MAŽEIKIŲ NAFTA AB

CONSOLIDATED FINANCIAL STATEMENTS AND PERFORMANCE REPORT

FOR THE YEAR ENDED 31 DECEMBER 2005

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AUDITOR'S REPORT TO THE SHAREHOLDERS OF MAŽEIKIŲ NAFTA AB

1. We have audited the accompanying consolidated balance sheet of Mažeikių Nafta AB (hereinafter "the Company") and its subsidiaries (together "the Group") as at 31 December 2005 and the related consolidated statements of income, cash flows and changes in equity for the year then ended. The financial statements set out on pages 5 – 65 and the performance report set out on pages 66 – 69 are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audit and to assess whether the information disclosed in the performance report is consistent with the financial statements.

2. We conducted our audit in accordance with International Standards on Auditing. Those Standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. Our work with respect to the performance report was limited to checking it within the aforementioned scope and did not include a review of any information other than that drawn from the audited accounting records of the Company. We believe that our audit provides a reasonable basis for our opinion.

3. In October 2005, the Group acquired subsidiary Mažeikių Elektrinė AB. Through this business combination the Group acquired allowances to emit 2,651,020 tons of carbon dioxide in 2005 – 2007. These allowances and the related liabilities for the actual emissions made until the date of acquisition have not been recognised in the balance sheet of the Group. In accordance with International Financial Reporting Standard No. 3 "Business Combinations" the acquirer shall, at the acquisition date, allocate the cost of a business combination by recognising the acquiree's identifiable assets, liabilities and contingent liabilities at their fair values at that date. In our opinion, the Group should have recognised the above allowances and related liabilities at the date of acquisition of subsidiary and subsequently should have recognised liabilities and related expenses for the actual emissions of carbon dioxide made between the date of acquisition and 31 December 2005. As a result, the Group's total assets and minority interest in the balance sheet as at 31 December 2005 should be increased by USD 65,182 thousand or LTL 189,694 thousand and USD 9,514 thousand or LTL 27,688 thousand respectively, whilst profit for the year then ended should be increased by USD 55,415 thousand or LTL 159,097 thousand and minority interest in the income statement decreased by USD 253 thousand or LTL 734 thousand. In addition, in the financial statements presented in LTL the cumulative translation adjustment should be increased by LTL 2,175 thousand.

4. In our opinion, except for the effect of the matter referred to in paragraph 3, the accompanying consolidated financial statements give a true and fair view of the financial position of the Group as at 31 December 2005 and of the results of its operations and cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted by the European Union.

5. In addition, in our opinion, except for the effect of the matter referred to in paragraph 3, the accompanying consolidated financial statements give a true and fair view of the financial position of the Group as at 31 December 2005 and of the results of its operations and cash flows for the year then ended in accordance with International Financial Reporting Standards as issued by the IASB.

6. We did not identify material inconsistencies in the performance report with the audited financial statements.

On behalf of PricewaterhouseCoopers UAB

Christopher C. Butler
Partner
Vilnius, Republic of Lithuania
20 April 2006

Ona Armalienė
Auditor's Certificate No.000008

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

Consolidated balance sheet

	Note	As at 31 December 2005		As at 31 December 2004	
ASSETS		**USD**	**LTL**	**USD**	**LTL**
Non-current assets					
Property, plant and equipment	7	509,016	1,481,336	497,811	1,261,702
Intangible assets	8	3,916	11,396	4,686	11,877
Goodwill	9	1,842	5,361	-	-
Investments in associates	10	1,262	3,672	1,336	3,386
Deferred income tax assets	20	20,891	60,798	16,644	42,184
Available-for-sale financial assets		1	3	20	51
Non-current receivables and prepayments	11	27,997	81,478	9,522	24,135
		564,925	1,644,044	530,019	1,343,335
Current assets					
Inventories	12	257,119	748,268	193,846	491,302
Trade and other receivables	13	144,607	420,836	137,171	347,661
Prepaid current income tax		165	480	66	168
Cash and cash equivalents	14	637,813	1,856,164	393,719	997,881
		1,039,704	3,025,748	724,802	1,837,012
Non-current assets classified as held for sale		953	2,773	267	677
		1,040,657	3,028,521	725,069	1,837,689
Total assets		1,605,582	4,672,565	1,255,088	3,181,024
EQUITY					
Capital and reserves attributable to equity holders of the Company					
Share capital	15	181,366	707,454	181,366	707,454
Share premium		72,752	283,040	72,752	283,040
Reserves	16	13,603	36,526	109	437
Cumulative translation adjustment		1,457	(30,716)	4,344	(211,052)
Retained earnings		404,069	963,006	190,756	358,940
		673,247	1,959,310	449,327	1,138,819
Minority interest		836	2,433	686	1,739
Total equity		674,083	1,961,743	450,013	1,140,558
LIABILITIES					
Non-current liabilities					
Borrowings	19	454,076	1,321,452	465,916	1,180,865
Other non-current liabilities	17	8,506	24,754	4,985	12,634
Provisions for other liabilities and charges	21	11,322	32,949	-	-
		473,904	1,379,155	470,901	1,193,499
Current liabilities					
Trade and other payables	18	396,028	1,152,495	264,966	671,561
Current income tax liabilities		36,879	107,325	53,286	135,053
Borrowings	19	9,812	28,555	11,953	30,294
Provisions for other liabilities and charges	21	14,876	43,292	3,969	10,059
		457,595	1,331,667	334,174	846,967
Total liabilities		931,499	2,710,822	805,075	2,040,466
Total equity and liabilities		1,605,582	4,672,565	1,255,088	3,181,024

The General Director and the Chief Financial Officer approved the consolidated financial statements on pages 5 to 65 on 20 April 2006.

Paul Nelson English	Vita Petrošienė
General Director	Chief Financial Officer

The notes on pages 10 to 65 are an integral part of these consolidated financial statements.

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

Consolidated income statement

		Year ended 31 December			
		2005		2004	
	Note	USD	LTL	USD	LTL
Sales	6	4,005,521	11,155,771	2,760,772	7,663,481
Cost of sales	22	(3,336,777)	(9,302,596)	(2,204,935)	(6,124,239)
Gross profit		668,744	1,853,175	555,837	1,539,242
Other income		991	2,739	116	481
Selling and marketing costs	22	(206,075)	(572,270)	(163,127)	(451,661)
Administrative expenses	22	(83,352)	(232,894)	(71,411)	(196,845)
Operating profit		380,308	1,050,750	321,415	891,217
Finance income	23	14,854	41,633	3,563	9,832
Finance costs	24	(31,840)	(88,257)	(18,191)	(51,249)
Share of profit/(loss) of associates	10	103	286	(163)	(453)
Profit before income tax		363,425	1,004,412	306,624	849,347
Income tax expense	25	(44,702)	(118,698)	(45,781)	(128,187)
Profit for the year		318,723	885,714	260,843	721,160
Attributable to:					
Equity holders of the Company		319,478	887,764	261,103	721,883
Minority interest		(755)	(2,050)	(260)	(723)
		318,723	885,714	260,843	721,160
Earnings per share for profit attributable to the equity holders of the Company during the year (expressed in USD or LTL per share)					
– basic / diluted	26	0.452	1.255	0.369	1.020

The notes on pages 10 to 65 are an integral part of these consolidated financial statements.

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

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

	Note	Attributable to equity holders of the Company							Minority interest	Total equity
		Share capital	Share premium	Statutory revaluation reserve	Legal reserve	Fair value reserve	Cumulative translation adjustments	Retained earnings		
Balance at 1 January 2004	5.2.1	181,366	87,613	109	-	12	3,286	(85,208)	906	188,084
Changes in fair value of cash flow hedges		-	-	-	-	(779)	-	-	-	(779)
Transfer of accumulated loss on cash flow hedges to income statement		-	-	-	-	767	-	-	-	767
Currency translation differences		-	-	-	-	-	1,058	-	40	1,098
Net income/(expenses) recognised directly in equity		-	-	-	-	(12)	1,058	-	40	1,086
Profit for the year		-	-	-	-	-	-	261,103	(260)	260,843
Total recognised income for 2004		-	-	-	-	(12)	1,058	261,103	(220)	261,929
Increase in retained earnings by decreasing share premium	5.2.2	-	(14,861)	-	-	-	-	14,861	-	-
Balance at 31 December 2004	5.2.1	181,366	72,752	109	-	-	4,344	190,756	686	450,013
Balance at 1 January 2005		181,366	72,752	109	-	-	4,344	190,756	686	450,013
Currency translation differences		-	-	-	-	-	(2,887)	-	279	(2,608)
Net (expenses) recognised directly in equity		-	-	-	-	-	(2,887)	-	279	(2,608)
Profit for the period		-	-	-	-	-	-	319,478	(755)	318,723
Total recognised income for 2005		-	-	-	-	-	(2,887)	319,478	(476)	316,115
Increase in share in subsidiary		-	-	-	-	-	-	-	(168)	(168)
Minority interest arising on business combinations	31	-	-	-	-	-	-	-	794	794
Transfer to legal reserve	16	-	-	-	13,494	-	-	(13,494)	-	-
Dividend relating to 2004	27	-	-	-	-	-	-	(92,671)	-	(92,671)
Balance at 31 December 2005		181,366	72,752	109	13,494	-	1,457	404,069	836	674,083

The notes on pages 10 to 65 are an integral part of these consolidated financial statements.

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

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

	Note	Attributable to equity holders of the Company							Minority interest	Total Equity
		Share capital	Share premium	Statutory revaluation reserve	Legal reserve	Fair value reserve	Cumulative translation adjustments	Retained earnings		
Balance at 1 January 2004	5.2.1	707,454	342,484	437	-	35	(114,802)	(422,387)	2,502	515,723
Changes in fair value of cash flow hedges		-	-	-	-	(2,272)	-	-	-	(2,272)
Transfer of accumulated loss on cash flow hedges to income statement		-	-	-	-	2,237	-	-	-	2,237
Currency translation differences		-	-	-	-	-	(96,250)	-	(40)	(96,290)
Net (expenses) recognised directly in equity		-	-	-	-	(35)	(96,250)	-	(40)	(96,325)
Profit for the year		-	-	-	-	-	-	721,883	(723)	721,160
Total recognised income for 2004		-	-	-	-	(35)	(96,250)	721,883	(763)	624,835
Increase in retained earnings by decreasing share premium	5.2.2	-	(59,444)	-	-	-	-	59,444	-	-
Balance at 31 December 2004	5.2.1	707,454	283,040	437	-	-	(211,052)	358,940	1,739	1,140,558
Balance at 1 January 2005		707,454	283,040	437	-	-	(211,052)	358,940	1,739	1,140,558
Currency translation differences		-	-	-	-	-	180,336	-	904	181,240
Net income recognised directly in equity		-	-	-	-	-	180,336	-	904	181,240
Profit for the period		-	-	-	-	-	-	887,764	(2,050)	885,714
Total recognised income for 2005		-	-	-	-	-	180,336	887,764	(1,146)	1,066,954
Increase in share in subsidiary		-	-	-	-	-	-	-	(442)	(442)
Minority interest arising on business combinations	31	-	-	-	-	-	-	-	2,282	2,282
Transfer to legal reserve	16	-	-	-	36,089	-	-	(36,089)	-	-
Dividend relating to 2004	27	-	-	-	-	-	-	(247,609)	-	(247,609)
Balance at 31 December 2005		707,454	283,040	437	36,089	-	(30,716)	963,006	2,433	1,961,743

The notes on pages 10 to 65 are an integral part of these consolidated financial statements.

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

Consolidated cash flow statement

		Year ended 31 December			
		2005		2004	
	Note	**USD**	**LTL**	**USD**	**LTL**
Cash flows from operating activities					
Cash generated from operations	28	495,986	1,538,651	318,211	880,592
Interest paid		(28,356)	(78,500)	(26,385)	(73,166)
Income tax paid		(59,219)	(170,057)	(430)	(1,196)
Net cash generated from operating activities		408,411	1,290,094	291,396	806,230
Cash flows from investing activities					
Purchases of property, plant and equipment		(59,044)	(164,224)	(27,445)	(78,714)
Change in cash restricted for financing activities	14	11,205	28,399	12,341	36,637
Proceeds from sale of property, plant and equipment		514	1,414	2,749	7,512
Proceeds from sale of non-current assets classified as held for sale		210	587	-	-
Purchases of intangible assets		(905)	(2,552)	(656)	(1,817)
Proceeds from sale of available-for-sale financial assets		19	48	232	644
Interest received		14,854	41,723	3,563	9,832
Acquisition of subsidiary, net of cash acquired	31	(5,733)	(16,466)	-	-
Acquisition of shares in subsidiary from minority	31	(208)	(554)	-	-
Dividends received from associates		-	-	3	-
Other		-	-	13	44
Net cash used in investing activities		(39,088)	(111,625)	(9,200)	(25,862)
Cash flows from financing activities					
Proceeds from borrowings		726	2,113	-	-
Repayments of borrowings		(15,387)	(42,624)	(11,153)	(30,612)
Finance lease principal payments		(331)	(917)	(476)	(1,326)
Dividends paid to the Company's shareholders		(92,665)	(247,592)	-	-
Contribution of minority shareholders to the share capital of subsidiary		3	7	-	-
Net cash used in financing activities		(107,654)	(289,013)	(11,629)	(31,938)
Net increase in cash and bank overdrafts		261,669	889,456	270,567	748,430
Cash and bank overdrafts at beginning of period	14	382,434	969,282	108,646	300,092
Exchange gains/(losses) on cash and bank overdrafts		(6,290)	(2,574)	3,221	(79,240)
Cash and bank overdrafts at end of period	14	637,813	1,856,164	382,434	969,282

The notes on pages 10 to 65 are an integral part of these consolidated financial statements.

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

Notes to the consolidated financial statements

1. General information

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

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

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

In May 2005, the previous shareholders of the Company Yukos Finance B.V. transferred its shareholding in the Company to Yukos International UK B.V. As at 31 December 2005 the Company's two primary shareholders were Yukos International UK B.V. (part of the Yukos Group) with 53.7 percent and the Government of the Republic of Lithuania (hereinafter "the Government") with 40.7 percent of shares. The remaining shares are widely held.

To the best of the knowledge of the Company's management Group MENATEP Ltd (GIB) is the ultimate parent of the Group (as defined below).

The consolidated group

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

Subsidiary / associate	Country of incorporation	Year of establishment /acquisition	Group's share (%) as at 31 December 2005	Group's share (%) as at 31 December 2004	Profile
Subsidiaries					
Uotas UAB	Lithuania	2002	100	100	The entity is under liquidation process.
Ventus Nafta AB	Lithuania	2002	98.59	95.2	Retail of refined oil products
Mažeikių Naftos Prekybos Namai UAB	Lithuania	2003	100	100	The Company's sales commissioner in Lithuania
Mazeikiu Nafta Tirdcniecibas Nams SIA	Latvia	2003	100	100	Wholesale of refined oil products in Latvia
Mazeikiu Nafta Trading House OU	Estonia	2003	100	100	Wholesale of refined oil products in Estonia
Mazeikiu Nafta Trading House Sp.z.o.o.	Poland	2003	100	100	Wholesale of refined oil products in Poland
Biržietiška Aibė UAB	Lithuania	1999	100	100	The entity was liquidated in January 2006.
Juodeikių Nafta UAB	Lithuania	1995	100	60	Filling of tanks with oil products
Mažeikių Elektrinė AB	Lithuania	2005	85.72	-	Manufacture, supply and distribution of electricity and thermal energy
Associates					
Naftelf UAB	Lithuania	1996	34	34	Sales of aviation fuel and construction of aviation fuel storage facilities

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

1. General information (continued)

Current situation at the Yukos Group

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

(1) Sale of shares

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

(2) Supply of crude oil

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

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

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

2. Summary of significant accounting policies

2.1 Basis of preparation

These consolidated financial statements of the Group have been prepared in accordance with International Financial Reporting Standards ("IFRS") as adopted by the European Union and International Financial Reporting Standards issued by the IASB and are covered by IFRS 1, First-time Adoption of IFRS. All International Financial Reporting Standards issued by the IASB and effective at the time of preparing these consolidated financial statements have been adopted by the EU through the endorsement procedure established by the European Commission, with the exception of the International Accounting Standard IAS 39 "Financial Instruments: Recognition and Measurement". Following recommendations from the Accounting Regulatory Committee, the Commission adopted Regulations 2086/2004 and 1864/2005 requiring the use of IAS 39, minus certain provisions on portfolio hedging of core deposits, by all listed companies from 1 January 2005.

