

**AB MAŽEIKIŲ NAFTA**  
**Semi-Annual Prospectus Report**  
**on the First Half-Year of 2006**

Prepared in accordance with the Rules of Periodic Disclosure of Information on Issuers' Activities and Their Securities as approved by the Securities Commission of the Republic of Lithuania

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## I. GENERAL PROVISIONS

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

The 1st half-year of 2006.

### 2. Main data on the Issuer

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

### 3. Nature of the Issuer's principal activities

AB *Mažeikių Nafta* is an oil refining company engaged in wholesale of solid, liquid, gaseous fuels and similar products as well as transportation of the latter by roads, railways and pipelines.

### 4. Information on where and how one can get conversant with the report and the documents basing whereon it was prepared (financial statements, auditor's opinions, etc.) and the means of mass media

The report and other documents basing whereon it was prepared are available in AB *Mažeikių Nafta* at the address: Juodeikiai, 89467 Mažeikiai distr., on business days from 8<sup>00</sup> a.m. till 16<sup>00</sup> p.m.

All major events related to the Company's activities, also information on the date and place of General Shareholders' Meetings as well as other notices to be presented to shareholders and other persons shall be announced in the daily paper *Lietuvos Rytas* in accordance with the procedure established by the law of the Republic of Lithuania.

### 5. Persons responsible for accuracy of the information provided in the report

#### 5.1. Members of managing bodies of the Issuer, employees and the Administration Head responsible for the report:

English P. Nelson, General Director of AB *Mažeikių Nafta*, tel.: (443) 92121, fax: (443) 92525.  
Liudmila Batakienė, Director of Financial Planning and Control of AB *Mažeikių nafta*, tel.: (443) 92461, fax: (443) 92348.

**5.2. Declarations made by the members of the Issuer’s managing bodies, employees and the Administration Head responsible for the report do indicate that the information contained in the report corresponds to the reality and that there are no omissions likely to affect the investors’ decisions concerning purchase, sale or valuation of the Company’s securities or the market price of these securities**

AB *MAŽEIKIŲ NAFTA*, represented by English P. Nelson, General Director, and Liudmila Batakienė, Director of Financial Planning and Control, does hereby confirm that the information contained in the report corresponds to actual facts and that there are no omissions likely to affect the investors’ decisions 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 Vida Mažrimienė, Manager of Financial Planning and Reporting Group, does hereby confirm that the report provides all the 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

.....

29 August 2006

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AB *MAŽEIKIŲ NAFTA*  
Director of Financial Planning and  
Control

Liudmila Batakienė

.....

29 August 2006

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

Vida Mažrimienė

.....

29 August 2006

## II. DATA ON THE ISSUER'S AUTHORIZED CAPITAL AND SECURITIES ISSUED

### 6. The Issuer's authorized capital:

#### 6.1. Authorized capital registered with the Register of Enterprises

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

6.1.1. Table 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
<b>Total:</b>	<b>707 454 130</b>	<b>-</b>	<b>707 454 130</b>	<b>100,00</b>

All the shares of AB *Mažeikių Nafta* are paid-up shares.

#### 6.2. Information on the projected increase of the authorized capital by converting or exchanging debt securities or derivative securities issued into shares

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### 7. Shareholders

The total number of shareholders of AB *Mažeikių Nafta* having participated in the last General Meeting of Shareholders held on May 26, 2006 amounted to 3,438.

667,584,352 ordinary registered shares (hereinafter - ORS) are by right of ownership owned by two shareholders: *Yukos International UK 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 the authorized capital) are by right of ownership owned by 3,436 individual shareholders.

7.1. Table. The following is the data on the shareholders having owned more than 5 % of the Company's authorized capital as on 30 June 2006:

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

The State, the Ministry of Economy of the Republic of Lithuania, Gedimino pr. 38/2, 01104 Vilnius. Company Code 188621919	287 665 941	40.66	40.66	40.66 %
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## 8. Securities not representing capital, however, the turnover whereof is governed by the Law on Securities Market

### 9. Secondary trading in securities issued by the Issuer

On February 5, 1996 the securities of AB *Mažeikių Nafta* were entered onto the trading lists of Vilnius Stock Exchange (hereinafter – Exchange).

