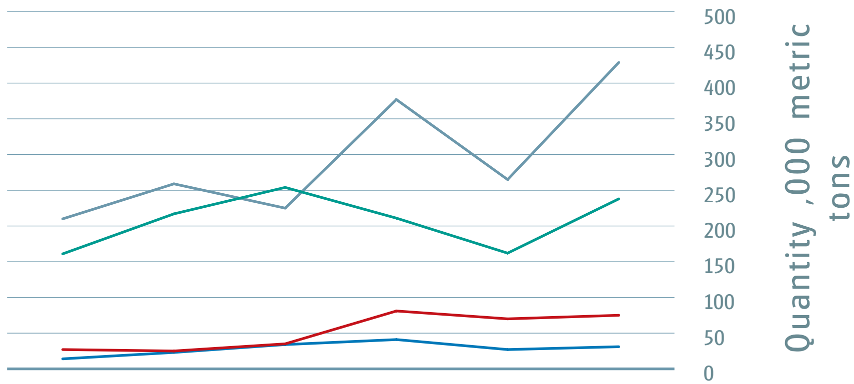
Mažeikių Nafta increased its share of the regional petroleum product market by expanding annual sales in Latvia by 9 percent and Estonia by 9 percent. Marketing activities increased Mažeikių Nafta product sales by 37 percent in Poland. Polish product sales are set for further growth following the signing of annual supply contracts with petroleum companies in this country.

Exports to Western Europe expanded 19 percent under a joint venture marketing agreement with BP. Exports to Ukraine grew by 54 percent compared to 1999, even though this market is only used on an opportunity-by-opportunity basis.



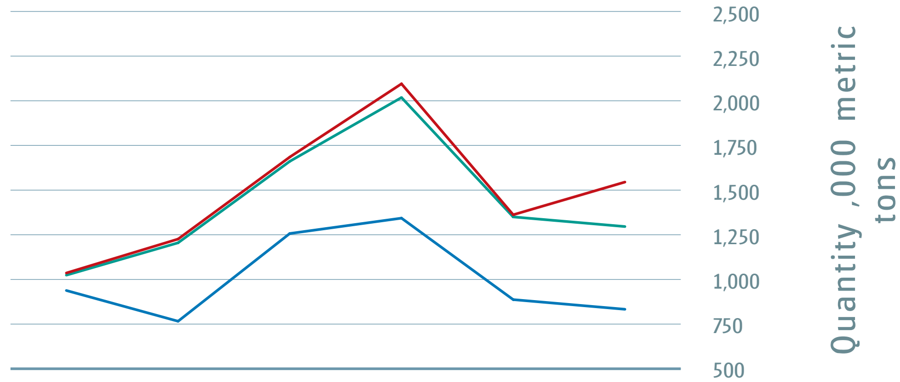
Marketing

LPG, Jet Fuel, Bitumen, Sulphur Production



	1995	1996	1997	1998	1999	2000
LPG	161	217	254	211	162	238
Jet Fuel	210	259	225	377	265	429
Bitumen	27	25	35	81	70	75
Sulphur	14	23	34	41	27	31

Gasoline, Diesel Fuel, Fuel Oil Production



	1995	1996	1997	1998	1999	2000
Gasoline	1,036	1,226	1,685	2,095	1,362	1,545
Diesel Fuel	1,024	1,205	1,661	2,018	1,350	1,296
Fuel Oil	938	766	1,257	1,343	887	833

Process Improvements

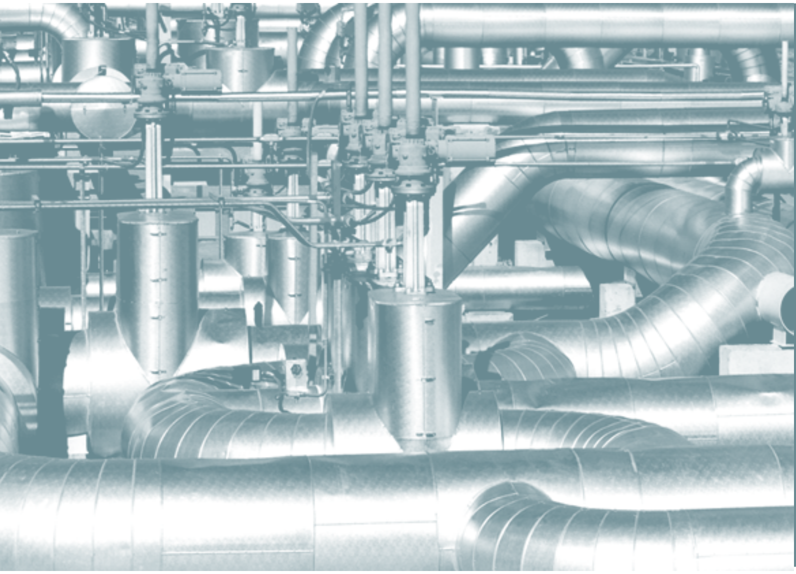
Production Upgrades

In order to meet EU requirements, the production of diesel fuel which complies with LST EN 590 was initiated at Mažeikių Nafta.
A new reformate splitter has been introduced at the refinery. As a result, the production of A-92 and A-95 gasoline grades exported to Western Europe now complies with EN-228.

Improved Product Quality

During the 2000 turnaround at Mažeikių Nafta's refinery, the MTBE process was upgraded to increase yield to 350,000 tons per year (of feedstock charge) and to operate the unit using both isobutylene and 1-pentene as a feedstock.
The UOP Merox-Minalk process for treatment of mercaptan sulfur was introduced for FCC gasoline. Butane-butylene fraction, normal pentane and other gasoline component metering and control blocks were installed to further improve gasoline quality.
A number of quality analyzers - a diesel fraction composition analyzer, bitumen and vacuum residue viscosity meters – were installed to ensure continuous product quality control. Five chromatographs were replaced with Fisher-Rosemount units at LK-2, S-400.

Process Improvements



Improved Work Safety and Environmental Protection

Mažeikių Nafta completed construction of a site for the regeneration of soil polluted with oil products. Soil treatment was initiated.
An automated metering system was introduced for accurate measuring of treated wastes released into the Dubulis stream.
Tank RZ-13 was repaired, while a pontoon was installed to significantly reduce the evaporation of hydrocarbons.
New hydrocarbon vapor detectors were installed in LPG Storage Facilities-2. Sixteen detectors were replaced, resulting in effective control of hydrocarbon emissions.
A Bently Nevada automated vibration diagnostics and emergency shut down system was introduced for Compressor IK-301/R.
The compressor relay control system in the hydrogen plant was replaced by a microprocessor system.
A number of new tank level meters were installed in the chemical water preparation plant, the bitumen plant and the LPG storage facilities. All the furnace reaction piping in the hydrogen plant was replaced.

Energy Savings and Loss Reduction

Direct power supply lines were introduced at LK-6U No.2, S-300/1 and S-300/2.
The KU-101 heat recovery boiler at LK-6U No.2 was replaced.
Mažeikių Nafta purchased and initiated the use of a new LPG static weighing system.
An additional low-pressure pump was installed in the vacuum system of the atmospheric residue vacuum distillation unit. This will improve energy savings.
Convection sections of furnaces in the crude unit were cleaned, while their design was modified to help cleaning in the future.
A flue gas metering system was introduced in the flaring block to improve accurate metering of flue gas and reduce the losses at the company

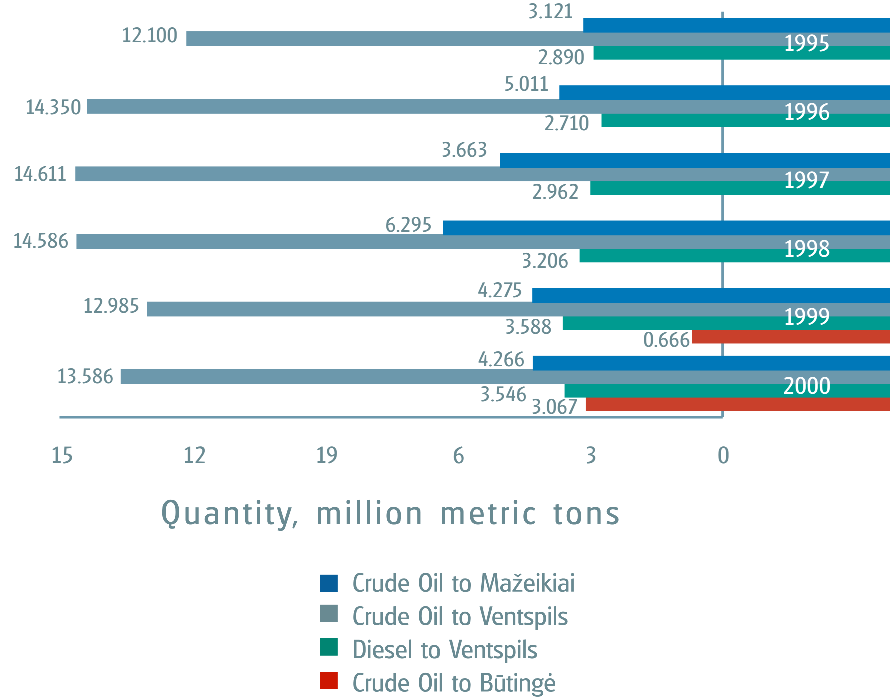
Pipelines Operation

The pipeline division increased transportation volumes compared to last year. Increased volumes from a full year of operations at Būtingė had a positive influence on overall pipeline operations.

