

AB “MAŽEIKIŲ NAFTA”
Annual Prospectus-Report for Year 2005

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

TABLE OF CONTENTS

I. GENERAL PROVISIONS.....	5
1. ACCOUNTABLE PERIOD FOR WHICH THE ANNUAL PROSPECTUS-REPORT HAS BEEN PREPARED	5
2. MAIN DATA ABOUT THE ISSUER	5
3. THE NATURE OF THE ISSUER’S PRINCIPAL ACTIVITIES	5
4. INFORMATION ABOUT WHERE AND HOW ONE CAN GET ACQUAINTED WITH THE REPORT AND THE DOCUMENTS ON THE BASIS OF WHICH IT WAS PREPARED (FINANCIAL STATEMENTS, THE AUDITOR’S REPORT, ETC.) AND THE NAME OF THE MEANS OF MASS MEDIA	5
5. PERSONS RESPONSIBLE FOR THE ACCURACY OF INFORMATION IN THE REPORT:.....	5
5.1. MEMBERS OF THE MANAGING BODIES OF THE ISSUER, EMPLOYEES AND THE HEAD OF THE ADMINISTRATION RESPONSIBLE FOR THE REPORT:.....	5
II. DATA ABOUT ISSUER’S AUTHORIZED CAPITAL AND SECURITIES ISSUED	7
7. THE ISSUER’S AUTHORIZED CAPITAL:	7
7.1. AUTHORIZED CAPITAL REGISTERED IN THE REGISTER OF ENTERPRISES.....	7
7.2. INFORMATION ABOUT THE PROJECTED INCREASE OF THE AUTHORIZED CAPITAL THROUGH THE CONVERSION OR EXCHANGING INTO SHARE OF DEBT SECURITIES OR DERIVATIVE SECURITIES ISSUED.....	7
8. SHAREHOLDERS.....	7
9. MAIN CHARACTERISTICS OF THE SHARES ISSUED FOR PUBLIC TRADING.....	8
10. DATA ABOUT THE SHARES REGISTERED FOR PRIVATE PLACING AND DISTRIBUTED AS SUCH.....	8
11. INFORMATION ABOUT DEPOSITARY RECEIPTS REPRESENTING SHARES.....	8
12. MAIN CHARACTERISTICS OF THE DEBT SECURITIES ISSUED FOR PUBLIC TRADING....	8
13. DATA ABOUT THE DEBT SECURITIES REGISTERED FOR PRIVATE PLACEMENT AND DISTRIBUTED AS SUCH.....	8
III. DATA ABOUT THE SECONDARY TRADING IN SECURITIES ISSUED BY THE ISSUER	10
15. SECURITIES ADMITTED TO THE TRADING LISTS OF THE STOCK EXCHANGES	10
16. DEALING IN THE ISSUER’S SECURITIES ON STOCK EXCHANGES AND OTHER ORGANIZED MARKETS	10
16.1. TRADING ON VILNIUS STOCK EXCHANGE.....	10
16.2. TRADING ON OTHER EXCHANGES.....	12
16.3. TRADING ON OTHER ORGANIZED MARKETS	12
17. CAPITALIZATION OF SECURITIES	12
18. DEALING IN THE ISSUER’S SECURITIES ON THE OTC MARKET	13
19. DATA ABOUT THE ISSUER’S BUYING UP OF ITS SHARES	14
20. SUBMISSION OF A TENDER OFFER	14
21. THE ISSUER'S PAYING AGENTS.....	14

22. AGREEMENTS WITH INTERMEDIARIES OF PUBLIC TRADING IN SECURITIES.....	14
IN DECEMBER, 2003 AB MAŽEIKIŲ NAFTA AND SECURITIES SERVICES AND CUSTODY DEPARTMENT OF VILNIAUS BANKAS (GEDIMINO PR. 12, 01103 VILNIUS) CONCLUDED THE SECURITIES ACCOUNT HANDLING AGREEMENT ACCORDING TO WHICH THE BANK ACCEPTED AND CONDUCTS THE ACCOUNTING OF COMPANY'S SECURITIES.....	
	14
IV. DATA ABOUT THE ISSUER'S ACTIVITY.....	15
23. LEGAL BASIS FOR THE ISSUER'S ACTIVITY	15
24. MEMBERSHIP IN ASSOCIATED STRUCTURES	15
25. BRIEF DESCRIPTION OF THE ISSUER'S BACKGROUND.....	15
26. CHARACTERISTICS OF PRODUCTION (SERVICES).....	17
27. SALES MARKETS	25
28. PROCUREMENT	29
29. IMMOVABLE PROPERTY AND OTHER MAIN FACILITIES	30
30. RISK FACTORS RELATED TO THE ISSUER'S ACTIVITY	30
31. TERMINATION AND REDUCTIONS OF PRODUCTION THAT HAVE EXERCISED OR ARE EXERCISING MATERIAL IMPACT UPON THE PERFORMANCE OF THE ISSUER DURING THE LAST TWO FINANCIAL (ECONOMIC) YEARS	41
32. PATENTS, LICENCES, CONTRACTS	41
33. COURT AND THIRD PARTY COURT (ARBITRATION) PROCEEDINGS	41
34. STAFF	42
35. INVESTMENT POLICY.....	47
36. COMPETITORS.....	48
37. DIVIDENDS PAID.....	48
V. FINANCIAL STATUS.....	50
38. FINANCIAL STATEMENTS.....	50
38.1. CONSOLIDATED BALANCE SHEETS (THOUS. LTL).....	50
38.2. CONSOLIDATED INCOME STATEMENT (THOUS. LTL).....	52
38.3. CONSOLIDATED CASH FLOW STATEMENT (THOUS. LTL)	53
CONSOLIDATED STATEMENT OF CHANGES IN EQUITY (THOUS. LTL).....	55
39. COMMENTS ON THE FINANCIAL STATEMENTS.....	56
40. REPORT PREPARED BY THE MANAGING BOARD OF THE ISSUER OR ANY OTHER MANAGING BODY PERFORMING ITS FUNCTIONS.....	58
PUBLIC COMPANY MAŽEIKIŲ NAFTA.....	58
41. INFORMATION ABOUT THE AUDIT.....	63
VI. INFORMATION ABOUT THE ISSUER'S MANAGING BODIES	64
42. MEMBERS OF THE MANAGING BODIES	65

43. INFORMATION ABOUT PAYMENTS AND LOANS EXTENDED TO THE MEMBERS OF MANAGING BODIES.....	67
44. TRANSACTIONS WITH PERSONS CONCERNED.....	67
VII. UPDATED AND MATERIAL EVENTS IN ISSUER'S ACTIVITY AND PERSPECTIVES	68
45. UPDATED EVENTS IN THE ISSUER'S ACTIVITY	68
46. MATERIAL EVENTS IN THE ISSUER'S ACTIVITY	71
47. STRATEGY OF ACTIVITY AND ITS PROSPECTIVE CHANGES DURING CURRENT AND COMING FINANCIAL (ECONOMIC) YEARS	73

I. GENERAL PROVISIONS

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

The year of 2005.

2. Main data about the Issuer

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

3. The nature of the Issuer's principal activities

AB Mažeikių Nafta is an oil refining and transportation company engaged in production as well as the wholesale trade of hard, liquid, gas fuel and similar products and their transportation by roads, railway and pipeline.

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

The report and other documents on the basis of which it was prepared are available in AB Mažeikių Nafta at the address: Juodeikiai, 89467 Mažeikiai, on working days from 8⁰⁰ a.m. till 16⁰⁰ p.m.

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

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

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

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

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

6. Declaration by the members of the Issuer's managing bodies, employees and the head of the administration responsible for the report that the

information contained in the report is in accordance with the facts and that there are no omissions likely to affect the investors' decision concerning purchase, sale or valuation of the Company's securities or the market price of these securities

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

Financial Planning and Control Department of AB MAŽEIKIŲ NAFTA, represented by the Manager of Financial Planning and Reporting Group Vida Mažrimienė, shall declare that the report provides the overall information which was submitted to Financial Planning and Control Department by Company's employees and managers. Financial Planning and Control Department shall be held liable for the appropriate execution of the information submitted and the Company shall be held liable for the accuracy of the information hereof.

AB MAŽEIKIŲ NAFTA
General Director

English P. Nelson

.....

June 22, 2006

stamp

AB MAŽEIKIŲ NAFTA
Chief Financial Officer

Vita Petrošienė

.....

June 22, 2006

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

Vida Mažrimienė

.....

June 22, 2006

June 2006, Mažeikiai

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

7. The Issuer's authorized capital:

7.1. Authorized capital registered in the Register of Enterprises

The Company is registered with the Register of Enterprises of the Republic of Lithuania and administrated by the State Enterprise Centre of Registers (V. Kudirkos g.18, LT - 03105 Vilnius). The Company's authorized capital makes up to 707 454 130.00 litas.

Table 7.1.1 The following is the composition of AB Mažeikių Nafta authorized capital according to types of shares:

Type of shares	Number of shares	Nominal value (LTL)	Total nominal value	Weight in authorized capital (%)
Ordinary registered shares	707 454 130	1	707 454 130	100,00
Total:	707 454 130	-	707 454 130	100,00

All AB Mažeikių Nafta shares are paid up.

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

8. Shareholders

Total number of AB Mažeikių Nafta shareholders at the last General Meeting of Shareholders held on May 26, 2006 (the record date for the meeting being May 19, 2006) amounted to 3 438.

667 584 352 ordinary registered shares (ORS) by the right of ownership belong to two shareholders: Yukos Finance B.V. (379 918 411 ORS) and the State, represented by the Ministry of Economy of the Republic of Lithuania (287 665 941 ORS).

39 869 778 ordinary registered shares (5.64% of authorized capital) by the right of ownership belong to 2 284 individual shareholders.

Table 8.1. The following is the data about the major shareholders that by the right of ownership held more than 5 % of the Company's authorized capital on January 1, 2006:

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

The State, Ministry of Economy of the Republic of Lithuania, Gedimino pr. 38/2, 2600 Vilnius. Company code 8862191	287 665 941	40.66	40.66	40.66 %
--	-------------	-------	-------	---------

9. Main characteristics of the shares issued for public trading

Table 9.1. Main characteristics of AB Mažeikių Nafta shares:

Type of shares	Number of shares	Nominal value (LTL)	Total nominal value (LTL)	Issued
Ordinary registered shares	707 454 130	1	707 454 130	Due to reorganization of state enterprise into joint stock company by merging AB Būtingės Nafta and AB Naftotiekis into its partnership; due to implementation of Company's privatization program
Total:	707 454 130	-	707 454 130	-

On June 17, 2002 Lithuanian Securities Commission registered 58 139 029 and 131 820 176 ordinary registered AB Mažeikių Nafta shares with a nominal value of one litas each for public trading (License No.AB-5084 and AB-5085). The shares were issued to increase AB Mažeikių Nafta authorized capital by additional contributions and all of them were sold to Yukos Finance B.V.

Securities issues as of September 13, 2002 with the following ISIN codes and units, respectively: LT0000115552 – 346 721 600 units, LT0000125205 – 170 773 325 units, LT0000126518 – 58 139 029 units, LT0000126526 – 131 820 176 units, were transferred into one account. After assimilation the securities ISIN code to be used thereafter is LT0000115552, amount – 707 454 130 units.

10. Data about the shares registered for private placing and distributed as such

11. Information about depositary receipts representing shares

12. Main characteristics of the debt securities issued for public trading

13. Data about the debt securities registered for private placement and distributed as such

All debt securities were redeemed in 2000 and the Company held none of such debt securities as at December 31, 2005.

14. Securities not representing capital, the trading whereof is governed by the Law on Securities Market of the Republic of Lithuania, except debt securities

III. DATA ABOUT THE SECONDARY TRADING IN SECURITIES ISSUED BY THE ISSUER

15. Securities admitted to the trading lists of Stock Exchanges

The securities of AB Mažeikių Nafta were admitted to the trading lists of Vilnius Stock Exchange (hereinafter – the Exchange or VSE).

Table 15.1. Data on AB Mažeikių Nafta securities issue:

ISIN code	LT0000115552
Name	MNF1L
List	BALTIC I-LIST
Nominal value	1.00 LTL
Size of the issue (shares)	707 454 130
Number of shares issued for public trading	707 454 130
Listing date	1996 02 06

16. Dealing in the Issuer's securities on Stock Exchanges and other organized markets

16.1. Trading on Vilnius Stock Exchange

Table 16.1.1. Trading in ordinary registered shares of AB Mažeikių Nafta on the central market of the Exchange¹:

Name	Change	Latest session price	Date	Currency	Exchange	Open price	Max. price	Min. price	Deals	Shares	Turnover, LTL
MNF1L	-1,75%	2,80	2004.06.30	LTL	VSE	-	3,41	2,57	958	3 090 978	9 233 002,24
MNF1L	7,14%	3,00	2004.09.30	LTL	VSE	-	3,07	2,55	645	3 327 258	9 748 006,89
MNF1L	46,00%	4,38	2004.12.31	LTL	VSE	-	4,50	3,00	1 899	2 919 799	10 935 893,33
MNF1L	30,14%	5,70	2005.03.31	LTL	VSE	-	5,75	4,17	1 901	6 756 997	33 408 373,69
MNF1L	59,65%	9,10	2005. 06.30	LTL	VSE	-	9,74	5,50	3 280	5 970 484	46 699 763,90
MNF1L	40,44%	12,78	2005. 09.30	LTL	VSE	9,10	13,20	8,60	5 441	6 590 654	67 290 308,12
MNF1L	-25,90%	9,47	2005.12.30	LTL	VSE	-	13,40	8,66	5 646	5 330 551	57 926 294,41
MNF1L	3,48 %	9,80	2006.03.31	LTL	VSE	-	10,67	8,45	4 210	5 199 890	48 744 307,13

¹ According to VSE data (<http://market.lt.omxgroup.com>)

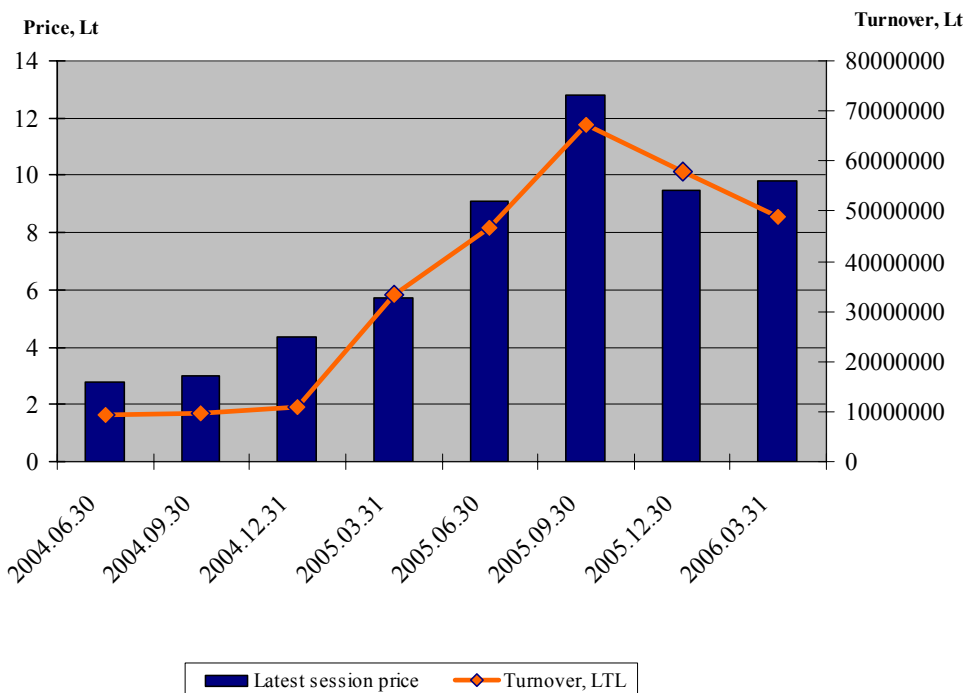


Fig. 16.1.1 Change in price and turnover

Table 16.1.2 Historical trading in AB Mažeikių Nafta ordinary registered shares¹

PRICE	2006	2005	2004	2003	2002
Open, LTL	9,47	-	-	-	0,95
High, LTL	10,67	13,40	4,50	2,80	0,95
Low, LTL	8,45	4,17	2,10	0,74	0,57
Last, LTL	9,51	9,47	4,38	2,20	0,70
Change %	+0,42	+116,21	+99,09	+214,29	+16,67
Traded volume	5 765 078	24 648 686	20 171 753	20 684 565	194 052 940
Turnover, million LTL	54,40	205,32	56,36	31,08	268,98
Capitalization, million LTL	6 727,89	6 699,59	3 098,65	1 556,40	495,22

Table 16.1.3. The highest and lowest price and turnover of the ordinary registered shares of AB Mažeikių Nafta quoted and sold on the central market of the Exchange within the last 8 quarters (each separately) are as follows¹:

Trading session	Price (LTL)		Turnover (LTL)	
	Highest	Lowest	Highest	Lowest
2004.01.01 – 2004.03.31	2.85	2.20	13 058 857.0	0, 0
2004.04.01 – 2004.06.30	3.30	2.63	796 487.0	0, 00
2004.07.01 – 2004.09.30	3.05	2.60	1 097 455.0	0, 0
2004.10.01 – 2004.12.31	4.40	3.02	642 869.00	3 437.0

2005.01.01 – 2005.03.31	5.70	4.37	5 744 470.0	1 297. 00
2005.04.01 – 2005.06.30	9.54	5.5	3 810 840.28	16 304.90
2005.07.01 – 2005.09.30	12.79	8.74	5 186 701.94	62 096.54
2005.10.01 – 2005.12.31	13.25	8.90	4 111 583.93	0,00
2006.01.01 – 2006.03.31	10.59	8.50	2 376 084.02	0,00

Table 16.1.4. Price and turnover of the last trading session of the Exchange for the reporting period and the total turnover for the last 8 quarters (each separately) according to type and class of shares¹:

Trading session	Latest trading session		Total turnover	
	Price (LTL)	Turnover (LTL)	Shares	In Litas
2004.01.01 – 2004.03.31	2.85	118 237.00	8 652 494	21 053 638.00
2004.04.01 – 2004.06.30	2.80	16 973.00	2 256 189	6 715 465.00
2004.07.01 – 2004.09.30	3.00	53 903.00	2 108 465	6 168 409.00
2004.10.01 – 2004.12.31	4.38	6 035.00	2 429 062	9 070 323.00
2005.01.01 – 2005.03.31	5.70	220 998.00	3 405 472	16 670 225.00
2005.04.01 – 2005.06.30	9.54	2 246 521.98	5 970 484	46 699 763.90
2005.07.01 – 2005.09.30	12.79	415 139.36	6 590 654	67 290 308.12
2005.10.01 – 2005.12.31	9.40	506 924.55	5 330 551	57 926 94.41
2006.01.01 – 2006.03.31	9.45	550 438.34	5 199 890	48 744 307.13