Since the Group is not affected by the provisions regarding portfolio hedging that are not required by the EU-endorsed version of IAS 39, the accompanying financial statements comply with both International Financial Reporting Standards as adopted by the European Union and International Financial Reporting Standards issued by the IASB.

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

2.1 Basis of preparation (continued)

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

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

The principal accounting policies applied in the preparation of these consolidated financial statements are set out below. These policies have been consistently applied to all the years presented.

These consolidated financial statements have been prepared under the historical cost convention, as modified by the revaluation of available-for-sale financial assets.

The preparation of financial statements in conformity with IFRS requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the Group’s accounting policies. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the consolidated financial statements, are disclosed in Note 4.

Early adoption of standards
The Group has elected to early adopt IFRS 5, Non-current Assets Held for Sale and Discontinued Operations and apply it to non-current assets that meet the criteria to be classified as held for sale and to operations that meet the criteria to be classified as discontinued on or after 1 January 2004.

Standards, interpretations and amendments to published standards that are not yet effective
Certain new standards, amendments and interpretations to existing standards have been published that are mandatory for the Group’s accounting periods beginning on or after 1 January 2006 or later periods but which the Group has not early adopted, as follows:

(a) IAS 19 (Amendment), Employee Benefits (effective from 1 January 2006)

The amendment to IAS 19 introduces an additional option to recognise actuarial gains and losses arising in post-employment defined benefit plans in full directly in retained earnings in equity. It also requires new disclosures about defined benefit plans and clarifies accounting for a contractual agreement between a multi-employer plan and participating employers. The management of the Group believes that this amendment will not significantly affect the consolidated financial statements.

(b) IAS 21 (Amendment), Net Investment in Foreign Operation (effective from 1 January 2006)

Currently, IAS 21 requires exchange differences arising on a monetary item that forms part of a reporting entity's net investment in a foreign operation to be recognised initially in a separate component of equity in the consolidated financial statements, subject to certain conditions. The amended IAS 21 removes these conditions and requires recognition in equity irrespective of the currency of the monetary item and of whether the monetary item results from a transaction with the reporting entity or with any of its subsidiaries. The management believes that the amendment will not significantly affect the consolidated financial statements. At the date of the issuance of these consolidated financial statements this amendment was not adopted by the EU.

(c) IAS 39 (Amendment), Cash Flow Hedge Accounting of Forecast Intragroup Transactions (effective from 1 January 2006)

The amendment allows the foreign currency risk of a highly probable forecast intragroup transaction to qualify as a hedged item in the consolidated financial statements, provided that: (a) the transaction is denominated in a currency other than the functional currency of the entity entering into that transaction; and (b) the foreign currency risk will affect consolidated profit or loss. This amendment is not relevant to the Group’s operations, as the Group does not have any intragroup transactions that would qualify as a hedged item in the consolidated financial statements as at 31 December 2005 and 2004.

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

2.1 Basis of preparation (continued)

(d) IAS 39 (Amendment), The Fair Value Option (effective from 1 January 2006)

The amendment changes the definition of financial instruments classified at fair value through profit or loss and restricts the ability to designate financial instruments as part of this category. The Group believes that this amendment should not have a significant impact on the classification of financial instruments, as the Group should be able to comply with the amended criteria for the designation of financial instruments at fair value through profit and loss. The Group will apply this amendment from annual periods beginning 1 January 2006.

(e) IAS 39 and IFRS 4 (Amendment), Financial Guarantee Contracts (effective from 1 January 2006)

This amendment requires issued financial guarantees, other than those previously asserted by the entity to be insurance contracts, to be initially recognised at their fair value, and subsequently measured at the higher of (a) the unamortised balance of the related fees received and deferred, and (b) the expenditure required to settle the outstanding guarantee at the balance sheet date. Management considered this amendment to IAS 39 and concluded that it is not relevant to the Group.

(f) IFRS 1 (Amendment), First-time Adoption of International Financial Reporting Standards and IFRS 6 (Amendment), Exploration for and Evaluation of Mineral Resources (effective from 1 January 2006)

These amendments are not relevant to the Group's operations, as the Group does not carry out exploration for and evaluation of mineral resources.

(g) IFRS 6, Exploration for and Evaluation of Mineral Resource (effective from 1 January 2006)

IFRS 6 is not relevant to the Group's operations.

(h) IFRS 7, Financial Instruments: Disclosures, and a complementary Amendment to IAS 1, Presentation of Financial Statements – Capital Disclosures (effective from 1 January 2007)

IFRS 7 introduces new disclosures to improve the information about financial instruments. It requires the disclosure of qualitative and quantitative information about exposure to risks arising from financial instruments, including specified minimum disclosures about credit risk, liquidity risk and market risk, including sensitivity analysis to market risk. It replaces IAS 30, Disclosures in the Financial Statements of Banks and Similar Financial Institutions, and disclosure requirements in IAS 32, Financial Instruments: Disclosure and Presentation. The Amendment to IAS 1 introduces disclosures about the level of an entity's capital and how it manages capital. The Group is currently assessing what impact the new IFRS and the amendment to IAS 1 will have on disclosures in its financial statements. The Group will apply IFRS 7 and amendment to IAS 1 from 1 January 2007.

(i) IFRIC 4, Determining whether an Arrangement Contains a Lease (effective from 1 January 2006)

IFRIC 4 requires the determination of whether an arrangement is or contains a lease to be based on the substance of the arrangement. It requires an assessment of whether: (a) fulfilment of the arrangement is dependent on the use of a specific asset or assets (the asset); and (b) the arrangement conveys a right to use the asset. Implementation of IFRIC 4 is not expected to change the accounting for any of the Group's current arrangements.

(j) IFRIC 5, Rights to Interests arising from Decommissioning, Restoration and Environmental Rehabilitation Funds (effective from 1 January 2006)

The Group does not have interests in decommissioning, restoration and environmental rehabilitation funds, therefore IFRIC 5 is not relevant to the Group's operations.

(k) IFRIC 6, Liabilities arising from Participating in a Specific Market — Waste Electrical and Electronic Equipment (effective for annual periods beginning on or after 1 December 2005)

IFRIC 6 is not relevant to the Group's operations.

2.1 Basis of preparation (continued)

(l) IFRIC 7, Applying the Restatement Approach under IAS 29 (effective for annual periods beginning on or after 1 March 2006)

The interpretation clarifies application of IAS 29 in the reporting period in which hyperinflation is first identified. It states that IAS 29 should initially be applied as if the economy has always been hyperinflationary. It further clarifies calculation of deferred income taxes in the opening balance sheet restated for hyperinflation in accordance with IAS 29. IFRIC 7 is not relevant to the Group's operations. At the date of the issuance of these consolidated financial statements this interpretation was not adopted by the EU.

(m) IFRIC 8, Scope of IFRS 2 (effective for annual periods beginning on or after 1 May 2006)

The interpretation clarifies whether IFRS 2 applies to transactions in which the entity cannot identify specifically some or all of the goods or services received. IFRIC 8 is not relevant to the Group's operations. At the date of the issuance of these consolidated financial statements this interpretation was not adopted by the EU.

(n) IFRIC 9, Re-assessment of embedded derivatives (effective for annual periods beginning on or after 1 June 2006)

IFRIC 9 clarifies certain aspects of the treatment of embedded derivatives under IAS 39, Financial instruments: Recognition and measurement. With certain exceptions, IAS 39 requires embedded derivatives to be separately recognised and measured when the entity first becomes a party to the contract. The IFRIC was asked whether the treatment of an embedded derivative has to be reassessed subsequently if certain events occur. IFRIC 9 concludes that reassessment is prohibited unless there is a change in the terms of the contract that significantly modifies the cash flows that otherwise would be required under the contract, in which case reassessment is required. IFRIC 9 does not address the acquisition of contracts with embedded derivatives in a business combination nor their possible reassessment at the date of acquisition. The management of the Group believes that this interpretation will not significantly effect the financial statements of the Group. The Group will apply this interpretation from 1 January 2007. At the date of the issuance of these consolidated financial statements this interpretation was not adopted by the EU.

Endorsement by the European Union of certain of the above new or revised IFRSs effective on or after 1 January 2006 is pending. However, management decided to include also these IFRSs in the above disclosure because the European Union may require their application to periods before the endorsement. For example, IFRIC 2 was published in the Official Journal dated 7 July 2005, but the Journal stated that the standard would be applied to each financial year starting on or after 1 January 2005. This standard therefore had to be applied retrospectively to a period beginning before the date of endorsement.

2.2 Consolidation

(a) Subsidiaries

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

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

Inter-company transactions, balances and unrealised gains on transactions between group companies are eliminated. Unrealised losses are also eliminated but considered an impairment indicator of the asset transferred. Accounting policies of subsidiaries have been changed where necessary to ensure consistency with the policies adopted by the Group.

2.2 Consolidation (continued)

(b) Transactions and minority interests

The Group applies a policy of treating transactions with minority interests as transactions with parties external to the Group. Disposals to minority interests result in gains and losses for the Group that are recorded in the income statement. Purchases from minority interests result in goodwill, being the difference between any consideration paid and the relevant share acquired of the carrying value of net assets of the subsidiary.

(b) Associates

Associates are all entities over which the Group has significant influence but not control, generally accompanying a shareholding of between 20% and 50% of the voting rights. Investments in associates are accounted for using the equity method of accounting and are initially recognised at cost. The Group's investment in associates includes goodwill (net of any accumulated impairment loss) identified on acquisition (see Note 2.6).

The Group's share of its associates' post-acquisition profits or losses is recognised in the income statement, and its share of post-acquisition movements in reserves is recognised in reserves. The investment in an associate is initially recognised at cost and the carrying amount is increased or decreased to recognise the Group's share of the profit or loss of the associate after the date of acquisition. When the Group's share of losses in an associate equals or exceeds its interest in the associate, including any other unsecured receivables, the Group does not recognise further losses, unless it has incurred obligations or made payments on behalf of the associate.

Unrealised gains on transactions between the Group and its associates are eliminated to the extent of the Group's interest in the associates. Unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred. Accounting policies of associates have been changed where necessary to ensure consistency with the policies adopted by the Group.

2.3 Segment reporting

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

2.4 Foreign currency translation

(a) Functional and presentation currency

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

The consolidated financial statements are presented in US dollars, which is the Company's functional and presentation currency, and, due to the requirements of the laws of the Republic of Lithuania, Lithuanian Litas (LTL) which is the Company's presentation currency. From 2 February 2002 the exchange rate of the Litas has been pegged to the euro at a rate of LTL 3.4528 = EUR 1. As at 31 December 2005 the exchange rate of US Dollar to Lithuanian Litas was USD 1 = LTL 2.9102 (2004: USD 1 = LTL 2.5345).

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

2.4 Foreign currency translation (continued)

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

(b) Transactions and balances

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of foreign currency transactions and from the translation at year-end exchange rate of monetary assets and liabilities denominated in foreign currencies are recognised in the income statement, except when deferred in equity as qualifying cash flow hedges and qualifying net investment hedges.

Translation differences resulting from changes in the amortised cost of a debt security classified as available for sale are recognised in profit or loss. Non-monetary financial assets, such as equity securities, are not subject to currency translation. Effect of exchange rate changes on fair value of non-monetary financial assets are recognised as part of the fair value gain or loss.

(c) Group companies

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

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

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

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

On consolidation, exchange differences arising from the translation of the net investment in subsidiaries, and of borrowings and other currency instruments designated as hedges of such investments, are taken to shareholders' equity. When subsidiary is sold, exchange differences that were recorded in equity are recognised in the income statement as part of the gain or loss on sale.

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

2.5 Property, plant and equipment

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

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

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

2.5 Property, plant and equipment (continued)

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

– buildings	20-90 years
– oil refinery technological equipment	5-25 years
– oil refinery constructions	15-70 years
– oil terminal sea equipment	25 years
– vehicles	5-10 years
– railway transport	13-20 years
– engineering network and systems	4-50 years
– other property, plant and equipment	3-40 years

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

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

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

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

The carrying amount of an item of property, plant and equipment is derecognised on disposal or when no future economic benefits are expected from its use or disposal. Gains and losses on disposals are determined by comparing proceeds with carrying amount. These are included in the income statement. The loss arising from the retirement is included in the income statement when the asset is derecognised.

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

2.6 Intangible assets

(a) Goodwill

Goodwill represents the excess of the cost of an acquisition over the fair value of the Group's share of the net identifiable assets of the acquired subsidiary/associate at the date of acquisition. Goodwill on acquisitions of subsidiaries is presented separately on the balance sheet. Goodwill on acquisitions of associates is included in the carrying value of investments in associates. Goodwill is tested annually and whenever events or changes in circumstances indicate that the carrying amount may not be recoverable for impairment and carried at cost less accumulated impairment losses. Impairment losses on goodwill are not reversed. Gains and losses on the disposal of an entity include the carrying amount of goodwill relating to the entity sold.

Goodwill is allocated to cash-generating units for the purpose of impairment testing. The allocation is made to those cash-generating units or groups of cash-generating units that are expected to benefit from the business combination in which the goodwill arose. Each of those cash-generating units represents the Group's investment by each primary reporting segment (Note 2.7).

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

2.6 Intangible assets (continued)

(b) Patents and licences

Patents and licences include acquired patents and costs of manufacturing technology used by the refinery. Patents and licences are recognised at cost. They have a finite useful life and are carried at cost less accumulated amortisation less impairment. Amortisation is calculated using the straight-line method to allocate the cost of patents and licences over their estimated useful lives (4 years).

(c) Computer software

Acquired computer software licences are capitalised on the basis of the costs incurred to acquire and bring to use the specific software. These costs are amortised over their estimated useful lives (3 - 5 years).

Costs associated with developing or maintaining computer software programmes are recognised as an expense as incurred.

2.7 Impairment of non-financial assets

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

2.8 Financial assets

The Group classifies its financial assets in the following categories: financial assets at fair value through profit or loss, loans and receivables, held-to-maturity investments, and available-for-sale financial assets. The classification depends on the purpose for which the financial assets were acquired, management intentions and whether the investment is quoted in an active market. Management determines the classification of its financial assets at initial recognition and re-evaluates this designation at every reporting date, except for financial assets at fair value through profit or loss. Reclassifications out of or into this category after initial recognition are prohibited.

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

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

(b) Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market and with no intention of trading. They are included in current assets, except for maturities greater than 12 months after the balance sheet date. These are classified as non-current assets and are included in non-current receivables and prepayments in the balance sheet. Loans and receivables are included in trade and other receivables in the balance sheet (see Note 2.11).

(c) Held-to-maturity investments

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

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

2.8 Financial assets (continued)

(d) Available-for-sale financial assets

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

Regular way purchases and sales of investments are recognised on trade-date – the date on which the Group commits to purchase or sell the asset. Investments are initially recognised at fair value plus transaction costs for all financial assets not carried at fair value through profit or loss. Financial assets carried at fair value through profit or loss are initially recognised at fair value and transaction costs are expensed in the income statement. Investments are derecognised when the rights to receive cash flows from the investments have expired or have been transferred and the Group has transferred substantially all risks and rewards of ownership. Available for-sale financial assets and financial assets at fair value through profit or loss are subsequently carried at fair value. Loans and receivables and held-to-maturity investments are carried at amortised cost using the effective interest method.

Gains or losses arising from changes in the fair value of the 'financial assets at fair value through profit or loss' category, including interest and dividend income, are presented in the income statement within 'other (losses)/gains – net' in the period in which they arise.

Changes in the fair value of debt securities denominated in a foreign currency and classified as available-for-sale are analysed between currency translation differences resulting from changes in amortised cost of the security and other changes in the carrying amount of the security. The currency translation differences are recognised in profit or loss. Interest income on available-for-sale securities calculated using the effective interest method is recognised in the income statement. Dividends on available-for-sale equity instruments are recognised in the income statement when the Group's right to receive payments is established. All other changes in the fair value of monetary securities classified as available-for-sale are recognised in equity.

When securities classified as available-for-sale are sold or impaired, the accumulated fair value adjustments recognised in equity are included in the income statement as 'gains and losses from investment securities'.