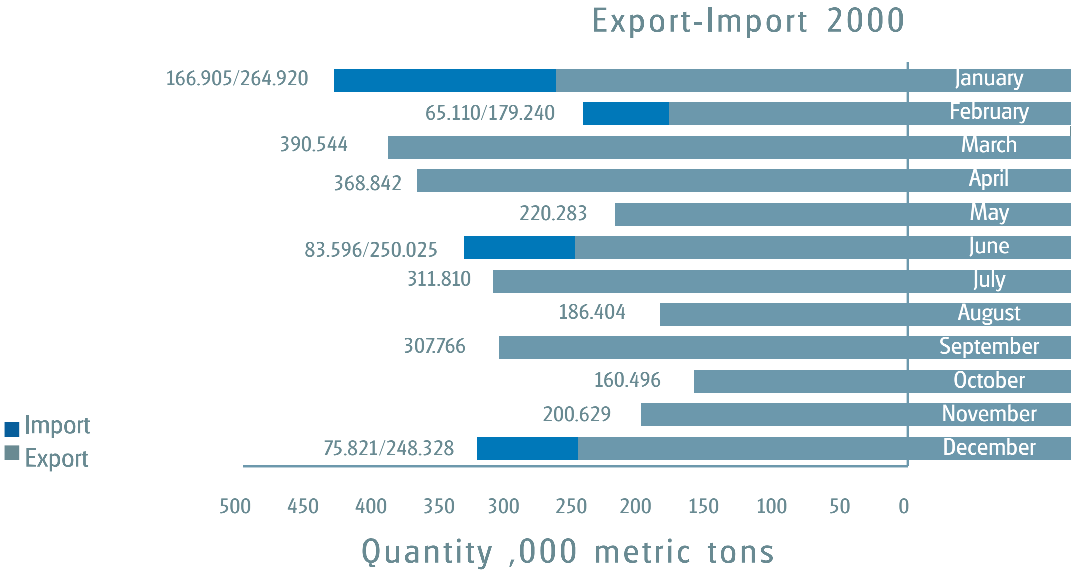
The pipeline division also implemented new processes to better manage operating expenses, allowing Mažeikių Nafta to maintain a competitive cost structure for our customers.

Safe operations of the pipeline system are also of prime importance to Mažeikių Nafta. The company continues to implement and enhance on-going pipeline integrity program.

Pipeline Transportation Volumes



Terminal Operations



Operations at the Būtinge terminal were commenced in July 1999. The year 2000 represented the first full year of operations, providing export services to customers from Russia and other CIS countries. The terminal also provided strategic import services for the Mažeikiai refinery when pipeline supplies through the Druzhba system did not meet commercial requirements.

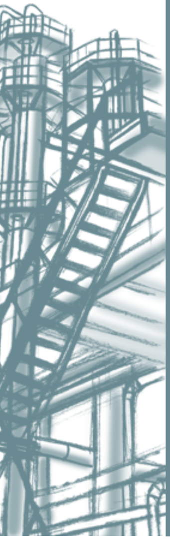
Last year the terminal operated at about 45 percent of its capacity. A total of 36 tankers visited the SPM, 31 tankers were loaded with 3.1 million tons of export crude oil and 5 tankers were offloaded with 0.4 million tons of import crude oil.

YUKOS was the Būtingė terminal's main customer last year. This company accounted for approximately 80 percent of total crude oil exports during the year. In September of 2000, YUKOS signed a 5 year agreement for the export of 4 million tons per year through the Būtingė terminal. Significant efforts to attract more companies to export though the terminal continue in pursuit of the company's goal of operating at the terminal's full capacity of 8 million tons per year.

In January of 2000, the Classification Register confirmed the terminal's ability to service large tankers up to 150,000 DWT. This permits the Būtingė terminal to service the largest vessels on the Baltic Sea. In addition, early departure and arrival procedures, along with increased operational efficiencies, were implemented during the year to ensure a higher level of customer service.

Year 2000 Operations Highlights: The largest tanker at Būtingė, the 149,686 DWT FRONT PRIDE (Liberian flag) was serviced in June 2000 with 125,413 tons loaded onboard the vessel. The largest volume of crude oil, 135,685 tons, was loaded onboard the 140,000 DWT Finnish tanker MASTERA.

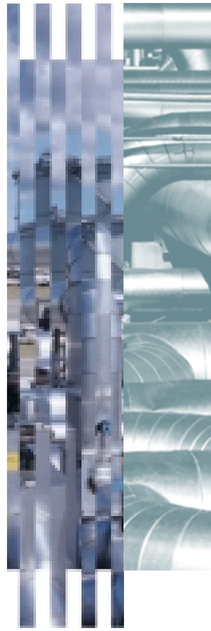
Human Resources



At the end of 2000, 3,500 employees worked throughout Mažeikių Nafta, including 3,225 refinery employees, 205 employees at the Biržai pipeline and 95 employees at the Būtingė terminal. The number of employees at Mažeikių Nafta fell by 267 over the year.
The average employee age is 38, while the average time of employment is 9 years. Last year, the human resource department was reorganized and a new personnel management strategy was applied throughout the company. This strategy is based on partnership and cooperation between management and employees in order to direct employees to change and implement the objectives of the company.

The human resource department issued a new code of conduct, work rules and procedures in order to ensure safe and healthy work environment.
According to the new management structure of the company, many departments at the company are currently being restructured in order to optimize management and employee numbers. Innovations in the company's personnel strategy are being implemented in keeping with the collective agreement between management and the company's union. Mažeikių Nafta, in partnership with Aon Consulting, has developed and started a unique leadership development project. This program has trained 125 company employees in supervisory positions. Mažeikių Nafta hopes that these individuals will become key employees, leading the restructuring and modernization of the company.

Health and Safety at Work

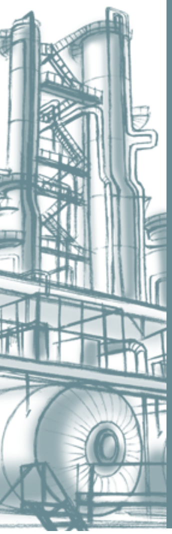


Work Safety

Mažeikių Nafta incurred an average of 10 to 18 accidents each year over the last five years.

During 2000, the refinery's work force suffered 10 work related accidents. All but one were considered minor. Four additional accidents happened in route to or from work. There were no recorded contractor accidents during the two month long full plant turnaround. No accidents were registered at the Būtingė terminal and the Biržai pipeline division in 2000.

Health and Safety at Work



Occupational Medicine

The company's medical service has valid licenses for the following medical areas:
- Level I medical ambulatory activities,
- Level II medical ambulatory activities,
- Medical laboratories,
- Dental technician,
- Public health care activities,
- Public health care development activities.

Currently, the company's medical service employs 12 physicians, a clinical biologist, a clinical laboratory specialist, 12 general and public nurses, 2 dental technicians, 2 assistant hygienists, a masseur, and an assistant kinesitherapist.

The occupational medicine service independently performs periodical health examinations of Mažeikių Nafta employees. In 2000, the occupational medicine service performed 2,844 employee physicals on what amounted to 75 percent of the workforce. The industrial hygiene staff evaluated 161 work sites, where 565 workers are employed.

Environmental Protection

Significant environmental pollution reduction projects completed during 2000 included:

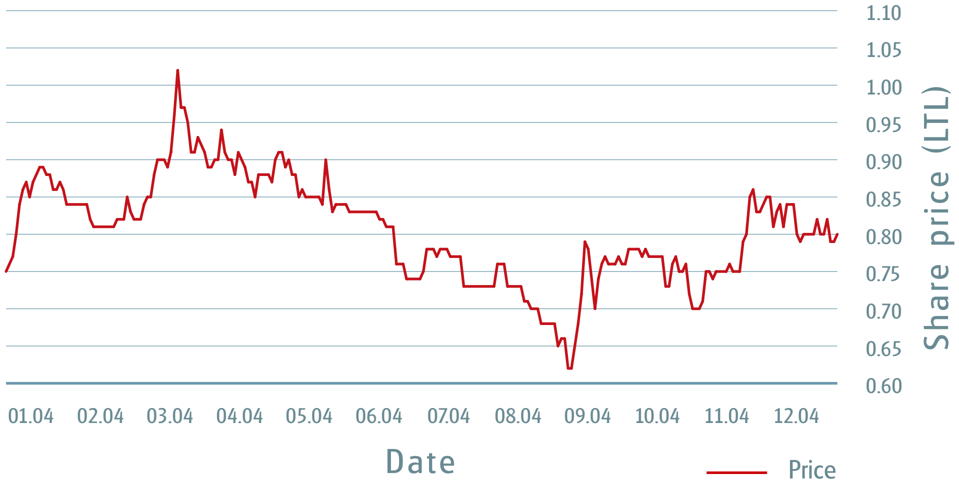
• Construction of a polluted soil regeneration site,

• Installation of an internal floating roof in Tank 13.

Three independent audit firms were retained to evaluate the environmental status of the refinery. Detailed audits were completed on groundwater assessments, refinery waste and overall environmental compliance. The overall environmental audit confirmed that the refinery was operating within existing Lithuanian regulations, and compared emissions with European Union directives, which the government of Lithuania will be adopting as it accesses into full EU membership.

The Company Shares

AB Mažeikių Nafta Share Price in 2000



(1 USD = 4 LTL)

AB Mažeikių Nafta Financial Statements

Report of Independent Public Accountants

ARTHUR ANDERSEN
Arthur Andersen UAB
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A/D 2849
LT 2000 Vilnius
Lithuania
Tel. 370 2 313 063
Faks. 370 2 620 743

To the shareholders of AB Mažeikių Nafta

1. We have audited the accompanying consolidated balance sheets of AB Mažeikių Nafta (a joint stock company registered in the Republic of Lithuania) and subsidiaries (the "Company") as of 31 December 2000 and 1999, and the related consolidated statements of operations, statements of comprehensive income, shareholders' equity and cash flows for the years then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

2. Except as discussed in paragraph 3, we conducted our audits in accordance with International Standards on Auditing as set forth by the International Federation of Accountants (IFAC). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by the management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

3. Tangible assets are properly presented in accordance with Lithuanian accounting principles, however, United States Generally Accepted Accounting Principles (US GAAP) require presentation of tangible assets on the basis of historical cost less accumulated depreciation. In accordance with resolutions of the Government of Lithuania, the Company has revalued tangible assets four times prior to 31 December 2000 and 1999 resulting in a cumulative increase in the net book value of tangible assets of LTL 460,358 thousand. Due to many movements and lack of separate registrations of the indexed amounts per asset, the Company is unable to quantify the effect of the indexations on the balance sheets as of 31 December 2000 and 1999, and, accordingly, we are unable to express an opinion on the historical cost and accumulated depreciation thereon in accordance with US GAAP.

4. In our opinion, except for the effect of the matter discussed in the paragraph 3 above, the financial statements referred to above present fairly, in all material respects, the financial position of AB Mažeikių Nafta and subsidiaries as of 31 December 2000 and 1999, and the results of their operations and their cash flows for the years then ended in conformity with US GAAP.