Table 16.1.2.1 Average price and total turnover of direct share transactions of AB Mažeikių Nafta for the last 8 quarters according to type and class of shares¹:

Trading session	Average price	Total turnover	
	(LTL)	Shares	In Litas
2004.01.01 – 2004.03.31	2.42	8 652 494	21 053 638.00
2004.04.01 – 2004.06.30	2.90	2 256 189	6 715 465.00
2004.07.01 – 2004.09.30	2.80	2 108 465	6 168 409.00
2004.10.01 – 2004.12.31	3.73	2 429 062	9 070 323.00
2005.01.01 – 2005.03.31	4.85	3 405 472	16 670 225.00
2005.04.01 – 2005.06.30	8.02	5 970 484	46 699 763.90
2005.07.01 – 2005.09.30	9.47	6 590 654	67 290 308.12
2005.10.01 – 2005.12.31	10.43	5 330 551	57 926 294.41
2006.01.01 – 2006.03.31	8.81	5 199 890	48 744 307.13

16.2. Trading on other exchanges

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

16.3. Trading on other organized markets

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

¹ According to VSE data (<http://market.lt.omxgroup.com>)

17. Capitalization of securities

Table 17.1. Capitalization of AB Mažeikių Nafta ordinary registered shares (the CD code of securities – LT0000 11555 2) on the current trading list of Vilnius Stock Exchange for 2005 – 2006 is shown in the table below¹:

PERIOD	BEGINNING-OF-MONTH	END-OF-MONTH
	(PRICE PER SHARE, LTL)	(PRICE PER SHARE, LTL)
2005 03 31 - 2005 04 30	4.244.724.780 (6,00)	5.482.769.508 (7,75)
2005 05 02 - 2005 06 01	5.482.769.508 (7,75)	5.624.260.334 (7,95)
2005 06 01 - 2005 06 30	5.624.260.334 (7,95)	6.749.112.400 (9,54)
2005 06 30 - 2005 07 29	6.749.112.400 (9,54)	6.296.341.757 (8,90)
2005 08 01 - 2005 08 31	6.296.341.757 (8,90)	6.409.534.418 (9,06)
2005 08 31 - 2005 09 30	6.409.534.418 (9,06)	9.048.338.323 (12,79)
2005 09 30 - 2005 10 29	9.048.338.323 (12,79)	8.064.977.082 (11,40)
2005 10 31 - 2005 11 30	8.064.977.082 (11,40)	6.968.423.181 (9,85)
2005 11 30 - 2005 12 29	6.968.423.181 (9,85)	6.650.068.822 (9,40)
2006 01 02 - 2006 02 01	6.650.068.822 (9,40)	6.933.050.474 (9,80)
2006 02 01 - 2006 02 28	6.933.050.474 (9,80)	6.048.732.812 (8,55)
2006 03 01 - 2006 03 31	6.048.732.812 (8,55)	6.685.441.529 (9,45)

18. Dealing in the Issuer's securities on the OTC market

Table 18.1. Trading in the Issuer's securities on the OTC market (the highest and lowest price and total turnover for the last 8 quarters (separately) is as follows¹:

Trading session	Price (LTL)		Total turnover (shares)
	Highest	Lowest	
2004.01.01 – 2004.03.31	2.49	1.60	56 265
2004.04.01 – 2004.06.30	2.00	2.00	15 000
2004.07.01 – 2004.09.30	3.07	2.99	41 163
2004.10.01 – 2004.12.31	4.45	2.11	214 491
2005.01.01 – 2005.03.31	4.85	2.62	369 021
2005.04.01 – 2005.06.30	6.68	2.57	380 562 757
2005.07.01 – 2005.09.30	8.95	1.05	1 087 171
2005.10.01 – 2005.12.31	9.28	1.84	1 400 936
2006.01.01 – 2006.03.31	9.65	2.97	1 796 619

¹ According to VSE data (<http://market.lt.omxgroup.com>)

19. Data about the Issuer's buying up of its shares
-----**20. Submission of a tender offer**
-----**21. The Issuer's paying agents**
-----**22. Agreements with intermediaries of public trading in securities**

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

IV. DATA ABOUT THE ISSUER'S ACTIVITY

23. Legal basis for the Issuer's activity

In its activities AB Mažeikių Nafta shall be guided by the Law on Enterprises, Law on Companies, Law on Public Trading in Securities and other laws and Government Resolutions of the Republic of Lithuania and the Company Regulations.

24. Membership in associated structures

Table 24.1. AB Mažeikių Nafta participates in and is a member of the following associations and confederations:

Organization	Activity	Enrollment	Legal basis	Documents regulating the activity of the organization
Lithuanian Confederation of Industrialists	Represents rights of the members of the Confederation and defends their interests in the governmental, social and international structures.	1989	Statute of Confederation	In its activity shall be guided by the Law on Associations of LR (March 14, 1996, No. I-1231), other Lithuanian laws and government resolutions and the Articles of Association.
Association of Lithuanian Chemical Industry Enterprises	Strengthens the national economy, expands markets for Lithuanian enterprises and improves conditions of exports. Aims at encouraging Lithuanian enterprises to comply with ecological standards. Defends social and legal interests of Lithuanian entrepreneurs, strengthens social dialogue. Develops relationships with international organizations of industrialists, entrepreneurs and employers.	1997		
Šiauliai Chamber of Commerce, Industry and Crafts (Mažeikiai Affiliate)	Business management solutions. Research of market conjuncture and revealing of public opinion. Activities of entrepreneurs and employers' organizations.	1991	Articles of Association	In its activity shall be guided by the Law on Chambers of Commerce, Industry and Crafts of LR, Articles of Association, Regulations of the Chamber Affiliate, other Lithuanian laws and legal acts.
Association of International Chamber of Commerce (ICC) – Lithuania	Participates in the activity of ICC Council, Commissions, ICC Court of Arbitration and other work groups.	1994	Articles of Association	Acts pursuant to the LR Constitution, LR international agreements, LR Civil Code, Lithuanian laws, government resolutions, other legal acts and the Articles of Association.
Association of Engineering Ecology	Solves ecological issues within Lithuania and the entire Baltic region. Organizes expertise and qualitative assessment (certification) of ecological issues, projects and environmental services.	1995	Articles of Association	In its activity shall be guided by the Law on Associations of LR (March 14, 1996, No. I-1231) and the Articles of Association.
Lithuanian National Road Carriers Association LINA VA	Assists the members of Association in practical matters and provides other services in relation to the auto transportation of passengers and all types of cargo, transportation development and expansion.	1996	Articles of Association	In its activity shall be guided by the LR Constitution, Law on Associations of LR (March 14, 1996, No. I-1231), other Lithuanian laws and government resolutions, Articles of Association and decisions by the Congress and Presidium of Association. In its activity shall be guided

American Chamber of Commerce	Represents the opinion and interests of the members in Lithuanian and USA entrepreneurial and government institutions.	1998	Articles of Association	by the LR Constitution, Law on Associations of LR (March 14, 1996, No. I-1231), other laws and normative acts and the Articles of Association.
Internal Auditors' Association	Represents internal auditors of Lithuania in the government institutions and international internal auditors' organizations. Defends professional interests and develops ethics policy for internal auditors.	1999	Articles of Association	In its activity shall be guided by the LR Constitution, Law on Associations of LR (March 14, 1996, No. I-1231), Civil Code of LR, other Lithuanian laws and government resolutions and the Articles of Association.
- ASTM (Standards for Materials, Products, Systems and Services) since 1999.	Standards	1999	Articles of Association	USA laws
Lithuanian Association of Customs Brokers	Informs about and advises in customs and foreign trade issues. Considers the effective and draft laws and other legal acts. Contributes to improvement of professional qualification of the representatives of customs brokers and officers.	2000	Articles of Association	In its activity shall be guided by the LR Constitution, Law on Associations of LR (March 14, 1996, No. I-1231), Civil Code of LR, other Lithuanian laws and government resolutions and the Articles of Association.
ASME (Standards) Association of Lithuanian Stevedoring Companies	Standards Activities of entrepreneurs' federations and associations. Research of market conjuncture. Business management solutions. Advertising.	2000 2004	Articles of Association Articles of Association	USA laws In its activity shall be guided by the Law on Associations of LR (March 14, 1996, No. I-1231), other Lithuanian laws and government resolutions and the Articles of Association.
CONCAWE (the Oil Companies' European Organization)	Ecology and safety	2005	Articles of Association	Belgium laws

25. Brief description of the Issuer's background

AB Mažeikių Nafta is the only Refinery in Lithuania and the Baltic States operating as a Typical Complex Refinery.

Operating since the year of 1980 Mažeikiai Crude Oil Refinery was the most modern refinery in this branch of industry in the former Soviet Union

A State Enterprise Mažeikių Nafta with its total authorized capital owned by the State was registered on January 24, 1991.

Under the Resolution of the Government of the Republic of Lithuania as of April 7, 1995, the State Enterprise AB Mažeikių Nafta was reorganized into the Public Company Mažeikių Nafta granting the Company employees the right to purchase a portion of its shares.

At the end of 1998 AB Mažeikių Nafta was reorganized in a manner of merging the companies AB Būtingės Nafta and AB Naftotiekis into it. Consequently, the Company's authorized capital on December 1, 1998 increased from LTL 584 634 390 to LTL 693 443 200. The State held 613 703 642 ordinary registered shares which represented 88.5% of votes.

On October 29, 1999 AB Mažeikių Nafta sold 341 546 650 ordinary registered shares of the new issue (nominal value of the issue - 341 546 650 litas) to the strategic investor Williams International Company for the amount of USD 150 million. Upon acquisition of the shares the strategic investor obtained 33% of votes and the authorized capital of AB Mažeikių Nafta increased to LTL 1 034 989 850.

Pursuant to the laws of the Republic of Lithuania, on February 4, 2002 AB Mažeikių Nafta reduced its authorized capital by the amount of LTL 517 495 thousand thus lessening the accumulated Company's loss. The structure of the Company's shareholders did not change due to the decrease in the authorized capital.

On June 18, 2002 AB Mažeikių Nafta distributed 189 959 205 ordinary registered shares having a par value 1 (one) litas each, which were acquired by Yukos Finance B.V. (26.85%). The amount of this issue increased the authorized capital of AB Mažeikių Nafta to 707 454 130 litas. As a result, 26.85% of the stock belonged to Williams International Company and 40.66% - to the Ministry of Economy.

On September 19, 2002 Yukos Finance B.V. and Williams International Company signed a package of agreements according to which Yukos Finance B.V. additionally obtained 189 959 206 of AB Mažeikių Nafta ordinary registered shares. Upon closure of the deal, 53.7% of AB Mažeikių Nafta ordinary registered shares were owned by Yukos Finance B.V. and 40.66 % - by the Ministry of Economy.

The Investment and Shareholders' Agreements as of October 29, 1999 and June 18, 2002, respectively, were amended on July 8, 2003. Besides, the Parties agreed on termination of the Management Agreement dated October 29, 1999 and concluded the Services Agreement between the Company and Limited liability company of Netherlands Yukos Finance B.V. providing for reduction in general and administrative expenses in a manner of eliminating 15 per cent of the premium to the actual administrative expenses.

AB Mažeikių Nafta Management Plans were approved at the Board meeting on October 15, 2004. One of the main parts included in the Management Plans is Modernization Program forecasting the required investments of approximately USD 400 million to meet the EU clean fuel standard requirements effective from 2009.

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.

According to the Investment Agreement, Yukos Finance B.V. has Company's management rights. In May, 2005 Yukos Finance B.V. transferred its portion of Company's shares over to Yukos International UK B.V.

26. Characteristics of production (services)

The Group of enterprises of AB Mažeikių Nafta (hereinafter – Mažeikių Nafta Group) consists of four main segments: the Oil Refinery, Oil Terminal, Pipeline operator and Operator of petrol stations chain.

Table 26.1. The revenue of Mažeikių Nafta Group is calculated according to the International Financial Reporting Standards²:

Item	2005		2004	
	thous.LTL	%	thous.LTL	%
Oil Refinery	10 906 071	97.8	7 413 701	96.7
Oil Terminal	83 932	0.7	112 500	1.5
Pipeline operator	78 060	0.7	80 741	1.1
Retail Network Operator	87 689	0.8	55 839	0.7
Other	19	0.0	700	0.0
Total revenue	11 155 771	100.0	7 663 481	100.0

Table 26.2. The revenue of Mažeikių Nafta Group is calculated according to the accounting principles generally accepted in the United States of America (US GAAP) ³

Item	2004		2003	
	thous.LTL	%	thous.LTL	%
Oil Refinery	7 397 499	96.7	4 955 276	93.5
Oil Terminal	112 500	1.5	170 161	3.2
Pipeline operator	80 741	1.0	103 870	2.0
Retail Network Operator	45 285	0.6	51 164	1.0
Other	13 829	0.2	16 744	0.3
Total revenue	7 663 481	100.0	5 297 215	100.0

Table 26.3. Key performance indicators of Mažeikių Nafta Group:

Ratio	2005 ²	2004 ²	2004 ³	2003 ³
Income (thous. LTL)	11 155 771	7 663 481	7 663 481	5 297 215
EBITDA (thous. LTL)	1 192 375	1 029 872	1 029 712	446 441
EBITDA margin, %	10.7	13.4	13.4	8.4
Operating Profit (loss) (thous. LTL)	1 050 750	891 217	890 347	227 589

Operating Profit (loss) Margin (thous. LTL)	9.4	11.6	11.6	4.3
Profit (loss) before tax (thous. LTL)	1 004 412	849 347	849 347	227 589
Profit (loss) before tax margin, %	9.0	11.1	11.1	4.3
Net Profit (loss) (thous. LTL)	885 714	721 160	721 883	220 946
Net Profit (loss) Margin, %	7.9	9.4	9.4	4.2
Average return on assets (%)	18.5	23.0	23.02	8.95
Debt ratio	0.6	0.6	0.65	0.81
Debt-to-equity ratio	0.7	1.0	1.1	2.8
Assets turnover	2.3	2.4	2.4	2.2
Total liquidity ratio	0.7	0.6	0.5	0.2
Return on assets (ROA), %	18.5	22.7	23.02	8.9
Return on equity (ROE), %	125.2	101.9	102.0	31.2
Net earnings per share (LTL)	1.26	1.02	1.02	0.31
Average number of shares	707 454 130	707 454 130	707 454 130	707 454 130

² Financial Statements of AB Mažeikių Nafta and its subsidiaries are prepared in accordance with the International Financial Reporting Standards (IFRS).

³ Aiming at Comparability principle in this Annual Prospectus-Report we provide the data of previous periods (the years of 2004 and 2003), prepared in accordance with the accounting principles generally accepted in the United States of America (US GAAP). The Group consolidated Financial Statements were prepared in conformity with the accounting principles generally accepted in the United States of America (US GAAP).

Oil Refinery

Processing volume in the last few years has beaten records and reached 9.3 million tons of feedstock including 9.2 million tons of crude oil. In 2005 processing volume of feedstock increased 6.8 % compared to 2004. Reconstruction of technological facilities and stable feedstock supply allowed to augment monthly crude oil processing capacity: from the previous 800-830 thous. tons up to 840-870 thous. tons. Operational capacities in 2005 made up 93.3 %.

Table 26.4. The volume of crude oil and other feedstock processed by AB Mažeikių Nafta and its dynamics over the past 3 years are shown in the table below:

Product groups	Processing volume of crude oil and other feedstock					
	2005		2004		2003	
	thous.t	%	thous.t	%	thous.t	%
Own feedstock						
Crude oil	9 195.6	99.14	8 661.1	99.72	7 100.8	98.9
Alkylate	12.7	0.14	0.9	0.01	-	-
Atmospheric residue	23.0	0.25			-	-
Vacuum gasoil	15.5	0.17			-	-
Methanol	21.5	0.23	21.4	0.25	20.4	0.3
Metilretbutil ether	6.4	0.07	1.8	0.02	-	-
Gas condensate					56.1	0.8
Total:	9 274.7	100.00	8 685.2	100.00	7 177.2	100.0

The Oil Refinery produces transport fuels and fuel for power and heating needs. A small part of the products refined are consumed for other than heating purposes. In 2005 production range was as follows:

- Gasoline (grade 92, 95, 98) 92,95,98)
- Diesel fuel (arctic, for agricultural engines) and heating gasoil;
- Jet fuel (Jet A-1);
- Fuel oil;
- Bitumen (paving, roofing);
- liquefied gas (automobile and domestic);
- Elementary sulphur.
- Isomerizate (gasoline component).