9.1. Table. Data on the issue of AB *Mažeikių Nafta* securities:

ISIN code	LT0000115552
Shortened name	MNFIL
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	06.02.1996

As at 30 June 2006, 707,454,130.00 ordinary registered AB *Mažeikių Nafta* shares (the identification code granted by Central Securities Depository of Lithuania is LT0000 11555 2 (hereinafter – the CD code of securities)) of the nominal value of one litas each appeared on the current Baltic list, the total nominal value whereof amounted to 707,454,130 litas.

9.2. Table. Below provided is the data (featured during the first half-year of 2006) on AB *Mažeikių Nafta* securities quoted and sold on the central market:

Trading session	Price (LTL)		Turnover (LTL)	
	highest	lowest	highest	lowest
01.01.2006 – 31.03.2006	10.59	8.50	2 376 084.02	56 539.60
01.04.2006 – 30.06.2006	10.20	8.15	2 837 263.64	32 091.40

Trading session	Latest trading session		Total turnover	
	Price (LTL)	Turnover (LTL)	pcs.	In Litass
01.01.2006 – 31.03.2006	9.45	550 438.34	5 199 890	48 744 307.13
01.04.2006 – 30.06.2006	8.58	2 074 408.87	3 564 775	31 980 997.96

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

## 10. Agreements entered into with intermediaries of public trading in securities

In December, 2003 AB *Mažeikių Nafta* and Securities Services & Custody Department of *Vilniaus Bankas* (Gedimino pr. 12, 01103 Vilnius) concluded the Securities Account Handling Agreement according to which the Bank has accepted and is now conducting the accounting of the Company's securities.

## 11. Members of Managing Bodies

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

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

Company's activities are under the auditor's, UAB *PricewaterhouseCoopers*, control.

Articles of Association of AB *Mažeikių Nafta* provide that the Supervisory Council is elected at a General Meeting of Shareholder for a four-year term. Members of the Board of Directors are appointed by the Supervisory Council for a four-year term.

### SUPERVISORY COUNCIL (1 January 2006)

**Piotr S. Zolotariov** – Chairman of the Supervisory Council. General Director of the Russian Company OAO *Ruskiye Mashiny*. Chairman of the GAZ Group Board. No Company shares possessed.

**Genovaitė Geleževičienė** – Member of the Supervisory Council. Head of the Analysis and Forecast Division of the Economy Strategy Department of the Ministry of Economy. No Company shares possessed. 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 Public Enterprise *Lithuanian Development Agency for Small and Medium-Sized Business Enterprises* (SMEDA).

**Vytautas Aršauskas** - Member of the Supervisory Council. Chief Specialist of the Petroleum Division of the Energy Resources Department of the Ministry of Economy. No Company shares possessed. Member of the Supervisory Council of AB *Klaipėdos Nafta*.

**Oleg Sheyko** - Member of the Supervisory Council. Financial Consultant. No Company shares possessed.

**Vladimir N. Kasterin** - Member of the Supervisory Council. Vice President for Oil Refining in oil-and-gas company ZAO *RusNeft*. No Company shares possessed.

**Bruce K. Misamore** - Member of the Supervisory Council. No Company shares possessed.

**Pavel P. Ivlev** - Member of the Supervisory Council. Manager of *Feldmans Consulting, LCC*. No Company shares possessed.

**Vladas Kazimieras Gagilas** – Member of the Supervisory Council. Director of the Energy Resources Department of the Ministry of Economy. No Company shares possessed. Member of the Board of AB *Lietuvos Dujos*; Chairman of the Board of AB *Klaipėdos Nafta*.

### SUPERVISORY COUNCIL (29 April - 1 June 2006)

**Piotr S. Zolotariov** - General Director of the Russian Company OAO *Ruskiye Mashiny*. Chairman of the GAZ Group Board. Chairman of the Supervisory Council. No Company shares possessed.