The fair values of quoted investments are based on current bid prices. If the market for a financial asset is not active (and for unlisted securities), the Group establishes fair value by using valuation techniques. These include the use of recent arm's length transactions, reference to other instruments that are substantially the same, discounted cash flow analysis, and option pricing models making maximum use of market inputs and relying as little as possible on entity-specific inputs.

The Group assesses at each balance sheet date whether there is objective evidence that a financial asset or a group of financial assets is impaired. In the case of equity securities classified as available for sale, a significant or prolonged decline in the fair value of the security below its cost is considered as an indicator that the securities are impaired. If any such evidence exists for available-for-sale financial assets, the cumulative loss – measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that financial asset previously recognised in profit or loss – is removed from equity and recognised in the income statement. Impairment losses recognised in the income statement on equity instruments are not reversed through the income statement. If, in a subsequent period, the fair value of a debt instrument classified as available for sale increases and the increase can be objectively related to an event occurring after the impairment loss was recognised in profit or loss, the impairment loss is reversed, with the amount of the reversal recognised in income statement. Impairment testing of trade receivables is described in Note 2.11.

2.9 Derivative financial instruments and hedging activities

Derivatives are initially recognised at fair value on the date a derivative contract is entered into and are subsequently remeasured at their fair value. The method of recognising the resulting gain or loss depends on whether the derivative is designated as a hedging instrument, and if so, the nature of the item being hedged. The Group designates certain derivatives as either: (1) hedges of the fair value of recognised assets or liabilities or a firm commitment (fair value hedge); (2) hedges of a particular risk associated with a recognised asset or liability or a highly probable forecast transactions (cash flow hedge); or (3) hedges of a net investments in a foreign operation (net investment hedge).

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

2.9 Derivative financial instruments and hedging activities (continued)

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

The fair value of a hedging derivative is classified as a non-current asset or liability if the remaining maturity is more than 12 months, and as a current asset or liability, if the remaining maturity is less than 12 months. Trading derivatives are classified as a current asset or liability.

(a) Fair value hedge

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

If the hedge no longer meets the criteria for hedge accounting, the adjustment to the carrying amount of a hedged item for which the effective interest method is used is amortised to profit or loss over the period to maturity.

(b) Cash flow hedge

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

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

When a hedging instrument expires or is sold, or when a hedge no longer meets the criteria for hedge accounting, any cumulative gain or loss existing in equity at that time remains in equity and is recognised when the forecast transaction is ultimately recognised in the income statement. When a forecast transaction is no longer expected to occur, the cumulative gain or loss that was reported in equity is immediately transferred to the income statement. If the hedge no longer meets the criteria for hedge accounting, the adjustment to the carrying amount of a hedged item for which the effective interest method is used is amortised to profit or loss over the period to maturity.

c) Derivatives that do not qualify for hedge accounting

Certain derivative instruments do not qualify for hedge accounting. Changes in the fair value of any derivative instruments that do not qualify for hedge accounting are recognised immediately in the income statement.

2.10 Inventories

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

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

2.11 Trade receivables

Trade receivables are recognised initially at fair value of the amount receivable and subsequently measured at amortised cost using the effective interest method. Amortised cost is the amount at which the receivable was recognised at initial recognition minus principal repayments, plus accrued interest, and minus any write-down for impairment. A provision for impairment of trade receivables is established when there is objective evidence that the Group will not be able to collect all amounts due according to the original terms of the receivables. Significant financial difficulties of the debtor, probability that the debtor will enter bankruptcy or financial reorganisation, and default or delinquency in payments are considered indicators that the trade receivable is impaired. The amount of the provision is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the effective interest rate. The amount of the provision is recognised in the income statement within "administrative expenses".

2.12 Non-current assets classified as held for sale

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

The Group early adopted IFRS 5 from 1 January 2004 before its affective date on 1 January 2005 prospectively in accordance with the standard's provisions. Non-current assets held for sale represent property, plant and equipment. Management expects that the carrying amount of these assets will be recovered principally though sale rather than continuing use. Under previous GAAP these assets were classified as inventory under current assets. Refer to Note 5.2.3 for adjustment made on transition to IFRS. There was no difference in measurement for non-current assets held for sale or inventory. The application of IFRS 5 does not impact on the comparatives other than a change in the presentation on the balance sheet.

2.13 Cash and cash equivalents

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

2.14 Share capital

Ordinary shares are classified as equity.

2.15 Borrowings

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

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

2.16 Deferred income tax

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

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

2.16 Deferred income tax (continued)

The non-monetary assets and liabilities of the Group are measured in its functional currency USD, and the Company's taxable profit and, hence, the tax base of its non-monetary assets and liabilities, is determined in LTL. Changes in the exchange rate give rise to temporary differences that result in a recognition of deferred tax liability or asset. The resulting deferred tax is charged or credited to income statement.

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

Deferred income tax is provided on temporary differences arising on investments in subsidiaries and associates, except where the timing of the reversal of the temporary difference is controlled by the Group and it is probable that the temporary difference will not reverse in the foreseeable future.

2.17 Employee benefits

(a) Long-term employee benefits

Some Group companies provide bonuses and paid leave to their employees based on the years of service. The liability recognised in the balance sheet in respect of long-term employee benefits is the present value of the defined benefit obligation at the balance sheet date. The defined benefit obligation is calculated at each balance sheet date by actuaries using the projected unit credit method. The present value of the defined benefit obligation is determined by discounting the estimated future cash flows using interest rates of government bonds that are denominated in the currency in which the benefits will be paid, and that have terms of maturity approximating to the terms of the related liability.

Actuarial gains and losses are recognised immediately and no "corridor" is applied. All past service costs are recognised immediately.

(b) Profit-sharing and bonus plans

The Group recognises a liability and an expense for bonuses and profit-sharing where contractually obliged or where there is a past practice that has created a constructive obligation.

(c) Other employee benefits

Wages, salaries, contributions to the state social insurance funds, paid annual leave and sick leave are accrued in the year in which the associated services are rendered by the employees of the Group.

2.18 Provisions

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

Provisions are measured at the present value of the expenditures expected to be required to settle the obligation using a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the obligation. The increase in the provision due to passage of time is recognised as interest expense.

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

2.19 Revenue recognition

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

(a) Sales of goods

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

(b) Sales of services

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

(c) Interest income

Interest income is recognised on a time-proportion basis using the effective interest method. When a receivable is impaired, the Group reduces the carrying amount to its recoverable amount, being the estimated future cash flow discounted at original effective interest rate of the instrument, and continues unwinding the discount as interest income.

2.20 Leases – the Group is the lessee

Leases of property, plant and equipment where the Group has substantially all the risks and rewards of ownership are classified as finance leases. Finance leases are capitalised at the lease's commencement at the lower of the fair value of the leased property or the present value of the minimum lease payments. Each lease payment is allocated between the liability and finance charges so as to achieve a constant rate on the finance balance outstanding. The corresponding rental obligations, net of finance charges, are included in long-term payables except for instalments due within 12 months which are included in current liabilities. The property, plant and equipment acquired under finance leases is depreciated over the shorter of the asset's useful life and the lease term.

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

2.21 Dividend distribution

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

2.22 Emission rights

The Group participates in a carbon dioxide cap and trade scheme. It is set a target to reduce its emissions of carbon dioxide to a specified level (the cap). The Group is issued allowances equal in number to its cap by the Government. Allowances are issued free of charge.

The Group measures both emission allowances and government grant at a nominal amount, i.e. zero. As actual emissions are made, a liability is recognised for the obligation to deliver allowances. Liabilities to be settled using allowances on hand are measured at the carrying amount of those allowances. Any excess emissions are measured at the market value of allowances at the period end.

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

2.23 Government grants

Monetary grants from the government are recognised at their fair value where there is a reasonable assurance that the grant will be received and the Group will comply with all attached conditions. Non-monetary government grants are recognised at their nominal amount.

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

2.24 Trade and other payables

Trade payables and other payables are accrued when the counterparty performed its obligations under the contract and are carried at amortised cost using the effective interest method.

2.25 Compound financial instruments

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

3. Financial risk management

3.1 Financial risk factors

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

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

(a) Market risk

(i) Foreign exchange risk

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

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

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

3.1 Financial risk factor (continued)

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

(ii) Price risk

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

(b) Credit risk

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

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

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

(c) Liquidity risk

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

(d) Cash flow and fair value interest rate risk

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

(e) Risk of dependency on the Yukos Group

In 2005, the majority of sales of refined oil products, except for domestic sales and sales to Latvia, Estonia and Poland were made through sales commissioner Petroval PTE (2003 - 2004: Petroval SA), an entity related to the Yukos Group (Note 32). In 2003 - 2004 the Yukos Group was also the major supplier of crude oil to the Group. Therefore, negative changes in relationships with the Yukos Group could have an adverse impact on the operations of the Group. Management actions in order to reduce the dependency on the Yukos Group are summarised in Note 1.

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

3.2 Fair value estimation

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

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

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

4. Critical accounting estimates and judgements

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

4.1 Critical accounting estimates and assumptions

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

(a) Income taxes

The Investment Agreement, signed between the Company, the Government and Williams International Company (replaced by Yukos Finance B.V.) guaranteed that starting from 29 October 1999 the corporate income tax rates payable by the Company will not be increased for the period of 10 years. If the Government fails to ensure for at least for a period of 10 years application of the above conditions, the Government shall be responsible for and shall indemnify and hold harmless the Company from any and all losses, liabilities and expenses incurred or sustained by the Company as a result of such failure. Uncertainties relating to the application of the provisions of Investment Agreement based on the Constitutional Court decision are described in Note 29.

Deferred income tax is determined using tax rates that are expected to apply when the related deferred income tax asset is realised or the deferred income tax liability is settled. Expected tax rates are based on the tax rates stability guaranteed in the Investment Agreement. If the Investment Agreement is terminated as a result of changes in the shareholders of the Company, the termination of the Investment Agreement will impact the deferred tax in the period in which the Investment Agreement is terminated. Deferred tax assets amounted to USD 20,891 thousand or LTL 60,798 thousand as at 31 December 2005.

(b) Reimbursement for environmental obligations

In the production process the oil refinery causes contamination. A provision amounting to USD 10,807 thousand or LTL 31,449 thousand was recognised as at 31 December 2005 for the total costs to be incurred for the treatment of the waste which was accumulated before 1999. The Group recognised related reimbursement for environmental obligations as a receivable from the Government (Note 11) because according to the Investment Agreement signed between the Company, the Government and Williams International Company (replaced by Yukos Finance B.V.) the Government committed itself to compensate all losses to the strategic investor and the Company incurred before the privatisation. If the Investment Agreement is terminated as a result of changes in the shareholders of the Company, this may impact the reimbursement receivable from the Government.

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

4.1 Critical accounting estimates and assumptions (continued)

(c) Accounts receivable from sales commissioner

In 2005, the majority of sales of refined oil products, except for domestic sales and sales to Latvia, Estonia and Poland were made through sales commissioner Petroval PTE, an entity related to the Yukos Group. Trade receivables from Petroval PTE amounted to USD 52,187 thousand or LTL 151,875 thousand as at 31 December 2005 (Note 32). Negative changes in relationships with the Yukos Group could have an adverse impact on the recoverability of receivables. The management believes that all receivables outstanding will be collected.

4.2 Critical judgements in applying the Group's accounting policies

(a) Accounting for pipeline fill

The Group recognises pipeline fill representing crude oil which is in the pipe connecting the refinery and Būtingė import-export oil terminal as property plant and equipment. The Group uses the pipeline to transport crude oil belonging to third parties. According to the technical specifications of equipment, there must be always certain level of crude oil in the pipe which belongs to the Group, although transported oil belongs to third parties. The Group has classified the pipeline fill as property, plant and equipment because the management of the Group believes that this crude oil will be used for more than one year and its balance in tons does not change and does not impact cost of sales. Pipeline fill is depreciated to its residual value which is equal to the crude oil market price at each balance sheet date. Pipeline fill is tested for impairment annually. The balance of pipeline fill amounted to USD 8,532 thousand or LTL 24,829 thousand as at 31 December 2005.

(b) Accounting for carbon dioxide emission rights

The Group participates in a carbon dioxide cap and trade scheme. It is set a target to reduce its emissions of carbon dioxide to a specified level (the cap). The Group is issued allowances equal in number to its cap by the Government. Allowances are issued free of charge. The Group measures both emission allowances and government grant at a nominal amount, i.e. zero. As actual emissions are made, a liability is recognised for the obligation to deliver allowances. Liabilities to be settled using allowances on hand are measured at the carrying amount of those allowances, i.e. zero. Any excess emissions are measured at the market value of allowances at the period end. Management judges that this policy helps to avoid income statement volatility related to the different measurement bases and the timing of recognition of the emission rights asset and the liability arising from the emission of pollutants. The market value of remaining unused carbon dioxide allowances of the Group amounted to USD 182,203 thousand or LTL 530,246 thousand as at 31 December 2005.

(c) Accounting for capital investment relief

According to the Investment Agreement signed on 29 October 1999 between the Company, the Government and Williams International Company (from 19 September 2002 replaced by Yukos Finance B.V.), the Company can reduce its taxable profits by the capital investment relief. The Investment Agreement guarantees that starting from 29 October 1999 for a period of 10 years the portion of taxable profit of the Company utilised for investment in property, plant and equipment is taxed at a corporate profit tax rate of 0 percent. At the end of the reporting period the Group recognises capital investment relief in the income statement by reducing taxable profits and corresponding income tax expenses. During the year ended 31 December 2005 the Group reduced its income tax expenses by the capital investment relief of USD 4,355 thousand or LTL 12,438 thousand (Note 25).

5. Transition to IFRS

5.1 Basis of transition to IFRS

5.1.1 Application of IFRS 1

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

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

5.1 Basis of transition to IFRS (continued)

The Group's transition date is 1 January 2004 and therefore the Group prepared its opening IFRS balance sheet at that date. The reporting date of these consolidated financial statements is 31 December 2005. The Group's IFRS adoption date is 1 January 2005.

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

5.1.2 Exemptions from full retrospective application – elected by the Group

The Group has elected to apply the following optional exemptions from full retrospective application of its accounting policies.

(a) Business combinations exemption

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

(b) Employee benefits exemption

The Group does not have defined employee benefit plans for which the "corridor" approach is applied; this exemption is not applicable.

(c) Compound financial instruments exemption

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

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

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

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

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

(f) Designation of financial assets and financial liabilities exemption

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

(g) Share-based payment transaction exemption

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

(h) Insurance contracts exemption

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

The following optional exemptions were not applied by the Group:

- Fair value as deemed cost exemption;
- Cumulative translation differences exemption.

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

5.1 Basis of transition to IFRS (continued)

5.1.3 Exceptions from full retrospective application followed by the Group

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

(a) Derecognition of financial assets and liabilities exception

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

(b) Hedge accounting exception

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

(c) Estimates exception

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

(d) Assets held for sale and discontinued operations exception

Management applies IFRS 5 prospectively from 1 January 2004, see Note 2.12.