Table 26.5. AB Mažeikių Nafta production volume according to types of finished products and its dynamics over the past 3 years are shown in the table below:

Product groups	Production volume					
	2005		2004		2003	
Year	thous.t	%	thous.t	%	thous.t	%
Gasoline	2 660.4	30.9	2 488.6	30.9	2 064.7	31.2
Diesel fuel	3 041.4	35.4	2 819.8	35.1	2 336.7	35.4
Jet fuel A - 1	571.3	6.6	553.4	6.9	420.3	6.4
Fuel oil	1 637.0	19.0	1 530.8	19.0	1 252.8	18.9
Liquefied gas	452.8	5.3	453.5	5.6	382.2	5.8
Bitumen	162.7	1.9	133.4	1.7	103.9	1.6
Sulphur	74.3	0.9	67.1	0.8	48.5	0.7
Total:	8 600.0	100.0	8 046.6	100.0	6 609.1	100.0

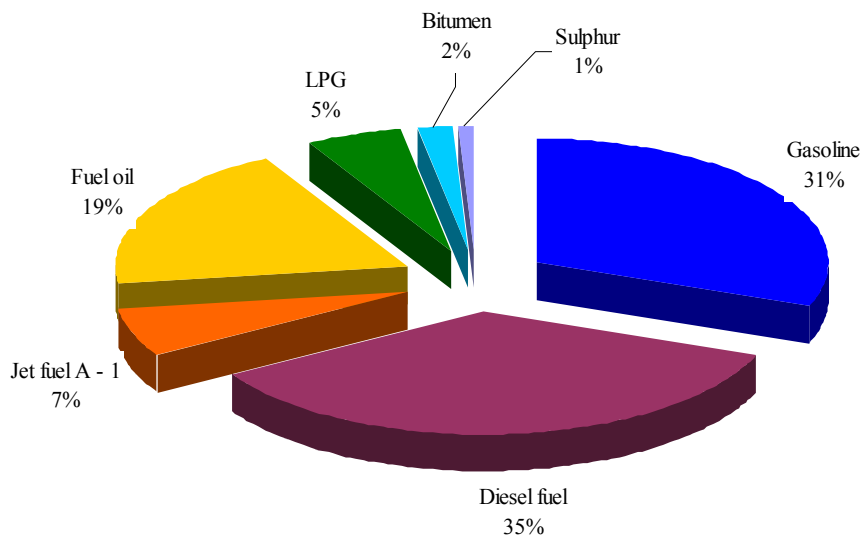


Figure 26.1 Production structure in 2005

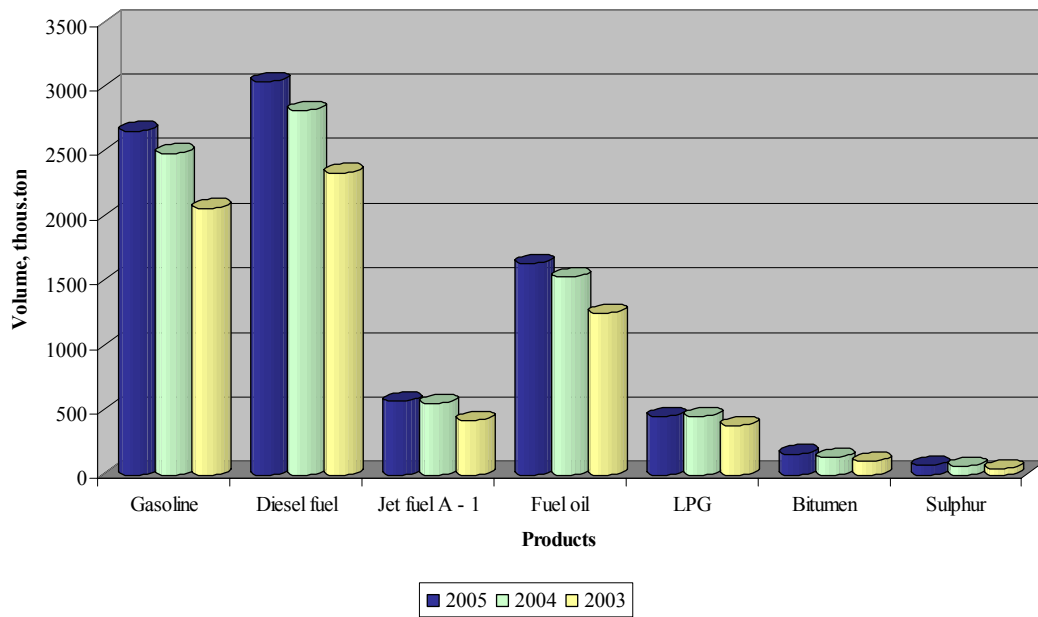


Fig. 26.2 Changes in the production structure

Table 26.6. Average sales prices of AB Mažeikių Nafta according to types of products and their dynamics over the past 3 years are shown in the table below:

Product groups	Prices, LTL/t		
	2005	2004	2003
Gasoline	1494.73	1114.04	881.68
Diesel fuel	1477.22	1050.64	848.70
Jet fuel A - 1	1598.02	1142.47	877.89
Fuel oil	562.01	352.57	406.51
Liquefied gas	1223.22	978.29	817.81
Bitumen	671.09	479.42	481.95
Sulphur	70.55	70.70	54.47

The world crude oil prices as well as petroleum products prices continued to rise throughout 2005. The change in prices of AB Mažeikių Nafta products is shown in Figure 26.3 below.

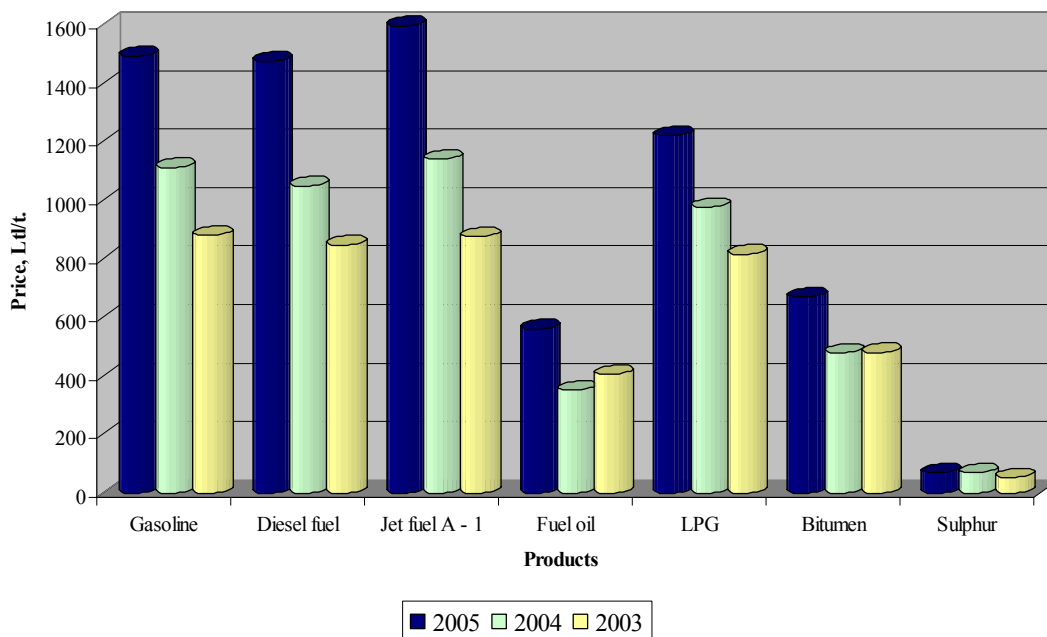


Figure 26.3 Changes in product prices

In 2005 the Group continued implementation of the Second Phase of the Modernization Program. Same as in previous years the exceptional attention was drawn to the projects intended for ensuring the compliance with the EU clean fuel requirements and air emission standards.

In 2005 the Company pursued the Project for Construction of FCC Gasoline Selective Hydrotreatment Unit. This Project is a contribution to the “clean fuel program”. The start-up of the unit will allow the production of lower sulphur content gasoline (10 ppm).

Reconstruction of UAB Juodeikiu Nafta Oil Product Loading Terminal began in 2005 and in 2006 the Terminal will start operations. The objective of the Project is minimization of hydrocarbon emissions and trade losses by installation of hermetic hydrocarbon recovery system complying with the LAND-35-2000 requirements.

Bio-fuel Production Project was completed in 2005. Thus, the Company arranged for the start-up of the production of fuels with bio-components in the beginning of 2006. Fatty acid methyl ester (FAME) as a bio-component will be blended with diesel fuel and ethyl-tert-butyl ether (ETBE) – with gasoline. The Company intends to purchase FAME as a blending component from suppliers while ETBE will be produced from ethanol in the unit reconstructed for the production of MTBE or ETBE.

In 2005 the two new truck loading devices for liquid bitumen were transferred for operation; and bitumen preparation, storage and shipment scheme was improved. The new rack was constructed closer to the product tanks what allows loading high-temperature bitumen into trucks. It is especially important for transportation of liquid bitumen to distant countries, therefore the delivery to the destination place will likely go smooth and the carriers will escape problems with bitumen unloading. The new rack opened a possibility not only to load all four types of bitumen produced, but also to augment liquid bitumen production capacity. Whereas the production of bitumen according to EU standards started some time ago, demand for bitumen expanded outside the Lithuanian market. The quality of our bitumen was recognized by Latvians, Estonians and Swedes.

Besides, the new tanks at the LK-2 Amenity Facilities for ETBE, MTBE and oligomerizate storage were renovated and put into operation. Pumps were installed for dosing these components into gasoline.

Quantity of light diesel component from KT increased two-folds what allowed to enhance output of arctic diesel thus reducing its cost. The demand for the product has also grown recently.

Another small-scope project was accomplished – the launch of anticorrosive additive dosing into US-92 grade gasoline for American market.

Oil Terminal

The Oil Terminal was built at the Baltic Sea as a supplemental source of crude oil supply to Lithuania, also, for the purpose of crude oil export to Europe. While designing the Terminal it was anticipated to export 8 million tons of crude oil and import another 6 million tons of crude oil through the Terminal every year. The export/import capacity of the Terminal amounts up to 14 million tons annually.

Transshipment through Būtingė Terminal decreased by 15.4 % in 2005 and amounted to 6.1 million tons as compared to 2004. Under conditions of intensifying competition amongst the Baltic Sea ports, especially – the new port of Primorsk towards which the largest quantities of Russian crude oil are directed, the Company managed to conclude an agreement with Vitol Baltic thus avoiding Būtingė Terminal demurrages.

Table 26.7. The Oil Terminal transportation volume and its dynamics over the past 3 years are given in the table below:

Item	2005	2004	2003
	thous.t	thous.t	thous.t
Crude oil	6 126.9	7 242.6	10 715.5

Pipeline operator

The Pipeline segment comprises a section of the Druzhba pipeline situated in the territory of the Republic of Lithuania and the lines connecting the Pipeline with the Oil Refinery and Terminal. The Pipeline Operator conveys crude oil to the Oil Refinery and Terminals in Būtingė and Ventspils (Latvia).

Transportation via Biržai Pipeline as compared to the previous year has increased by 2.9 % and amounted to 22.2 million tons. Transportation volume increased due to the higher transportation volume towards the Refinery, while overall transportation in the direction of Būtingė and diesel fuel transportation towards Ventspils decreased.

Table 26.8. The Pipeline transportation volume and its dynamics over the past 3 years are given in the table below:

Direction	Transportation volume					
	2005		2004		2003	
	thous.t	%	thous.t	%	thous.t	%
	Crude oil					
to Mažeikiai	8 528.3	30.7	7 013.8	35.7	5 215.3	25.4
to Ventspils						
to Būtingė	6 214.0	42.2	7 106.4	36.1	10 792.2	52.5
Total:	14 742.2	72.9	14 120.2	71.8	16 007.5	77.9
	Diesel fuel					
Total:	5 484.7	27.1	5 547.3	28.2	4 551.5	22.1
Grand total:	20 226.9	100.0	19 667.5	100.0	20 559.0	100.0

Retail Network Operator

In 2002 the Company acquired 85 percent of UAB Uotas share capital thus obtaining 81 percent investment in AB Ventus-Nafta. In 2005 AB Mažeikių 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.

27. Sales markets

World crude oil prices and the development of world economics have a considerable impact on sales of Company's products in certain markets, product prices and profitability of the Company.

Product sales are executed via two channels:

1. Through the subsidiary UAB Mažeikių Nafta Trading House – in regional markets: Lithuania, Latvia, Estonia, Poland and the Ukraine;
2. Through the agent Petroval PTE / SA in Singapore – to Western Europe and USA markets via the Oil Terminal - AB Klaipėdos Nafta.

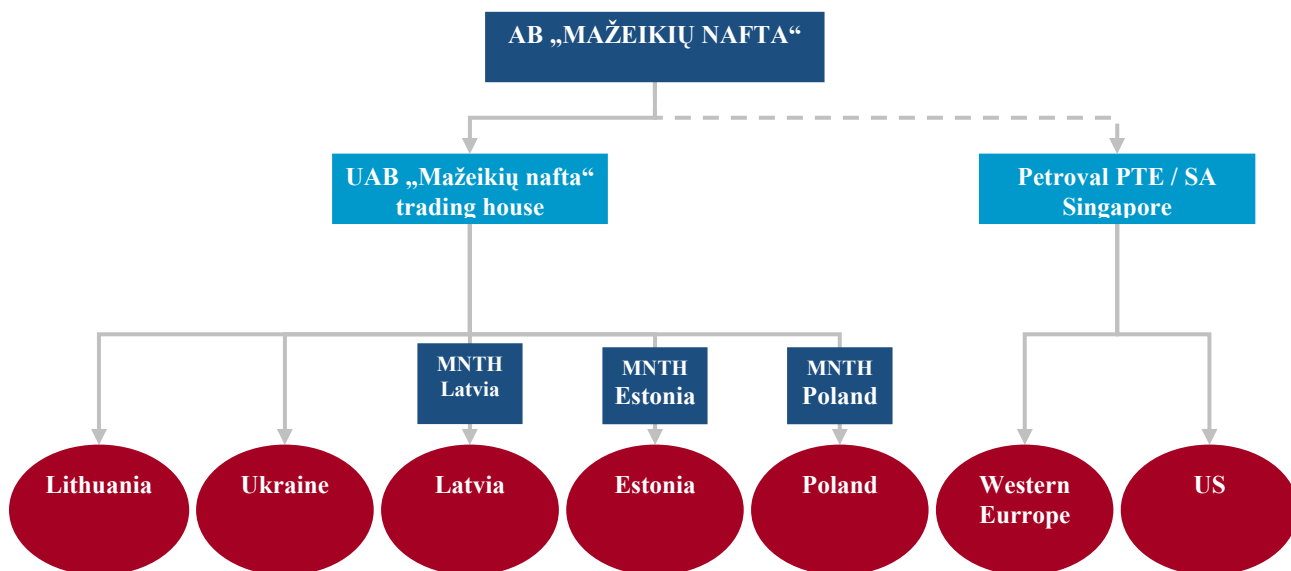


Fig. 27.1 AB Mažeikių Nafta sales channels and markets

The highest profitability may be attained by selling products in regional markets because this allows saving a part of transportation costs. Therefore the Company proceeded to expand sales in local markets. Upon the increase in crude oil processing volume, the sales to Western Europe and North American markets consequently increased.

Table 27.1. Sales markets of the main AB Mažeikių Nafta products are given in the table below:

Country	Volume of products sold					
	2005		2004		2003	
	thous.t.	%	thous.t.	%	thous.t.	%
GASOLINE						
Lithuania	334.1	12.6	331.4	13.5	371.7	18.1
Abroad:	2308.9	87.4	2115.0	86.5	1685.1	81.9
including: Latvia	246.8	9.3	262.0	10.7	367.3	17.9
Estonia	254.2	9.6	226.1	9.2	240.9	11.7
Russia			0.0	0.0	0.0	0.0
Ukraine	127.7	4.8	144.3	5.9	69.5	3.4
Belarus			0.0	0.0	1.0	0.0
Poland	57.0	2.2	107.6	4.4	23.3	1.1
W. Europe	1611.2	60.9	1357.8	55.5	967.9	47.1
Other countries	12.0	0.5	17.2	0.7	15.4	0.7
DIESEL FUEL						
Lithuania	821.9	26.8	649.6	23.1	632.6	27.7
Abroad:	2245.7	73.2	2156.5	76.9	1649.4	72.3
including: Latvia	212.0	6.9	211.0	7.5	124.1	5.4
Poland	273.8	8.9	205.7	7.3	74.2	3.3
Ukraine	13.5	0.4	2.4	0.1	15.5	0.7
Estonia	207.2	6.8	165.7	5.9	77.4	3.4
W. Europe	1538.2	50.1	1571.0	56.0	1358.1	59.5
Other countries	1.0	0.0	0.8	0.0	0.1	0.0
JET FUEL						
Lithuania	50.9	9.3	41.1	7.3	5.9	1.4
Abroad:	494	90.7	524.0	92.7	423.7	98.6
including: Latvia	79.4	14.6	115.6	20.4	87.9	20.5

Estonia	25.9	4.8	11.7	2.1	3.4	0.8
W. Europe	388.7	71.3	396.7	70.2	332.3	77.4
FUEL OIL						
Lithuania	147.7	9.5	211.5	13.4	236.0	19.6
Abroad:	1409	90.5	1363.9	86.6	967.8	80.4
including: Poland	2.5	0.2	0.4	0.0		
Latvia	3.6	0.2	0.8	0.1	2.1	0.2
W. Europe	1402.9	90.1	1362.6	86.5	965.7	80.2
LPG						
Lithuania	219.7	48.5	216.4	0.5	177.6	46.6
Abroad:	233.6	51.5	238.2	0.5	203.2	53.4
including: Latvia	4.5	1.0	5.7	0.0	0.1	0.0
Estonia	0.3	0.1	0.0	0.0	0.2	0.1
Poland	228.8	50.4	232.4	0.5	202.9	53.3
Other countries	0.003	0.0				