5. As further discussed in Note 29 to the consolidated financial statements, in 1998 a claim of USD 20,620 thousand (LTL 82,480 thousand) was submitted by the Oil terminal project contractor Fluor Daniel Intercontinental Inc. against the Company. The outcome of the claim is uncertain at this time. An accrual of LTL 16,120 thousand for this claim was recognised in the financial statements as of 31 December 2000 and 1999. No provisions have been made in these financial statements for any additional liabilities that may result from this claim.

6. As more fully disclosed in Note 29 to the consolidated financial statements, certain changes in legislation are required and additional land lease agreements must be obtained for the existing pipelines operated by the Company and for the planned pipeline from Mažeikiai to Būtingė. No provisions have been made in the consolidated financial statements for the uncertainty or the cost associated with obtaining these lease agreements.

ARTHUR ANDERSEN
Company audit license No. 117

Per Moeller

Jonas Akelis
Auditor's license
No. 000002

The audit was completed on 26 January 2001 (except with respect to Notes 1, 28 and 29, as to which the date is 15 March 2001).

annual report 2000

Consolidated Statements of Operations, 2000 & 1999 (LTL '000)

Note		2000	1999
4	Net sales	4,225,377	2,300,214
5	Cost of sales, excluding depreciation and amortization	(3,891,099)	(2,000,037)
6	Selling and distribution expenses	(133,765)	(95,381)
7	General and administrative expenses	(172,016)	(209,827)
8	Depreciation and amortization	(132,226)	(129,521)
	Operating (loss)	(103,729)	(134,552)
9	Other income	90,084	49,916
	Financial income:		
	Interest income	21,876	4,429
	Foreign currency exchange gains	2,074	848
	Other	1,104	760
		25,054	6,037
	Financial expenses:		
	Interest on debt	(187,888)	(75,785)
	Foreign currency exchange losses	(1,074)	(656)
	Other	(1,621)	(3,634)
		(190,583)	(80,075)
	Equity in earnings (losses) of associated companies	208	(59)
	(Loss) before income tax and minority interest	(178,966)	(158,733)
10	Income tax	(18)	(138)
	(Loss) before minority interest	(178,984)	(158,871)
	Minority interest	(75)	2
	Net (loss) for the year	(179,059)	(158,869)

The accompanying notes are an integral part of these financial statements.

Consolidated Statements of Comprehensive Income, 2000 & 1999 (LTL '000)

	2000	1999
Net (loss) for the year	(179,059)	(158,869)
Other comprehensive income, net of tax:		
Unrealized gain on securities	5,172	-
Comprehensive income	(173,887)	(158,869)

The accompanying notes are an integral part of these financial statements.

Consolidated Balance Sheets, 2000 & 1999 (LTL '000)

Note		2000	1999
	ASSETS		
	Current assets		
11	Cash	51,464	500,875
12	Trade accounts receivable, net of allowance for doubtful accounts of 95,604 and 89,682, respectively	125,887	115,410
13	Prepayments and other current assets	70,981	98,211
14	Inventories, net	606,286	347,601
	Total current assets	854,618	1,062,097
15	**Long-term investments**	11,691	6,659
16	**Tangible assets, net**		
	Machinery and equipment	1,830,319	1,901,719
	Buildings	265,101	221,547
17	Construction in progress and prepayments for tangible assets	143,564	96,990
	Other tangible assets	437,296	345,494
	Accumulated depreciation	(900,038)	(789,644)
	Total tangible assets, net	1,776,242	1,776,106
18	**Intangible assets, net**	12,564	21,431
19	Non-current accounts receivable, net of valuation allowance of 18,932 and 15,449, respectively	5,182	1,532
	TOTAL ASSETS	2,660,297	2,867,825

The accompanying notes are an integral part of these financial statements.

Consolidated Balance Sheets, 2000 & 1999
(LTL '000)

Note		2000	1999
	LIABILITIES AND SHAREHOLDERS' EQUITY		
	Current liabilities		
24	Current portion of long-term loans	70,054	140,951
25	Current portion of long-term capital lease obligations	5,259	5,163
20	Short-term loans	49,108	40,959
21	Trade accounts payable	129,383	32,005
	Other accounts payable	16,380	28,837
22	Advances received	30,190	3,791
23	Accrued and other current liabilities	67,768	89,934
	Total current liabilities	368,142	341,640
	Long-term liabilities		
24	Long-term loans, net of current maturities	1,761,645	1,808,259
25	Long-term capital lease obligations, net of current maturities	5,390	10,423
26	Other long-term accounts payable	22,000	30,000
27	Subsidies	19,851	19,851
	Deferred road taxes	6	591
	Total long-term liabilities	1,808,892	1,869,124
	Minority interest	1,704	1,615
29	**Commitments and contingencies**		
28	**Shareholders' equity**		
	Share capital (1,034,989,850 shares authorized, issued and outstanding as of 31 December 2000 and 1999)	1,034,990	1,034,990
	Share surplus	258,453	258,453
	Revaluation reserve	437	437
	Shareholder's debenture	(300,000)	(300,000)
	Accumulated other comprehensive income	5,172	-
	Accumulated deficit	(517,493)	(338,434)
	Total shareholders' equity	481,559	655,446
	TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY	2,660,297	2,867,825

The accompanying notes are an integral part of these financial statements.

Consolidated Statements of Shareholder Equity, 2000 & 1999 (LTL '000)

	Share capital	Share surplus	Legal reserve	Revaluation reserve	Shareholder's debenture	Accumulated other comprehensive income	Accumulated deficit	Total
Balance as of 31 December 1998	693,443	-	8,775	437	-	-	(188,340)	514,31
Increase in share capital	341,547	258,453	-	-	(300,000)	-	-	300,000
Transferred to accumulated deficit	-	-	(8,775)	-	-	-	8,775	-
(Loss) for the year	-	-	-	-	-	-	(158,869)	(158,869)
Balance as of 31 December 1999	**1,034,990**	**258,453**	**-**	**437**	**(300,000)**	**-**	**(338,434)**	**655,446**
(Loss) for the year	-	-	-	-	-	-	(179,059)	(179,059)
Other comprehensive income	-	-	-	-	-	5,172	-	5,172
Balance as of 31 December 2000	**1,034,990**	**258,453**	**-**	**437**	**(300,000)**	**5,172**	**(517,493)**	**481,559**

The accompanying notes are an integral part of these financial statements.

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Consolidated Statements of Cash Flows, 2000 & 1999 (LTL ‘000)

	2000	1999
Cash flows from operating activities		
Net (loss) for the year	(179,059)	(158,869)
Adjustments to reconcile net (loss) to net cash provided by (used in) operating activities:		
Depreciation	121,949	117,130
Amortization	10,277	12,391
Loss on retirements of tangible and intangible assets	6,064	7,190
Government grant	(90,084)	(49,916)
Provision for trade accounts and non-current accounts receivable	9,405	44,591
Long-term investments write-off	-	6,973
Prepayments and other current assets write-off (reversal)	1,691	(4,769)
Unrealized currency exchange gain on loans and capital lease	(551)	(238)
Equity in earnings (losses) of associated companies	(208)	59
Change in minority interest	89	(2)
	(120,427)	(25,460)
Changes in operating assets and liabilities:		
Inventories	(258,685)	(198,483)
Trade accounts receivable	(16,399)	31,277
Prepayments and other current assets	25,539	24,042
Trade accounts payable	97,378	(162,080)
Loan interest payable	10,511	3,594
Change in deferred road tax	(585)	(634)
Other long-term accounts payable	(8,000)	30,000
Other accounts payable	(12,457)	9,951
Advances received	26,399	(54,981)
Accrued and other current liabilities	(22,166)	(83,570)
Net cash (used in) operating activities	(278,892)	(426,344)
Cash flows from investing activities		
Acquisition of intangible assets	(1,774)	(14,641)
Acquisition of tangible assets	(127,420)	(368,500)
Proceeds from sales of tangible assets	29	363
Disposal of (additions to) long-term investments	348	(10,079)
Net cash (used in) investing activities	(128,817)	(392,857)

Consolidated Statements of Cash Flows, 2000 & 1999 (LTL '000)

Continued	2000	1999
Cash flows from financing activities		
Proceeds from short-term loans	25,000	398,155
Repayments of short-term loans	(16,800)	(971,655)
Proceeds from long-term loans	87,120	1,682,487
Repayments of long-term loans	(125,048)	(209,866)
Repayments of long-term capital lease	(4,841)	(5,512)
Change in long-term accounts receivable	(7,133)	414
Issuance of shares	-	300,000
Net cash provided by (used in) financing activities	(41,702)	1,194,023
Net increase (decrease) in cash and cash equivalents	(449,411)	374,822
Cash and cash equivalents at the beginning of the year	500,875	126,053
Cash and cash equivalents at the end of the year	51,464	500,875
Supplemental cash flow information		
Cash paid for interest	176,473	109,769
Cash paid for income tax	-	138
Non cash investing and financing activities		
Government grant	90,084	49,916
Capital lease additions	-	5,692

The accompanying notes are an integral part of these financial statements.

The Management:

James E. Scheel

John P. Savolainen

Vita Petrošienė

Notes to the consolidated financial statements for the years ended 31 December 2000 and 1999 (All amounts in LTL'000 unless otherwise stated)

1. Organization and formation

AB Mažeikių Nafta (the Company) was originally established in 1980 to operate an oil refinery in Lithuania. On 7 April 1995 the Company was reorganized into a public company following a partial privatization of shares to the Company's employees.

Based on the decision of the Shareholders' meeting held on 30 October 1998 the Company merged with AB Būtingės Nafta (Oil terminal) and AB Naftotiekis (Pipeline operator). The merger was accounted for as entities under common control (which is similar to a pooling of interest), as the companies were all majority owned by the government of Lithuania (the State). In connection with the merger, the Company decreased its share capital by the par value of shares held in UAB Ventus-Nafta, UAB Plinkšių Viešbutis and UAB Tvoklė. The shares of these companies were transferred to the shareholders of the Company proportionally to the number of shares they held in AB Mažeikių Nafta and AB Naftotiekis. The shares of AB Būtingės Nafta held by AB Mažeikių Nafta and AB Naftotiekis before the merger were cancelled. Following the merger, the State held approximately 88.5 percent of the 693,443,200 outstanding shares. The nominal value of the share was LTL 1 each.