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

5.2 Reconciliations between IFRS and GAAP

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

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

USD

	Note	Attributable to equity holders of the Company						Minority interest	Total equity
		Share capital	Share premium	Statutory revaluation reserve	Fair value reserve	Cumulative translation adjustment	Retained earnings		
Balance at 1 January 2004									
Under previous GAAP		181,366	216,986	109	12	3,286	(231,212)	-	170,547
Reclassification of minority interest to equity	5.2.2	-	-	-	-	-	-	906	906
Restatement of increase in share premium	5.2.2	-	(129,373)	-	-	-	129,373	-	-
Recognition of deferred tax asset	5.2.4 (f)	-	-	-	-	-	16,631	-	16,631
Under IFRS		181,366	87,613	109	12	3,286	(85,208)	906	188,084
Balance at 31 December 2004									
Under previous GAAP		181,366	216,986	109	-	4,344	29,891	-	432,696
Reclassification of minority interest to equity	5.2.2	-	-	-	-	-	-	686	686
Restatement of increase in share premium	5.2.2	-	(129,373)	-	-	-	129,373	-	-
Increase in retained earnings by decreasing share premium	5.2.2	-	(14,861)	-	-	-	14,861	-	-
Recognition of deferred tax asset	5.2.4 (f)	-	-	-	-	-	16,631	-	16,631
Under IFRS		181,366	72,752	109	-	4,344	190,756	686	450,013

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

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

LTL

	Note	Attributable to equity holders of the Company						Minority interest	Total Equity
		Share capital	Share premium	Statutory revaluation reserve	Fair value reserve	Cumulative translation adjustment	Retained earnings		
Balance at 1 January 2004									
Under previous GAAP		707,454	859,979	437	35	(114,802)	(982,033)	-	471,070
Reclassification of minority interest to equity	5.2.2	-	-	-	-	-	-	2,502	2,502
Restatement of increase in share premium	5.2.2	-	(517,495)	-	-	-	517,495	-	-
Recognition of deferred tax asset	5.2.4 (f)	-	-	-	-	-	42,151	-	42,151
Under IFRS		707,454	342,484	437	35	(114,802)	(422,387)	2,502	515,723
Balance at 31 December 2004									
Under previous GAAP		707,454	859,979	437	-	(211,052)	(260,150)	-	1,096,668
Reclassification of minority interest to equity	5.2.2	-	-	-	-	-	-	1,739	1,739
Restatement of increase in share premium	5.2.2	-	(517,495)	-	-	-	517,495	-	-
Increase in retained earnings by decreasing share premium	5.2.2	-	(59,444)	-	-	-	59,444	-	-
Recognition of deferred tax asset	5.2.4 (f)	-	-	-	-	-	42,151	-	42,151
Under IFRS		707,454	283,040	437	-	(211,052)	358,940	1,739	1,140,558

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

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

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

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

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

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

	Note	At 31 December 2004 USD			At 31 December 2004 LTL		
ASSETS		**GAAP**	**Effect of transition to IFRS**	**IFRS**	**GAAP**	**Effect of transition to IFRS**	**IFRS**
Non-current assets							
Property, plant and equipment	5.2.4 (a)	501,629	(3,818)	497,811	1,271,379	(9,677)	1,261,702
Intangible assets	5.2.4 (b)	4,812	(126)	4,686	12,197	(320)	11,877
Investment in associates		1,336	-	1,336	3,386	-	3,386
Deferred income tax assets	5.2.4 (f)	-	16,644	16,644	-	42,184	42,184
Available-for-sale financial assets		20	-	20	51	-	51
Non-current receivables and prepayments	5.2.4 (c)	5,578	3,944	9,522	14,138	9,997	24,135
Non-current portion of restricted cash	5.2.4 (d)	11,205	(11,205)	-	28,399	(28,399)	-
		524,580	5,439	530,019	1,329,550	13,785	1,343,335
Current assets							
Inventories		194,113	(267)	193,846	491,979	(677)	491,302
Trade and other receivables	5.2.4 (e)	136,102	1,069	137,171	344,952	2,709	347,661
Prepaid current income tax		66	-	66	168	-	168
Current portion of deferred income tax asset		13	(13)	-	33	(33)	-
Cash and cash equivalents	5.2.4 (d)	382,514	11,205	393,719	969,482	28,399	997,881
		712,808	11,994	724,802	1,806,614	30,398	1,837,012
Non-current assets classified as held for sale		-	267	267	-	677	677
		712,808	12,261	725,069	1,806,614	31,075	1,837,689
Total assets		1,237,388	17,700	1,255,088	3,136,164	44,860	3,181,024
EQUITY							
Capital and reserves attributable to the Company's equity holders							
Share capital		181,366	-	181,366	707,454	-	707,454
Share premium	5.2.2	216,986	(144,234)	72,752	859,979	(576,939)	283,040
Reserves		109	-	109	437	-	437
Cumulative translation adjustment		4,344	-	4,344	(211,052)	-	(211,052)
Retained earnings	5.2.2	29,891	160,865	190,756	(260,150)	619,090	358,940
		432,696	16,631	449,327	1,096,668	42,151	1,138,819
Minority interest		686	-	686	1,739	-	1,739
Total equity		433,382	16,631	450,013	1,098,407	42,151	1,140,558
LIABILITIES							
Non-current liabilities							
Borrowings		465,916	-	465,916	1,180,865	-	1,180,865
Other non-current liabilities		4,985	-	4,985	12,634	-	12,634
		470,901	-	470,901	1,193,499	-	1,193,499
Current liabilities							
Trade and other payables		264,966	-	264,966	671,561	-	671,561
Current income tax liabilities		53,286	-	53,286	135,053	-	135,053
Borrowings		11,953	-	11,953	30,294	-	30,294
Provisions	5.2.4 (e)	2,900	1,069	3,969	7,350	2,709	10,059
		333,105	1,069	334,174	844,258	2,709	846,967
Total liabilities		804,006	1,069	805,075	2,037,757	2,709	2,040,466
Total equity and liabilities		1,237,388	17,700	1,255,088	3,136,164	44,860	3,181,024

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

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

The following explains the material adjustments to the balance sheet:

(a) Property, plant and equipment

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

(b) Intangible assets

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

(c) Non-current receivables and prepayments

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

(d) Non-current portion of restricted cash

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

Restricted cash under GAAP represented cash received from Yukos Oil Company OAO under a loan agreement for financing of the oil refinery modernisation project. This loan was refinanced by Vilniaus Bankas AB, but the same restrictions applied. Under IFRS the cash balance was reclassified to cash and cash equivalents balance under current assets because the Group planned to use the whole amount in 2005.

(e) Provisions	USD	LTL
Reclassification of claims from customers from trade and other receivables to provisions	(1,069)	(2,709)
Total impact – increase in trade and other receivables	(1,069)	(2,709)

The provision represents provision for the probable claims from the customers of the Group related to the reinvoiced taxes which were not subsequently paid by the Group to the tax authorities.

(f) Deferred tax assets

	USD	LTL
Reclassification from current portion of deferred income tax asset	13	33
Recognition of deferred tax assets	16,631	42,151
Total impact – increase deferred tax assets	16,644	42,184

The non-monetary assets and liabilities of the Group are measured in its functional currency USD, and the Company's taxable profit and, hence, the tax base of its non-monetary assets and liabilities, is determined in LTL. In accordance with IFRS changes in the exchange rate give rise to temporary differences that result in a recognition of deferred tax liability or asset. Under previous GAAP no deferred tax was recognised on such temporary differences, therefore the Group recognised deferred tax assets of USD 16,631 thousand or LTL 42,151 thousand as at 1 January 2004.

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

5.2.5 Reconciliation of cash flows for the year ended 31 December 2004

	Year ended 31 December 2004 USD			Year ended 31 December 2004 LTL		
	GAAP	**Effect of transition to IFRS**	**IFRS**	**GAAP**	**Effect of transition to IFRS**	**IFRS**
Cash flows from operating activities						
Cash generated from operations	321,774	(3,563)	318,211	890,424	(9,832)	880,592
Interest paid	(26,385)	-	(26,385)	(73,166)	-	(73,166)
Income tax paid	(430)	-	(430)	(1,196)	-	(1,196)
Net cash generated from operating activities	294,959	(3,563)	291,396	816,062	(9,832)	806,230
Cash flows from investing activities						
Purchases of property, plant and equipment (PPE)	(28,101)	-	(28,101)	(80,531)	-	(80,531)
Change in cash restricted for financing activities	12,341	-	12,341	36,637	-	36,637
Proceeds from sale of PPE	2,749	-	2,749	7,512	-	7,512
Proceeds from sale of available-for-sale financial assets	232	-	232	644	-	644
Interest received	-	3,563	3,563	-	9,832	9,832
Dividends received from associates	3	-	3	-	-	-
Other	13	-	13	44	-	44
Net cash used in investing activities	(12,763)	3,563	(9,200)	(35,694)	9,832	(25,862)
Cash flows from financing activities						
Repayments of borrowings	(11,243)	90	(11,153)	(30,862)	250	(30,612)
Finance lease principal payments	(476)	-	(476)	(1,326)	-	(1,326)
Net cash used in financing activities	(11,719)	90	(11,629)	(32,188)	250	(31,938)
Net increase in cash and bank overdrafts	270,477	90	270,567	748,180	250	748,430
Cash and bank overdrafts at beginning of period	108,809	(163)	108,646	300,542	(450)	300,092
Exchange gains on cash and bank overdrafts	3,228	(7)	3,221	(79,240)	-	(79,240)
Cash and bank overdrafts at end of period	382,514	(80)	382,434	969,482	(200)	969,282

The main IFRS transition effect presented by the Group in its statement of cash flow for the year ended 31 December 2005 was:

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

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

6. Segment information

(a) Primary reporting format – business segments

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

The Group allocates costs between segments directly.

The segment results for the year ended 31 December 2005 are as follows:

USD

	Oil refinery	**Oil terminal**	**Pipeline**	**Petrol stations**	**Other**	**Group**
Total gross segment sales	3,931,814	30,158	28,093	31,416	1,258	4,022,739
Inter-segment sales	(15,967)	-	-	-	(1,251)	(17,218)
Sales	3,915,847	30,158	28,093	31,416	7	4,005,521
Operating profit / segment result	357,420	7,312	17,487	(1,796)	(115)	380,308
Finance income (Note 23)						14,854
Finance costs (Note 24)						(31,840)
Share of profit of associates (Note 10)	103	-	-	-	-	103
Profit before income tax						363,425
Income tax expense (Note 25)						(44,702)
Profit for the period						318,723

LTL

	Oil refinery	**Oil terminal**	**Pipeline**	**Petrol stations**	**Other**	**Group**
Total gross segment sales	10,950,673	83,932	78,060	87,689	3,497	11,203,851
Inter-segment sales	(44,602)	-	-	-	(3,478)	(48,080)
Sales	10,906,071	83,932	78,060	87,689	19	11,155,771
Operating profit / segment result	986,956	20,490	48,593	(5,086)	(203)	1,050,750
Finance income (Note 23)						41,633
Finance costs (Note 24)						(88,257)
Share of profit of associates (Note 10)	286	-	-	-	-	286
Profit before income tax						1,004,412
Income tax expense (Note 25)						(118,698)
Profit for the period						885,714

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

6. Segment information (continued)

The segment results for the year ended 31 December 2004 are as follows:

USD

	Oil refinery	Oil terminal	Pipeline	Petrol stations	Other	Group
Total gross segment sales	2,680,811	40,528	29,087	20,116	1,450	2,771,992
Inter-segment sales	(10,022)	-	-	-	(1,198)	(11,220)
Sales	2,670,789	40,528	29,087	20,116	252	2,760,772
Operating profit / segment result	291,892	15,690	17,653	(3,614)	(206)	321,415
Finance income (Note 23)						3,563
Finance costs (Note 24)						(18,191)
Share of profit of associates (Note 10)	(163)	-	-	-	-	(163)
Profit before income tax						306,624
Income tax expense (Note 25)						(45,781)
Profit for the period						260,843

LTL

	Oil refinery	Oil terminal	Pipeline	Petrol stations	Other	Group
Total gross segment sales	7,441,521	112,500	80,741	55,839	4,025	7,694,626
Inter-segment sales	(27,820)	-	-	-	(3,325)	(31,145)
Sales	7,413,701	112,500	80,741	55,839	700	7,663,481
Operating profit / segment result	809,370	43,497	48,939	(10,018)	(571)	891,217
Finance income (Note 23)						9,831
Finance costs (Note 24)						(51,248)
Share of profit of associates (Note 10)	(453)	-	-	-	-	(453)
Profit before income tax						849,347
Income tax expense (Note 25)						(128,187)
Profit for the period						721,160

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

USD	**Year ended 31 December 2005**					
	Oil refinery	**Oil terminal**	**Pipeline**	**Petrol stations**	**Other**	**Group**
Depreciation (Note 7)	23,505	8,673	2,797	2,606	130	37,711
Amortisation (Note 8)	1,298	40	-	34	15	1,387
Impairment of PPE (Note 7)	1,556	-	-	138	-	1,694
Reversal of PPE impairment (Note 7)	124	-	-	1,404	-	1,528
(Reversal of) impairment of receivables (Note 22)	(136)	-	-	28	-	(108)
Impairment of inventory (Note 22)	3,161	-	-	-	-	3,161

LTL	**Year ended 31 December 2005**					
	Oil refinery	**Oil terminal**	**Pipeline**	**Petrol stations**	**Other**	**Group**
Depreciation (Note 7)	65,229	24,045	7,733	7,214	360	104,581
Amortisation (Note 8)	3,604	110	-	93	41	3,848
Impairment of PPE (Note 7)	4,309	-	-	377	-	4,686
Reversal of PPE impairment (Note 7)	339	-	-	3,722	-	4,061
(Reversal of) impairment of receivables (Note 22)	(395)	-	-	82	-	(313)
Impairment of inventory (Note 22)	8,944	-	-	-	-	8,944

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

6. Segment information (continued)

USD	Year ended 31 December 2004					
	Oil refinery	Oil terminal	Pipeline	Petrol stations	Other	Group
Depreciation (Note 7)	23,356	7,452	4,259	1,802	163	37,032
Amortisation (Note 8)	1,222	32	-	19	10	1,283
Impairment of PPE (Note 7)	10,313	-	-	-	-	10,313
Impairment of receivables (Note 22)	1,237	-	-	-	-	1,237
Impairment of inventory (Note 22)	5,900	-	-	-	-	5,900

LTL	Year ended 31 December 2004					
	Oil refinery	Oil terminal	Pipeline	Petrol stations	Other	Group
Depreciation (Note 7)	64,903	20,708	11,836	5,008	453	102,908
Amortisation (Note 8)	3,398	89	-	53	28	3,568
Impairment of PPE (Note 7)	28,379	-	-	-	-	28,379
Impairment of receivables (Note 22)	3,409	-	-	-	-	3,409
Impairment of inventory (Note 22)	16,258	-	-	-	-	16,258

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

The segment assets and liabilities as at 31 December 2005 and capital expenditure for the year then ended are as follows:

USD

	Oil refinery	Oil terminal	Pipeline	Petrol stations	Other	Unallocated	Group
Assets	1,323,257	223,543	14,381	21,388	694	21,057	1,604,320
Associates	1,262	-	-	-	-	-	1,262
Total assets	1,324,519	223,543	14,381	21,388	694	21,057	1,605,582
Liabilities	421,827	4,054	1,548	2,059	96	501,915	931,499
Capital expenditure (Notes 7 and 8)	52,537	1,307	1,071	1,472	35	-	56,422

LTL

	Oil refinery	Oil terminal	Pipeline	Petrol stations	Other	Unallocated	Group
Assets	3,850,943	650,555	41,852	62,243	2,020	61,280	4,668,893
Associates	3,672	-	-	-		-	3,672
Total assets	3,854,615	650,555	41,852	62,243	2,020	61,280	4,672,565
Liabilities	1,227,575	11,798	4,505	5,992	279	1,460,673	2,710,822
Capital expenditure (Notes 7 and 8)	146,910	3,550	2,982	4,205	95	-	157,742

The segment assets and liabilities at 31 December 2004 and capital expenditure for the year then ended are as follows:

USD

	Oil refinery	Oil terminal	Pipeline	Petrol stations	Other	Unallocated	Group
Assets	970,027	224,131	17,665	24,251	948	16,730	1,253,752
Associates	1,336	-	-	-	-	-	1,336
Total assets	971,363	224,131	17,665	24,251	948	16,730	1,255,088
Liabilities	266,500	4,079	695	1,748	121	531,932	805,075
Capital expenditure (Notes 7 and 8)	21,211	1,597	2,573	1,686	39	-	27,106

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

6. Segment information (continued)

LTL

	Oil refinery	**Oil terminal**	**Pipeline**	**Petrol stations**	**Other**	**Unallocated**	**Group**
Assets	2,458,535	568,061	44,772	61,464	2,403	42,403	3,177,638
Associates	3,386	-	-	-	-	-	3,386
Total assets	2,461,921	568,061	44,772	61,464	2,403	42,403	3,181,024
Liabilities	675,445	10,338	1,761	4,430	308	1,348,184	2,040,466
Capital expenditure (Notes 7 and 8)	58,949	4,439	7,152	4,665	111	-	75,316

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

Segment liabilities comprise operating liabilities. They exclude items such as income tax, borrowings incurred for financing purposes and related interest liabilities.

Capital expenditure comprises additions to property, plant and equipment (Note 7) and intangible assets (Note 8), including additions resulting from acquisition through business combinations (Notes 7 and 31).