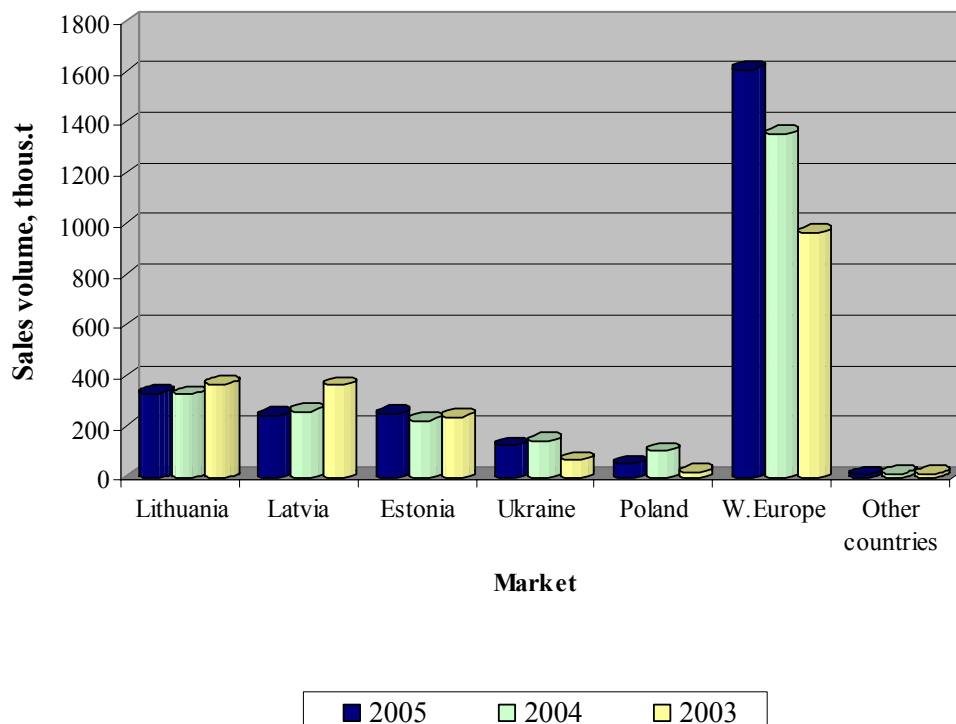


Fig. 27.1.1 Gasoline sales markets in 2003 – 2005

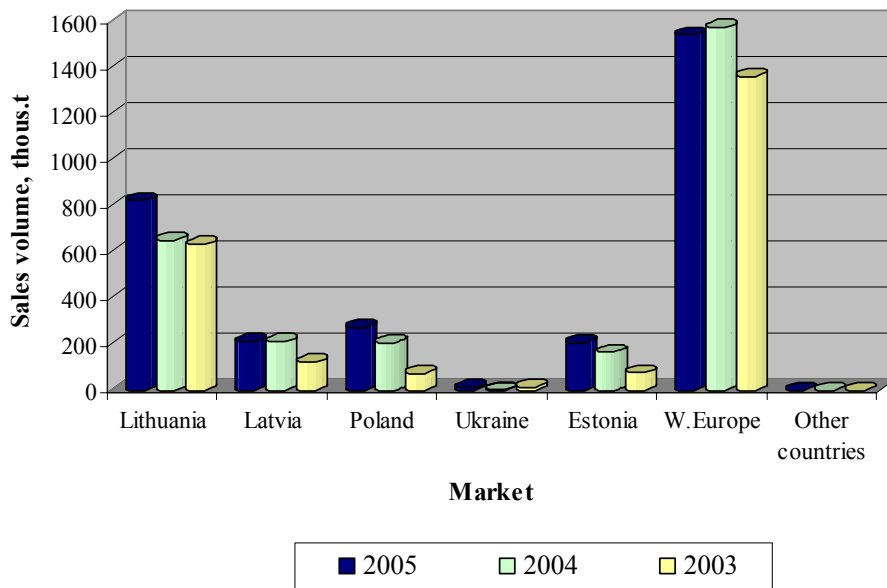


Fig. 27.1.2 Diesel sales markets in 2003 – 2005

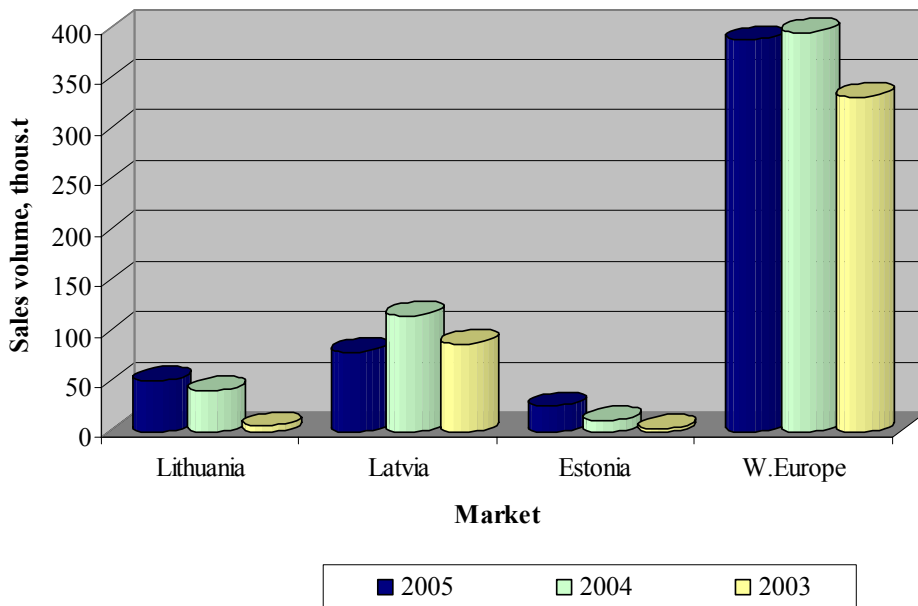


Fig. 27.1.3 Jet fuel sales markets in 2003 – 2005

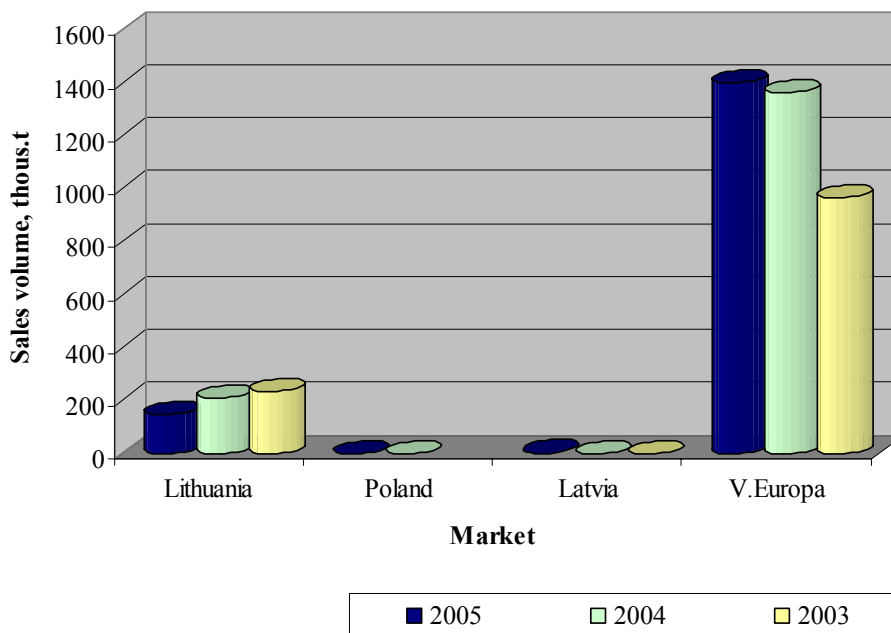


Fig. 27.1.4 Fuel oil sales markets in 2003 – 2005

28. Procurement

Successful negotiations with Transneft and other Russian oil companies ensured continuous crude oil supply for the Company in 2005. The Refinery processed 9.3 million tons of feedstock (including 9.2 million tons of crude oil), i.e. 6.8 % more than in 2004.

In the year 2005 feedstock to the Refinery was supplied from Russia. About 94.9 % of the total quantity was supplied via pipeline Druzhba, 4.3 % - via railway in tank cars and 0.8 % - by trucks. 72.8 thous. tons of Lithuanian crude oil in 2005 was purchased from AB Geonafta.

Table 28.1. The main AB Mažeikių Nafta feedstock suppliers in 2005

Supplier	Feedstock	Volume of supplies in 2005		Nature of relations
		thous.t.	%	
Litasko	crude oil	2 300.5	25.6	short-term
Glencore Energy UK LTD	crude oil	1 831.6	20.4	short-term
Alfa-Oil S.A	crude oil	1 434.3	16.0	short-term
TNK Trade Limited	crude oil	578.2	6.4	short-term
Europetroleum Energy S.A.	crude oil	555.8	6.2	short-term
Unex Trade LTD	crude oil	499.6	5.6	short-term
Sibneft Oil Trade Limited	crude oil	424.9	4.7	short-term
Vitol Baltic Ltd.	crude oil	403.3	4.5	short-term
OAO „Tomskneft“ VNK	crude oil	400.0	4.4	short-term
Sopak S.A	crude oil	201.7	2.2	short-term
Belorusneft	crude oil	167.8	1.9	short-term

MG Trade LTD	crude oil	100.0	1.1	short-term
AB "Geonafta"	crude oil	72.8	0.8	short-term
UAB "Lietkomerc"	crude oil	6.0	0.1	short-term
UAB "Vilniaus naftos kompanija"	crude oil	5.2	0.1	short-term
Samaraneftegas	crude oil	3.8	0.0	short-term
Total of crude oil:		8 985.5	100.0	
Petroval PTE. LTD	alkylate	9.7	100.0	short-term
Total of alkylate:		9.7	100.0	
Mondavi Holding S.A.	atmospheric residue	3.0	13.0	short-term
Ecotechnic Chemikal AG	atmospheric residue	20.0	87.0	short-term
Total of atmospheric residue:		23.0	100.0	
Ecotechnic Chemikal AG	Vacuum gasoil	15.5	100.0	short-term
Total of vacuum gasoil:		15.5	100	
Citco Waren-Handelsgesellschaft	MTBE	7.7	100.0	short-term
Total of MTBE:		7.7	100.0	
Total of feedstock:		9 041.4		

Aiming to ensure the compliance with the EU clean fuel requirements and air emission standards, the Company additionally purchased and processed other types of feedstock in 2005 – MTBE and alkylate. MTBE and alkylate are used to improve gasoline octane number and to reduce the level of aromatic compounds.

29. Immovable property and other main facilities

Table 29.1. The total area of the land plot leased to AB Mažeikių Nafta covers 1 188.8119 ha, including the following:

District	Total area (according to State Land Lease Contracts; ha)	Total area (according to Land Lease Contracts with private natural persons; ha)
Mažeikiai	1014,744	68,77
Palanga	59,3202	
Biržai	17,649	0,0613
Joniškis	22,9358	
Other (Vilnius, Skuodas, Rokiškis, Zarasai, Akmenė, Pasvalys, Pakruojis)	5,0542	0,277

Besides, by the right of ownership AB Mažeikių Nafta has acquired a land plot of 0.5295 ha in Skuodas district.

Table 29.2. Location of the main divisions

Basic business divisions	Location	Design capacity, thous. tons
Oil Refinery	Juodeikiai, Mažeikiai distr.	10 000
Būtingė Terminal	Pašventupio kelias 21, Palanga	14 000
Biržai Pipeline	Stačkūnai, Biržai distr.	34 700

Table 29.3. Long-term tangible assets of AB Mažeikių Nafta (including the Refinery, Biržai Pipeline and Būtingė Terminal)

Description	Number of units	Balance Value, thous. LTL
Buildings	351	171 121
Plant and machinery	16 586	1 331 624
Vehicle	1 548	47 659
Other facilities and equipment	3 522	2 847
Other tangible assets	31	44 070
Leasing	0	0
Total long-term tangible assets	22 038	1 597 321

29.4. Table Main buildings, units and facilities

Description	Functional purpose	Balance Value, thous. LTL	Life, years	Condition
<i>Main buildings:</i>				
Main administration building of AB Mažeikių Nafta	Administrative	4 501	25	Satisfactory
Central Control Room Building	Administrative	3 479	17	Satisfactory
Administration building of Maintenance-Mechanical Shop	Administrative	2 502	27	Satisfactory
Būtingė Terminal Administration Building	Administrative	5 350	9	Good
Biržai Pipeline Administration Building	Administrative	888	27	Satisfactory

Basic units and facilities:

Complex Unit LK-6 No.1	Oil network	55 874	25	Satisfactory
Complex Unit LK-6 No.2	Oil network	54 745	22	Satisfactory
Isomerization Unit PENEX	Oil network	127 657	2	Good
KT-1/1 (FCC Complex)	Oil network	40 486	16	Satisfactory
Hydrogen Production Unit	Oil network	9 529	16	Satisfactory
Elemental Sulfur Production Unit	Oil network	25 772	25	Satisfactory
Bitumen Production Unit	Oil network	2 628	23	Satisfactory
LPG Farm	Oil network	6 371	25	Satisfactory
Tank Farm of Shipment/Storage Shop	Oil network	10 704	25	Satisfactory
Shipment/Storage Shop, Loading Rack Section	Oil network	58 044	25	Satisfactory
Būtingė Crude Oil Tank TK-101	Oil network	13 977	6	Good
Būtingė Crude Oil Tank TK-102	Oil network	13 977	6	Good
Būtingė Crude Oil Tank TK-103	Oil network	13 977	6	Good
Būtingė Crude Oil Tank TK-104	Oil network	12 815	1	Good
Būtingė Crude Oil Tank TK-105	Oil network	12 762	1	Good
Pipeline Polotsk-Biržai-Ventspils	Oil network	3 384	37	Satisfactory
Pipeline Polotsk-Biržai-Mažeikiai	Oil network	3 191	26	Satisfactory
Crude Pipeline Mažeikiai – Būtingė	Oil network	129 381	6	Good
Product Pipeline Ilukste-Biržai-Ventspils	Oil network	1 491	34	Satisfactory
SPM Buoy	Oil network	89 309	6	Emergency*

Note: * SPM Buoy was damaged in an accident on December 29, 2005. Under recommendations by International Classification Society “American Bureau of Shipping” the operation of SPM buoy has been extended till November 30, 2006.

Provisions for construction in progress amount to LTL 198 732 thousand.

Table 29.5. Major projects of construction in progress

Description	Functional purpose	Estimated cost, thous. LTL	Spent, thous. LTL	Scheduled completion date
FCC Hydrotreatment Unit	Oil network	142 510	65 161	2006 12
Petroleum Product Loading Terminal	Oil network	25 317	5 361	2006 09
Production of biofuel	Oil network	12 500	11 754	2006 05

30. Risk factors related to the Issuer's activity

Economic factors

AB Mažeikių Nafta activity is related to foreign markets; therefore it encounters substantial risks related to commodity price, interest rate, credits and foreign currencies. Risk management activities are executed by Company management in conformity with the written risk management policies.

Refining margin risk

It is a basic risk that has a substantial impact on Company's results. For the purpose to respond to the refining margin risk to which the Company evidences its sensitiveness, the Company has developed a modernization program. The program includes a number of projects to be implemented within a four-year period and allowing to increase profitability per single ton of the refined crude oil.

Commodity price risk

The Company confronts market risk related to instability of crude oil and petroleum product prices. Aiming to reduce price fluctuation risks, from time to time the Company concludes price swap agreements.

Interest rate risk

AB Mažeikių Nafta exposes itself to interest rate fluctuation risk in regard to short-term and long-term loans. The Company does not have any significant interest-earning assets except for short-term deposits.

Credit risk

Owing to concentration of customers in the oil market, the Company is exposed to increased credit risk, as these customers may be similarly affected by the economic or other changes. AB Mažeikių Nafta follows the procedures assuring product sales to reliable customers and controls that acceptable credit limit established by the management is not exceeded. In management's opinion, besides the established provisions for the accounts receivable the Group is not exposed to any other significant losses.

Liquidity risk

Conservative liquidity risk management allows to maintain the required amount of cash and necessary financing in conformity with the agreed satisfactory credit instruments. The Group aims to maintain flexibility in financing by concluding credit line agreements.

Foreign currency risk

The main foreign exchange risk which AB Mažeikių Nafta encounters arises from the fact the bigger part of local AB Mažeikių Nafta sales and purchases in the Baltic States and Poland are made in local currencies, while US dollar stands for the central currency for crude oil purchase and main loans. The Company's policy is to adjust cash flows of the anticipated sales and purchases and other expenses in individual foreign currency. Moreover, in order to reduce exchange risk related to fluctuations of Poland Zloty, AB Mažeikių Nafta uses derivative financial instruments.

The Group uses futures and options transactions which help to manage currency fluctuation risk determined by future commercial transactions, assets acknowledged and obligations.

Risk of crude oil supplies

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

However the management has taken steps to ensure the continuity of supply by signing agreements with several individual oil traders. As a result, 9 million tons of crude oil were delivered to the Refinery during 2005. The management plans that approximately 8.6 million tons of crude oil will be delivered to the Oil Refinery in 2006. Crude is being sourced from three main producers: Lukoil, TNK-BP and Tomskneft.

Although the Company has been successful in maintaining crude oil supply 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.

Political factors

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 and decided to sell its shareholding in the Company.

At the time this Prospectus-Report being prepared, the Yukos Group was negotiating the sale of its shares with a few potential buyers. Polski Koncern Naftowy Orlen S.A. offered the best price for the share capital, and therefore, on June 9, 2006 the Government of the Republic of Lithuania, AB Mažeikių Nafta and Polski Koncern Naftowy Orlen S.A. signed the act on termination and waiver in regard to investment, shareholders' and other agreements and rights related to AB Mažeikių Nafta. Under this Act and upon the acquisition of the shareholding and/or all associated rights by Polski Koncern Naftowy Orlen S.A. after having concluded (i) the Share Sale-Purchase Agreement with Yukos International UK B.V. regarding acquisition of Yukos' stake in AB Mažeikių Nafta and (ii) the Share Sale-Purchase Agreement with Lithuanian Government regarding AB Mažeikių Nafta shares by the right of ownership belonging to the State and the provisions of the said agreements hereof, the Parties waive all their rights according to the investment, shareholders' and other agreements associated to AB Mažeikių Nafta.

Risk of arrears

For circulating funds and to finance its activities, the Company has received a number of loans from the local as well as foreign creditors (See the table below). Despite constant decrease in total value of loans recently, the level of indebtedness continues to be high. In

2005 the Group has acquired a subsidiary AB Mažeikių Elektrinė. Upon the merger of this business, the Group has obtained the obligations hereof including a part of a long-term loan in the amount of 1,30 million euros from the Ministry of Finance. Practically, all Company's loans taken are in US dollars. In February 2005 the Government of the Republic of Lithuania unpegged the litas from the US dollar and pegged to the euro. Throughout 2005 the US dollar rate was rising in respect to the euro and this had a negative impact on the operations of the Company and lead to the increase in accounts payable.

Credit risk due to the creditworthiness of finance institutions is deemed to be minimal; inasmuch the Company holds deposits in the financial institutions with high credit ratings. The Company complies with the provisions of agreements and financial institutions are deemed not to impose certain restrictions or sanctions on the Company.

Table 30.1 Information on the loan position of Mažeikių Nafta Group as at December 31, 2005

Lender/purpose	Currency	Interest rate	Maturity date / repayment terms	Balance, thous. LTL
Working capital finance				
Government of Lithuania*	USD	7 %	31.07.13 semi-annually	840 835
AB Vilniaus Bankas	USD	3 mth LIBOR +1,1%	31.07.13 semi-annually	218 265
Investment program				
AB Vilniaus Bankas	USD	3 mth LIBOR +1,1%	31.07.13 semi-annually	218 265
Investment in Oil Terminal				
Kreditanstalt fur Wiederaufbau	USD	6 mth LIBOR+0,875%	Until 30.06.06 semi-annually	1 315
Kreditanstalt fur Wiederaufbau	USD	8,065%	Until 30.09.06 semi-annually	890
Kreditanstalt fur Wiederaufbau	USD	6 mth LIBOR+0,875%	Until 31.12.06 semi-annually	885
Kreditanstalt fur Wiederaufbau	USD	6 mth LIBOR+0,875%	Until 31.12.06 semi-annually	3 629
Kreditanstalt fur Wiederaufbau	USD	6 mth LIBOR+0,875%	Until 31.12.06 semi-annually	4 866
AB "Hansabankas"	USD	6 mth LIBOR+0,9%	Until 31.01.09 semi-annually	53 609
Investment in petrol stations				
AB "Snoras"	USD	6 mth LIBOR+0,875%	Until 31.10.07 semi-annually	2 113
AB „Mažeikių elektrinė“				
Government of Lithuania	USD	4.95 %	15.04.11 semi-annually	4 493

Investment in Trading House

„Nordea Bank Finland“ Plc	USD	3,90%	Until 31.12.06 monthly	23
Less: current portion of long-term debt				(27 819)
Total long-term debt				1 321 370

* Repayment of loans shall begin in 2009

Bank loans are secured by cash and long-term tangible assets of the Group. On December 31, 2005 the repayment of bank loans was secured by the long-term tangible assets with the balance value of 5 911 thous.

Certain contractual liabilities, such as an exclusive use of loans and restricted ability of the management 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, shall apply to outstanding loans as at December 31, 2005. The management believes that the Group has observed these contractual liabilities.

Seeking to balance cash flows, the Company concluded credit line agreements with banks, according to which the limit of indebtedness can reach 120.6 million USD.