On 9 December 1998 the Shareholders decided to issue additional 341,546,650 ordinary shares each having a nominal value of LTL 1, which would amount to 33 percent of the outstanding shares of the Company after such issuance. The Shareholders' meeting decided to sell these shares to Williams International. On 29 October 1999, the Company, the Government of Lithuania and Williams International, based on laws passed by the Parliament of the Republic of Lithuania, signed the Investment agreement for the acquisition of the above described share issue. According to the Investment agreement, Williams International was also granted management control over the Company. The subscription price for the shares was USD 150,000 thousand (LTL 600,000 thousand). A part of the subscription price amounting to USD 75,000 thousand (LTL 300,000 thousand) was contributed in cash. The remaining part of the subscription price was paid by issuing a USD 75,000 thousand (LTL 300,000 thousand) guaranteed zero coupon debenture, payable to the Company on the later of (a) 1 April 2002, or (b) 30 days following the date of Williams' receipt of the financial statements of the Company for the year ended 31 December 2001, or (c) the date of actual payment of the EBITDA shortfall (see Note 28) by the Company to Williams. Following the share issue, the State held approximately 59 percent, and Williams International held 33 percent of the 1,034,989,850 outstanding shares.

Description of the Group

As of 31 December 2000 the Group consists of the parent company AB Mažeikių Nafta and the following subsidiaries:

Entity	Activity	Ownership (percentage)
UAB Mažeikių Nafta – Saugos Tarnyba	Security of cargo, storage, property and personnel	100
UAB Juodeikių Nafta	Loading of oil products on trucks	60
UAB Biržietiška Aibė	Operating of grocery store and bakery	100

2. Form and contents of the financial statements

Principles of consolidation

As described in Note 1 and Note 15, the Company has investments in various entities operating in Lithuania, Poland and Ukraine. The financial statements of the entities in which the Company holds more than 50 percent of the outstanding voting shares and operating control are consolidated. The entities in which the Company holds more than 20 percent of the votes shares, but less than 50 percent are accounted for under the equity method. The financial statements of the Company and its subsidiaries have been restated in all material respects in accordance with US GAAP as of 31 December 2000 and 1999. All intercompany transactions and balances have been eliminated. All other investments are carried at cost (see Note 15). Where necessary the carrying value of each investment is reduced to recognize diminution in the value of the investment that is other than temporary.

3. Significant accounting policies

Basis of accounting

The Group maintains its accounting records in accordance with Lithuanian accounting principles. The accompanying consolidated financial statements have been adjusted in all material respects to conform with United States Generally Accepted Accounting Principals (US GAAP), except for tangible assets as discussed below.

Use of estimates in the preparation of financial statements

The preparation of the financial statements in conformity with US GAAP requires management to make estimates and judgements that affect the reported amount of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from these estimates.

Transactions in foreign currencies

The functional currency of the Company's operations outside of Lithuania is the local country's currency. Consequently, assets and liabilities of operations outside Lithuania are translated into Lithuanian litas using exchange rates at the end of each reporting period.

Transactions denominated in foreign currencies are recorded at the official exchange rate applicable at the date of transaction.

Foreign exchange gains and losses are reported in the statements of operations.

Revenue recognition

The Group recognizes revenue when the goods are shipped or services provided and net sales accordingly include the value of goods delivered and services provided during the period, net of value added tax, other taxes and price discounts directly related to the sales.

Government grants which represent forgivable loans are recognized as income when the Company meets the terms for forgiveness.

Research and development

Research and development costs are expensed as incurred.

Advertising costs

Advertising costs are expensed as incurred.

Income tax

The Company records the income tax related to the taxable income computed in accordance with Lithuanian tax rules.

The standard corporate income tax rate is 24 percent. According to the Law on Investments, Law on Administration of Taxes and Investment agreement between the Company, the Government of Lithuania and Williams International, the Government of Lithuania guaranteed that rates of corporate income tax, personal income tax, real estate, road and other taxes, except for VAT, excise and social security tax, will not be increased for the period of 5 years starting from 29 October 1999. In accordance with the provisions of the Investment agreement, at least for a 10 year period from 29 October 1999 a portion of taxable income of the Company utilized for investment may be taxed at a corporate income tax of 0 percent, where investments will be calculated as the increase in the cost of tangible assets acquired during the period less the depreciation charge for the period calculated on newly acquired tangible assets and any external financing of the acquisitions of the tangible assets as defined by the Law on Corporate Profit Tax of the Republic of Lithuania. If the Company reports losses, these losses would be carried forward for 5 years.

Deferred taxes are recorded based on temporary differences between the financial statements and the tax basis of assets and liabilities using enacted tax rates in effect in the years in which the differences are expected to reverse. Valuation allowances are recorded to reduce deferred tax assets when it is more likely than not that a tax benefit will not be realized.

Derivative instruments

In June 1998, the United States Financial Accounting Standards Board issued SFAS No. 133, Accounting for Derivative Instruments and Hedging Activities. The Statement establishes accounting and reporting standards requiring that every derivative instrument (including certain derivative instruments embedded in other contracts) be recorded in the balance sheet as either an asset or liability measured at its fair value. The Statement requires that changes in the derivative's fair value be recognized currently in earnings unless specific hedge accounting criteria are met. Special accounting for qualifying hedges allows a derivative's gains and losses to offset related results on the hedged item in the statement of operations, and requires that a company must formally document, designate, and assess the effectiveness of transactions that receive hedge accounting.

In June 2000, the United States Financial Accounting Standards Board issued SFAS 138, Accounting for Certain Derivative Instruments and Certain Hedging Activities. This Statement addresses a limited number of issues causing implementation difficulties for numerous entities that apply SFAS 133 and this Statement amends the accounting and reporting standards of SFAS 133 for certain derivative instruments and certain hedging activities.

SFAS 133, as amended by SFAS 137 and SFAS 138, is effective for fiscal years beginning after 15 June 2000 and cannot be applied retroactively. The Company has not yet quantified the impact of implementation of SFAS 133, but does not expect any material impact of this new statement on the Company's consolidated balance sheet or results of operations.

(All amounts in LTL'000 unless otherwise stated)

3. Significant accounting policies (cont'd)

Accounts receivable

The Group provides a reserve for potential losses based on evaluation of general provision for certain age groups of accounts receivable and on an evaluation of specific doubtful accounts.

Inventories

Inventories are stated at the lower of cost and net realizable value. Cost includes the cost of raw materials, direct production costs (direct material and direct labor), overhead costs for work-in-process and finished goods. Cost of raw materials, work-in-process and finished goods is determined on a first-in-first-out basis.

Investments

Investments in bonds for which there is not a positive intent to hold to maturity are recorded at fair value. Realized gains or losses on trading are included in earnings. Unrealized gains or losses on these securities are excluded from earnings and reported in other comprehensive income until realized.

Tangible assets

Tangible assets are stated at indexed cost less indexed accumulated depreciation through 31 December 1995 and at cost less accumulated depreciation since that date. Straight-line depreciation is provided over the estimated useful lives of the assets, except for catalysts, which are depreciated using the unit of output method.
Starting from 1 January 2000 the Company changed the estimated useful lives of the assets. The useful lives for different tangible assets groups range as follows (in years):

	Before 1 January 2000	After 1 January 2000
Machinery and equipment	10-33	2-70
Buildings	40-50	10-90
Other tangible assets	3-20	2-50

Leased assets are stated at present value of minimum lease payments less accumulated depreciation.
Repairs and maintenance expenditures, such as inspections and removal of corrosion, are expensed as incurred. Major maintenance expenditures that increase capacity of the asset or significantly extend its useful life are capitalized.
In accordance with resolutions of the Government of Lithuania, tangible assets have been revalued/indexed four times prior to 31 December 2000 and, as a result, are not stated at historical cost as it is required by US GAAP.
The cumulative effect of indexations performed prior to 31 December 2000 and 1999 amounting to LTL 460,357 thousand was originally accounted for as revaluation reserve in the shareholders' equity and was later converted to share capital except for LTL 437 thousand remaining in the revaluation reserve.
The interest cost recognized on borrowings used to finance tangible assets acquisitions and incurred during the period required to complete the asset is capitalized as a part of historical asset cost. The interest rate for capitalization is based on the rates charged on the outstanding Company's borrowings. For expenditures not covered by specific new borrowings, a weighted average of the rates on other borrowings is applied.

Intangible assets

Intangible assets mainly represent patents, licenses acquired and computer software, stated at cost less accumulated amortization. Straight-line amortization is provided over the estimated useful lives of the assets not exceeding 2 years.

(All amounts in LTL'000 unless otherwise stated)

4. Net sales

Sales consist of the following:

	2000	1999
Own products of the Oil refinery	4,035,710	2,144,710
Processing fees from third parties	-	9,810
Other services of the Oil refinery	20,423	40,502
Pipeline operator's sales	102,788	80,160
Oil terminal sales	58,708	13,833
Services and sales of non-production units	7,748	11,199
Total net sales	4,225,377	2,300,214

Other services of the Oil refinery include mainly railway services, custom declarations handling, rent of tanks and heating.

5. Cost of sales

Cost of sales consists of the following:

	2000	1999
Own products of the Oil refinery	3,770,165	1,934,711
Processing for third parties	-	7,887
Other services of the Oil refinery	8,721	19,794
Pipeline operator	19,371	18,464
Oil terminal	74,650	1,636
Cost of services and sales of non-production units	18,192	17,545
Total cost of sales	3,891,099	2,000,037

(All amounts in LTL'000 unless otherwise stated)

6. Selling and distribution expenses

Selling and distribution expenses consist of the following:

	2000	1999
Railway services	60,757	56,052
Terminal and laboratory services	26,500	3,811
Transit / spedition	24,691	16,041
Salaries and social security	7,563	3,982
Rent of rail wagons	6,729	7,381
Repair and maintenance	2,951	4,397
Advertising	1,922	1,137
Rent of storage and loading facilities	520	57
Customs duties	146	757
Other	1,986	1,247
Total selling and distribution expenses	133,765	95,381

(All amounts in LTL'000 unless otherwise stated)

7. General and administrative expenses

General and administrative expenses consist of the following:

	2000	1999
(Reversal of) provisions for and write-off of trade accounts receivable	(9,349)	52,595
Fixed plant overheads of idle production time	19,621	47,754
Professional fees	55,528	30,009
Taxes, other than income tax	30,130	24,011
Salaries and social security	37,722	23,025
Repair and maintenance	2,694	17,675
Provision for cash	-	17,643
Internal transport	2,319	8,873
Long-term investments write-off	-	6,973
Insurance	7,960	5,038
Utilities and communication	2,376	3,571
Materials	3,970	1,783
Business trips	1,599	1,756
Research expenses	-	1,435
Training	1,513	1,430
Reversal of accrued claims from Oil Terminal contractors	-	(1,982)
Provision for (reversal of) prepayments and other current assets write-off	179	(4,424)
Reversal of VAT and excise tax	-	(37,491)
Other	15,754	10,153
Total general and administrative expenses	172,016	209,827

Due to the interrupted supply of raw oil and maintenance works the Company has been forced to stop the production during part of 2000 and 1999. The fixed plant overhead costs incurred during the idle production time amounted to LTL 19,621 thousand for the year 2000 (LTL 47,754 thousand for the year 1999) and are included into the fixed plant overheads of idle production time caption in general and administrative expenses.