(b) Secondary reporting format – geographical segments

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

	2005		**2004**	
Sales	**USD**	**LTL**	**USD**	**LTL**
Lithuania	872,932	2,438,043	565,872	1,568,982
Switzerland	503,135	1,398,189	319,813	881,649
UK	353,521	992,274	296,196	824,720
Latvia	304,416	848,836	287,742	796,756
Estonia	272,440	760,430	165,081	456,580
Poland	255,413	714,566	202,898	560,214
Canada	202,228	575,885	28,421	80,705
Norway	189,807	517,688	143,977	401,649
USA	179,044	500,460	317,698	889,178
Belgium	142,420	391,797	-	-
Netherlands	124,983	349,963	141,491	391,240
Finland	118,556	327,133	49,559	139,467
Germany	105,152	285,190	43,468	121,362
Spain	82,259	222,085	15,893	42,455
Ukraine	78,103	217,828	38,075	106,375
Other countries	221,112	615,404	144,588	402,149
Total	4,005,521	11,155,771	2,760,772	7,663,481

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

	2005		**2004**	
Total assets	**USD**	**LTL**	**USD**	**LTL**
Lithuania	1,493,171	4,345,426	1,172,605	2,971,970
Other countries	90,092	262,186	64,417	163,265
	1,583,263	4,607,612	1,237,022	3,135,235
Associates (Note 10)	1,262	3,672	1,336	3,386
Unallocated assets	21,057	61,281	16,730	42,403
	1,605,582	4,672,565	1,255,088	3,181,024

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

6. Segment information (continued)

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

	2005		2004	
Capital expenditure	**USD**	**LTL**	**USD**	**LTL**
Lithuania	56,288	157,370	26,772	74,388
Other countries	134	372	334	928
	56,422	157,742	27,106	75,316

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

	2005		2004	
Analysis of sales by category	**USD**	**LTL**	**USD**	**LTL**
Sales of goods	3,940,846	10,975,636	2,685,398	7,452,806
Revenue from services	64,675	180,135	75,374	210,675
	4,005,521	11,155,771	2,760,772	7,663,481

7. Property, plant and equipment

USD

	Land and buildings	Plant and machinery	Other property, plant and equipment	Construction in progress	Total
At 1 January 2004					
Cost	88,402	633,528	74,595	51,283	847,808
Accumulated depreciation and impairment	(29,425)	(263,031)	(29,482)	-	(321,938)
Net book amount	58,977	370,497	45,113	51,283	525,870
Year ended 31 December 2004					
Opening net book amount	58,977	370,497	45,113	51,283	525,870
Exchange differences	972	649	261	32	1,914
Additions	95	10,615	6,685	8,834	26,229
Disposals	(727)	(83)	(539)	-	(1,349)
Retirements	(2,260)	(384)	(436)	(3,330)	(6,410)
Transfers	1,109	26,657	148	(27,914)	-
Reclassification to other assets	(109)	-	(8)	(981)	(1,098)
Impairment charge	(60)	(158)	-	(10,095)	(10,313)
Depreciation charge	(2,350)	(28,711)	(5,971)	-	(37,032)
Closing net book amount	55,647	379,082	45,253	17,829	497,811
At 31 December 2004					
Cost	86,464	669,771	75,100	17,829	849,164
Accumulated depreciation and impairment	(30,817)	(290,689)	(29,847)	-	(351,353)
Net book amount	55,647	379,082	45,253	17,829	497,811

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

7. Property, plant and equipment (continued)

USD

	Land and buildings	Plant and machinery	Other property, plant and equipment	Construction in progress	Total
Year ended 31 December 2005					
Opening net book amount	55,647	379,082	45,253	17,829	497,811
Exchange differences	(1,609)	(908)	(354)	(40)	(2,911)
Acquisition of subsidiary (Note 31)	1,960	4,328	252	1,174	7,714
Additions	173	6,106	3,386	38,412	48,077
Disposals	(180)	(62)	(56)	-	(298)
Retirements	-	(376)	(2,172)	-	(2,548)
Transfers	930	6,314	660	(7,904)	-
Reclassifications to non-current assets classified as held for sale	(937)	(10)	(5)	-	(952)
Reversal of impairment charge	1,411	-	-	117	1,528
Impairment charge	-	(58)	(72)	(1,564)	(1,694)
Depreciation charge	(2,437)	(28,727)	(6,547)	-	(37,711)
Closing net book amount	54,958	365,689	40,345	48,024	509,016
At 31 December 2005					
Cost	83,530	676,775	75,341	48,024	883,670
Accumulated depreciation and impairment	(28,572)	(311,086)	(34,996)	-	(374,654)
Net book amount	54,958	365,689	40,345	48,024	509,016

LTL

	Land and buildings	Plant and machinery	Other property, plant and equipment	Construction in progress	Total
At 1 January 2004					
Cost	244,175	1,749,868	206,039	141,649	2,341,731
Accumulated depreciation and impairment	(81,275)	(726,518)	(81,432)	-	(889,225)
Net book amount	162,900	1,023,350	124,607	141,649	1,452,506
Year ended 31 December 2004					
Opening net book amount	162,900	1,023,350	124,607	141,649	1,452,506
Exchange differences	(9,885)	(84,576)	(9,661)	(3,739)	(107,861)
Additions	263	29,394	18,649	24,586	72,892
Disposals	(2,017)	(228)	(1,485)	-	(3,730)
Retirements	(6,323)	(1,057)	(1,209)	(9,155)	(17,744)
Transfers	3,098	74,131	407	(77,636)	-
Reclassification to other assets	(300)	-	(22)	(2,752)	(3,074)
Impairment charge	(169)	(444)	-	(27,766)	(28,379)
Depreciation charge	(6,530)	(79,786)	(16,592)	-	(102,908)
Closing net book amount	141,037	960,784	114,694	45,187	1,261,702
At 31 December 2004					
Cost	219,143	1,697,535	190,341	45,187	2,152,206
Accumulated depreciation and impairment	(78,106)	(736,751)	(75,647)	-	(890,504)
Net book amount	141,037	960,784	114,694	45,187	1,261,702

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

7. Property, plant and equipment (continued)

LTL

	Land and buildings	Plant and machinery	Other property, plant and equipment	Construction in progress	Total
Year ended 31 December 2005					
Opening net book amount	141,037	960,784	114,694	45,187	1,261,702
Exchange differences	16,560	136,586	15,195	11,144	179,485
Acquisition of subsidiary (Note 31)	5,629	12,430	724	3,372	22,155
Additions	463	17,465	9,544	106,323	133,795
Disposals	(505)	(175)	(158)	-	(838)
Retirements	-	(1,045)	(5,950)	-	(6,995)
Transfers	2,515	18,030	1,753	(22,298)	-
Reclassifications to non-current assets classified as held for sale	(2,718)	(29)	(15)	-	(2,762)
Reversal of impairment charge	3,721	-	-	340	4,061
Impairment charge	-	(168)	(209)	(4,309)	(4,686)
Depreciation charge	(6,763)	(79,652)	(18,166)	-	(104,581)
Closing net book amount	159,939	1,064,226	117,412	139,759	1,481,336
At 31 December 2005					
Cost	243,089	1,969,548	219,257	139,759	2,571,653
Accumulated depreciation and impairment	(83,150)	(905,322)	(101,845)	-	(1,090,317)
Net book amount	159,939	1,064,226	117,412	139,759	1,481,336

Impairment charge of USD 1,694 thousand or LTL 4,686 thousand (2004: USD 10,313 thousand or LTL 28,379 thousand) and reversal of impairment charge of USD 1,528 thousand or LTL 4,061 thousand (2004: nil) is included in administrative expenses in the income statement.

Depreciation expense has been allocated as follows:

	2005		2004	
	USD	LTL	USD	LTL
Cost of goods sold	30,517	84,660	30,520	84,821
Selling and marketing costs	5,595	15,500	4,324	12,017
Administrative expenses	1,599	4,421	2,188	6,070
	37,711	104,581	37,032	102,908

As at 31 December 2005 property, plant and equipment for the net book value USD 2,031 thousand or LTL 5,911 thousand (2004: USD 21,325 thousand or LTL 54,048 thousand) were provided as collateral for bank borrowings (Note 19).

No material borrowing costs were capitalised during the years ended 31 December 2005 and 31 December 2004.

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

	2005		2004	
	USD	LTL	USD	LTL
Land and building	1,002	2,917	713	1,807
Plant and machinery	454	1,321	862	2,185
Other PPE	29	84	40	101
	1,485	4,322	1,615	4,093

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

8. Intangible assets

USD

	Software	Patents and licences	Total
At 1 January 2004			
Cost	7,302	5,906	13,208
Accumulated amortisation	(3,673)	(4,452)	(8,125)
Net book amount	3,629	1,454	5,083
Year ended 31 December 2004			
Opening net book amount	3,629	1,454	5,083
Exchange differences	9	-	9
Additions	726	151	877
Amortisation charge	(928)	(355)	(1,283)
Closing net book amount	3,436	1,250	4,686
At 31 December 2004			
Cost	7,952	6,057	14,009
Accumulated amortisation	(4,516)	(4,807)	(9,323)
Net book amount	3,436	1,250	4,686
Year ended 31 December 2005			
Opening net book amount	3,436	1,250	4,686
Exchange differences	(14)	-	(14)
Additions	615	16	631
Amortisation charge	(978)	(409)	(1,387)
Closing net book amount	3,059	857	3,916
At 31 December 2005			
Cost	8,328	6,073	14,401
Accumulated amortisation	(5,269)	(5,216)	(10,485)
Net book amount	3,059	857	3,916

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

8. Intangible assets (continued)

LTL	Software	Patents and licences	Total
At 1 January 2004			
Cost	20,169	16,314	36,483
Accumulated amortisation	(10,145)	(12,297)	(22,442)
Net book amount	10,024	4,017	14,041
Year ended 31 December 2004			
Opening net book amount	10,024	4,017	14,041
Exchange differences	(745)	(275)	(1,020)
Additions	2,009	415	2,424
Amortisation charge	(2,580)	(988)	(3,568)
Closing net book amount	8,708	3,169	11,877
At 31 December 2004			
Cost	20,154	15,352	35,506
Accumulated amortisation	(11,446)	(12,183)	(23,629)
Net book amount	8,708	3,169	11,877
Year ended 31 December 2005			
Opening net book amount	8,708	3,169	11,877
Exchange differences	1,161	414	1,575
Additions	1,746	46	1,792
Amortisation charge	(2,713)	(1,135)	(3,848)
Closing net book amount	8,902	2,494	11,396
At 31 December 2005			
Cost	24,236	17,674	41,910
Accumulated amortisation	(15,334)	(15,180)	(30,514)
Net book amount	8,902	2,494	11,396

Amortisation expense has been allocated as follows:

	2005		2004	
	USD	LTL	USD	LTL
Cost of goods sold	479	1,327	644	1,782
Selling and marketing costs	46	128	26	72
Administrative expenses	862	2,393	613	1,714
	1,387	3,848	1,283	3,568

The Group does not have internally generated intangible assets.

In 2005 the Company was issued allowances by the Government to emit 6,622,887 tons of carbon dioxide in 2005 – 2007. In the balance sheet the Group recognised allowances and the related government grant at a nominal amount, i.e. zero. In October 2005 through a business combination the Group acquired additional allowances to emit 2,651,020 tons of carbon dioxide in 2005 – 2007. These allowances were not recognised in the balance sheet of the Group. In 2005 actual emissions of the Group amounted to 2,238,440 tons. The market value of remaining unused allowances amounted to USD 182,203 thousand or LTL 530,246 thousand as at 31 December 2005.

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

9. Goodwill

	USD	LTL
At 1 January 2005	-	-
Acquisition of subsidiary (Note 31)	1,429	4,105
Acquisition of share in subsidiary (Note 31)	449	1,196
Exchange differences	(36)	60
At 31 December 2005	1,842	5,361

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

Goodwill is allocated to the Group's cash-generating units (CGUs) identified according to business segment.

A business segment-level summary of the goodwill allocation is presented below:

	2005		2004	
	USD	LTL	USD	LTL
Oil refinery	1,411	4,105	-	-
Petrol stations	431	1,256	-	-
	1,842	5,361	-	-

All goodwill was allocated to the Lithuania geographical segment as at 31 December 2005.

10. Investments in associates

	2005		2004	
	USD	LTL	USD	LTL
Beginning of the year	1,336	3,386	1,391	3,842
Share of profit/(loss) after tax	103	286	(163)	(453)
Exchange differences	(177)	-	108	(3)
End of the year	1,262	3,672	1,336	3,386

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

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

	2005		2004	
	USD	LTL	USD	LTL
Assets	4,452	12,957	4,940	12,521
Liabilities	740	2,154	987	2,501
Revenues	24,741	68,645	13,097	36,356
Profit/(loss)	346	960	(459)	(1,274)

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

11. Non-current receivables and prepayments

	2005		2004	
	USD	**LTL**	**USD**	**LTL**
Trade receivables	1,897	5,521	2,631	6,669
Less: provision for impairment of receivables	(1,308)	(3,807)	(1,683)	(4,266)
Trade receivables – net	589	1,714	948	2,403
Reimbursement for environmental obligations receivable from the Government (Notes 21, 32)	10,807	31,449	-	-
Prepayments for PPE and intangible assets	15,185	44,191	3,944	9,997
Prepayment for real estate tax (Note 32)	1,134	3,300	4,338	10,995
Loans to employees	191	557	256	650
Other non-current receivables	91	267	36	91
	27,997	81,478	9,522	24,135

The fair values of non-current receivables and prepayments approximate their carrying values.

12. Inventories

	2005		2004	
	USD	**LTL**	**USD**	**LTL**
Raw and supplementary materials (at cost)	24,247	70,564	64,774	164,170
Raw and supplementary materials (at net realisable value)	769	2,238	-	-
Finished goods and goods for resale (at cost)	177,534	516,659	96,030	243,387
Finished goods and goods for resale (at net realisable value)	1,016	2,957	622	1,576
Semi-finished goods (at cost)	12,501	36,380	7,018	17,787
Semi-finished goods (at net realisable value)	20,475	59,586	5,483	13,897
Spare parts and other (at cost)	20,577	59,884	19,919	50,485
	257,119	748,268	193,846	491,302

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

Inventory amounting to USD 90,000 thousand or LTL 261,918 thousand (2004: nil) is provided as collateral for letters of credit and guarantees issued by the banks on behalf of the Group (Note 19).

13. Trade and other receivables

	2005		2004	
	USD	**LTL**	**USD**	**LTL**
Trade receivables	91,059	265,000	67,520	171,130
Less provision for impairment of receivables	(15,366)	(44,718)	(16,066)	(40,720)
Trade receivables – net	75,693	220,282	51,454	130,410
Receivables from related parties (Note 32)	53,038	154,351	72,321	183,298
Prepaid and recoverable taxes, other than corporate income tax	2,807	8,169	5,401	13,688
Accrued income and deferred charges	10,515	30,601	6,272	15,897
Other receivables	2,554	7,433	1,723	4,368
	144,607	420,836	137,171	347,661

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

13. Trade and other receivables (continued)

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

Receivables amounting up to USD 16,240 thousand or LTL 47,262 thousand (2004: nil) are provided as collateral for letters of credit issued by the banks on behalf of the Group.

14. Cash and cash equivalents

	2005		2004	
	USD	LTL	USD	LTL
Cash at bank and in hand	536,616	1,561,660	253,525	642,559
Short-term bank deposits	101,197	294,504	140,194	355,322
	637,813	1,856,164	393,719	997,881

The effective interest rate on short-term bank deposits was 3.58% (2004: 2.55 %). These deposits have an average maturity of 30 days.

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

	2005		2004	
	USD	LTL	USD	LTL
Cash held at banks to secure issued letters of credit	457,788	1,332,255	178,606	452,677
Cash held at banks to secure issued guaranties	7,415	21,579	-	-
	465,203	1,353,834	178,606	452,677

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

	2005		2004	
	USD	LTL	USD	LTL
Cash and cash equivalents	637,813	1,856,164	393,719	997,881
Cash restricted for investing activities	-	-	(11,205)	(28,399)
Bank overdrafts (Note 19)	-	-	(80)	(200)
	637,813	1,856,164	382,434	969,282

Cash at bank to be maintained under the terms of letters of credit was classified as cash and cash equivalents for the purposes of the cash flow statement because these funds are held for meeting short term operating cash commitments.

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

Cash at bank amounting to USD 54,377 thousand or LTL 158,248 thousand (2004: nil) is provided as collateral for bank borrowings and for letters of credit and guarantees issued by the banks on behalf of the Group (Note 19).