Credit line agreements of AB Mažeikių Nafta effective as at December 31, 2005 are as follows:

1. On May 16, 2005 AB Mažeikių Nafta concluded the Guarantee and Letter of Credit Limit Agreement with AB SEB Vilniaus Bankas. The object of the Agreement is the limit of 60 million US dollars, within the scope of which AB Mažeikių Nafta shall issue letters of credit and guarantees. The validity term of L/Cs and guarantees shall not extend beyond May 1, 2006. Every time the Company opens an L/C (issues a guarantee), it shall deposit (place a time deposit) no less than 25 percent of the L/C (guarantee) value to be opened upon application. Instruments assuring the fulfillment of AB Mažeikių Nafta undertakings are as follows: inventory (crude, diesel, jet fuel, bitumen, gas, heavy fuel oil) pledge under mortgage bonds, total value of which is no less than 110 million US dollars.

From the date the L/C was opened/guarantee issued until its maturity date, the Company pays the obligation charge of 1.35 % of annual interest for credit limit utilization. Interest after the L/C reimbursement term – 1 month US dollars LIBOR + 1.35 percent by quarterly fixation for the next three-month period.

2. The Arrangement to the Agreement No. 100081-003-08 as of September 23, 2004 was concluded with Bayerische Hypo –und Vereinsbank AG Vilnius Department on July 7, 2005. The object of the Arrangement is the limit of 350 million US dollars within the scope of which AB Mažeikių Nafta shall open letters of credit whose validity period is no longer than April 30, 2006. Inclusively, the L/C amount of up to 30 million US dollars may not be repaid using AB Mažeikių Nafta funds; however it shall not exceed 70 percent of the funds securing the fulfillment of the undertakings. The fulfillment of the obligations of this Arrangement shall be secured by the transfer of monetary rights to claim the funds receivable (according to the Product Sales Agreement concluded with the agent Petroval PTE LTD) to the bank.

Until the L/C maturity date, the Company pays the obligation charge of 1.35 % of annual interest to the bank for credit limit utilization.

3. On August 30, 2005 the General Agreement No. DC 05/08/01 for opening of L/Cs was signed with Nordea Bank Finland Plc. The object of the Agreement is the limit of 240 million euros or equivalent in other currency, within the scope of which AB Mažeikių Nafta shall open letters of credit whose validity period is no longer than August 31, 2006. Inclusively, the L/C amount not exceeding 20 million euros may not be repaid using Company's funds; however it shall not exceed 50 percent of the amount of the L/C opened. The fulfillment of the obligations hereof shall be secured by the pledge of the funds reserved on time deposit by concluding a Deposit Pledge Agreement between AB Mažeikių Nafta and the bank. The pledge term shall be no less than the L/C validity term plus 10 calendar days.

The Company shall pay the obligation charge of 1 % of annual interest from the portion of L/C amount not covered by the deposit.

4. On October 24, 2005 the Credit Line Agreement No. 05-057569-KL was concluded with AB bankas „Hansabankas“. According to this Agreement the bank grants a credit line of 30.6 million US dollars. Credit purpose – opening and management of L/Cs for settlements for crude oil. The L/C validity term – by September 24, 2006 (inclusively). The fulfillment of the obligation shall be secured by: a) a pledge of rights to claim the funds receivable (according to supply agreements between AB Mažeikių Nafta and the buyers acceptable to the bank) under the mortgage bond; b) a pledge of all existing and future funds in AB Mažeikių Nafta account in AB Hansabankas, the sum of which does not exceed the credit amount, under the mortgage bond.

Until the L/C maturity date, the Company shall pay the obligation charge of 1.45 % of annual interest to the bank for credit utilization. Annual interest rate of the credit after the L/C payment term – 3 months US dollars LIBOR + 1.5 percent. The established interest rate shall be 5.7 percent from the date of the Agreement until January 24, 2006, and, starting from the date mentioned, shall be changed once over three months for the next three months.

Social risk factors

As a Lithuanian economic leader AB Mažeikių Nafta aims to steer also in the areas of social responsibility that has affect not only on the Company's business results but also contributes to improving the quality of life of the Company's employees and their families, the communities of Mažeikiai, Biržai and Palanga and the entire Lithuanian community.

Social responsibility of AB Mažeikių Nafta includes implementation of various social programs within the internal and external communities.

Social and economic welfare is one of AB Mažeikių Nafta business goals. The undertaking of the Company to aim at the top requirements of business practices and social responsibility is relevant both to the Company's shareholders and associates.

AB Mažeikių Nafta is liable for implementation of business procedures and practices and directs its endeavors to business fairness and integrity, focuses on business ethics, complies with environmental, health and safety at work requirements satisfying not only legal obligations but also social, economic and environmental expectations of the community, customers, shareholders, state government and society.

Principles of social policy:

- AB Mažeikių Nafta takes care of the community.
- AB Mažeikių Nafta is capable and must contribute to positive changes in Lithuania.

- AB Mažeikių Nafta, applying the world's best social investment practices, prepares its own social programs.
- Social policy of AB Mažeikių Nafta constantly contributes to solving social issues and seeking business goals.

For implementation of these principles AB Mažeikių Nafta in its activities shall seek:

- to create and apply systems for risk identification and management and to provide detailed information for efficient decision-making;
- to train its employees and provide conditions for implementation of social responsibility objectives and tasks;
- to follow the provisions of "The Ten Principles of The Global Compact" in business transactions;
- to respect social, economic and cultural rights of representatives of interested parties;
- to apply policies, standards and activity practices assuring constant improvement;
- to determine activity standards exceeding requirements of laws; to evaluate activities according to the principles and requirement provisions assumed;
- to stimulate activity of employees in the sphere of social responsibility;
- to aim at sharing success with interested parties through collaboration in relevant community development programs;
- to consult with representatives of interested parties on relevant issues;
- to inform about own activities in a detail, transparent and timely manner.

AB Mažeikių Nafta employees do not encounter problems related to timely disbursement of remuneration; salaries are always paid on a timely basis, two times a month. Should the Company be exposed to the above mentioned risks; there is no refutation that the problem may arise.

Technical and technological risk factors

In 2005 the Company proceeded with the Phase II of Modernization Program. Modernization Program of the Refinery for 2004 - 2009 was revised and substantially amended. The Program anticipates all required measures upon implementation of which the production of the Refinery will comply with EU product quality requirements for 2005 and 2009 and increasingly stringent environmental requirements for emissions. Having failed to perform modernization works in full, there is a risk that the products may not comply with EU product quality requirements and lose competitiveness.

Ecological risk factors

AB Mažeikių Nafta belongs to the group of enterprises of increased ecological risk. Such dependence is determined by the quality of Company's products, efficiency of crude oil processing, as well as safety of Būtingė Affiliate activities related to crude oil transportation via the Baltic Sea.

Industrial contaminants of Mažeikių Nafta Refinery by their nature are classified into the following groups:

- Pollutants produced during burning processes - carbon monoxide, nitrogen oxides, solid particles, sulfur dioxide - discharged into the atmosphere from the stationary pollution sources;
- Pollutants produced during technological processes - carbon monoxide, nitrogen oxides, solid particles, sulfur dioxide - discharged into the atmosphere from the stationary pollution sources;
- Other pollutants emitted into the atmosphere - volatile organic compounds, manganese dioxide, vanadium pentoxide, methanol, methyl-tert-butyl ether, hydrogen sulfide, benzene, xylene, toluene;
- Greenhouse gases – carbon dioxide;
- Pollutants discharged into surface water bodies together with treated industrial and storm water effluent – BOD₇, suspended substances, oil products, total nitrogen, total phosphorus, COD;
- Pollutants discharged into surface water bodies together with the treated Mažeikiai municipal waste water – BOD₇, suspended substances, oil products, total nitrogen, total phosphorus, COD;

Šiauliai Regional Department of Environment Protection at the Ministry of Environment of the Republic of Lithuania issued Integrated Pollution Prevention Control Permit No. 2. The Company executes the requirements set in the permit. Environmental impact of the Refinery has been described in the Environmental Impact Assessment Report prepared by UAB Baltijos Konsultacinė Grupė.

In all times AB Mažeikių Nafta devoted special attention to ecology, prepared a sustained investment program. The implementation of the environmental management system according to ISO 14001 was launched in 2005. The process will proceed until the second half of 2007. The environment protection policy has been anticipated based on the environmental management system requirements. Environmental Management System implies identification of environmental issues and solutions for environmental obligations fulfillment and business efficiency achievement. The implementation of this system comprises the following main phases:

Planning. The Company has to determine the so-called environmental aspects specific to its field of activity, i.e. elements of products or services subject to environmental impact. This requires environmental impact estimation of Company's activities, material used, on-going technological processes and waste. Thus the factors significantly affecting the environment are determined and environmental objectives and tasks are set.

Implementation of environmental management system. The system cannot be implemented without preparation and training of employees of Company divisions. The documents shall provide a description of the environmental management system elements and their interaction, requirements for the effective operation of the system, its integrity and realization of environmental protection policy goals.

Verification and adjustment. The Company shall periodically assess the compliance of environmental factors with respective compulsory requirements.

Analysis of system operation. Information about operation of the environmental management system and environmental factors compliance shall be compiled on a periodical basis. With reference to this information and aiming for higher efficiency, appropriate

decisions for the amendment of environmental protection policy, objectives or other system elements may be made.

The environmental management system will allow systematic control of direct and lengthy impact of Company's products and activities on the environment, consequent solutions to relevant environmental issues.

In 2005 investment in environmental protection amounted to 7 399.9 thous. litas and 18 771.9 thous. litas were allocated to operating expenditure.

An ecological aspect prevails in basically all modernization projects. Upon EU requirements coming into effect, the situation regarding refining waste has changed. This type of waste cannot be accumulated any longer – immediate refining is required. Such industrial waste includes oil sludge which generates after the industrial effluent has been treated and sludge generated from the cleanup of a petroleum products spill. The Oil Sludge Treatment Block has been operating since 2004. The existing regeneration area allows treatment of 2000 tons annually; therefore, having evaluated the current situation and feasible EU environmental requirements in effect (pertaining to the treatment of accumulated oily sludge), the augmentation of the soil regeneration area capacity up to 6400 tons per year by expanding the existing area with additional 1.4 Ha has been scheduled.

We are content that the designing works for area expansion started in 2005 and in the next year we will be capable to treat a bigger quantity of oil-contaminated soil and clean up the accumulation ponds.

To ensure safety and for ecological purposes the Company dedicates a special attention towards Būtingė Terminal. Progressive construction and assembling technologies, high-quality material and equipment, automatic control of technological processes were used when constructing the Terminal. Automated coastal and offshore spill detection systems have been implemented and constantly modernized. In 2002 all crude oil loading hoses were replaced with more reliable double carcass hoses. During periodical trainings and classes specialists are practicing to liquidate any incident in an effective and expedient way. The Company applies internationally accepted rules, OCIMF (Oil Companies Marine Forum), ISGOTT (International Safety Guide for Oil Tankers and Terminals) recommendations, HELCOM 20/5 recommendation concerning minimum ability to respond to oil spillages in oil terminals. Būtingė Terminal is the first-ever construction in the port in Lithuania having implemented the provisions of International Ship and Port Facility Security Code.

During 1999-2005 Būtingė Terminal allocated 13.1 million litas for various environmental safety measures and environmental monitoring. The Terminal is held liable for timely execution of environmental monitoring, reliability of information and communication to the departments concerned. Each quarter monitoring results are provided to Klaipėda Regional Environmental Protection Department. Annual report on monitoring and monitoring results are presented to Klaipėda Regional Environmental Protection Department, Palanga Town Municipality, Marine Investigation Centre at the Ministry of Environment; and the results of underground waters monitoring – to Geological Survey of Lithuania. Environmental monitoring results are discussed in a scientific consultancy group meeting held annually with participation of specialists carrying out environmental monitoring, representatives of the Ministry of Environment and other interested persons. Annual monitoring results are presented publicly. In the beginning of 2006 an informative brochure about the environmental situation of Būtingė Terminal during 2000-2005 was published. All information about environmental monitoring is compiled and stored in Būtingė Terminal.

Būtingė Terminal is open to the public and welcomes delegations from state enterprises of Lithuania and foreign states. During 2004-2005 the Terminal hosted representatives from the Ministry of Environment of the Russian Federation and Republic of Lithuania, Greenpeace representatives, foreign ambassadors residing in Latvia, Ministers of Environment of Lithuania, Latvia and Estonia, foreign and Lithuanian journalist delegations.

31. Termination and reductions of production that have exercised or are exercising material impact upon the performance of the issuer during the last two financial (economic) years

In 2005 the Oil Refinery did not experience shutdowns due to the feedstock shortage.

32. Patents, licenses, contracts

Patents and licenses represent patents acquired and production technology costs used by the Refinery. Patents, licenses, contracts and other rights acquired by AB Mažeikių Nafta are recorded on the Company's balance sheets as intangible fixed assets. They have an established useful life, and they are subject to cost accounting and reduced amount of accumulated amortization and value decrease.

The acquired computer software licenses are capitalized based on expenses related to the purchase of specific software and its preparation for usage. These costs are amortized over their estimated useful life.

In 2005 the Company purchased a license for installation of composite couplings at the acquisition value of LTL 45.8 thous.

Table 32.1. Information about Mažeikių Nafta Group's patents and licenses (thous. LTL)

	2005 12 31	2004 12 31
Cost price	41 910	35 506
Accumulated amortization	(30 514)	(23 629)
Residual value at the end-of-period	11 396	11 877

33. Court and Third Party Court (arbitration) proceedings

BUAB Klevo Lapas, on the grounds of the resolution by the Competition Council establishing that the Company has infringed the Law on Competition of the Republic of Lithuania by abusing the dominant position in the market, lodged a civil claim in the court, the amount of which as on December 31, 2004 was equal to 741 thousand litas. This claim, as per individual assessments of the representatives of the plaintiff, may be increased to 7500 thousand litas. Yet, the potential final amount mostly depends on the results of the investigation prescribed by the court. An additional court-ordered investigation of the amount of loss incurred by BUAB Klevo Lapas is in progress.

In case of the court's ruling to the Company's disadvantage, the financial position of the Company would not be substantially affected on the account that the court had satisfied the Company's claim for BUAB Klevo Lapas liability of 5 298 thousand litas for the supplied

petroleum products. The respective court judgment regarding defendant's insolvency has not been implemented.

In the financial year of 2003 a civil claim was lodged against the Company by a natural person requesting 400 thousand litas for using of certain technological process upgrade, implemented in the Refinery in 1995 and licensed in accordance with the laws of the Republic of Lithuania, in 1998. The examination of the case was not closed in the financial year 2005. In case of the court's resolution to the Company's disadvantage, the Company may expect other claims on similar grounds. Given that the mentioned upgrading, including some related innovations implemented under two patents issued compliant with laws of the Republic of Lithuania, was invented by the group of 7 to 9 co-authors and that analogous claims were made to the Company over the period of 1996-2001 (though not adjudicated in the court), the total claimed amount with reference to the unilateral assessments in the mentioned claims by the potential plaintiffs is likely to make 14 thousand litas. The Company disallowed these claims as ungrounded.

In the financial year 2003 the Company was a defendant in a civil case brought up by minor shareholders in demand to invalidate resolutions adopted in the general shareholders' meeting, including the resolutions on the election of members of the managing bodies and the approval of management plans. The claim is not expressed in financial terms; yet, in case of the court's ruling to the Company's disadvantage, the Company may suffer particular losses because of the partial aggravation or disturbance of its operations (management).

The civil case was suspended as the court investigating the case had requested the Constitutional Court of the Republic of Lithuania to examine whether there is no contradiction between certain legal norms and the Constitution. The examination of the case was not revived in the financial year 2005.

In the financial year 2004 the Supreme Court of Lithuania adopted a resolution which repealed the ad hoc ruling of the Arbitration Court of 2003 to reject the requirement of AB Lietuvos Geležinkeliai to award payment for the provision of certain transportation services (i.e. by increased rates) in accordance with the Code of Railway Transport and related subordinate legislation. The legal effects of such decision were reconciled by mutual agreement of the parties and the Company paid the outstanding amounts to AB Lietuvos Geležinkeliai.

The Company acted as a civil plaintiff in a criminal case committed to the court in an attempt to recover 6 556 831.32 litas unpaid by company Porcol Trading Ltd for the petroleum products supplied. The hearing of the case and award of the claim would entitle the Company to demand payment of the said amount from the defendants. The examination of the criminal case was not closed in the financial year 2005.

The Company attended other trial procedures throughout the financial year 2005; however the results of these trials have never had and/or will not have a substantial effect on the financial position of the Company.

34. Staff

The Company's employees, who contributed to the successful previous year's results through their diligent and conscientious work, still remain a core value for the Company. The number of the Company staff enrolled as of December 31, 2005 and 2004 was 3 286 and 3 411 persons, respectively. During 2005, the number of employees reduced by 125

persons. A substantial reduction in staff was related to reorganization of Convoy and Protection Department of Security Division.

Table 34.1. Average number of the staff enrolled

	2005	2004	2003
Mažeikiai Oil Refinery	3161	3240	3296
Pipeline and Terminal Operations Division	197	211	216
AB Mažeikių Nafta	3358	3451	3512

In 2005 for remuneration purposes the Company spent 142.9 million litas, i.e. by 10.0 million litas more as compared to 2004. During the last year an average pay in the Company increased by 8.8 percent and amounted to 3 478 litas, while an average pay of a worker was 2 986 litas.

Table 34.2. Information about the average pay of AB Mažeikių Nafta employees

Division	2005	2004	2003	Increase (decrease) comparison 2005-2004, %
Mažeikiai Oil Refinery	3467	3188	3041	8,8
Pipeline and Terminal Operations Division	3653	3351	3213	9,0
AB Mažeikių Nafta	3478	3198	3052	8,8

Table 34.3. Information about educational background of AB Mažeikių Nafta employees (according to HR department data)

Category:	Number enrolled number		Educational Background										Avg. monthly pay, LTL	
			university		college		vocational		secondary		secondary (not completed) secondary			
	2005	2004	2005	2004	2005	2004	2005	2004	2005	2004	2005	2004	2005	2004
Managers	332	348	239	234	70	87	7	9	16	18	-	-	6404	5866
Specialists	657	635	346	375	246	199	24	20	41	41	-	-	3790	3542
Clerks	87	92	14	12	30	34	19	22	24	24	-	-	2781	2713
Workers	2210	2336	100	109	541	573	740	770	788	796	41	88	2986	2748
Total:	3286	3411	699	730	887	893	790	821	869	879	88	88	3478	3198

A special attention in the Company is drawn to personnel trainings and improvement, psychological and professional preparation for constant changes.

One of the most important Company policy trends is personnel qualification improvement. The budget for trainings for 2005 amounted to over LTL 1.5 million.