Professional fees include management fees of LTL 44,464 thousand incurred in 2000 (LTL 23,096 thousand in 1999) payable to Williams International for the management services provided (see Note 32).

Due to changes in legislation in 1999 the Company has reversed LTL 28,216 thousand of excise tax expenses reported in the statement of operations prior to 31 December 1998. The remaining amount of LTL 9,275 thousand included in the reversal of VAT and excise tax caption in general and administrative expenses represents reversed VAT, which was calculated in 1998 on the fixed assets transferred to AB Ventus-Nafta. The Company was released from the payment of this VAT by a decree of the Commission of Tax Claims on 12 May 1999.

(All amounts in LTL'000 unless otherwise stated)

8. Depreciation and amortization

Based on the use of assets being depreciated, depreciation and amortization has been allocated as follows:

	2000	1999
Cost of sales	107,546	89,018
General and administrative expenses	20,342	35,072
Selling expenses	4,338	5,431
Total depreciation and amortization	132,226	129,521

As described in Note 3, starting from 1 January 2000 the Company has changed estimated useful lives of the assets being depreciated. Due to this change in estimates, for the year ended 31 December 2000 the Company reported depreciation and amortization expenses lower by LTL 47,906 thousand than it would have been had the Company applied depreciation rates consistent with the prior periods.

9. Other income

Other income of LTL 90,084 thousand represents a Government grant, which is a loan forgivable as a crude oil interruption compensation according to the Investment agreement signed between the Government of Lithuania, AB Mažeikių Nafta and Williams International. In accordance with the provisions of this agreement, in the event of the Company's inability to obtain Russian or former Soviet Union crude oil on commercially acceptable conditions, including without limitation stoppage or significant reduction of supply of crude oil, from any Russian or former Soviet Union source due to any reason beyond the reasonable control (including discriminatory pricing) of the Company, the amount of compensation is calculated by the Company and the long-term loan received from the Government of Lithuania is forgiven by the same amount, however, not exceeding the total reserve amount for crude oil interruption compensation amounting to LTL 140,000 thousand plus accrued interest.

(All amounts in LTL'000 unless otherwise stated)

10. Income tax

	2000	1999
Income tax expense		
(Loss) for the year before income tax and minority interest according to US GAAP	(178,966)	(158,733)
Changes in temporary differences	9,615	(37,927)
Permanent differences	15,481	119,040
Taxable (loss) for the year reported in tax returns	(153,870)	(77,620)
Income tax	18	138
Change in deferred income tax	-	-
Income tax expense charged to the statement of operations (on operations performed in Lithuania)	18	138
Deferred income tax before valuation allowance		
Temporary differences	28,064	18,449
Loss carry forward	281,429	127,485
	309,493	145,934
Deferred income tax before valuation allowance	74,278	35,024
Components of deferred income tax		
Deferred income tax assets:		
Loss carry forward	67,543	30,596
Inventory	10,059	3,491
Accruals	3,495	10,283
Depreciation	-	2,610
Other	64	24
Deferred income tax assets before valuation allowance	81,161	47,004
Less: valuation allowance	(74,278)	(35,024)
Deferred income tax assets, net	6,883	11,980
Deferred income tax liabilities:		
Depreciation	6,883	-
Other	-	11,980
Deferred income tax liabilities	6,883	11,980
Deferred income tax, net	-	-
Deferred income tax valuation allowance		
Deferred income tax valuation allowance at the beginning of the year	(35,024)	(30,672)
Change in deferred income tax valuation allowance	(39,254)	(4,352)
Deferred income tax valuation allowance at the end of the year	(74,278)	(35,024)

Until 1 January 2000 the standard Lithuanian corporate income tax rate was 29 percent. Starting from 1 January 2000 income tax rate was reduced to 24 percent. Deferred income tax as of 31 December 2000 and 1999 has been valued at 24 percent rate. Income tax is computed from taxable income, calculated in accordance with Lithuanian tax rules, less income tax incentives on reinvested income. In accordance with Lithuanian tax rules, tax losses generated after 1 January 1997 can be carried forward for 5 years.

The reported amount of income tax expenses attributable to continuing operations for the year can be reconciled to the amount of income tax expenses that would result from applying statutory income tax rate to pretax income from continuing operations as follows:

(All amounts in LTL'000 unless otherwise stated)

10. Income tax (cont'd)

	2000	1999
Income tax expenses computed at 29% in 1999 and 24% in 2000	(42,952)	(46,033)
Change in deferred income tax valuation allowance	39,254	4,352
Change in statutory tax rate	-	7,297
Permanent differences	3,716	34,522
Income tax expenses reported in the statement of operations	18	138

Temporary differences represent differences between tax and financial books arising from different principles applied in accounting for tangible assets depreciation, accruals and inventory. Due to uncertainty about the Company's ability to realize the deferred income tax asset, a valuation allowance was recorded on 31 December 2000 and 1999.

11. Cash

Cash consists of the following:

	2000	1999
Cash in banks	59,468	442,179
Cash on hand	93	89
Restricted cash	20,285	86,989
Cash	79,846	529,257
Less: provision for cash held in Vneshekonombank	(10,739)	(10,739)
Less: provision for cash held in Litimpeks Bank	(17,643)	(17,643)
Total cash, net	51,464	500,875

The Company's accounts in AB Vilniaus Bankas (the balance of cash as of 31 December 2000 was LTL 4,611 thousand), AB Bankas SNORAS (the balance of cash as of 31 December 2000 was LTL 2,796 thousand) and in Lithuanian Savings Bank (the balance of cash as of 31 December 2000 was LTL 2,087 thousand) are used as guarantees for short-term loans received from these banks. No restriction on these accounts exists, however, loan repayments and interest payments have to be priority payments from these accounts.

A provision is made against the deposit of LTL 10,739 thousand frozen in the Russian bank Vneshekonombank. The bank no longer exists and negotiations are being held between the Governments of Lithuania and Russia concerning the settlement of balances kept in Vneshekonombank. The management does not expect that this amount will be recovered, and a provision for the total amount has been recorded.

Litimpeks Bank is under liquidation procedure and is not able to meet its commitments to the Company. Therefore, the Company decided to make 100 percent provision for the total cash amount of LTL 17,643 thousand held in Litimpeks Bank as of 31 December 2000 and 1999.

Restricted cash in the amount of LTL 20,285 thousand represents letters of indemnity issued to UAB Multiimpex (the amount as of 31 December 2000 was LTL 685 thousand), Naftaimpexs Co (the amount as of 31 December 2000 was LTL 6,400 thousand), T.E.K. Group LLC (the amount as of 31 December 2000 was LTL 8,800 thousand) and Trade Line LLC (the amount as of 31 December 2000 was LTL 4,400 thousand) to guarantee the payment for goods received.

(All amounts in LTL'000 unless otherwise stated)

12. Trade accounts receivable, net

Trade accounts receivable consist of the following:

	2000	1999
Oil refinery	211,847	198,266
Pipeline operator	3,864	2,110
Oil terminal	5,005	3,536
Non-production units	775	1,180
Gross trade accounts receivable	221,491	205,092
Less: provision for doubtful trade accounts receivable	(95,604)	(89,682)
Total trade accounts receivable, net	125,887	115,410

13. Prepayments and other current assets

Prepayments and other current assets consist of the following:

	2000	1999
Overpaid taxes	60,223	9,331
Prepayments	4,455	77,413
Accrued income / deferred expenses	4,795	7,034
Other current assets	1,508	4,433
Total prepayments and other current assets	70,981	98,211

The Company usually pays in advance for the crude oil purchases. The decrease in prepayments as of 31 December 2000 is related to the purchase of oil from BP Oil International Ltd. at the end of the year 2000, for which the Company was granted a credit term of 30 days (see Note 21).

(All amounts in LTL'000 unless otherwise stated)

14. Inventories, net

Inventories consist of the following:

	2000	1999
Raw materials and spare parts	258,244	207,398
Semi-manufactures	60,634	91,873
Finished goods	202,342	48,761
Inventory consigned to others	85,341	-
Gross inventories	606,561	348,032
Less: provision for obsolete inventories	(275)	(431)
Total inventories, net	606,286	347,601

Semi-manufactures include oil products that are produced by Oil refinery and used in further stages of production. However, these products may also be sold as finished products to the market.

Inventory consigned to others represent inventories shipped to BP Oil International Ltd. Though the title of inventory has passed to BP Oil International Ltd., the substance of the agreement with BP Oil International Ltd. is similar to a consignment stock arrangement, therefore the sales revenues on these inventories have not been recognized in the statement of operations for the year ended 31 December 2000.

As of 31 December 2000 the Oil refinery of the Company had slow moving raw materials with the value of LTL 8,257 thousand (LTL 5,070 thousand in 1999) and spare parts with the value of LTL 16,691 thousand (LTL 2,955 thousand in 1999).

No provision has been made against the slow moving inventories as they by nature can not become obsolete in the nearest future and can be used by the Company.

The Company has insured inventories in AB Lietuvos Draudimas. The insurance amounting to USD 81,000 thousand (LTL 324,000 thousand) is valid until 29 August 2001. The Company has also obtained a third party liability insurance, including product liability, from AB Lietuvos Draudimas.