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

15. Share capital

As at 31 December 2005, the Company's authorised share capital comprised 707,454,130 (2004: 707,454,130) ordinary registered shares with a par value of LTL 1 per share. There were no movements in number of shares outstanding during 2005 and 2004. All issued shares are fully paid.

16. Reserves

A legal reserve is a compulsory reserve under Lithuanian, Estonian and Polish legislation. In Lithuania and Estonia annual transfer of 5% of profit available for distribution is compulsory until the reserve reaches 10% of the share capital. In Poland annual transfer of 8% of the net profit for the financial year is compulsory until the reserve reaches 1/3 of the share capital. The legal reserve cannot be distributed as dividends and is formed to cover future losses. In Estonia and Poland the legal reserve can be also used to increase share capital. As at 31 December 2005 the legal reserve amounted to USD 13,494 thousand or LTL 36,089 thousand (2004: nil).

17. Other non-current liabilities

	2005		2004	
	USD	LTL	USD	LTL
Long-term employee benefits	3,543	10,311	-	-
Government grant relating to purchases of PPE (Note 32)	4,963	14,443	4,985	12,634
	8,506	24,754	4,985	12,634

Long-term employee benefits include bonuses and paid leave provided to the employees of the Group companies based on the years of service.

Government grant relating to purchases of PPE includes financing of USD 4,963 thousand or LTL 14,443 thousand (2004: USD 4,963 thousand or LTL 12,579 thousand) received from the Government for construction of apartment blocks for Russian citizens in Vsevolotzk, St. Petersburg. The Government fully financed the construction of these apartment blocks as part of an agreement to enable Russian citizens (former employees of Oil refinery) to move from Lithuania back to Russia. The construction was completed in 1998 and the buildings with a carrying value of USD 4,963 thousand were included within other PPE balance in property, plant and equipment of the Group. Subsidies will be netted off against property, plant and equipment after an appropriate decision is taken by the Government supporting this course of action.

18. Trade and other payables

	2005		2004	
	USD	LTL	USD	LTL
Trade payables	311,353	906,100	136,299	345,450
Amounts due to related parties (Note 32)	6,848	19,929	75,159	190,491
Advances received	4,281	12,458	1,897	4,808
Accruals and deferred income	13,740	39,984	4,864	12,328
Taxes other than corporate income tax	56,097	163,255	44,045	111,632
Social security contributions	2,847	8,287	1,690	4,283
Other current liabilities	862	2,482	1,012	2,569
	396,028	1,152,495	264,966	671,561

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

19. Borrowings

	2005		2004	
	USD	**LTL**	**USD**	**LTL**
Non-current				
Bank borrowings	163,815	476,734	176,666	447,761
Loans from related parties (Note 32)	290,233	844,636	288,927	732,285
Finance lease liabilities	28	82	323	819
	454,076	1,321,452	465,916	1,180,865
Current				
Bank overdrafts	-	-	80	200
Bank borrowings	9,321	27,126	11,518	29,194
Loans from related parties (Note 32)	238	693	-	-
Finance lease liabilities	253	736	355	900
	9,812	28,555	11,953	30,294
Total borrowings	463,888	1,350,007	477,869	1,211,159

Total borrowings include collateralised liabilities of USD 726 thousand or LTL 2,113 thousand (2004: USD 6,059 thousand or LTL 15,358 thousand). Cash (Note 14) and property, plant and equipment (2004: property, plant and equipment) (Note 7) of the Group is provided as collateral for bank borrowings. The rights to the asset leased under finance lease revert to the lessor in the event of default. Borrowings amounting to USD 172,402 thousand or LTL 501,724 thousand (2004: USD 182,108 thousand or LTL 461,553 thousand) are guaranteed by the Government.

Borrowings amounting to USD 172,822 thousand or LTL 502,947 thousand (2004: USD 181,577 thousand or LTL 460,207 thousand) are bearing floating interest rate with repricing period between 1 and 6 months. Borrowings (excluding finance lease liabilities) of USD 290,785 thousand or LTL 846,242 thousand (2004: USD 295,614 thousand or LTL 749,233 thousand) are bearing fixed interest rate.

Maturity dates for borrowings bearing fixed interest rate (excluding finance lease liabilities) are as follows:

	2005		2004	
	USD	**LTL**	**USD**	**LTL**
6 months or less	273	794	1,259	3,191
6-12 months	278	809	1,066	2,702
1-5 years	109,487	318,629	40,477	102,589
Over 5 years	180,747	526,010	252,812	640,751
	290,785	846,242	295,614	749,233

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

	2005		2004	
	USD	**LTL**	**USD**	**LTL**
Between 1 and 2 years	5,657	16,463	10,879	27,573
Between 2 and 5 years	173,791	505,766	70,652	179,068
Over 5 years	274,600	799,141	384,062	973,405
	454,048	1,321,370	465,593	1,180,046

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

	2005		2004	
	USD	**Other**	**USD**	**Other**
Bank overdrafts	-	-	-	7%
Bank borrowings	5.2%	3.8%	4%	3.9%
Borrowings from related parties	7%	4.9%	7%	-
Finance lease liabilities	-	7.6%	-	7.4%

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

19. Borrowings (continued)

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

	2005		2004	
	USD	**LTL**	**USD**	**LTL**
Borrowings	308,472	897,715	346,547	878,323

The fair value is based on cash flows discounted using a rate based on the borrowing rate of 5.70% (2004: 3.78%). The carrying amounts of non-current borrowings bearing floating interest rate and short-term borrowings approximate their fair value.

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

	2005		2004	
	USD	**LTL**	**USD**	**LTL**
US dollar	461,329	1,342,560	477,094	1,209,195
Other currencies	2,559	7,447	775	1,964
	463,888	1,350,007	477,869	1,211,159

The Group has the following undrawn borrowing facilities:

	2005		2004	
	USD	**LTL**	**USD**	**LTL**
Floating rate				
– expiring within one year	109,352	318,236	10,030	25,423
– expiring within two years	515	1,499	-	-
Fixed rate				
– expiring within one year	-	-	118	300
	109,867	319,735	10,148	25,723

Finance lease liabilities - minimum lease payments:

	2005		2004	
	USD	**LTL**	**USD**	**LTL**
Not later than 1 year	266	775	397	1,006
Later than 1 year and not later than 5 years	29	84	346	877
	295	859	743	1,883
Future finance charges on finance leases	(14)	(41)	(65)	(164)
Present value of finance lease liabilities	281	818	678	1,719

The present value of finance lease liabilities is as follows:

	2005		2004	
	USD	**LTL**	**USD**	**LTL**
Not later than 1 year	253	736	355	900
Later than 1 year and not later than 5 years	28	82	323	819
	281	818	678	1,719

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

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

20. Deferred income tax

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

	2005		2004	
	USD	LTL	USD	LTL
Deferred tax assets:				
– to be recovered after more than 12 months	17,843	51,927	17,066	43,254
– to be recovered within 12 months	3,350	9,749	13	33
	21,193	61,676	17,079	43,287
Deferred tax liabilities:				
– to be recovered after more than 12 months	(279)	(812)	(435)	(1,103)
– to be recovered within 12 months	(23)	(66)	-	-
	(302)	(878)	(435)	(1,103)
	20,891	60,798	16,644	42,184

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

	2005		2004	
	USD	LTL	USD	LTL
Beginning of the year	16,644	42,184	17,203	43,732
Exchange differences	-	2,015	-	17
Income statement (charge) benefit (Note 25)	4,247	16,599	(559)	(1,565)
End of the year	20,891	60,798	16,644	42,184

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

USD

Deferred tax assets	Differences in remeasuring non-monetary assets and liabilities into functional currency	Accrued expenses	Unrealised profit in inventory and valuation at net realisable value	Other	Total
At 1 January 2004	17,066	-	-	881	17,947
(Charged) to income statement	-	-	-	(868)	(868)
At 31 December 2004	17,066	-	-	13	17,079
Credited to income statement	1,806	1,646	526	136	4,114
At 31 December 2005	18,872	1,646	526	149	21,193

Deferred tax liabilities	Differences in remeasuring non-monetary assets and liabilities into functional currency	Differences in depreciation rates	Total
At 1 January 2004	(435)	(309)	(744)
Credited to income statement	-	309	309
At 31 December 2004	(435)	-	(435)
Credited to income statement	133	-	133
At 31 December 2005	(302)	-	(302)

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

20. Deferred income tax (continued)

LTL

Deferred tax assets	**Differences in remeasuring non-monetary assets and liabilities into functional currency**	**Accrued expenses**	**Unrealised profit in inventory and valuation at net realisable value**	**Other**	**Total**
At 1 January 2004	43,254	-	-	2,434	45,688
Exchange differences	-	-	-	20	20
(Charged) to income statement	-	-	-	(2,421)	(2,421)
At 31 December 2004	43,254	-	-	33	43,287
Exchange differences	1,531	228	245	35	2,039
Credited to income statement	10,136	4,562	1,286	366	16,350
At 31 December 2005	54,921	4,790	1,531	434	61,676

Deferred tax liabilities	**Differences in remeasuring non-monetary assets and liabilities into functional currency**	**Differences in depreciation rates**	**Total**
At 1 January 2004	(1,103)	(853)	(1,956)
Exchange differences		(3)	(3)
(Charged)/credited to income statement	-	-	-
Credited to income statement	-	856	856
At 31 December 2004	(1,103)	-	(1,103)
Exchange differences	(24)	-	(24)
Credited to income statement	249	-	249
At 31 December 2005	(878)	-	(878)

In 2003, the Company resumed its modernization program which includes significant investments in property, plant and equipment during 2004 – 2009 in order to meet more stringent quality requirements for gasoline and diesel, more stringent environmental requirements, to improve logistics and product handling and to increase efficiency. According to management plans, part of these investments should have been financed from the Company's operating cash flows and this should have enabled the Company to avoid income tax expenses during 2004 – 2009 by applying the investment credit following the terms of Investment Agreement (Note 25). The implementation of capital investments plans for 2004 and 2005 were significantly delayed, therefore the management believes that the Company will not be able to reduce its taxable profits to nil in 2005 – 2009 and deferred income tax assets were recognised.

Deferred income tax assets are recognised for tax loss carry-forwards to the extent that the realisation of the related tax benefit through the future taxable profits is probable. The Group did not recognise deferred income tax assets of USD 2,742 thousand or LTL 7,980 thousand (2004: USD 2,764 thousand or LTL 7,005 thousand) in respect of losses amounting to USD 17,032 thousand or LTL 49,566 thousand (2004: USD 18,425 thousand or LTL 46,698 thousand) that arose in loss making subsidiaries and that can be carried forward against future taxable income. Tax losses can be carried forward for five years to be offset against future taxable income. The expiry dates are as follows:

	2005		**2004**	
	USD	**LTL**	**USD**	**LTL**
Expiry date				
2005	-	-	4,722	11,968
2006	3,298	9,598	3,787	9,598
2007	1,858	5,407	2,133	5,406
2008	1,379	4,013	3,477	8,812
2009	3,707	10,788	4,306	10,914
2010	6,790	19,760	-	-
	17,032	49,566	18,425	46,698

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

20. Deferred income tax (continued)

Deferred income tax liabilities of USD 958 thousand or LTL 2,788 thousand (2004: USD 68 thousand or LTL 172 thousand) have not been recognised for the taxes that would be payable on the unremitted earnings of certain subsidiaries. Deferred income tax liabilities were not recognised because the parent has determined that those profits will not be distributed in the foreseeable future. Unremitted earnings totalled USD 3,207 thousand or LTL 9,333 thousand as at 31 December 2005 (2004: USD 226 thousand or LTL 573 thousand).

21. Provisions for other liabilities and charges

USD	Claims received from customers	Claim received from the supplier	Environmental obligations	Penalty imposed by the Competition Council	Total
At 1 January 2004	-	2,900	-	-	2,900
Charged to income statement					
- additional provisions	1,069	-	-	-	1,069
Used during the period	-	-	-	-	-
At 31 December 2004/1 January 2005	1,069	2,900	-	-	3,969
Charged to income statement					
- additional provisions	-	-	11,007	11,044	22,051
Acquisition of subsidiary (Note 31)	-	-	522	-	522
Used during the period	-	-	-	-	-
Exchange differences	(89)	-	(207)	(48)	(344)
At 31 December 2005	980	2,900	11,322	10,996	26,198

LTL	Claims received from customers	Claim received from the supplier	Environmental obligations	Penalty imposed by the Competition Council	Total
At 1 January 2004	-	8,010	-	-	8,010
Charged to income statement					
- additional provisions	2,709	-	-	-	2,709
Used during the period	-	-	-	-	-
Exchange differences	-	(660)	-	-	(660)
At 31 December 2004/1 January 2005	2,709	7,350	-	-	10,059
Charged to income statement					
- additional provisions	-	-	31,449	32,000	63,449
Acquisition of subsidiary (Note 31)	-	-	1,500	-	1,500
Used during the period	-	-	-	-	-
Exchange differences	143	1,090	-	-	1,233
At 31 December 2005	2,852	8,440	32,949	32,000	76,241

Analysis of total provisions:	2005		2004	
	USD	LTL	USD	LTL
- non-current (environmental obligations)	11,322	32,949	-	-
- current	14,876	43,292	3,969	10,059
	26,198	76,241	3,969	10,059

21. Provisions for other liabilities and charges (continued)

(a) Claims received from customers
Provisions of USD 980 thousand or LTL 2,852 thousand (2004: USD 1,069 thousand or LTL 2,709 thousand) represent provision for probable losses in relation to the claims received from the customers of Mazeikiu Nafta Trading House Sp.z.o.o.

Due to uncertainty in the interpretation of the laws Mazeikiu Nafta Trading House Sp.z.o.o. has not settled to the customs office the petrol duty for the period from 1 May to 8 October 2004. The customers of Mazeikiu Nafta Trading House Sp.z.o.o. claimed that the selling price should be reduced by this petrol duty.

The Group created a provision for probable losses in relation to the claims received from the customers of Mazeikiu Nafta Trading House Sp.z.o.o.

(b) Claim received from the supplier
Provision of USD 2,900 thousand or LTL 8,440 thousand (2004: USD 2,900 thousand or LTL 7,350 thousand) represents provision for probable losses in relation to the claim received from PPS Pipeline Systems (PPS), the contractor of the Oil Terminal Project, to compensate Lithuanian VAT.

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

The management believes that it is more likely than not that an outflow of resources will be required to settle the above obligation, therefore the provision was recognised in the financial statements of the Group.

(c) Environmental obligations
As at 31 December 2005 provisions for environmental obligations consist of the provisions recognised by the Company amounting to USD 10,807 thousand or LTL 31,449 thousand (2004: nil) and contingent liabilities recognised in a business combination amounting to USD 515 thousand and LTL 1,500 thousand (Note 31).

In the production process the oil refinery causes contamination. A provision of USD 10,807 thousand or LTL 31,449 thousand was recognised for the costs to be incurred for the treatment of the waste which was accumulated before 1999. According to the waste treatment plan agreed with the Ministry of Environment of the Republic of Lithuania, the Group is required to clean up all contamination that it causes before 2012. It is expected that the provision will be used after 2006. The Group recognised a related reimbursement for environmental obligations receivable from the Government (Note 11). According to the Investment Agreement signed between the Company, the Government and Williams International Company (replaced by Yukos Finance B.V.) the Government committed itself to compensate all losses to the strategic investor and the Company incurred before the privatisation.

Contingent liabilities recognised in a business combination amounting to USD 515 thousand or LTL 1,500 thousand as at 31 December 2005 were recognised for the contamination caused by Mažeikių Elektrinė AB. As at 31 December 2005 there were no laws or regulations obliging Mažeikių Elektrinė AB to clean up the contamination, but the management of the Group believes that such regulation will be passed in the nearest future, therefore a contingent liability was recognised in the balance sheet of the Group.

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

21. Provisions for other liabilities and charges (continued)

(d) Penalty imposed by the Competition Council
In July 2004, the Lithuanian Competition Council commenced an investigation against the Company to determine whether the higher price of fuel in Lithuania is the result of violations and abuse of its dominant position in the market. The investigation resulted from the fact that the prices of fuel in Lithuania are higher than those in Latvia and Estonia, despite the fact that with effect from May 2004 all three countries have unified fuel excise and customs duties. The investigation was completed in July 2005. The Lithuanian Competition Council concluded that the Company abused its dominant position in the Lithuania, Latvia and Estonia market of petrol and diesel in 2002 – 2004. The Lithuanian Competition Council obligated the Company to terminate the activities violating the laws of the Republic of Lithuania and European Union and imposed a penalty on the Company. Although the Company has appealed the decision of the Competition Council in court, the Group created a provision of USD 10,996 thousand or LTL 32,000 thousand for the penalty imposed by the Lithuanian Competition Council in the financial statements for the year ended 31 December 2005.