In 2005 AB Mažeikių Nafta started implementing a project “Program of Professional Competency Development for Current and Potential Managers” in accordance with Measure 2.2 of the Single Programming Document of Lithuania “Development of Labour Force Competencies and the Ability to Adapt to Changes”. The project is supported by the Republic of Lithuania and partially financed by the EU. The support funds shall amount to over 400 thousand litas. The project consists of three modules: English Language knowledge Improvement, Management and Efficiency Improvement of Crude Oil Refining Operating Procedures and Business Ethics. These project-based trainings will be conducted in 2006.

During 2005 the Company executed internal trainings adapted to our Company employees such as “Profit tax novelties. Relevant comments on the Law on VAT “ that were attended by 40 employees, 32 employees participated in the seminar “Process of procurement: legal aspects, peculiarities of negotiations”, over 20 employees deepened their knowledge in “Management of changes”, “Incident investigation” trainings, over 30 employees attended courses according to the training program for security employees, etc. Aiming to implement EU requirements the individual trainings were conducted for translators “Legal English language and the peculiarities of its translation into Lithuanian language. EU legal acts and the peculiarities of their translation”, trainings for design engineers - “Piping design and analysis”, trainings for mechanical engineers - “Project management information system – MS Project”, etc.

More than 10 employees were improving English language skills in English courses in England.

At the end of 2005 the Training Center moved into the new perfectly installed and technically equipped premises. This will allow to improve the quality of trainings, organize more training sessions within the Company and ensure professional growth opportunities.

Collective Bargaining Agreement

The most important rights and guarantees for the personnel as stipulated under the Collective Bargaining Agreement, in addition to those provided by laws are as follows:

Company employees, who were notified of termination of their employment contracts due to economic, process engineering reasons or changes in the Company’s structure or for any important reasons, shall have a pre-emption right to be employed to a vacant work places if their qualifications meet the requirements established for such vacancies.

Apart from the cases provided by law, the priority among employees of sufficient tenure to keep a job upon downsizing shall be granted to employees who have no more than 5 years left until their retirement age, provided they have served the company for no less than 10 continuous years, and provided that their qualification and performance is no lower than the same of other employees who are performing the same kind of work.

Taking into consideration the continuous service period at the Company, upon termination of Employment Contract with an employee due to economic, process engineering reasons or changes in the Company’s structure the severance payment, greater than that provided by law, shall be paid (except for the cases when employees refuse another job that fits their background, qualifications and state of health):

- Service period of up to 5 years – 6 (six) average monthly wages;
- Service period from 5 to 10 years – 9 (nine) average monthly wages;
- Service period from 10 to 20 years – 12 (twelve) average monthly wages;
- Service period greater than 20 years – 15 (fifteen) average monthly wages, 12 (twelve) average monthly wages – since 2005.

When an employee is unfit for a job by reason of accident at work or diagnosed occupational disease as confirmed by the medical commission (except for the accidents that are not work-related), and if there is no other job in the Company that employee could do, severance payment, greater than that provided by laws, shall be paid taking into consideration the continuous service period at the company:

- Service period of up to 10 years – 6 (six) average monthly wages;
- Service period greater than 10 years – 12 (twelve) average monthly wages.

Employees who by the law are provided a shortened work time will be paid as for a full workday.

The base salary/hourly wages for employees working a shortened day is established at a higher rate (1.1 coefficient rate).

In the event of death of an employee or immediate family member of an employee, the Company shall pay a death benefit:

- In the event of death of an employee, the company shall make payment of 10 000 litas. In the event of death of an employee, who was employed for a limited term and had less than one year of uninterrupted service at the Company, the Company shall make payment of 2,000 litas;
- In the event of death of an employee's spouse or child, the Company shall make a payment of 1,000 litas;
- In the event of death of employee's parents, the Company shall make a payment of 500 litas.

The Company shall make available free transport to employees to and from work between Mažeikiai and Juodeikiai, Klaipėda, Palanga and Būtingė and between Biržai and Stačkūnai, and Joniškis and Valiūnai.

Employees achieving an anniversary of 5, 10, 15, 20, 25, 30 or 35 years of service with no records of disciplinary violations shall receive a one-time payment from the Company in recognition of their continuous service and contribution to the success of the Company. The payments shall be provided as follows:

- For 5 years of service the employee receives one day off with pay;
- For 10 years of service the employee receives 500 litas;
- For 15 years of service, the employee receives 1000 litas;
- For 20 years of service the employee receives 2000 litas;
- For 25 years of service the employee receives 3500 litas;
- For 30 and 35 years of service, the employee receives 5000 litas.

Employee who reaches his/her retirement age and terminates his/her employment contract at his/her own request within one month of retirement age date will be paid a severance payment of four average salaries.

Due to the nature of the Company's business and work conditions in the refinery, all employees are granted four additional vacation days (calendar days) except for the staff who have prolonged vacation as provided by law. In the event an employee is entitled by applicable law for longer than four days additional vacation due to his/her service period, then the person is provided the longer vacation period.

Three paid days will be granted in cases of marriage, child birth or death of immediate family member (parents, children, brothers, sisters, spouses and immediate in – laws).

Company employees may be offered a paid study leave, if the employees are students in good academic standing and are studying in higher educational institutions or university and/or their study program relates to their work functions or benefits the Company.

Employees' obligations and additional requirements agreed as per Collective Bargaining Agreement:

Employees have committed to perform their duties in honest and fair manner and in compliance with work discipline, timely and exactly following instructions of the administration, complying with process regulations, safety and health requirements and preserving the property of the Company.

The joint representative team of the Trade Unions undertake to respect the rules of Company's life, fairly use the rights granted by laws and act honestly and in good faith introducing economic attitude towards work and encouraging professional improvement and work culture.

The following are the violations of work discipline considered as gross violations of the job responsibilities (except for those provided for by laws) and subject to termination of the employment agreement in accordance with the procedure established by laws:

- Illegal possession of weapons, ammunition and explosives in the Company territory or attempting to bring them into the territory without a special permit;
- Any possession and/or distribution of drugs or other intoxicating substances in the Company territory;
- Bringing in, possession, distribution of alcoholic beverages in the Company territory without a special permit;
- Intentional violation of safety procedures, any other intentional actions causing traumas or potential losses to employees or danger to the Company or employees property;
- Transportation, possession in the Company territory or removal/attempted removal of the Company property, including vehicles, equipment, tools, products, any materials or other products without proper authorization or permission (if such is not associated with execution of job responsibilities);
- Any actions or activities by the Company administration officials beyond the authorizations granted by the Employer, while acting on behalf of the Employer;
- Immoral or indecent conduct of the administration officials at work or during the Company associated events while representing the Company;
- Entering the Company facilities (territories) under protection by employees while avoiding the security posts;
- Smoking in a non-designated area while staying in a hazardous environment with prohibiting signs;
- Reporting to work under the influence of alcohol or other intoxicating substances.

In order to avoid usage of alcohol and other intoxicating substances while at work or coming to work, employees when in doubt of their soberness are permitted two excused absences in 12 months. For an absence to be excused, the notice in any form (except arrival to the territory of the Company) must be received by the direct supervisor or higher-level supervisor (or the Company dispatcher) no later than one hour prior to work start and prior to entry to the territory of the Company (security post).

35. Investment policy

The consolidated group consists of the Company, nine subsidiaries and one associated company.

In 2005 the Company continued reorganization of UAB Uotas and its subsidiary AB Ventus-Nafta in order to improve the efficiency of these enterprises and reduce their losses. While executing the reorganization, the financial position of the subsidiary AB Ventus-Nafta significantly improved. UAB Uotas has transferred its activities to the subsidiary, and does not perform any other activity except for the subsidiary associated investments management. Aiming to reduce management costs, on December 1, 2005 UAB Uotas was announced as being liquidated. It is anticipated that upon completion of the liquidation procedures the assets owned by UAB Uotas, i.e. the shareholding in AB Ventus-Nafta, will be transferred to AB Mažeikių Nafta.

In April 2005 AB Mažeikių Nafta acquired 5 540 ordinary registered shares of UAB Juodeikių Nafta at a nominal value and obtained complete control over the said company.

At the end of 2005 UAB Biržietiška Aibė under liquidation transferred the remaining assets to its sole shareholder - the Company and on January 18, 2006 was excluded from the Register of Enterprises.

On October 12, 2005 AB Mažeikių Nafta, upon signing the Share Purchase-Sale Agreement with the state enterprise Valstybės turto fondas, obtained 24 612 296 ordinary registered shares of AB Mažeikių Elektrinė with a nominal value of 1 (one) litas each. It is a 85.72 percent stake of all shares with voting rights issued by the said company. AB Mažeikių Nafta intends to merge AB Mažeikių Elektrinė into the Company by way of reorganization and pursue the activities of the said company and upgrade the equipment.

Table 35.1 Enterprises having more than 30 percent of AB Mažeikių Nafta stake in their authorized capital as at December 31, 2005

Company	UAB Biržietiška Aibė under liquidation	UAB Juodeikių Nafta	UAB Uotas under liquidation	UAB Mažeikių Nafta Trading House	AB Mažeikių Elektrinė	Lithuanian-French joint venture UAB "Naftelf"
Registered headquarters	Vilniaus g. 47, Biržai	Juodeikiai, Mažeikiai distr.	Laisvės g. 30, Mažeikiai	Jasinskio g. 16a, Vilnius	Juodeikiai, Mažeikiai r.	Šeimyniškių g.22, Vilnius
Nature of activity	Under liquidation, operation interrupted	Truck loading with petroleum products	Under liquidation, operation interrupted	Agency services	Production and supply of heat and electricity	Retail and wholesale trade of fuels
Authorized capital (LTL)	2 596 250	1 385 000	107 800 000	7 060 000	28 713 418	12 000 000

UNPAID AB MAŽEIKIŲ NAFTA PORTION IN AUTHORIZED CAPITAL	-	-	-	-	-	-
2005 Net Profit (loss) (LTL)	(79 071)	(237 642)	3 294 412	16 103 444	(26 629 466)	930 580
Ratio of current liabilities and current assets	-	0.114	0.003	0.333	1.175	0.251
Ratio of total liabilities and total assets	-	0.114	0.003	0.097	0.699	0.173
TYPE AND CLASS OF SHARES HELD BY AB MAŽEIKIŲ NAFTA	ORS	ORS	ORS	ORS	ORS	ORS
NUMBER OF SHARES HELD BY AB MAŽEIKIŲ NAFTA	259 625	13 850	107 800	7 060 000	24 612 296	4 080
Nominal value (LTL)	10	100	1000	1	1	1000
PERCENTAGE OF VOTING SHARES BY THE RIGHT OF OWNERSHIP HELD BY AB MAŽEIKIŲ NAFTA	100 %	100 %	100 %	100 %	85.72 %	34 %
PERCENTAGE OF AB MAŽEIKIŲ NAFTA VOTES ALONGSIDE WITH ASSOCIATES	-	-	-	-	-	-
DIVIDENDS PAID BY AB MAŽEIKIŲ NAFTA IN 2005 (LTL)	-	-	-	-	-	-
LOANS GRANTED TO COMPANIES BY AB MAŽEIKIŲ NAFTA IN 2005 (LTL)	-	-	-	-	-	-
LOANS GRANTED TO AB MAŽEIKIŲ NAFTA BY COMPANIES IN 2005 (LTL)	-	-	-	-	-	-
CHARACTERISTICS OF DEBT SECURITIES ACQUIRED BY AB MAŽEIKIŲ NAFTA	-	-	-	-	-	-
TOTAL NOMINAL VALUE OF DEBT SECURITIES ACQUIRED BY AB MAŽEIKIŲ NAFTA (LTL)	-	-	-	-	-	-

36. Competitors

The Company does not have any competitors in crude oil refining industry in Lithuania, however, while trading with petroleum products in the neighboring markets the Company competes with the Russian and Belarus oil companies.

37. Dividends paid

Year	Dividends paid (LTL)	Amount of dividend per share (LTL)	Weight in nominal value of share (%)
1995	-	-	-
1996	-	-	-
1997	9 000 000	0.1539	1.539

1998	-	-	-
1999	-	-	-
2000	-	-	-
2001	-	-	-
2002	-	-	-
2003	-	-	-
2004	-	-	-
2005	247 608 946,00	0.35	3.5

The General Meeting of Shareholders of AB Mažeikių Nafta held May 26, 2006 decided not to pay dividends to the shareholders out of the profit of 2005.

V. FINANCIAL STATUS

38. Financial statements

Financial Statements of AB Mažeikių Nafta and its subsidiaries are prepared in accordance with the International Financial Reporting Standards (IFRS). Consolidated Financial Statements in litas are prepared on the basis of Consolidated Financial Statements in US dollars which is the Company's functional and presentation currency.

The Group Consolidated Financial Statements for 2004 and previous years were prepared in conformity with the accounting principles generally accepted in the United States of America (US GAAP) that in some aspect differ from IFRS. Aiming at Comparability principle in this Annual Prospectus-Report, we provide Financial Statements of recent years (2005 and 2004) prepared in accordance with the International Financial Reporting Standards (IFRS) and of previous periods (2004 and 2003) prepared in accordance with the accounting principles generally accepted in the United States of America (US GAAP).

38.1. Consolidated Balance Sheets (thous. LTL)

Table 38.1.1. Consolidated Balance Sheet in accordance with the International Financial Reporting Standards (thous. LTL)

	2005 -12 -31	2004 -12 -31
ASSETS		
Non-current assets		
Property, plant and equipment	1 481 336	1 261 702
Intangible assets	11 396	11 877
Goodwill	5 361	-
Investments in associates	3 672	3 386
Deferred income tax assets	60 798	42 184
Available-for-sale financial assets	3	51
Non-current receivables and prepayments	81 478	24 135
	1 644 044	1 343 335
Current assets		
Inventories	748 268	491 302
Trade and other receivables	420 836	347 661
Prepaid current income tax	480	168
Cash and cash equivalents	1 856 164	997 881
	3 025 748	1 837 012
Non-current assets classified as held for sale	2 773	677
	3 028 521	1 837 689
TOTAL ASSETS	4 672 565	3 181 024
EQUITY		
Capital and reserves attributable to the Company's equity holders		
Share capital	707 454	707 454
Additional paid in capital	283 040	283 040
Reserves	36 526	437
Cumulative translation adjustment	(30 716)	(211 052)

Retained earnings	963 006	358 940
	1 959 310	1 138 819
Minority interest	2 433	1 739
Total equity	1 961 743	1 140 558
LIABILITIES		
Non-current liabilities		
Borrowings	1 321 452	1 180 865
Other non-current liabilities	24 754	12 634
Provisions for other liabilities and charges	32 949	-
	1 379 155	1 193 499
Current liabilities		
Trade and other payables	1 152 495	671 561
Current income tax liabilities	107 325	135 053
Borrowings	28 555	30 294
Provisions for other liabilities and charges	43 292	10 059
	1 331 667	846 967
Total liabilities	2 710 822	2 040 466
TOTAL EQUITY AND LIABILITIES	4 672 565	3 181 024

Table 38.1.2. Consolidated Balance Sheet in accordance with accounting principles generally accepted in the United States of America (US GAAP) (thous. LTL)

	2004 -12 -31	2003 -12 -31
Assets		
Cash and cash equivalents, net	516 805	297 379
Trade securities	-	-
Current portion of restricted cash	452 677	2 696
Trade accounts receivable, net	127 701	144 891
Accounts receivable from related parties, net	183 298	100 416
Inventories	491 979	324 262
Other current assets, net	34 121	34 035
Current portion of deferred income tax asset, net	33	2 367
Total current assets	1 806 614	906 046
Non-current portion of restricted cash	28 399	65 503
Equity investees and long-term investments at cost, net	3 437	4 378
Property, plant and equipment, net	1 271 379	1 464 684
Intangible assets, net	12 197	7 237
Non-current accounts receivable	14 138	20 652
Non-current portion of deferred income tax asset, net	-	66
TOTAL ASSETS	3 136 164	2 468 566
Liabilities and shareholders' equity		
Short-term debt and current portion of long-term debt	29 394	33 333
Current portion of capital lease liabilities	900	1 083
Trade accounts payable	345 450	82 184
Accounts payable to/advances received from related parties	190 491	415 218
Advances received	4 808	8 662
Taxes payable and accrued	246 685	90 539
Non-current accounts receivable	26 530	33 620

Total current liabilities	844 258	664 639
Long-term debt, net of current maturities	1 180 046	1 313 754
Capital lease liabilities, net of current maturities	819	1 911
Subsidies	12 634	13 837
Non-current portion of deferred income tax liabilities	-	853
Total liabilities	2 037 757	1 994 994
Minority interest	1 739	2 502
Ordinary shares (707 454 130 authorized and issued at December 31, 2004 and December 31, 2003; nominal value – LTL 1 per share)	707 454	707 454
Additional paid in capital	859 979	859 979
Revaluation reserve	437	437
Accumulated other comprehensive losses	(211 052)	(114 767)
Accumulated surplus (deficit)	(260 150)	(982 033)
Total shareholders' equity	1 096 668	471 070
Off-balance and potential liabilities	-	-
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY	3 136 164	2 468 566

38.2. Consolidated income statement (thous. LTL)

Table 38.2.1. Consolidated Income Statement in accordance with the International Financial Reporting Standards (thous. LTL)

	2005 -12 -31	2004 -12 -31
Sales	11 155 771	7 663 481
Cost of sales	(9 302 596)	(6 124 239)
Gross profit	1 853 175	1 539 242
Other income	2 739	481
Selling and marketing costs	(572 270)	(451 661)
Administrative expenses	(232 894)	(196 845)
Operating profit	1 050 750	891 217
Finance income	41 633	9 832
Finance costs	(88 257)	(51 249)
Share of profit (loss) of associates	286	(453)
Profit before income tax	1 004 412	849 347
Income tax	(118 698)	(128 187)
Profit for the year	885 714	721 160
Attributable to:		
Equity holders of the Company	887 764	721 883
Minority interest	(2 050)	(723)
	885 714	721 160

Table 38.1.2. Consolidated Income Statement in accordance with accounting principles generally accepted in the United States of America (US GAAP) (thous. LTL)

	2004 -12 -31	2003 -12 -31
Sales and other operating revenues*	7 663 481	5 297 215
Operating costs and other deductions		
Cost of sales, excluding depreciation and amortization	(6 025 469)	(4 431 972)
Selling and distribution expenses, excluding depreciation and amortization	(451 739)	(295 774)
General and administrative expenses, excluding depreciation and amortization	(189 061)	(180 502)
Depreciation and amortization	(106 476)	(98 909)
Total operating costs and other deductions	(6 772 745)	(5 007 157)
Other income (expenses)		
Equity in losses of associates	(453)	(312)
Interest income	9 832	7 500
Interest expense	(74 050)	(113 484)
Exchange gain (loss), net	22 801	34 197
Long-term investment value decrease	-	(1 645)
Impairment of goodwill	-	-
Compensations from Government	-	-
Insurance compensations	51	11 112
Other income (expenses), net	430	163
Total other income (expenses)	(41 389)	(62 469)
Income before income tax and minority interest	849 347	227 589
Income tax		
Income tax expense	(126 622)	(9 340)
Deferred income tax assets	(1 565)	1 583
Income tax expense, net	(128 187)	(7 757)
Income before income tax expense	721 160	219 832
Minority interest	723	1 114
Cumulative effect of change in accounting principle for pipeline fill	-	-
Net income	721 883	220 946