**Genovaitė Geleževičienė** – Member of the Supervisory Council. Head of the Analysis and Forecast Division of the Economy Strategy Department of the Ministry of Economy. No Company shares possessed. 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 Public Enterprise *Lithuanian Development Agency for Small and Medium-Sized Business Enterprises (SMEDA)*.

**Vytautas Aršauskas** - Member of the Supervisory Council. Chief Specialist of the Petroleum Division of the Energy Resources Department of the Ministry of Economy. No Company shares possessed. Member of the Supervisory Council of AB *Klaipėdos Nafta*.

**Oleg Sheyko** - Member of the Supervisory Council. Financial Consultant. No Company shares possessed.

**Vladimir N. Kasterin** – Member of the Supervisory Council. Vice President for Oil Refining in oil-and-gas company ZAO *RusNeft*. No Company shares possessed.

**Martin Julian Parr** – Member of the Supervisory Council. Managing Director of *Yukos Services (UK) Limited*. No Company shares possessed.

**Pavel P. Ivlev** - Member of the Supervisory Council. Manager of *Feldmans Consulting, LCC*. No Company shares possessed.

**Vladas Kazimieras Gagilas** – Member of the Supervisory Council. Director of the Energy Resources Department of the Ministry of Economy. No Company shares possessed. Member of the Board of AB *Lietuvos Dujos*; Chairman of the Board of AB *Klaipėdos Nafta*.

#### **BOARD OF DIRECTORS (1 January - 1 June 2006) \***

**Nerijus Eidukevičius** - Chairman of the Board of Directors since April 30, 2004. Elected for a 4-year term. University degree education, Diploma of an Economist, Vilnius University. Employment: 1993 - 1996 Financial brokerage firm UAB *Suprema*, Project Manager; 01.1997 – 01.1999 *Hansa Investments*, Project Manager; 01.1999 – 01.2000 *Hansa Investments*, General Director; 02.2000 – 12.2000 *Deloitte&Touche*, Manager; since 01.2001 - Vice Minister of Economy. No Company shares possessed. Chairman of the Board of Directors of AB *Alytaus Tekstilė*.

**Jurij V. Kalner** - Member of the Board of Directors. Head of Strategic Planning Centre of OAO *SUEK*. No Company shares possessed.

**Tomas Gižas** – Member of the Board of Directors. Head of Representative Office of *Yukos International UK B.V.* Holds 100% of the capital of UAB *Gibrus* and UAB *Baltijos Atliekų Tvarkymas*.

**Mikchail V. Elfimov** - Member of the Board of Directors. No Company shares possessed.

**Vladislavas Paulius** - Member of the Board of Directors. General Director of Russian company OOO *Objedionajaja Neftenaja Grupa*. No Company shares possessed.

**Petras Lepeška** – Member of the Board of Directors. Chief Specialist of the Petroleum Division of the Energy Resources Department of the Ministry of Economy. Member of the Board of Directors of UAB *Mažeikių Nafta Trading House*.

**Gediminas Vaičiūnas** - Member of the Board of Directors. Advisor on Energy Issues of the Office of the Government. No Company shares possessed. Deputy Chairman of the Council of the State Nuclear Energy Safety Inspection. Not involved in management of other Lithuanian companies and their capital.

#### **ADMINISTRATION**



**Paul Nelson English** (born in 1943). General Director of AB *Mažeikių Nafta* since 2002. University degree education, Bachelor of Science in Engineering Mechanics (1972) and Master of Science in 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 Chemical Division; 2001 - 2002 *EL PASO/COASTAL CORPORATION*, Senior Vice President and Director of Refining & Chemical Division of *Coastal Aruba Refining Co.*

No Company shares possessed. Not involved in management of other Lithuanian companies and their capital.