22. Expenses by nature

	2005		2004	
	USD	**LTL**	**USD**	**LTL**
Depreciation and amortisation (Notes 7 and 8)	39,098	108,429	38,315	106,476
Wages and salaries	57,873	160,939	53,243	147,669
Social security costs	17,658	49,098	16,183	44,908
Costs of crude oil and feedstock	3,266,996	9,110,129	2,054,321	5,706,394
Additives and catalysts	7,192	19,969	6,270	17,307
Changes in inventories of finished goods and work in progress	(89,773)	(251,217)	(14,846)	(42,644)
Transit and freight	80,933	225,738	74,030	205,078
Railway services	56,736	157,128	49,859	138,459
Terminal and laboratory services	30,520	84,398	27,780	77,162
Electricity	33,631	93,041	35,554	98,759
Steam power	11,014	29,735	13,478	37,377
Intermediary services	15,840	44,089	991	3,059
Consumables and office supplies	15,446	43,086	13,048	36,343
Taxes, other than corporate income tax	8,302	22,773	9,970	27,617
Insurance	7,449	20,658	7,703	21,447
Operating lease	7,190	19,985	6,708	18,690
Professional fees	6,282	17,659	4,193	11,593
Change in provision for impairment of receivables	(108)	(313)	1,237	3,409
Long-term employee benefits	3,233	9,205	-	-
Provision for penalty imposed by the Competition Council	11,044	32,000	-	-
Change in provision for inventory	3,161	8,944	5,900	16,258
Reversal of impairment charge of PP&E	(1,528)	(4,061)	-	-
Impairment charge of PP&E	1,694	4,686	10,313	28,379
Other expenses	36,321	101,662	25,223	69,005
	3,626,204	10,107,760	2,439,473	6,772,745
Classified as:				
– cost of sales	3,336,777	9,302,596	2,204,935	6,124,239
– selling and marketing costs	206,075	572,270	163,127	451,661
– administrative expenses	83,352	232,894	71,411	196,845
	3,626,204	10,107,760	2,439,473	6,772,745

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

23. Finance income

Finance income consists of interest income of USD 14,854 thousand or LTL 41,633 thousand (2004: USD 3,563 thousand or LTL 9,832 thousand).

24. Finance costs

	2005		2004	
	USD	**LTL**	**USD**	**LTL**
Interest expense:				
– borrowings	28,605	79,450	26,555	73,854
– finance lease	30	84	70	196
	28,635	79,534	26,625	74,050
Foreign exchange transaction (gains)/losses	3,185	8,670	(8,434)	(22,801)
Other finance costs	20	53	-	-
	31,840	88,257	18,191	51,249

25. Income tax expense

	2005		2004	
	USD	**LTL**	**USD**	**LTL**
Current tax	48,949	135,297	45,222	126,622
Deferred tax (Note 20)	(4,247)	(16,599)	559	1,565
	44,702	118,698	45,781	128,187

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

	2005		2004	
	USD	**LTL**	**USD**	**LTL**
Profit before tax	363,425	1,004,412	306,624	849,347
Tax calculated at 15% (2004: 15%)	54,514	150,662	45,994	127,402
Effect of different tax rates in other countries	(370)	(983)	(43)	(120)
Non-deductible exchange differences	(2,513)	(6,450)	(307)	(778)
Exchange differences related to prior periods for which deferred income tax was created	(4,549)	(17,200)	-	-
Income not subject to tax	(221)	(549)	(306)	(776)
Expenses not deductible for tax purposes	2,609	6,842	3,589	10,434
Capital investment relief	(4,355)	(12,438)	-	-
Charity expenses deductible twice for tax purposes	(774)	(2,145)	(122)	(310)
Utilisation of previously unrecognised tax losses	(493)	(1,426)	(3,670)	(9,302)
Tax losses for which no deferred income tax asset was recognised	854	2,385	646	1,637
Tax charge	44,702	118,698	45,781	128,187

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

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

26. Earnings per share

Basic

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

	2005		2004	
	USD	**LTL**	**USD**	**LTL**
Profit attributable to equity holders of the Company	319,478	887,764	261,103	721,883
Weighted average number of ordinary shares in issue (thousands)	707,454	707,454	707,454	707,454
Basic earnings per share (USD or LTL per share)	0.452	1.255	0.369	1.020

Diluted

Diluted earnings per share is calculated by adjusting the weighted average number of ordinary shares outstanding to assume conversion of all dilutive potential ordinary shares. The Company has one category of potentially dilutive ordinary shares in the form of share options, but for the reasons set out below management has not been able to calculate with sufficient certainty their dilutive impact.

According to the Investment Agreement as of 18 June 2002, Yukos Finance B.V. had an option to subscribe for a certain number of newly issued shares in the Company for a consideration of USD 75 million. Yukos Finance B.V. signalled its intention to exercise this option by delivering a notice in writing to the Government on 29 October 2004 and to the Company on 5 November 2004.

According to the most dilutive interpretation of the Investment Agreement, the dilutive effect would be an additional 309,158 thousand (2004: 225,581 thousand) shares, that would give a diluted earnings per share of USD 0.314 or LTL 0.873 (2004: USD 0.280 or LTL 0.774). According to the less dilutive interpretation, the dilutive effect would be an additional 165,505 thousand (2004: 120,763 thousand) shares, that would give a diluted earnings per share of USD 0.366 or LTL 1.017 (2004: USD 0.315 or LTL 0.872).

The Investment Agreement provides that in the event of the execution of the first option, Yukos Finance B.V. would then have a further option to purchase from 1 to 11.5 percent of shares held by the Government for a price which is equal to 3 times EBITDA (preceding year) multiplied by the percentage to be purchased but not less than USD 4.9 million for 1 percent. This option expires on 29 October 2006.

As at the date of signing these financial statements negotiations between the parties are on-going and the management of the Company is not aware either of the timing or the substance of any agreement that the Government and the Yukos Group may reach. Consequently, despite the notice provided by Yukos Finance BV, no new shares have been issued and without agreement between the parties it is not likely that any will be issued.

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

27. Dividends per share

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

28. Cash generated from operations

	2005		2004	
	USD	**LTL**	**USD**	**LTL**
Profit for the period	318,723	885,714	260,843	721,160
Adjustments for:				
– tax (Note 25)	44,702	118,698	45,781	128,187
– depreciation (Note 7)	37,711	104,581	37,032	102,908
– amortisation (Note 8)	1,387	3,848	1,283	3,568
– (profit) on sale of non-current assets classified as held for sale	(1)	(2)	-	-
– (profit)/loss on sale of PPE	(172)	(462)	951	2,906
– retirement of PPE (Note 7)	2,548	6,995	6,410	17,744
– reversal of impairment charge of PPE (Note 7)	(1,528)	(4,061)	-	-
– impairment charge on PPE (Note 7)	1,694	4,686	10,313	28,379
– interest income (Note 23)	(14,854)	(41,633)	(3,563)	(9,832)
– interest expense (Note 24)	28,635	79,534	26,625	74,050
– net movement in provisions for liabilities	22,051	63,449	1,069	2,709
– share of loss/(profit) from associates (Note 10)	(103)	(286)	163	453
– Excess of the acquirer's interest in the net assets acquired recognised as income (Note 31)	(104)	(278)	-	-
– exchange (gains)/losses on borrowings	(626)	180,392	-	-
Changes in working capital:				
– inventories	(59,922)	(247,343)	(78,119)	(105,906)
– trade and other receivables	(12,556)	(90,251)	(37,967)	(218,123)
– trade and other payables	128,401	475,070	47,390	132,389
Cash generated from operations	495,986	1,538,651	318,211	880,592

29. Contingencies

Investigation of the Latvian Competition Council

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

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

29. Contingencies (continued)

Claim from Klevo Lapas UAB

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

Payment request from a group of inventors

The Company had received a payment request from a group of individuals in the amount of LTL 14,000 thousand (equivalent to USD 4,810 thousand as at 31 December 2005) related to a production improvement process invented and patented by the group and subsequently implemented by the Oil refinery covering the period 1996 – 2001. Management does not agree that the implementation of the invention did actually improve the output of production process and, therefore, rejected the payment request. In 2003, one of the inventors initiated legal proceedings against the Company and claimed an amount totalling LTL 400 thousand (equivalent to USD 137 thousand as at 31 December 2005). The first instance court rejected the claim as ungrounded in February 2006. The inventor appealed against the decision of the court. Management believes that the charges are without merit and, accordingly, no accrual for this contingent liability has been made in these financial statements. In the event the Company loses this proceeding, the Company might raise the issue of compensation of the amounts of this claim under provisions of the Investment Agreement, signed between Yukos Oil Corporation OAO, Yukos Finance B.V., Williams International Company, the Company and the Government (see also decision of the Constitutional Court described further).

Claim from Rietumu Banka AS

In 1999, the Company received a claim from Rietumu Banka AS for the total amount of USD 1,250 thousand related to unperformed sales of oil products to Thornleigh Trust Ltd. in accordance with the agreement signed on 23 March 1998 with Rietumu Banka AS and Thornleigh Trust Ltd. The Company set-off the advance payment of USD 1,250 thousand received from Thornleigh Trust Ltd. against the receivable balance outstanding and did not perform the shipment of products. Management has taken legal advice and believes that the claim is without merit, therefore, no provision for the claim amount was made in the financial statements for the year ended 31 December 2005.

Other litigations and claims

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

Decision of the Constitutional Court of the Republic of Lithuania

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

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

29. Contingencies (continued)

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

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

Dispute with Klaipėdos nafta AB over surplus balance of oil products

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

Guarantees under waste treatment plans

As required by a waste treatment plans approved by the Ministry of Environment in 2004, the Company issued guarantees to the regional departments of the Ministry of Environment for a total amount of LTL 11,970 thousand (USD 4,113 thousand as at 31 December 2005). Guarantees are valid until 2 December 2007. Payments under these guarantees should be made in cases when the Company is unable to continue treatment of waste accumulating in production process. In the financial statements for the year ended 31 December 2005 the Group made a provision for the environmental obligations amounting to USD 10,807 thousand or LTL 31,449 thousand (Note 21) and recognised related reimbursement for environmental obligations receivable from the Government (Note 11).

Emission allowances

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

Tax audits

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

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

30. Commitments

(a) Capital commitments

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

	31 December 2005		31 December 2004	
	USD	LTL	USD	LTL
Property, plant and equipment	44,002	128,055	658	1,668

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

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

The Group also leases various property, plant and equipment under cancellable operating lease agreements. The lease expenditure charged to the income statement during the period is disclosed in Note 22.

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

	2005		2004	
	USD	LTL	USD	LTL
No later than 1 year	448	1,304	498	1,262
Later than 1 year and no later than 5 years	824	2,398	977	2,476
Later than 5 years	557	1,621	581	1,473
	1,829	5,323	2,056	5,211

31. Acquisitions

Business combinations

On 12 October 2005 the Group acquired 85.72% of the share capital of Mažeikių Elektrinė AB, a company involved in manufacture, supply and distribution of electricity and thermal energy. The acquired business contributed revenues of USD 33 thousand or LTL 96 thousand and incurred net loss of USD 1,598 thousand or LTL 4,636 thousand to the Group for the period from 1 October 2005 to 31 December 2005 (after elimination of intragroup transactions). If the acquisition had occurred on 1 January 2005, the Group's revenue would have been USD 4,005,829 thousand or LTL 11,156,771 thousand, and profit for the year would have been USD 333,852 thousand or LTL 923,698 thousand. These amounts have been calculated using the Group's accounting policies and by adjusting the results of the subsidiary to reflect the additional depreciation and amortisation that would have been charged assuming the fair value adjustments to property, plant and equipment, intangible assets and inventory had applied from 1 January 2005, together with the consequential tax effects.

Details of net assets acquired and goodwill are as follows:

	USD	LTL
Purchase consideration - cash paid	6,198	17,800
Fair value of net assets acquired	(4,769)	(13,695)
Goodwill (Note 9)	1,429	4,105

The goodwill is attributable to the synergies expected to arise after the Group's acquisition of Mažeikių Elektrinė AB.

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

31. Acquisitions (continued)

The assets and liabilities arising from the acquisition are as follows:

	Fair value		Acquiree's carrying amount	
	USD	LTL	USD	LTL
Cash and cash equivalents	465	1,334	465	1,334
Property, plant and equipment (Note 7)	7,714	22,155	13,203	37,918
Licences and software	-	-	19	55
Inventories	3,351	9,623	2,992	8,591
Trade and other receivables	2,114	6,073	2,114	6,072
Prepaid current income tax	55	157	55	157
Borrowings	(1,717)	(4,932)	(1,717)	(4,932)
Trade and other payables	(5,897)	(16,933)	(5,897)	(16,933)
Provisions for other liabilities and charges (Note 21)	(522)	(1,500)	-	-
Net assets	5,563	15,977	11,234	32,262
Minority interest (14.28%)	(794)	(2,282)		
Net assets acquired	4,769	13,695		
Purchase consideration settled in cash			6,198	17,800
Cash and cash equivalents in subsidiary acquired			(465)	(1,334)
Cash outflow on acquisition			5,733	16,466

The fair values of property, plant and equipment were determined based on the valuations of assets performed by the independent valuators.

Through the above business combination the Group acquired allowances to emit 2,651,020 tons of carbon dioxide in 2005 – 2007. These allowances (intangible assets) with the fair value at the date of acquisition of USD 74,279 thousand or LTL 213,322 thousand and the related liabilities for the actual emissions made until the date of acquisition with the fair value of USD 5,903 thousand or LTL 16,953 thousand at the date of acquisition were not recognised in the balance sheet of the Group.

There were no business combinations in the year ended 31 December 2004.

Acquisition of share in subsidiary

In March 2005, the Company's wholly owned subsidiary Uotas UAB increased its ownership in the subsidiary Ventus Nafta AB by 2.32% from 95.2% to 97.52%.

Details of net assets acquired and goodwill are as follows:

	USD	LTL
Purchase consideration:		
– cash paid for shares issued	136	362
– fair value of other assets given	227	605
Total purchase consideration	363	967
Carrying value of net assets acquired	81	216
Goodwill (Note 9)	444	1,183

In October 2005, the Company's wholly owned subsidiary Uotas UAB increased its ownership in the subsidiary Ventus Nafta AB by 1.07% from 97.52% to 98.59%.

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

31. Acquisitions (continued)

Details of net assets acquired and goodwill are as follows:

	USD	LTL
Purchase consideration – fair value of assets given	114	326
Carrying value of net assets acquired	(109)	(313)
Goodwill (Note 9)	5	13

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

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

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

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

32. Related-party transactions

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

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

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

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

The Government has significant influence over the Company. For the purposes of the related party disclosure the Government includes state authorities and exclude local authorities.

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

32. Related-party transactions (continued)

The following transactions were carried out with related parties:

(a) Sales of goods and services

	2005		2004	
	USD	**LTL**	**USD**	**LTL**
– Naftelf UAB	23,584	65,809	12,544	34,604
– Yukos Group*	40	108	13,772	38,816
– Petroval SA (acting as direct sales client)	124,264	351,142	110,882	307,820
– Petroval PTE (acting as direct sales client)	10,965	28,818	-	-
	158,853	445,877	137,198	381,240

(b) Purchases of goods and services

	2005		2004	
	USD	**LTL**	**USD**	**LTL**
– Petroval PTE (commission fee and purchases of goods)	90,227	251,511	-	-
– Petroval SA (commission fee and purchase of goods)	1,512	4,214	313,625	867,863
– Yukos Group* (purchase of crude oil)	896	2,356	1,495,677	4,163,479
– Yukos Finance B.V. (management fee)	1,458	4,049	1,809	4,994
	94,093	262,130	1,811,111	5,036,336

(c) Tax expenses – the Government

	2005		2004	
	USD	**LTL**	**USD**	**LTL**
Income tax	44,000	116,660	45,351	126,983
Taxes, other than income tax	8,210	22,521	9,933	27,515
Social security costs	17,336	48,203	15,972	44,322
	69,546	187,384	71,256	198,820

(d) Key management compensation

	2005		2004	
	USD	**LTL**	**USD**	**LTL**
Salaries and other short-term employee benefits	554	1,846	509	1,612

Key management includes 7 (2004: 7) members of the management of the Company.