38.3. Consolidated cash flow statement (thous. LTL)

Table 38.3.1. Consolidated cash flow statement in accordance with the International Financial Reporting Standards (thous. LTL)

	2005 -12 -31	2004 -12 -31
Cash flows from operating activities		
Cash generated from operations	1 538 651	880 592
Interest paid	(78 500)	(73 166)
Income tax paid	(170 057)	(1 196)
Net cash generated from operating activities	1 290 094	806 230
Cash flows from investing activities		
Purchases of property, plant and equipment	(164 224)	(78 714)
Change in cash restricted for financing activities	28 399	36 637

Proceeds from sale of property, plant and equipment	1 414	7 512
Proceeds from sale of non-current assets classified as held for sale	587	-
Purchases of intangible assets	(2 552)	(1 817)
Proceeds from sale of available-for-sale financial assets	48	644
Interest received	41 723	9 832
Acquisition of subsidiary, net of cash acquired	(16 466)	-
Acquisition of shares in subsidiary from minority	(554)	-
Dividends received from associates	-	-
Other Considerations	-	44
Net cash used in investing activities	(111 625)	(25 862)
Cash flows from financing activities		
Proceeds from borrowings	2 113	-
Repayments of borrowings	(42 624)	(30 612)
Finance lease principal payments	(917)	(1 326)
Dividends paid to the Company's shareholders	(247 592)	-
Contribution of minority shareholders to the share capital of subsidiary	7	-
Net cash used in financing activities	(289 013)	(31 938)
Net increase in cash and bank overdrafts	889 456	748 430
Cash and bank overdrafts at beginning of period	969 282	300 092
Exchange gains (losses) on cash and bank overdrafts	(2 574)	(79 240)
Cash and bank overdrafts at end of period	1 856 164	969 282

Table 38.3.2. Consolidated Cash Flow Statement in accordance with accounting principles generally accepted in the United States of America (US GAAP) (thous. LTL)

	2004 -12 -31	2003 -12 -31
Cash flows from operating activities		
Net income	721 883	220 946
Adjustments to reconcile net income to cash provided by operations:		
Depreciation and amortization	106 476	98 909
Impairment of goodwill	-	-
(Income) from sales of securities		
Equity in losses of associates	453	312
Minority interest	(723)	(1 114)
Loss on sales and retirements of property, plant and equipment and intangible assets	2 906	3 236
Impairment of non-current assets held for sale	28 571	1 912
Impairment of investment	-	1 645
Discounting of long-term receivables	(370)	1 111
Inventories allowance	16 258	-
Other Considerations	(172)	(199)
Changes in operating assets and liabilities:		
Trade accounts receivable and accounts receivable from related parties	(91 375)	(11 034)
Inventories	(216 637)	(80 689)
Other current assets	(14 181)	42 916
Trade accounts payable and accounts payable to related parties	99 499	152 710
Taxes payable, advances and other current liabilities	163 474	8 011

Net cash generated from operating activities	816 062	438 663
Cash flows from investing activities		
Purchases of property, plant and equipment and intangible assets	(80 531)	(286 556)
Proceeds from sale of property, plant and equipment	7 512	2 055
Proceeds from sale of investments	644	-
Dividends received from associates and investees	-	211
Cash acquired with subsidiary undertakings	-	-
Acquisition of minority shares in subsidiary	-	(1 538)
Other Considerations	44	(94)
Net cash used in investing activities	(72 331)	(285 922)
Cash flows from financing activities		
Increase in authorized capital	-	-
Net repayments of short-term debt	(250)	(48 316)
Repayments of long-term debt	(30 612)	(45 553)
Proceeds form long-term loans	-	15 793
Principal payments of capital lease obligations	(1 326)	(1 438)
Change in long-term receivables	-	716
Distribution to minority	-	(8)
Dividends paid	-	-
Net cash used for financing activities	(32 188)	(78 806)
Effect of foreign exchange on cash balances	(79 240)	(68 909)
Net change in cash and cash equivalents	632 303	5 026
Cash and cash equivalents at beginning of period	297 379	159 320
Change in restricted cash	(412 877)	133 033
Cash and cash equivalents at end of period	516 805	297 379

Consolidated statement of changes in equity (thous. LTL)

Table 38.4.1. Consolidated statement of changes in equity in accordance with the International Financial Reporting Standards (thous. LTL)

	Share capital	Additio nal paid in capital	Revalua tion reserve	Legal reserve	Fair value reserv e	Cumulativ e translation adjustmen ts	Retained earnings	Minorit y interest	Total equity
Balance at January 1, 2004	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) recognized directly in equity	-	-	-	-	(35)	(96 250)	-	(40)	(96 325)
Profit for the year	-	-	-	-	-	-	721 883	(723)	721 160
Total recognized income for 2004	-	-	-	-	(35)	(96 250)	721 883	(763)	(624 835)

Increase in retained earnings by decreasing share premium	-	(59 444)	-	-	-	-	59 444	-	-
Balance at December 31, 2004	707 454	283 040	437	-	-	(211 052)	358 940	1 739	1 140 558
Balance at January 1, 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 recognized directly in equity	-	-	-	-	-	180 336	-	904	181 240
Profit for the period	-	-	-	-	-	-	887 764	(2 050)	885 714
Total recognized 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	-	-	-	-	-	-	-	2 282	2 282
Transfer to legal reserve	-	-	-	36 089	-	-	(36 089)	-	-
Dividend relating to 2004	-	-	-	-	-	-	(247 609)	-	(247 609)
Balance at December 31, 2005	707 454	283 040	437	36 089	-	(30 716)	963 006	2 433	1 961 743

Table 38.4.2 Consolidated statement of changes in equity in accordance with accounting principles generally accepted in the United States of America (US GAAP) (thous. LTL)

	Number of ordinary shares issued (thousand)	Ordinary shares	Additional paid in capital	Revaluation reserve	Accumulated other comprehensive losses	Accumulated surplus (deficit)	Total equity
January 1, 2003	707 454	707 454	859 979	437	(44 794)	(1 202 979)	320 097
Net income	-	-	-	-	-	220 946	220 946
Other comprehensive income, net of tax	-	-	-	-	(69 973)	-	(69 973)
December 31, 2003	707 454	707 454	859 979	437	(114 767)	(982 033)	471 070
Net income	-	-	-	-	-	721 883	721 883
Other comprehensive income, net of tax	-	-	-	-	(96 285)	-	(96 285)
December 31, 2004	707 454	707 454	859 979	437	(211 052)	(260 150)	1 096 668

39. Comments on the Financial Statements

General financial statements of Mažeikių Nafta Group shall comprise financial statements of the parent company AB Mažeikių Nafta” (Juodeikiai, LT-89467 Mažeikiai Distr.), its subsidiaries: UAB Biržietška Aibė under liquidation (Vilniaus g. 47, LT- 41149 Biržai), UAB Juodeikių Nafta (Juodeikiai, LT- 89467 Mažeikiai Distr.), UAB Uotas under liquidation (Laisvės g. 30, LT- 89223 Mažeikiai), UAB Mažeikių Nafta Trading House (J.Jasinskio g. 16a, LT-01112 Vilnius) and the associated company, Lithuanian-French joint venture UAB Naftelf (Šeimyniškių g. 22, LT- 09312 Vilnius).

Mažeikių Nafta Group's accounting

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 50 percent of the voting rights. Subsidiaries are fully consolidated from the date on which control is transferred to the Group and 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 and liabilities incurred or assumed at the date of exchange. 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 identifiable net assets of the subsidiary acquired, the difference is recognized directly in the income statement.

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 equity method of accounting and are initially recognized at cost. The Group's investment in associates includes goodwill identified on acquisition.

The Group's share of its associates' post-acquisition profits or losses is recognized in the income statement, and its share of post-acquisition movements in reserves is recognized in reserves. Investment in an associate is initially recognized at cost and the carrying amount is increased or decreased to recognize 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 recognize further losses, unless it has incurred obligations or made payments on behalf of the associate.

Unrealized gains on transactions between the Group and its associates are eliminated to the extent of the Group's interest in the associates. Unrealized 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.

40. Report prepared by the managing board of the Issuer or any other managing body performing its functions

PUBLIC COMPANY MAŽEIKIŲ 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 can 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 Mažeikių 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.

N. Eidukevičius
Chairman of the Board

41. Information about the audit

In 1998, 1999, 2000 and 2001 the audit of Mažeikių Nafta Group was conducted by UAB Arthur Andersen. The new auditors UAB Ernst & Young Baltic were approved under the agreement as of August 6, 2002. In 2002 the audit of Mažeikių Nafta Group was performed by UAB Ernst & Young Baltic auditors (company code 1087844, Audit Company's license No. 224).

At the shareholders' meeting held on April 30, 2003 the Company revoked the auditor UAB Ernst&Young Baltic and elected and approved the audit company UAB PricewaterhouseCoopers. UAB PricewaterhouseCoopers (company code 11473315, Audit Company's license No. 173) was registered on December 29, 1993 in Vilnius. The company's registered office – J. Jasinskio g. 16 B, LT – 01112 Vilnius.

The audit of Financial Statements of Mažeikių Nafta Group, prepared in accordance with the International Financial Reporting Standards, was conducted in accordance with International Standards on Auditing and completed on April 20, 2006. The auditor's report on behalf of UAB PricewaterhouseCoopers was signed by Christopher C. Butler, Partner with UAB PricewaterhouseCoopers and Ona Armalienė, Auditor (auditor's certificate No. 000008).

Internal Audit Department was established in the Company in 2001. The establishment and liquidation of this department shall be determined by order of the Company's General Director. Internal Audit Department is directly subordinate and accountable to the Company's General Director. Internal Audit Department shall provide audit and consulting services, intended to create a value-added and improve Company's operations, to the top management of the Company. The key objectives of Internal Audit Department shall include systematical and comprehensive assessment of management over the Company, risk and control management processes and providing consultations for the improvement of these processes. However, Internal Audit Department shall act independently of the internal control system of the Company and shall not be held liable for the development, implementation or effective functioning of the indicated system. Internal Audit Department in its activities shall follow the methodology and regulations approved by the Department, International Standards for the Professional Practice of Internal Auditing and legal acts of Lithuania.



PricewaterhouseCoopers UAB
 J. Jasinskio 16B
 LT-01112 Vilnius
 Lithuania
 Telephone +370 (5) 239 2300
 Facsimile +370 (5) 239 2301
 E-mail vilnius@lt.pwc.com
 www.pwc.com/lt

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 27,888 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

VI. INFORMATION ABOUT THE ISSUER'S MANAGING BODIES

42. Members of the Managing Bodies

Managing bodies of AB Mažeikių Nafta are as follows:

- General Shareholders' Meeting;
- Supervisory Council;
- Board of Directors;
- Administration Manager.

Company's activities are under auditor's control.

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

SUPERVISORY COUNCIL (December 31, 2005)

Piotr S. Zolotariov – Chairman of the Supervisory Council since April 30, 2004. Elected for a 4-year term. General Director of Russian Company OAO Ruskye Mashini. Chairman of the GAZ Group Board. None of the Company's shares is in his possession.

Genovaitė Geleževičienė – Member of the Supervisory Council since September 21, 2002. Elected for a 4-year term. Head of Analysis and Forecast Department of Department of Economy Strategy of Ministry of Economy. None of the Company's shares is in her possession. Member of the Board of UAB Toksika and State Enterprise Ignalina Nuclear Power Plant. Member of the Supervisory Council of AB Lietuvos Energija; Chairperson of the Supervisory Council of AB Alytaus Tekstilė; Member of the Council of the Lithuanian Development Agency for Small and Medium-sized Business Enterprises (SMEDA).

Vytautas Aršauskas – Member of the Supervisory Council since September 21, 2002. Elected for a 4-year term. Chief Specialist of Petroleum Division of Energy Resources Department of Ministry of Economy. None of the Company's shares is in his possession. Member of the Supervisory Council of AB Klaipėdos Nafta.

Oleg Sheyko – Member of the Supervisory Council since September 21, 2002. Elected for a 4-year term. None of the Company's shares is in his possession.

Vladimir N. Kasterin – Vice President for Oil Refining in oil and gas company ZAO RusNef. Member of the Supervisory Council since September 21, 2002. Elected for a 4-year term. None of the Company's shares is in his possession.

Bruce K. Misamore – Member of the Supervisory Council since September 21, 2002. Elected for a 4-year term. None of the Company's shares is in his possession.

Pavel P. Ivlev – Member of the Supervisory Council since September 21, 2002. Elected for a 4-year term. None of the Company's shares is in his possession.

Vladas Kazimieras Gagilas – Member of the Supervisory Council since September 21, 2002. Elected for a 4-year term. Director of Energy Resources Department of Ministry of Economy. None of the Company's shares is in his possession. Member of the Board of AB Lietuvos Dujos; Chairman of the Board of AB Klaipėdos Nafta.

THE BOARD OF DIRECTORS (December 31, 2005)

Nerijus Eidukevičius - Chairman of the Board of Directors since April 30, 2004. Elected for a 4-year term. University degree, Diploma of Economist, Vilnius University. Employment: 1993-1996 Financial brokerage firm UAB Suprema: Project Manager; 1997

01 - 1999 01 Hansa Investments: Project Manager; 1999 01 - 2000 01 Hansa Investments: General Director; 2000 02 - 2000 12 Deloitte&Touche Manager; since 2001 01 - present Vice Minister of the Ministry of Economy. None of the Company's shares is in his possession. Chairman of the Board of Directors of AB Alytaus Tekstilė.

Jurij V. Kalner - Member of the Board of Directors since September 21, 2002. Elected for a 4-year term. Head of Strategic Planning Centre of OAO SUEK. None of the Company's shares is in his possession.

Tomas Gižas – Member of the Board of Directors since April 30, 2004. Elected for a 4-year term. Director of the representative office of Yukos Finance B.V. in Lithuania. Holds 100% of the capital of UAB Gibrus and UAB Baltijos Atliekų Tvarkymas.

Michail V. Elfimov - Member of the Board of Directors since April 30, 2004. Elected for a 4-year term. None of the Company's shares is in his possession.

Vladislavas Paulius – Member of the Board of Directors since October 18, 2002. Elected for a 4-year term. General Director of Russian company OOO Objedinionaja Neftenaja Grupa. None of the Company's shares is in his possession.

Petras Lepeška – Member of the Board of Directors since February 26, 2004. Elected for a 4-year term. Chief Specialist of Petroleum Division of Energy Resources Department of Ministry of Economy. Member of the Board of Directors of UAB Mažeikių Nafta Trading House.

Gediminas Vaičiūnas – Member of the Board of Directors since September 21, 2002. Elected for a 4-year term. Advisor of the Office of the Government on Energy Issues. None of the Company's shares is in his possession. Deputy Chairman of the Council of the State Nuclear Energy Safety Inspection. Not involved in management of other Lithuanian companies and their capital.

The composition of the Board of Directors and Supervisory Council of AB Mažeikių Nafta did not change during 2005.

ADMINISTRATION

Paul Nelson English (born 1943). General Director of AB Mažeikių Nafta since 2002.

University degree, Bachelor of Science - Engineering Mechanics/Science (1972) and Master of Science - Nuclear Engineering (1975).

1992-1999 EL PASO/COASTAL CORPORATION, Coastal Aruba Refining Co.: Vice President and General Director; 1999-2001 EL PASO/COASTAL CORPORATION: Senior Vice President of Catalyst & Chemical Division; 2001-2002 EL PASO/COASTAL CORPORATION: Senior Vice President and Director of Refining & Chemical Division.

None of the Company's shares is in his possession. Not involved in management of other Lithuanian companies and their capital.

Vita Petrošienė (born 1952). Chief Financial Officer of AB Mažeikių Nafta since September 27, 2002. University degree. Diploma in Engineering. 1995 05 – 1995 12 AB Mažeikių Nafta: Deputy Director of Economics and Finance; 1995 12 - 1999 11 AB Mažeikių Nafta: Director of Economics and Finance; 1999 11 - 2001 04 AB Mažeikių Nafta: Director of Finance; 2001 04 - 2002 09 AB Mažeikių Nafta: Deputy Chief Financial Officer.

None of the Company's shares is in her possession. Not involved in management of other Lithuanian companies and their capital.

AB Mažeikių Nafta does not have any information about convictions in effect of the members of the managing bodies for crimes related to ownership, business and finance.

43. Information about payments and loans extended to the members of managing bodies

44. Transactions with persons concerned

VII. Updated and material events in issuer's activity and perspectives

45. Updated events in the Issuer's activity

Announcement of the Second Extraordinary General Meeting of Shareholders on January 10, 2006: the Repeated Extraordinary General Meeting of Shareholders of AB Mažeikių Nafta (company code 166451720, registered office: Juodeikiai, 98467 Mažeikiai distr.) to be convened January 17, 2006 at 11:00 a.m. The Meeting will be held in AB Mažeikių Nafta Administration Building, Juodeikiai, Mažeikiai distr. Release date: January 10, 2006. Agenda of the Meeting: 1. Regarding approval to the preparation of AB Mažeikių Nafta reorganization conditions.

Decision passed by the Repeated Extraordinary General Meeting of Shareholders on January 18, 2006: The decision of the Second Extraordinary General Meeting of Shareholders held on January 17, 2006 is as follows: 1. To approve to preparation of AB Mažeikių Nafta reorganization conditions, when AB Mažeikių Nafta incorporates AB Mažeikių Elektrinė while continuing its operations, and the existence of AB Mažeikių Elektrinė as such terminates after reorganization, and assign the Board of Directors of the Company to prepare the indicated reorganization conditions in accordance with applicable laws.

On February 10, 2006 AB Mažeikių Nafta reported its preliminary financial results: preliminary unaudited consolidated net profit of AB Mažeikių Nafta for 2005 under International Financial Reporting Standards (IFRS) is 929.915 million litas (269.322 million euros).

On February 28, 2006 AB Mažeikių Nafta posted that the annual financial statements for 2005 were due from the auditor UAB Pricewaterhouse Coopers to be submitted by March 31, 2006.