(All amounts in LTL'000 unless otherwise stated)

15. Long-term investments

Long-term investments consist of the following:

	2000	1999
Investments in associated companies	4,199	4,287
Other investments	7,492	2,372
Total long-term investments	11,691	6,659

Investments in associated companies as of 31 December 1999 include investments in UAB Naftelf and UAB Litewski Export LITEXIMP. In 2000 the Company has sold the shares of UAB Litewski Export LITEXIMP, therefore, the balance of investments in associated companies as of 31 December 2000 represents investment in UAB Naftelf, where AB Mažeikių Nafta holds 34 percent of the shares.

UAB Naftelf is a joint venture company with the French company Corelf. The activity of the entity includes aviation fuel sales and construction of aviation fuel storage facilities.

Other investments represent shares held in the entities, were investments do not exceed 20 percent of the shares in an entity, and government bonds described below.

In 1999 the Company acquired shares in Vnicanefteprodukt, Ukraine. In accordance with the agreement signed between AB Mažeikių Nafta and Galnafta-gas, a debtor of the Company, the debt was secured by the shares of Vnicanefteprodukt with the nominal value of LTL 6,973 thousand. The ownership of these shares was transferred to AB Mažeikių Nafta as the debt was not repaid. Due to the uncertainty related to the fair value of these shares the management of the Company recorded the investment at zero value in the Company's financial statements as of 31 December 2000 and 1999.

As of 19 December 1995, when Lithuanian Joint Stock Innovation Bank was declared insolvent, the Company had a cash balance at this bank amounting to LTL 7,895 thousand. Following the liquidation of the bank the Parliament and Government of Lithuania issued regulations in respect of compensating funds receivable from the bank. The frozen cash balance amounting to LTL 7,895 thousand was converted to a special 10-year non-interest bearing not transferable Government bonds. The bonds were recorded at zero value in the Company's financial statements as of 31 December 1999. At the end of the year 2000 the Government past a decree, which allowed these bonds to be traded in the secondary market. Therefore, the Company reclassified these securities to available-for-sale category and recorded these bonds at their market value as of 31 December 2000, recognizing unrealized gain of LTL 5,172 thousand in other comprehensive income.

16. Tangible assets, net

Tangible assets with a net book value of LTL 16,022 thousand as of 31 December 2000 that have been leased under the financial lease contracts are included in other tangible assets balance. The corresponding liability outstanding as of 31 December 2000 in the amount of LTL 10,649 thousand is included in long-term lease and current portion of long-term lease captions in the balance sheet.

Neither Company nor subsidiaries had collateralized tangible assets as of 31 December 2000.

As of 31 December 2000 the Company had tangible assets with a net book value of LTL 5,788 thousand that are currently not operating. It is anticipated that these assets will be brought into use as the refinery's modernization plan is realized.

All tangible assets of the Company are insured.

(All amounts in LTL'000 unless otherwise stated)

17. Construction in progress and prepayments for tangible assets

Construction in progress as of 31 December 2000 consists of the following:

Project	Balance	Additional funds required	Total estimated project value	Estimated date of completion
Oil refinery:				
Modernization program	80,762	733,702	814,464	2001-2004
New construction	2,001	700	2,701	2001-2002
Other	17,148	2,735	19,883	-
Total Oil refinery	99,911	737,137	837,048	
Oil terminal:				
Tanks	21,560	72,593	94,153	2002
New construction	3,515	228,484	231,999	-
Other	18,569	-	18,569	-
Total Oil terminal	43,644	301,077	344,721	
Pipeline operator	9	1,061	1,070	2001
Total	143,564	1,039,275	1,182,839	

Oil refinery projects

At the end of the year 1999 the Company has started the modernization program in order to increase the production capacities as well as the efficiency of the Oil refinery. The total balance of the modernization as of 31 December 2000 mainly represents technical documentation of the modernization project. The implementation of the projects is to be started after the financing is obtained. As of the date of the issuance of the financial statements the total amount of funds needed for completion of all projects was not determined yet. Based on the latest available information the total funds required for completion of the modernization project approximate to LTL 733,702 thousand.
Construction in progress balance of the Oil refinery includes LTL 3,358 thousand prepayments for tangible assets, construction works paid by the Company, and LTL 3,633 thousand capitalized interest.

Oil terminal projects

The balance of LTL 21,560 thousand represents the design works performed and the materials acquired for the construction of the new reservoirs. The reservoirs are the supporting units of the Oil terminal. The reservoirs will be used for crude oil and oil products storage.
The Company is planing to expand the current capacities of transferring of oil products. Therefore, the construction of a new product pipeline is planned by the Company. The pipeline will connect the refinery and AB Klaipėdos Nafta. The balance of LTL 3,515 thousand represents the cost of design works performed for the construction of the pipeline.
Construction in progress balance of Oil terminal includes LTL 16 thousand prepayments paid by the Company and LTL 456 thousand capitalized interest.

(All amounts in LTL'000 unless otherwise stated)

18. Intangible assets, net

Intangible assets consist of the following:

	2000	1999
Patents and licenses	24,741	24,680
Computer software	15,399	16,085
Total cost of intangible assets	40,140	40,765
Less: accumulated amortization	(27,576)	(19,334)
Total intangible assets	12,564	21,431

Computer software mainly includes purchased standard software. Patents and licenses include acquired patents and know-how costs of the manufacturing technology used by the refinery.

19. Non-current accounts receivable, net

Non-current accounts receivable consist of the following:

	2000	1999
AB Ventus Nafta	17,488	15,449
SP UAB Mažeikių Vandenys	5,236	-
Other	1,390	1,532
Gross non-current accounts receivable	24,114	16,981
Less: provision for doubtful non-current accounts receivable	(18,932)	(15,449)
Total non-current accounts receivable, net	5,182	1,532

20. Short-term loans

As of 31 December 2000 short-term loans of the Company consist of the following:

Lender	Purpose	Interest rate	Loan amount (in '000)	Balance LTL (in '000)	Maturity date
AB Vilniaus Bankas	Working capital	10.50%	USD 5,000	20,000	06/01
Lithuanian Savings Bank	Working capital	13.00%	LTL 2,000	-	03/01
Lithuanian Savings Bank	Working capital	12 months LIBOR+ 3.00%	USD 9,000	24,000	12/01
AB Bankas SNORAS	Credit line for salaries	9.90%	LTL 5,000	5,000	10/01
Interest payable				108	
Total short-term loans				49,108	

A credit line from AB bankas SNORAS was received as additional financing for payments of salaries. The Company may use this credit line until October 2001. Cash in bank accounts amounting to LTL 5,000 thousand was pledged for this credit line. Based on this contract the monthly cash inflow in bank's accounts should be not less than LTL 25,000 thousand.

According to the loan contract signed with AB Vilniaus Bankas the loan is secured by pledged cash in bank accounts amounting to LTL 40,000 thousand. Based on this contract the monthly cash inflow in bank's accounts should be not less than LTL 75,000 thousand.

As of 6 October 1999 the Company has signed the contract with Lithuanian Savings bank for the short-term loan amounting to USD 9,000 thousand. On 20 December 2000 this contract was prolonged till 20 December 2001. Cash in bank account amounting to LTL 24,000 thousand was pledged for this loan. Based on this contract the monthly cash inflow in bank's accounts should be not less than LTL 30,000 thousand (in case of idle production time during more then 10 days, cash inflow in bank's accounts should be not less then LTL 24,000 thousand).

The Company has complied with all the above-mentioned covenants during the year ended 31 December 2000.

21. Trade accounts payable

Trade accounts payable consist of the following:

	2000	1999
Oil refinery	127,114	17,413
Oil terminal	1,501	14,352
Pipeline operator	527	3
Non-production units	241	237
Total trade accounts payable	129,383	32,005

The increase in trade accounts payable as of 31 December 2000 is related to the purchase of oil from BP Oil International Ltd. at the end of the year 2000, for which the Company was granted a credit term of 30 days (see Note 13).

(All amounts in LTL'000 unless otherwise stated)

22. Advances received

Advances received consist of the following:

	2000	1999
Oil refinery	28,009	2,751
Pipeline operator	2,152	992
Non-production units	29	48
Total advances received	30,190	3,791

23. Accrued and other current liabilities

Accrued liabilities and other current liabilities consist of the following:

	2000	1999
Accrued management fees	21,756	3,599
Accrued claims from Oil terminal contractors	16,120	16,600
Salaries and social security	10,598	8,737
Other accrued taxes	7,635	6,172
Accrued vacation pay	4,672	5,320
Accrued professional fees	2,383	1,600
Accrued liability to raw materials suppliers	-	39,645
Other accrued expenses and short-term liabilities	4,604	8,261
Total accrued and other current liabilities	67,768	89,934

As of 31 December 1999 the Company had 56,932 tons of crude oil with the total value of LTL 39,645 thousand on hand, which was delivered by the supplier by pipeline. However, as the documents regarding the transfer of the ownership of oil from the supplier to the Company were not received as of 31 December 1999, this amount was included into accrued and other current liabilities caption in the balance sheet as of 31 December 1999.