**Vita Petrošienė** (born in 1952). Chief Financial Officer of AB *Mažeikių Nafta* since September 27, 2002.

University degree education. Diploma in Engineering. 05.1995 – 12.1995 AB *Mažeikių Nafta*, Deputy Director of Economics and Finance; 12.1995 – 11.1999 AB *Mažeikių Nafta*, Director of Economics and Finance; 11.1999 – 04.2001 AB *Mažeikių Nafta*, Director of Finance; 04.2001 – 09.2002 AB *Mažeikių Nafta*, Deputy Chief Financial Officer.

No Company shares possessed. Not involved in management of other Lithuanian companies and their capital.

AB *Mažeikių Nafta* has no information available on effective convictions of the members of the Managing Bodies for crimes related to ownership, business economy and finance.

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\* Pursuant to the Resolution passed by the Supervisory Council of AB *Mažeikių Nafta* on 26 May 2006, all the members of the Board of Directors were re-elected members of the Board of Directors for another term of 4 (four) years.

### III. FINANCIAL STATUS

The below interim shortened and consolidated financial information provided by the Group has been prepared for the preceding six-month-period having ended on 30 June 2006. The information has been prepared in accordance with the International Accounting Standard (IAS) No. 34 *Interim Statement* as well as International Financial Reporting Standards (IFRS) approved for application within the European Union for interim statements (IAS No. 34 *Interim Statement*).

The herein provided shortened interim financial statement shall be read in tandem with the annual financial statement for the preceding year having ended on 31 December 2005. The shortened consolidated interim financial information was prepared in compliance with the accounting principles and the accounting methods used for preparation of the consolidated annual financial statement for the preceding year having ended on 31 December 2005. The particular accounting principles were applied to all the specified reporting periods. Application of certain newly introduced accounting standards, also of interpretations and modifications (as described in the consolidated financial statement for the preceding year having ended on 31 December 2005) of the existing ones by the Group have become obligatory since 1 January 2006. The said had no significant influence on the shortened consolidated interim financial information provided by the Group.

Consolidated financial statements in litas are prepared on the basis of consolidated financial statement in US dollars which is the Company's functional and presentation currency.

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

	30.06.2006	31.12.2005	30.06.2005*
<b>ASSETS</b>			
<b>Long-term assets</b>			
Long-term tangible assets	1 420 037	1 481 336	1 428 354
Intangible assets	9 109	11 396	11 861
Goodwill	5 361	5 361	1 183
Investments in associated enterprises	3 765	3 672	3 556
Deferred income tax assets	70 048	60 798	46 135
Available-for-sale financial assets	-	3	2
Long-term receivables and prepayments	89 843	81 478	52 674
	1 598 163	1 644 044	1 543 765
<b>Short-term assets</b>			
Inventories	876 383	748 268	461 251
Trade-related and other receivables	517 484	420 836	521 930
Prepaid income tax	18 791	480	-
Derivative financial instruments			11
Cash and cash equivalents	2 013 411	1 856 164	1 611 804
	3 426 069	3 025 748	2 594 996
Long-term assets intended for sale	796	2 773	450
	3 426 865	3 028 521	2 595 446
<b>TOTAL ASSETS</b>	5 025 028	4 672 565	4 139 211
<b>EQUITY</b>			
<b>Capital and reserves attributable to the Company's shareholders</b>			
Share capital	707 454	707 454	707 454
Share premium account	283 040	283 040	283 040

Reserves	50 799	36 526	35 480
Accrued currency conversion adjustment	(137 560)	(30 716)	(63 739)
Non-appropriated profit	1 319 652	963 006	539 429
	2 223 385	1 959 310	1 501 664
<b>Minority interest</b>	2 811	2 433	749
<b>Total equity</b>	2 226 196	1 961 743	1 502 413
<b>LIABILITIES</b>			
<b>Long-term liabilities</b>			
Borrowings	1 245 208	1 321 452	1 310 108
Other long-term liabilities	23 695	24 754	14 268
Deferred provisions for other liabilities	32 949	32 949	31 567
	1 301 852	1 379 155	1 355 943
<b>Short-term liabilities</b>			
Trade-related and other payables	1 355 326	1 150 833	869 281
Income tax liabilities	107 036	107 325	205 957
Borrowings	22 351	28 555	187 300
Deferred provisions for other liabilities	12 267	44 954	18 317
	1 496 980	1 331 667	1 280 855
<b>Total liabilities</b>	2 798 832	2 710 822	2 636 798
<b>TOTAL EQUITY AND LIABILITIES</b>	5 025 028	4 672 565	4 139 211