Announcement of the General Meeting of Shareholders of AB Mažeikių Nafta on March 27, 2006:

On the decision of the Board of Directors of AB Mažeikių Nafta (which instigated to convene the meeting of shareholders) the Ordinary General Meeting of Shareholders of AB Mažeikių Nafta, company code 166451720, located at Juodeikiai, 89467 Mažeikiai Distr., to be convened April 28, 2006 at 11:00 a.m. The Meeting will be held in AB Mažeikių Nafta Administration Building, Juodeikiai, Mažeikiai distr. The record date for the Meeting: April 21, 2006. Agenda of the Ordinary General Meeting of Shareholders of AB Mažeikių Nafta: (i) consideration of AB Mažeikių Nafta auditor's conclusions on AB Mažeikių Nafta Annual Financial Statements for 2005 and AB Mažeikių Nafta Performance Report for the financial year 2005; (ii) consideration of suggestions and comments of the Supervisory Council made on AB Mažeikių Nafta Annual Financial Statements for 2005 and AB Mažeikių Nafta Performance Report for the financial year 2005; (iii) approval of AB Mažeikių Nafta Performance Report for the financial year 2005 prepared by the Board of Directors; (iv) approval of AB Mažeikių Nafta Annual Financial Statements for 2005; (v) appropriation of AB Mažeikių Nafta profit of the financial year 2005; (vi) establishment of AB Mažeikių Nafta Auditor's fee for the financial period 2006; (vii) election of new members of the Supervisory Council of AB Mažeikių Nafta; (viii) routine issues.

April 19, 2006. Regarding AB Mažeikių Nafta Annual Financial Statements for 2005:

In the meeting held on 14 April 2006, the Board of Directors of AB Mažeikių Nafta decided to approve AB Mažeikių Nafta Annual Financial Statement 2005 prepared in accordance with International Financial Reporting Standards.

April 19, 2006. The draft decisions of the Ordinary General Meeting of Shareholders of AB Mažeikių Nafta to be held on April 28, 2006 are as follows: (i) to consider AB Mažeikių Nafta auditor's conclusions prior to the approval of AB Mažeikių Nafta Annual Financial Statement for 2005 and AB Mažeikių Nafta Performance Report for the financial year 2005; (ii) to consider suggestions and comments of AB Mažeikių Nafta Supervisory Council made on AB Mažeikių Nafta Annual Financial Statements of 2005 and Performance Report for the financial year 2005; (iii) to approve the Performance Report for the financial year 2005; (iv) to approve the Annual Financial Statements of AB Mažeikių Nafta for 2005; (v) to approve AB Mažeikių Nafta Appropriation Account of the financial year 2005; (vi) to establish an Auditor's fee of 880 000 (eight hundred eighty thousand) litas excluding VAT for AB Mažeikių Nafta Auditor – UAB PricewaterhouseCoopers for the financial year 2006; (vii) upon expiration of the term of AB Mažeikių Nafta Supervisory Council having discharged its functions by the date of the Ordinary General Meeting of Shareholders, to elect these members for the Supervisory Council of AB Mažeikių Nafta for the period of four (4) years: [Persons proposed by the Company's shareholders and/or by the managing bodies of the Company having the right, according to the Law on Companies, to propose candidates for appointment to the Supervisory Council].

April 19, 2006. Regarding appropriation of AB Mažeikių Nafta profit for the financial year 2005: At the meeting held on April 14, 2006 the Board of Directors of AB Mažeikių Nafta decided to approve the draft Appropriation Account of AB Mažeikių Nafta for the financial year 2005 noting that the major shareholders of the Company, the Government of the Republic of Lithuania and Yukos International UK B.V., have not expressed their opinion on the allocation of net profit: to transfer LTL 14 897 thousand (EUR 4 314 thousand) or USD 5 119 thousand at the rate as of December 31, 2005) to legal reserves and to carry forward the rest of unappropriated profit at the end of the current financial year.

April 28, 2006. Regarding presentation of reports for the three-month period: financial statements for the three-month period of 2006 are due from the auditor UAB Pricewaterhouse Coopers to be submitted by May 31, 2006.

April 28, 2006. Regarding the Ordinary General Meeting of Shareholders of AB Mažeikių Nafta to be held on April 28, 2006: The Ordinary General Meeting of Shareholders of AB Mažeikių Nafta was not convened on April 28, 2006 for the absence of a quorum.

April 28, 2006. AB Mažeikių Nafta reported its preliminary financial results for the 1st quarter 2006: preliminary unaudited consolidated net profit of AB Mažeikių Nafta for the 1st quarter 2006 under International Financial Reporting Standards is 133.628 million litas (38.701 million euros). EUR).

April 28, 2006. Regarding allocation of AB Mažeikių Nafta profit for the financial year 2005: At the meeting held on April 27, 2006 the Supervisory Council of AB Mažeikių Nafta decided to propose the following distribution of AB Mažeikių Nafta profit for the financial year 2005: to transfer LTL 14 897 thousand (EUR 4 314 thousand) or USD 5 119 thousand at the official rate as of December 31, 2005) to legal reserves and to allocate USD 115 million to payment of dividends (an appropriate amount in litas will be determined at the official rate of the day the Meeting approving dividend payment was held) and to carry forward the rest of unappropriated profit at the end of the current financial year. Additional

information: According to the official rate as of April 28, 2006, the amount of dividend per share would be LTL 0.45 (EUR 0.13).

May 19, 2006. Announcement of the Repeated General Meeting of Shareholders of AB Mažeikių Nafta to be held on May 26, 2006: the Repeated Ordinary General Meeting of Shareholders of AB Mažeikių Nafta (company code 166451720, registered office: Juodeikiai, 98467 Mažeikiai distr.) to be convened May 26, 2006 at 11:00 a.m. The Meeting will be held in AB Mažeikių Nafta Administration Building, Juodeikiai, Mažeikiai distr. Record date for the Meeting: May 19, 2006. Agenda of the Ordinary General Meeting of Shareholders of AB Mažeikių Nafta: (i) consideration of AB Mažeikių Nafta auditor's conclusions on AB Mažeikių Nafta Annual Financial Statements for 2005 and AB Mažeikių Nafta Performance Report for the financial year 2005; (ii) consideration of suggestions and comments of the Supervisory Council made on AB Mažeikių Nafta Annual Financial Statements for 2005 and AB Mažeikių Nafta Performance Report for the financial year 2005; (iii) approval of AB Mažeikių Nafta Performance Report for the financial year 2005 prepared by the Board of Directors; (iv) approval of AB Mažeikių Nafta Annual Financial Statements for 2005; (v) appropriation of AB Mažeikių Nafta profit of the financial year 2005; (vi) establishment of AB Mažeikių Nafta Auditor's fee for the financial period 2006; (vii) election of new members of the Supervisory Council of AB Mažeikių Nafta; (viii) routine issues.

May 26, 2006. Resolutions of the Repeated Ordinary Meeting of Shareholders of AB Mažeikių Nafta convened on May 26, 2006. The Repeated Ordinary General Meeting of Shareholders of AB Mažeikių Nafta decided on the following actions: (i) to take into consideration AB Mažeikių Nafta Auditor's report when approving the Annual Financial Statements of AB Mažeikių Nafta for the year 2005 and AB Mažeikių Nafta Performance Report for the financial year 2005; (ii) to take into consideration comments and suggestions of the Supervisory Council of AB Mažeikių Nafta on the Annual Financial Statements AB Mažeikių Nafta for the year 2005 and AB Mažeikių Nafta Performance Report for the financial year 2005; (iii) to approve AB Mažeikių Nafta Performance Report for the financial year 2005 as prepared by the Board of AB Mažeikių Nafta; (iv) to approve the Annual Financial Statements of AB Mažeikių Nafta for the year 2005; (v) to approve distribution of AB Mažeikių Nafta profit for the financial year 2005 according to which USD 5 119 thousand (LTL 13,828 thousand or EUR 4,005 thousand) is transferred to legal reserves and unappropriated profit, i.e. USD 399 068 thousand (LTL 962 755 thousand or EUR 278 833 thousand) is carried forward to the next financial year; (vi) to establish the Auditor's fee amounting to LTL 880,000 (eight hundred eighty thousand Litass), without VAT, for the audit services to be rendered by AB Mažeikių Nafta Auditor – UAB PricewaterhouseCoopers – during the financial year 2006; (vii) to elect the following Supervisory Council of AB Mažeikių Nafta for the period of 4 (four) years: Vytautas Aršauskas, Vladas Kazimieras Gagilas, Genovaitė Geleževičienė, Pavel P. Ivlev, Vladimir N. Kasterin, Oleg V. Šeiko, Piotr S. Zolotariov, Martin Parr.

May 26, 2006. Election of Management Bodies of AB Mažeikių Nafta: At the meeting of the Supervisory Council of AB Mažeikių Nafta held May 26, 2006 Piotr S. Zolotariov was elected to be a Chairman of the Supervisory Council. Further, the Supervisory Council of AB Mažeikių Nafta has elected the members of the Board of AB Mažeikių Nafta for the period of four (4) years: Nerijus Eidukevičius, Michail V. Jelfimov, Tomas Gižas, Jurij V. Kalner, Petras Lepeška, Vladislavas Paulius, Gediminas Vaičiūnas.

May 31, 2006. Regarding the planned net profit of AB Mažeikių Nafta in the year 2006: The planned net profit of AB Mažeikių Nafta in the financial year 2006 is LTL 336.5 million (USD 120.5 million).

June 9, 2006. Election of a Chairman of AB Mažeikių Nafta Board: At the meeting of the Board of AB Mažeikių Nafta Nerijus Eidukevičius was elected to be a Chairman of the Board.

On June 9, 2006 the Government of the Republic of Lithuania, AB Mažeikių Nafta and Polski Koncern Naftowy Orlen S.A. signed the act on termination and waiver of obligations in regard to investment, shareholders' and other agreements and of rights related to AB Mažeikių Nafta, under which and upon the acquisition of the shareholding and/or all associated rights by Polski Koncern Naftowy Orlen S.A. after having concluded (i) the Share Sale-Purchase Agreement with Yukos International UK B.V. regarding acquisition of Yukos' stake in AB Mažeikių Nafta and (ii) the Share Sale-Purchase Agreement with Lithuanian Government regarding AB Mažeikių Nafta shares by the right of ownership belonging to the State and the provisions of the said agreements hereof, the Parties waive all their rights according to the investment, shareholders' and other agreements associated to AB Mažeikių Nafta

46. Material events in the Issuer's activity

On January 18, 2005 AB Mažeikių Nafta reported that during the meeting of the Board of Directors of AB Mažeikių Nafta held on January 17, 2005 the Board decided to acquire 15 500 (fifteen thousand five hundred) ordinary registered shares with a nominal value of 1000 (one thousand) litas of its subsidiary UAB Uotas, 100 percent of authorized capital of which is owned by AB Mažeikių Nafta.

On January 18, 2005 the Company also reported that during the meeting of the Board of Directors of AB Mažeikių Nafta on January 17, 2005 the Board decided to acquire 5 540 (five thousand five hundred forty) ordinary registered shares of UAB Juodeikių Nafta, a subsidiary of AB Mažeikių Nafta, from UAB Lukoil Baltija at a nominal value of 100 (one hundred) litas. After completion of this transaction, AB Mažeikių Nafta will hold 100 percent of the authorized capital of UAB Juodeikių Nafta.

On January 28, 2005 AB Mažeikių Nafta posted that the planned profit for the financial year 2005 (taking into account the forecasted reduction in crude refining margin) is roughly LTL 244 million.

On February 21, 2005 AB Mažeikių Nafta announced that the preliminary unaudited consolidated net profit according to US GAAP for the year 2004 was 721.858 million litas. On the same day, the Company reported that annual financial reports of 2004 were due from the auditor UAB Pricewaterhouse Coopers to be submitted by March 31, 2005.

On March 25, 2005 the Company posted that during the meeting held on March 25, 2005 the Board of Directors of AB Mažeikių Nafta decided to approve AB Mažeikių Nafta Annual Financial Statements of 2004 prepared in accordance with the requirements established in the laws of the Republic of Lithuania and US GAAP standards. AB Mažeikių Nafta audited consolidated net profit for 2004 under US GAAP is 721.883 million litas.

On March 25, 2005 the Company also reported that the Board of Directors of AB Mažeikių Nafta (which originally instigated to convene the meeting of shareholders) decided to call a

General Meeting of Shareholders of AB Mažeikių Nafta, company code 166451720, located at Juodeikiai, 89467 Mažeikiai District, on April 29, 2005 at 11:00 a.m. The General Shareholders' Meeting will be held in the Cultural House of Mažeikiai District Municipality located at Naftininkų Str. 11, Mažeikiai. The record date for the Meeting: April 22, 2005. Agenda of the Ordinary General Meeting of Shareholders of AB Mažeikių Nafta: (i) consideration of AB Mažeikių Nafta auditor's conclusions on the Company's Annual Financial Statements for 2004; (ii) consideration of suggestions and comments of the Supervisory Council made on the Company's Annual Financial Statements of 2004 and on Company's Performance Report for the financial year 2004; (iii) approval of AB Mažeikių Nafta Performance Report for the financial year 2004 prepared by the Board of the Company; (iv) approval of AB Mažeikių Nafta Annual Financial Statements of 2004; (v) appropriation of AB Mažeikių Nafta profit of the financial year 2004; (vi) establishment of AB Mažeikių Nafta Auditor's remuneration rate for the financial year 2005; (vii) election of the member to AB Mažeikių Nafta Supervisory Council; (viii) routine issues.

On the same day, the Company informed that during the meeting on March 25, 2005 the Board of Directors of AB Mažeikių Nafta decided to approve the draft Appropriation Account 2004 of AB Mažeikių Nafta: to transfer 5 percent of the net profit to legal reserves and to carry forward the rest of unappropriated profit at the end of the current financial year.

On April 21, 2005 AB Mažeikių Nafta posted that on April 20, 2005 the Board of Directors of AB Mažeikių Nafta decided to approve the new draft Appropriation Account 2004: to transfer 34 782 345.00 litas of the net profit to legal reserves, to allocate 247 608 946.00 litas to the payout of dividends and to carry forward the rest of the unappropriated profit at the end of the current financial year.

On April 29, 2005 the General Meeting of Shareholders of AB Mažeikių Nafta decided on the following: to take into account AB Mažeikių Nafta auditor's conclusions when approving AB Mažeikių Nafta Annual Financial Statements for 2004 and AB Mažeikių Nafta Performance Report for the financial year 2004; to take into account suggestions and comments of AB Mažeikių Nafta Supervisory Council made on AB Mažeikių Nafta Annual Financial Statements of 2004 and Performance Report for the financial year 2004; to approve AB Mažeikių Nafta Performance Report 2004 prepared by the Board of the Company, AB Mažeikių Nafta Annual Financial Statements for 2004 and appropriation of AB Mažeikių Nafta profit of the financial year 2004, according to which 34 782 345.00 litas is transferred to legal reserves and unappropriated profit, i.e. 409 132 607.00 litas, is carried forward to next year; to establish a fee of 845 000.00 litas for remuneration of AB Mažeikių Nafta auditor UAB PriceWaterhouseCoopers for the financial year 2005.

On the same day, the Company reported that the preliminary unaudited consolidated net profit under International Financial Reporting Standards for the first quarter 2005 amounted to 195 428 million litas, and the Financial Statements of AB Mažeikių Nafta for the three-month period were due from the auditor UAB PricewaterhouseCoopers to be submitted by May 31, 2005.

July 29, 2005. AB Mažeikių Nafta results for the 1st half 2005: Unaudited consolidated net profit of AB Mažeikių Nafta for the first quarter 2005 according to International Financial Reporting Standards (IFRS) amounted to 378 979 million litas (109 759 million euros).

On July 29, 2005 AB Mažeikių Nafta posted that the Financial Statements for the 1st half 2005 were due from the auditor UAB Pricewaterhouse Coopers to be submitted by August 31, 2005.

October 12, 2005. Regarding acquisition of AB Mažeikių Elektrinė shares: On October 12, 2005 AB Mažeikių Nafta, upon signing the Share Purchase-Sale Agreement with the state enterprise Valstybės turto fondas, obtained 24 612 296 ordinary registered shares of AB Mažeikių Elektrinė with a nominal value of 1 (one) litas each. It is a 85.72 percent stake of all shares with voting rights issued by the said company.

October 28, 2005. The preliminary results of AB Mažeikių Nafta for the nine-month period of 2005: Unaudited consolidated net profit of AB Mažeikių Nafta for the nine-month period of 2005 according to International Financial Reporting Standards (IFRS) amounted to 776 000 million litas (224 745 million euros).

On October 28, 2005 AB Mažeikių Nafta posted that the Annual Financial Statements of AB Mažeikių Nafta for the nine-month period of 2005 were due from the auditor UAB Pricewaterhouse Coopers to be submitted by November 31, 2005.

Announcement of the Extraordinary General Meeting of Shareholders of AB Mažeikių Nafta on November 15, 2005: The Board of Directors of AB Mažeikių Nafta decided to convene the Extraordinary General Meeting of Shareholders of AB Mažeikių Nafta on December 19, 2005 at 11:00 a.m., in AB Mažeikių Nafta Administration Building, Juodeikiai, Mažeikiai distr. and to approve the following agenda of the Meeting: approval to the preparation of AB Mažeikių Nafta reorganization conditions. The record date for the Meeting: December 12, 2005.

November 15, 2005. Draft decision of the Extraordinary General Meeting of Shareholders of AB Mažeikių Nafta: Provisional agenda of the Extraordinary General Meeting of Shareholders of AB Mažeikių Nafta to be held on December 19, 2005: to approve to preparation of AB Mažeikių Nafta reorganization conditions, under which AB Mažeikių Nafta incorporates AB Mažeikių Elektrinė while continuing its operations and the existence of AB Mažeikių Elektrinė as such terminates after reorganization; and assign the Board of the Company to prepare the indicated reorganization conditions in accordance with applicable laws.

December 2, 2005. Regarding liquidation of UAB Uotas: By decision of AB Mažeikių Nafta, a single shareholder of UAB Uotas, the starting date of the liquidation procedure of UAB Uotas, company code 166578511, registered office Laisvės g. 30, LT – 89223, Mažeikiai, is December 1, 2005.

December 19, 2005. Regarding the Extraordinary General Meeting of Shareholders of AB Mažeikių Nafta to be held on December 19, 2005: the Extraordinary General Meeting of Shareholders of AB Mažeikių Nafta was not convened on December 19, 2005 for the absence of a quorum.

47. Strategy of activity and its prospective changes during current and coming financial (economic) years

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 LTL 8.2 billion. The Company forecasts to finish the year 2006 with a profit.

The Company consistently aims at attaining the targeted goals. The key objectives are:

- Financial – aiming at the optimal profit, maximization of the value of shareholders' assets;
- Economic – financial control and analysis improvement, revenue increase and cost reduction in every division.
- Operational – operation at full production capacity, improvement of operational processes for the purpose to achieve financial goals and lay foundations for future progress;
- Sales and marketing – retention of market share and penetration into new profitable markets, development of services;
- Management – to employ Company personnel in the most effective way and further contribute to their professional development through career planning and training.

The Company 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.