24. Long-term loans

The long-term loans of the Company as of 31 December 2000 consist of the following:

Lender		Purpose terms	Repayment rate	Interest amount	Loan (in '000)	Balance LTL (in '000)	Maturity date
Oy International Business Machines AB		Investment in Oil refinery	Quarterly	12.12%	FIM 2,598	154	04/01
Vilniaus bankas		Raw materials	At maturity date	12 months LIBOR + 5.25%	USD 10,000	40,000	09/02
Vilniaus bankas		Raw materials	At maturity date	12 months LIBOR+ 5.25%	USD 2,500	10,000	09/02
Kreditanstalt fur Wiederaufbau	A)	Investment in Oil terminal	Semi-annually	6 months LIBOR+ 1.75%	USD 1,277	3,405	06/04
	B)	Investment in Oil terminal	Semi-annually	6 months LIBOR+ 1.875%	USD 1,473	3,929	06/04
Kreditanstalt fur Wiederaufbau		Investment in Oil terminal	Semi-annually	6 months LIBOR+ 1.25%	USD 406	1,083	09/04
Kreditanstalt fur Wiederaufbau		Pipeline in Oil terminal	Semi-annually	6 months LIBOR+ 0.875%	USD 4,294	10,998	06/06
Kreditanstalt fur Wiederaufbau		Investment in Oil terminal	Semi-annually	6 months LIBOR+ 0.875%	USD 7,235	21,705	06/06
Kreditanstalt fur Wiederaufbau		Investment in Oil terminal	Semi-annually	6 months LIBOR+ 0.875%	USD 2,444	7,332	09/06
Williams International		Working capital	**	10%	USD 75,000	300,000	10/06
Kreditanstalt fur Wiederaufbau		Main pipeline	Semi-annually	6 months LIBOR+ 0.875%	USD 11,855	33,865	12/06
Kreditanstalt fur Wiederaufbau		Investment in Oil terminal	Semi-annually	6 months LIBOR+ 0.875%	USD 17,395	48,624	12/06
Government of Lithuania		Working capital	**	10%	USD 323,928*	1,155,710	02/07
Bank of Tokyo Mitsubishi		Investment in Oil terminal	Semi-annually	6 months LIBOR + 2%	USD 50,000	178,947	01/09
Interest accrued					15,947		
Less: current portion of long-term debt					(70,054)		
Total long-term loans					**1,761,645**		

* According to the loan agreement signed on 29 October 1999, USD 35,000 thousand (LTL 140,000 thousand) from the loan received from the Government of Lithuania was considered a special reserve amount for idle production time, caused by the lack of oil supply from Russia. The amount was placed on a separate interest bearing account. According to the Investment agreement signed between the Government of Lithuania, AB Mažeikių Nafta and Williams International in case of lack of oil supply the crude oil interruption compensation had to be calculated by the Company and debt had to be forgiven in the same amount, however, not exceeding LTL 140,000 thousand plus accrued interest. The crude oil supply interruption payment calculated by the Company for idle production time in November 1999 amounted to LTL 49,916 thousand. In addition, in the beginning of 2000 the Company calculated the crude oil supply interruption payment amounting to LTL 90,084 thousand. The debt to the Lithuanian Government as of 31 December 1999 and 2000 was reduced accordingly.

** Half of the loan should be repaid a year before the maturity date; the remaining part – at the maturity date.

As of 29 December 2000 the USD LIBOR rates were as follows:

- 6 months LIBOR – 6.203%
- 12 months LIBOR – 6.000%

All the loans granted by Kreditanstalt fur Wiederaufbau and Bank of Tokyo Mitsubishi for investment in the Oil terminal are guaranteed by the Government of Lithuania.

The debt outstanding as of 31 December 2000 was subject to a number of covenants, such as exclusive use of loans and restricted Company's management ability to pledge, mortgage or sell the assets, which acquisitions were financed by the loans throughout the duration of loan agreements without lender's prior consent. The Company has complied with these covenants.

24. Long-term loans (Cont'd)

Maturity schedule:

	Years					
	2001	2002	2003	2004	2005	2006-2009
Balance of principal amount of longterm loans payable	54,107	93,485	43,029	41,949	725,536	857,646

25. Long-term capital lease obligations

As of 31 December 2000 the Company had tangible assets acquired under the financial lease agreements for the total cost value of LTL 25,332 thousand. Tangible assets leased, which mainly represent vehicles and railway cisterns, are accounted for under other tangible assets caption in the balance sheet.
The financial lease liability outstanding as of 31 December 2000 amounts to LTL 10,649 thousand, which includes lease payments of LTL 5,259 thousand falling due within one year.

Amounts under capital lease (principal amount and interest) are due as follows:

	Amount (in LTL'000)
2001	5,806
2002	3,690
2003	1,816
2004	117
Less: interest	(780)
Long-term lease per balance sheet	10,649

26. Other long-term accounts payable

In 1998 the Company has received several claims from the Oil terminal project contractor Preussag Wasser & Rohrtechnik GmbH related to the reimbursement of costs incurred due to delays of Oil terminal construction works and idle construction time. In July 1999 the Company signed a settlement agreement with Preussag Wasser & Rohrtechnik GmbH and agreed to satisfy the total claims of LTL 98,058 thousand received from the contractor in the amount of LTL 74,000 thousand. Part of the amount has been paid, and the remaining LTL 30,000 thousand has been included into other accounts payable in the amount of LTL 8,000 thousand and other long-term accounts payable in the amount of LTL 22,000 thousand in the balance sheet as of 31 December 2000. The amount of LTL 8,000 thousand out of the long-term portion has to be paid in 2002 and the remaining part of LTL 14,000 thousand is due in 2003. The outstanding amounts are subject to 3 months LIBOR interest.

27. Subsidies

The subsidies represent financing received from the Government for construction of apartment blocks for Russian citizens in Vsevolotzk, St. Petersburg. As of 31 December 1998 the construction was completed and the buildings with a net book value of LTL 19,851 thousand are included in tangible assets balance as of 31 December 2000 and 1999. The Government of Lithuania has fully financed the construction of these apartment blocks as a part of an agreement to enable the Russian citizens (former employees of Oil refinery) to move from Lithuania back to Russia. The title to the apartments is going to be transferred from the Company in 2001. The subsidies will be netted against the tangible assets balance transferred.

28. Shareholders' equity

As described in Note 1 to these financial statements, part of the subscription price of the new share issue acquired by Williams International was paid by issuing a USD 75,000 thousand (LTL 300,000 thousand) guaranteed zero coupon debenture, payable to the Company in 2002 (see Note 1). However, in accordance with the provisions of the Investment agreement signed between the Government of Lithuania, AB Mažeikių Nafta and Williams International, after the end of year 2001 Williams International will be compensated for the difference between the Company's cumulative actual earnings before interest, taxes, depreciation and amortization (EBITDA) and the amount of USD 421,486 thousand set by the Investment agreement (EBITDA shortfall) and the Company will actually receive only the amount in excess of the debenture value over the EBITDA compensation. Taking into account the Company's current performance the management of the Company believes that the debenture is likely to be set-off against the EBITDA shortfall for the whole amount and has written-off the amount directly to the Company's equity.

29. Commitments and contingencies

Pending claims

In 1998 the Company received claims from Fluor Daniel Intercontinental Inc., the engineering, procurement, construction and project management contractor, arising out of the Oil Terminal project in the amount of USD 20,620 thousand (LTL 82,480 thousand). The management of the Company has rejected these claims and has instructed its lawyers to defend the Company from the claims and to submit counterclaims against Fluor Daniel Intercontinental Inc. At an early stage of the dispute the Company recognized an accrued liability of LTL 16,120 thousand that was reflected in the financial statements as of 31 December 2000 and 1999 and capitalized these costs in the construction in progress account. The Company does not believe the claims by Fluor Daniel Intercontinental Inc. are valid but has retained the liability on its books. The Company believes that Fluor Daniel Intercontinental Inc. is responsible for the delay in the construction works and, therefore, is not entitled to their claim, but is rather responsible for the damages sustained by the Oil Terminal, i.e. lost income and the losses of LTL 74,000 thousand, which the Company incurred in order to settle the claim received from Preusssag Wasser & Rohrtechnik GmbH. Therefore, no additional liability that can result from the outcome of this contingency was recognized in the financial statements as of 31 December 2000 and 1999.

In March 2000 the Company initiated legal proceedings seeking to cover damages from Fluor Daniel Intercontinental Inc. for the breach of duty and/or breach of collateral warranty and/or economic duress of the Oil terminal. The damages claimed are approximately of USD 150,000 thousand (LTL 600,000 thousand). The outcome of these proceedings is unclear at the date of the issuing of these financial statements.

On 22 July 1999 the Company received a claim from AS Rietumu Banka for the total amount of USD 1,250 thousand (LTL 5,000 thousand) related to not performed sales of oil products to Thornleigh Trust Ltd. in accordance with the agreement signed on 23 March 1998 with AS Rietumu Banka and Thornleigh Trust Ltd. The Company set-off the advance payment of USD 1,250 thousand received from Thornleigh Trust Ltd. against the receivable outstanding balance and did not perform the shipment of products. The management cannot predict the outcome of the claim, therefore, no provision for the claim amount was made in the financial statements as of 31 December 2000 and 1999.

Based on the claim received from UAB Klevo Lapas, on 10 June 2000 the Lithuanian Competition Council has imposed a fine amounting to LTL 100 thousand to the Company for non-compliance with the Lithuanian Competition Law. The Company has paid the fine and included the amount in the statement of operations for the year ended 31 December 2000. However, the management of the Company believes that the decision of the Council is not grounded and decided to dispute the decision of the Competition Council. If the decision of the Competition Council that the Company was not complying with the Competition Law remains final, the customers affected by the Company's pricing policy might claim the Company to cover their damages. As of 31 December 2000 total amount of the claims to the Company from UAB Klevo Lapas made up LTL 700 thousand. The expertise committee appointed by the Court is evaluating the possible amounts of damages incurred by UAB Klevo Lapas. The management cannot estimate the final amount of such claims and predict their outcome, therefore, no provision for this uncertainty was made in the financial statements as of 31 December 2000.

In June 2000 the Company received a payment request from a group of persons in the amount of LTL 9,808 thousand related to production improvement process invented and patented by the group and subsequently implemented by the Oil refinery. Three agreements were signed by the Company and this group in September 1994 stating that 25% of the additional revenue resulting from the production improvement process implementation must be paid to the authors of the improvement. The agreements

(All amounts in LTL'000 unless otherwise stated)

29. Commitments and contingencies (cont'd)

state that the remuneration of the authors must be paid during the period the patent of the invention is valid. According to the Lithuanian legislation the patent's period is 20 years. The Company has paid LTL 1,153 thousand for the year 1995. The requested balance of LTL 9,808 thousand relates to the years 1996-1998. The management does not agree that the implementation of the invention did actually improve the output of production process and, therefore, intends to reject the payment request. No accrual for this disputed liability has been made in the financial statements. In addition, according to the Provisions of the Investment Agreement, signed between the Government of Lithuania, AB Mažeikių Nafta and Williams International, in the case of the unfavourable outcome of this uncertainty, Williams International could claim the amounts paid to cover this liability to be compensated to the Company by the Government of Lithuania.

Guarantees

As of 31 December 2000 the Company had the following guarantee to third party:

Guaranteed for	Creditor	Object	Amount of guarantee	Due date
AB Ventus Nafta	UAB Hanza Lizingas	Leasing of equipment for fuel stations	4,115	31 October 2001

AB Ventus-Nafta was established in 1997 by AB Mažeikių Nafta (Oil refinery) as a company responsible for the development of petrol stations' network. The shares of AB Ventus-Nafta were held until November 1998 and later they were distributed to the shareholders of AB Mažeikių Nafta proportionally to the number of shares they held in AB Mažeikių Nafta.