(e) Acquisition of subsidiary

On 12 October 2005 the Group acquired 85.72% of the share capital of Mažeikių Elektrinė AB from the Government (Note 31).

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

32. Related-party transactions (continued)

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

Receivables from related parties (Note 13):	2005		2004	
	USD	LTL	USD	LTL
Yukos Group* trade receivables	2,162	6,292	2,178	5,802
Less provision for impairment of receivables	(2,159)	(6,284)	(2,172)	(5,787)
Yukos Group* trade receivables - net	3	8	6	15
Petroval PTE	52,187	151,875	-	-
Petroval SA	147	428	71,415	181,002
Naftelf UAB	701	2,040	900	2,281
	53,038	154,351	72,321	183,298
Reimbursement for environmental obligations receivable from the Government (Note 11)	10,807	31,449	-	-
	63,845	185,800	72,321	183,298

Amounts due to related parties (Note 18):

Amounts payable to related parties:	2005		2004	
	USD	LTL	USD	LTL
Yukos Group*	571	1,662	64,052	162,341
Yukos Finance B.V.	320	931	124	314
Petroval SA	350	1,019	10,887	27,593
Petroval PTE	3,560	10,360	-	-
Naftelf UAB	-	-	40	101
Government	16	47	56	142
	4,817	14,019	75,159	190,491
Advance payments received from related parties:				
Petroval PTE	2,031	5,910	-	-
	6,848	19,929	75,159	190,491
Government grant relating to purchases of PPE (Note 17)	4,963	14,443	4,985	12,634
	11,811	34,372	80,144	203,125

(g) Year-end balances arising from taxes paid/payable – the Government

Prepaid taxes:	2005		2004	
	USD	LTL	USD	LTL
Prepaid current income tax	165	480	-	-
Long term portion of prepayment for real estate tax (Note 11)	1,134	3,300	4,338	10,995
Prepaid taxes, other than corporate income tax	2,739	7,971	5,292	13,413
	4,038	11,751	9,630	24,408

Taxes payable:	2005		2004	
	USD	LTL	USD	LTL
Current income tax payable	36,636	106,618	53,129	134,655
Taxes other than income tax	26,186	76,206	23,287	59,021
	62,822	182,824	76,416	193,676

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

32. Related-party transactions (continued)

Deferred taxes:	2005		2004	
	USD	**LTL**	**USD**	**LTL**
Deferred income tax assets	20,841	60,651	16,644	42,184

(h) Loans from related parties – the Government (Note 19)

	2005		2004	
	USD	**LTL**	**USD**	**LTL**
Beginning of year	288,983	732,427	288,991	798,222
Acquisition of subsidiary (Note 31)	1,717	4,932	-	-
Interest charged	20,525	57,235	21,268	59,024
Interest paid	(20,603)	(57,448)	(21,276)	(59,044)
Loan repayments made	(113)	(329)	-	-
Exchange differences	(22)	108,559	-	(65,775)
End of the year	290,487	845,376	288,983	732,427

Loans from related parties consist of loans granted by the Government to the Company amounting to USD 288,927 thousand or LTL 840,837 thousand (2004: USD 288,927 thousand or LTL 732,285 thousand) and Mažeikių Elektrinė AB amounting to USD 1,544 thousand or LTL 4,492 thousand plus interest accrued amounting to USD 16 thousand or LTL 47 thousand (2004: USD 56 thousand or LTL 142 thousand).

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

An interest of 4.95 percent per annum is payable on the loan granted by the Government to Mažeikių Elektrinė AB. Loan has to be repaid by 15 April 2011.

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

PUBLIC COMPANY MAZEIKIU NAFTA PERFORMANCE REPORT FOR THE FINANCIAL YEAR 2005

AB Mazeikiu Nafta (hereinafter – the Company) and its subsidiaries (hereinafter jointly – the Group) will remember the year 2005 not only as the year of its 25th anniversary but as the most profitable year in the Group's history as well. During the period indicated AB Mazeikiu Nafta Group earned USD 318.7 million (LTL 885.7 million) of net profit under the International Financial Reporting Standards (IFRS).

The revenues of the Group increased by 45.1 percent up to USD 4 billion (by USD 1.2 billion more than in 2004). The net profit increased by USD 57.9 million (22.2 percent) if compared to 2004. The value per share fluctuated from LTL 4.17 to the record value of LTL 13.40. The improvement of financial indicators also continued: the debt to equity ratio was 0.70 (1.05 in 2004), the total liquidity ratio was 1.47 (1.35 in 2004), the asset turnover ratio was 2.49 (2.20 in 2004). Notwithstanding the record profits the profitability indicators reduced: the return on assets was 0.20 USD/USD (0.21 USD/USD in 2004) and the return on equity was 0.47 USD/USD (0.58 USD/USD in 2004).

During 2005 the Group's cash flows from the operating activities amounted to USD 496 million. Notwithstanding USD 59.2 million of income tax paid, USD 59.9 million of investments into long-term tangible and intangible assets and payment of USD 92.7 million of dividends, cash balance at the end of the year increased by USD 244.2 million.

In order to more precisely evaluate the risks for the Group, stability of business environment and the Company's perspective as well as achieve establishment of reasonable payment conditions when concluding agreements with suppliers and borrowing funds from banks the Group has engaged the international rating agency Fitch Ratings. In July 2005 the agency assigned B+ long-term foreign currency credit rating and B short-term rating to the Group. The ratings assigned to the Company reflect the improving business activities of the Group, its stable position in markets of the Baltic region and increasing exports to the countries of Western Europe and USA as well as regular earnings from transportation of crude oil and petroleum products. However, the agency noted dependence of the Group's cash flows on the world refining margins.

Crucial factor in the successful performance of the Group for the year 2005 was positive situation on the world markets enjoyed by the refiners for three years with the combined effect of increased crude oil and petroleum products prices and refining margins. In 2005 the average crude oil refining margin (difference in price of crude oil and petroleum products) in Europe for the Urals 5-2-2-1 type crude oil was USD/t 111.8, while in 2004 it was USD/t 92.4.

Due to the increase of crude oil prices and changes in the conditions of payment for crude oil the Company faced an increased demand for working capital. For the purposes of balancing its cash flows the Company has concluded the credit line agreements with banks under which the credit limit may reach USD 120.6 million.

Positive results of the Group for the year 2005 were also determined by diligent and efficient work of all divisions. Successful negotiations with Transneft and Russian oil companies ensured uninterrupted supplies of crude oil to the Company. Upgrade of the Company's process units and stable supplies of crude oil facilitated increase of monthly refining rates from 800-830 thousand tons to 840-870 thousand tons. The Company reached a record monthly throughput last year by refining 9.3 million tons of crude oil (8.7 million tons in 2004).

Notwithstanding the fact that the volumes transshipped through Būtingė Terminal reduced by 15.4 percent if compared to 2004 and amounted to 6.1 million tons, even under the increasing competition among the Baltic seaports the Company managed to conclude the agreement with Vitol Baltic exactly at the time when Būtingė Terminal was facing a risk of undersupplies. Transportation volumes via Biržai pipelines increased by 2.9 percent if compared to the previous year and amounted to 20.2 million tons.

As in previous years the Group continued increase of petroleum products sales, especially in the target markets. Increase of sales in the target markets witnesses the continued dynamic sales policy implemented by UAB Mazeikiu Nafta Trading House, the subsidiary of the Company, active sales in cooperation with the largest as well as the minor clients, pursuit of the strategic objectives, recognition of petroleum products by such markets and increased demand for higher quality of petroleum products due to the quality and environmental requirements becoming stricter each year.

Sales in Lithuanian, Estonian and Polish markets increased by 0.2 million tons (or by 10 percent) if compared to 2004. However, increase of the sales was not insured in all markets. Sales in Latvian market reduced by 0.03 million tons (or by 5 percent) due to increased imports from CIS and transit of CIS products via Latvia to the markets of Northwest Europe (CIS resources are becoming more competitive in the Baltic countries).

The cost reduction was and still remains one of the main tasks for improvement of the Group's performance. The following successful negotiations were completed in 2005: with AB Lietuvos Geležinkeliai (Lithuanian Railways) for reduction of rail tariffs applied for petroleum products transported from the Company to Klaipėda; with AB Klaipėdos Nafta for reduction of handling tariffs; with Klaipėda State Seaport Authority for reduction of port fees. The Group paid considerable attention to management of its expenses and ensured an adequate control over its budget. As a result of these efforts, transportation costs were lower than it was planned.

The Company dedicates special attention to the environmental issues. At the end of last year the Company started implementation of Environmental Management System in accordance with ISO 14001:2004 with completion scheduled for the second half of the year 2007. The system will ensure fulfillment of the applicable legal requirements, improvement of the overall management and will help the Company to administer its documentation, improve work conditions, reduce the risk of pollution and man-caused incidents, increase competitiveness of the Company and enhance its image.

The Group continued its activities under the second phase of Modernization Program. The total amount of investments into the long-term tangible and intangible assets during 2005 comprised USD 48.7 million. The projects were mainly intended for ensuring the compliance of petroleum products with the EU clean fuel requirements and air emission standards.

The major part of the investments was intended for implementation of the projects under Modernization Program. The total investment in implementation of the FCC Gasoline Selective Hydrotreatment Unit (SHU) in 2005 amounted to USD 21.5 million. This project is part of the clean fuels program. Upon commissioning of FCC SHU the gasoline made by the Company will be sulfur-free. The total amount of investments into the project associated with production of fuel with bio-components comprised USD 4 million. USD 1.8 million were spent for modernization of terminal for loading of light petroleum products onto tank trucks. The purpose of this project was to reduce hydrocarbon emissions. The total amount of advance payments for the ordered equipment to be installed within the scope of Modernization Program comprised USD 11.3 million. In 2005 the Company made considerable efforts for upgrading its existing units and complying with the environmental requirements: increase of bitumen production and shipment capacities and improvement of quality – USD 0.6 million; upgrading of crude oil tank RZ 21 – USD 1.1 million; expansion of crude oil contaminated soil regeneration area – USD 0.9 million.

The Group's employees were and still remain its most important asset. Diligent and conscientious work of our employees was one of the fundamental factors in our success. As of December 31, 2004 the Group employed 3,800 people, while the number of employees as of December 31, 2005 was 3,983. The most significant increase of the number of employees (from 389 to 697) was in the subsidiaries of AB Mazeikiu Nafta upon acquisition of AB Mažeikių Elektrinė, while the most significant decrease was in the Security Department of the Company (from 237 to 175) upon reorganization of the activities associated with convoy of cargoes transported by railway.

The Company dedicates special attention to employee qualification improvement and professional training. Learning and Development Center of the Company, in cooperation with national educational institutions, grants employees of the Company an opportunity of on-site studies thanks to seminars and courses held in the Company premises. The Company is one of the first business enterprises of Lithuania which started implementation of projects financed from the EU structural funds according to the SPG measure "Development of Labor Force Competencies and the Ability to Adopt to Changes". In September 2004 the Company started training under the project "Program of Professional Competence Development for Current and Potential Managers", which training continued in 2006. Based on the EU Support Agreement 42 percent of the expenses within the scope of this project are financed by the European Social Fund and the Republic of Lithuania, while the remaining 58 percent are financed by the Company itself. The total value of this project amounts almost to LTL 1 million. Based on the application submitted by the Company 458 employees of the Company participate in the project: English language courses – 50 employees, Business Ethics Sessions – 322 employees, and Refining Processes Control and Efficiency Increase Training Program (10-days sessions) – 86 employees.

AB Mazeikiu Nafta Group consists of AB Mazeikiu Nafta, UAB Mazeikiu Nafta Trading House, UAB Uotas, UAB Juodeikiu Nafta, UAB Birzietiska Aibe and AB Mazeikiu Elektrine.

UAB Mazeikiu Nafta Trading House (AB Mazeikiu Nafta owns 7,060,000 ordinary registered shares with a par value of LTL 1 (one Litas) each and the total par value of LTL 7.06 million) is the sales agent of the Company in Lithuania. In addition to the above direct investments the Company, through UAB Mazeikiu Nafta Trading House, exercises control over 100 percent of „Mazeikiu nafta" Tirdzniecibas Nams SIA (Latvia), Mazeikiu nafta Trading House OU (Estonia), and Mazeikiu nafta Trading House Sp.z.o.o (Poland) authorized capital. In 2005 UAB Mazeikiu Nafta Trading House and its subsidiaries in Latvia, Estonia and Poland continued their activities seeking to increase the sales volumes of the Company's products.

UAB Uotas (AB Mazeikiu Nafta owns 107,800 ordinary registered shares with a par value of LTL 1,000 (one thousand Litas) each and the total par value of LTL 107.8 million) exercises control over 98.59 percent of AB Ventus-Nafta authorized capital. In 2005 AB Mazeikiu Nafta continued reorganization of UAB Uotas and its subsidiary AB Ventus-Nafta to support improvement of the indicated companies' business efficiency. In the course of reorganization financial position of AB Ventus-Nafta improved considerably. UAB Uotas transferred all the activities to its subsidiary, and does not exercise any other activities except for the subsidiary associated investments management. Seeking to reduce management expenses the decision to liquidate UAB Uotas was announced on December 1, 2005. Upon completion of the liquidation procedures the assets of UAB Uotas, i.e. AB Ventus-Nafta shares, will be transferred to AB Mazeikiu Nafta.

UAB Juodeikių Nafta (AB Mazeikiu Nafta owns 13,850 ordinary registered shares with a par value of LTL 100 (one hundred Litas) each and the total par value of LTL 1.385 million) is engaged in rendering of the services of petroleum products loading onto trucks. On April 19, 2005 AB Mazeikiu Nafta acquired 5,540 ordinary registered shares of UAB Juodeikių Nafta at their par value and took complete control over the indicated company.

The decision to liquidate UAB Biržietiška Aibė (AB Mazeikiu Nafta owns 259,625 ordinary registered shares with a par value of LTL 10 (ten Litas) each and the total par value of LTL 2.596 million) was announced on September 1, 2004, and liquidation procedures were initiated. At the end of 2005 UAB Biržietiška Aibė in liquidation returned its remaining assets to the Company, the sole shareholder, and was excluded from the Register of Legal Persons on January 18, 2006.

On October 12, 2005 the Company acquired 24,612,296 ordinary registered shares of AB Mažeikių Elektrinė (which constitute 85.72 percent of the authorized capital) with a par value of LTL 1 (one Litas) each for the total amount of LTL 17.8 million. The acquisition of shares was made under the Shares Sale-Purchase Agreement with the State Enterprise Valstybės Turto Fondas. The Company intends reorganization of AB Mažeikių Elektrinė by affiliation with continuance of AB Mažeikių Elektrinė principal business activities (production of electricity and steam) and modernization of its equipment.

In 2005 the Company did not acquire or transfer any of its own shares.

Having secured its leading position in the Lithuanian economy the Company also seeks to become a leader in the area of social responsibility having a positive influence on the Company's business results and improving quality of life of the Company's employees and their families, communities of Mažeikiai, Biržai and Palanga as well as the entire Lithuanian community. In 2005 the Company granted financial support to a significant number of sports, culture, education and other public organizations and charity funds.

In 2006 the forecasted throughput at the refinery is 8.6 million tons of feedstock, with export volumes through Būtingė Terminal amounting to 7.2 million tons, and transportation volumes through Biržai pipeline reaching 5.5 million tons of diesel fuel in Ventspils direction, 8.5 million tons of crude to the refinery and 7.2 million tons of crude to Būtingė Terminal. The forecast for sales revenues is USD 4.1 billion. The Company forecasts to finish the year 2006 with a profit.

The Investment Budget of the Company for the year 2006 has been prepared based on AB Mazeikiu Nafta Management plans approved by the Board of the Company on October 15, 2004. The Company continues the second modernization phase initiated in 2004, for implementation of which the investments amounting to USD 229.5 million have been provided for in the Investment Budget. The Investment Budget also provided for the amount of USD 42.4 million of sustaining capital and for purchase of catalysts.

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

P. Nelson English
Chairman of the Board

19 April 2006