In November 1999 the Company has repaid to AB bankas SNORAS LTL 3,792 thousand from the loan of LTL 4,000 granted to AB Ventus-Nafta and guaranteed by AB Mažeikių Nafta, which matured on 15 November 1999. The remaining part of the loan was repaid by AB Ventus-Nafta. The balance of LTL 3,792 thousand receivable from AB Ventus Nafta is accounted for in other long-term accounts receivable caption in the Company's financial statements as of 31 December 2000 and 1999. In accordance with the provisions of the Investment agreement, signed between the Government of Lithuania, AB Mažeikių Nafta and Williams International the amounts paid by the Company to AB bankas SNORAS will be refunded by Government of Lithuania if they are not received from AB Ventus Nafta until 31 July 2004.

In accordance with the provisions of the Investment agreement signed between the Government of Lithuania, AB Mažeikių Nafta and Williams International all guarantees granted by the Company to AB Ventus-Nafta should have been transferred to any Lithuanian Governmental Body without further liability or obligations to the Company by 1 March 2000. The guarantee specified above was granted by the Company without a permission of the Government of Lithuania. Due to this, its validity is questionable and this issue was not resolved as of the date of these financial statements.

Land lease agreements

In order to start the construction of inland pipeline the Oil terminal had signed land lease agreements with approximately 600 owners of private land where the pipeline was constructed. All land lease agreements have been expired as of 31 December 2000 and 1999. No work has been done to prolong these agreements. In addition to this the Company lacks several land lease agreements for operating the existing pipelines and certain changes in legislation are required to restore the necessary rights of way. No provisions have been made in these financial statements for the uncertainty or the cost associated with obtaining the land lease agreements.

Decision of the Constitutional Court of Lithuania

On 18 October 2000 the Constitutional Court of Lithuania concluded that certain provisions of the Law of the Republic of Lithuania on Reorganisation of Public Companies Būtingės Nafta, Mažeikių Nafta and Naftotiekis contravened the Constitution of the Republic of Lithuania, since the Government was not entitled to assume, on behalf of the State, the essential property-related obligations to the strategic investor and (or) AB Mažeikių Nafta. The Constitutional Court concluded that the law statement on compensation of losses to the strategic investor and AB Mažeikių Nafta 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 and (or) AB Mažeikių Nafta, whereas, according to the Constitutional Court, the compensation of such losses would not serve the general welfare of the people and, therefore, contradicts the Constitution, which establishes that "the State shall regulate economic activity so that it serves the general welfare of the people". The Constitutional Court also concluded that the law statement according to which both the State and the strategic investor have the priority right to acquire the sold or otherwise transferred shares of other shareholders who own at least 1 percent of the shares in AB Mažeikių Nafta to be active after reorganization, to the extent the shareholders' right to otherwise transfer shares is restricted, contradicts the provision of the Constitution establishing protection of ownership rights.

The Ministry of Economy contracted the law firm Bernotas ir Dominas (Glimstedt) for the evaluation of possible consequences of this Constitutional Court ruling under the provisions and principles of English law as the Investment agreement signed between the Government of Lithuania, AB Mažeikių Nafta and Williams International is governed by English law. The conclusions of lawyers are expected during February 2001.

(All amounts in LTL'000 unless otherwise stated)

29. Commitments and contingencies (cont'd)

Purchase commitments

On 10 June 1999 the Company signed an agreement with UOP Limited for the installation of UOP HF Alkylation Process unit, Huels Selective Hydrogenation Process unit, UOP Oxygenate Removal Process unit and Penex Process unit. According to the agreement the Company is obliged to acquire licenses for the design capacities of the corresponding units. As of 31 December 2000 the Company paid LTL 6,008 thousand for these licenses and included this amount in intangible assets balance as of 31 December 2000. The remaining license purchase commitment amounts to LTL 6,008 thousand.

On 29 October 1999 an agreement was signed between the Company, Williams International Services Company and UAB Williams Lietuva. Based on this agreement, Williams International Services Company and UAB Williams Lietuva is providing management services for the Company. The agreement is signed for 15 years period, starting from 29 October 1999 and is renewable thereafter by mutual agreement. The management fee includes the actual costs and expenses incurred plus 15 percent.

30. Reported segments' revenues, profit (loss) and assets

Description of reportable segments

The Company has three reportable segments: the Oil refinery, the Oil terminal and the Pipeline operator. The Oil refinery is mainly involved in refining of crude oil. Its present production includes different grades of high-octane unleaded gasoline, diesel, jet fuel, bitumen, LPG and sulfur. The Oil terminal is being built on the Baltic Sea coast in order to have a second source of crude oil supplies into Lithuania as well as the capacity of exporting oil products to Europe. The terminal was brought into operation in July 1999. Pipelines connect the Oil refinery and Bir•ai pumping station (Pipeline operator) with the terminal. The Pipeline operator transports crude oil and oil products on the Druzhba pipeline. The Company's reportable segments are separate business units that offer different kinds of services. They are managed separately as each business requires different technology and market approach.

A distribution of revenues, profit (loss) and assets between the segments of the Company for the year 2000 is presented in the table below:

	Oil refinery	Oil terminal	Pipeline operator	Total
Total revenues by segment	4,056,133	58,708	102,788	4,217,629
Interest expenses	(108,103)	(78,678)	-	(186,781)
Interest income	17,396	-	-	17,396
Depreciation and amortization	(83,867)	(37,020)	(10,051)	(130,938)
Segment profit (loss)	(84,650)	(77,725)	58,951	(103,460)
Segment assets	1,525,879	1,051,091	80,583	2,657,553
Expenditures for segment assets	114,266	12,721	1,677	128,664

(All amounts in LTL'000 unless otherwise stated)

30. Reported segments' revenues, profit (loss) and assets (cont'd)

The customers of the Oil terminal, Oil refinery and Pipeline operator that exceeded 10 percent of sales in reportable segments are presented below:

Customer	Segment	% of segment sales
Oil company YUKOS (Russia)	Pipeline operator	36.21%
Oil company LUKOIL (Russia)	Pipeline operator	14.11%
Oil company YUKOS (Russia)	Oil terminal	65.47%
BP Oil International Ltd.	Oil refinery	26.94%
UAB Lietuva Statoil	Oil refinery	10.92%

A distribution of revenues, profit (loss) and assets between the segments of the Company for the year 1999 is presented in the table below:

	Oil refinery	Oil terminal	Pipeline operator	Total
Total revenues by segment	2,195,022	13,833	80,160	2,289,015
Interest expenses	(52,706)	(20,627)	-	(73,333)
Interest income	3,895	22	46	3,963
Depreciation and amortization	(98,511)	(19,760)	(10,288)	(128,559)
Segment profit (loss)	(112,832)	(56,111)	34,731	(134,212)
Segment assets	2,858,588	1,018,371	87,399	3,964,358
Expenditures for segment assets	110,983	288,299	16,754	416,036

(All amounts in LTL'000 unless otherwise stated)

31. Reconciliation of reportable segments' revenues, profit (loss) and assets

	2000	1999
Revenues		
Total revenues for reportable segments	4,217,629	2,289,015
Services and sales of non-production units	24,448	24,367
Elimination of intercompany revenues	(16,700)	(13,168)
Total consolidated revenues	4,225,377	2,300,214
Profit (loss)		
Total (loss) for reportable segments	(103,460)	(134,212)
Other profit (loss)	(550)	(340)
Other corporate expenses	(75,164)	(24,122)
(Loss) before equity in earnings (losses) of associated companies, income tax and minority interest	(179,174)	(158,674)
Assets		
Total assets for reportable segments	2,657,553	3,964,358
Other assets	11,413	11,958
Internal eliminations	(688)	(1,099,724)
Other eliminations	(7,981)	(8,767)
Total consolidated assets	2,660,297	2,867,825

(All amounts in LTL'000 unless otherwise stated)

31. Reconciliation of reportable segments revenues, profit (loss) and assets (Cont'd)

Total consolidated revenues earned by the Company in 2000 and 1999 can be split by country as follows:

	2000	1999
Lithuania	1,408,635	971,813
UK	1,149,582	279,511
Poland	344,702	236,516
Switzerland	312,503	188,603
Ukraine	308,278	133,578
USA	238,232	111,482
Russia	160,715	100,416
Latvia	128,367	88,529
Estonia	49,518	45,384
Panama	39,026	32,664
Germany	22,573	30,739
France	15,697	27,914
Virginian islands	14,924	17,654
Cyprus	13,672	13,830
Denmark	5,578	10,551
Ireland	1,046	7,780
Other	12,329	3,250
Total consolidated revenues	4,225,377	2,300,214

All of the Company's long-lived assets are located in Lithuania.

32. Transactions with related parties

On 29 October 1999 the Company received a long-term loan of USD 75,000 thousand from its shareholder Williams International, which holds 33 percent of the Company's share capital and is also the manager of the Company. The outstanding loan balance of LTL 300,000 thousand (USD 75,000 thousand) was included in the long-term loans as of 31 December 2000 (see Note 24). The loan bears 10 percent interest and matures in October 2006. Accrued interest amounts to LTL 2,667 thousand as of 31 December 2000 and is included in current portion of long-term loans caption in the balance sheet.

In accordance with the provisions of the Investment Agreement, Williams International is providing management services to the Company. Management fees of LTL 44,464 thousand incurred in 2000 (LTL 23,096 thousand in 1999) are included in the general and administrative expenses in the statement of operations. The management agreement is signed for 15 years period, starting from 29 October 1999 and is renewable thereafter by mutual agreement.

As described in Note 24, on 29 October 1999 the Company also signed a loan agreement with the Government of Lithuania. The State holds 59 percent of the share capital of the Company. The outstanding loan balance of LTL 1,155,710 thousand is included in long-term loans caption as of 31 December 2000 (see Note 24). The loan bears 10 percent interest and matures in February 2007. Accrued interest amounts to LTL 963 thousand as of 31 December 2000 and is included in current portion of long-term loans caption in the balance sheet.

These financial statements have been approbated by the Board of Directors and Supervisory Council.

Ronald A. Majors

Ronald A. Majors
Chairman of the Board