### 13. Consolidated profit (and loss) account (thous. LTL)

13.1. Table. Consolidated Profit (and Loss) Account in accordance with the International Financial Reporting Standards (thous. LTL)

	2006 -06 -30	2005 -06 -30*
Revenue from goods sold and services rendered	6 826 542	4 818 765
Cost of goods sold and services rendered	( 5 970 788)	(3 897 893)
<b>Gross profit</b>	855 754	920 872
Other income	3 811	1 497
Selling and marketing expenses	(288 906)	(276 332)
Administrative expenses	(135 093)	(93 832)
<b>Profit from operating activities</b>	435 566	552 205
Revenue from financial activities	36 409	14 929
Financial activities expenses	(33 880)	(42 075)
Share of profit (loss) of associates	93	170
<b>Profit before income tax</b>	438 188	525 229
Income tax	(66 891)	(63 459)
<b>Profit of the year</b>	371 297	461 770
<b>Profit for appropriation for:</b>		
Shareholders of the Company	370 919	463 141
Minority interest	378	(1 371)
	371 297	461 770

\* The interim financial statement provided by the Group for the preceding six-month period having ended on 30 June 2005 was corrected in accordance with the modification (applicable to the rights of certain limited carbon dioxide emissions granted upon by the Government of the Republic of Lithuania, also to governmental subsidies and liabilities) made to the accounting policy.

## 14. Explanatory note

The corporate financial statements of AB *Mažeikių Nafta* Company Group for the first half-year of 2006 are comprised of financial statements of the parent company AB *Mažeikių Nafta*” (Juodeikiai, LT-89467 Mažeikiai distr.) and its subsidiaries: UAB *Juodeikių Nafta* (Juodeikiai, LT- 89467 Mažeikiai distr.), UAB *Uotas* (Skuodo 14, LT- 89223 Mažeikiai) under liquidation, AB *Mažeikių Elektrinė* (Power House) (Juodeikiai, LT-89467 Mažeikiai distr.), UAB *Mažeikių Nafta* Trading House (J. Jasinskio 16a, LT-01112 Vilnius), and the associated Lithuanian-French joint venture UAB *Naftelf* (Šeimyniškių 22, LT- 09312 Vilnius).

Subsidiaries are the companies whose financial and operating policies are under the Group’s control, such control is usually conferred upon by more than 50 percent of the voting rights held. Subsidiaries are fully consolidated from the date such control is transferred over to the Group and deconsolidated from the date the Group is deprived of the control.

Associates are entities whereon the Group has significant influence rather than absolute control. Generally, the significant influence is ensured by 20 % through to 50 % of the voting rights held. Investments into associates are accounted by applying equity method of accounting and are initially recognized at their procurement cost. The Group’s investment into an associate includes goodwill identified on acquisition.

AB *Mažeikių Nafta* (hereinafter – Company) was incorporated in 1980 for refining of crude oil and trading in refined petroleum products. On 7 April 1995 the Company was reorganized into a public company as a result of which the employees thereof were conferred upon the right to acquire a part of its shares. In 1998 the Company merged with the oil terminal operator AB *Būtingės Nafta* and the pipeline operator AB *Naftotiekis*.

In 2002, the Company acquired 85 percent of UAB *Uotas* share capital thus obtaining an 81 percent investment in AB *Ventus Nafta*. In 2003 the Company acquired the remaining 15 percent of UAB *Uotas* share capital. Both companies are engaged in retail trade in petroleum products. On May, 2005 the Company established the subsidiary UAB *Mažeikių Nafta* Trading House which acts as a sales agent within Lithuania. The subsidiaries of UAB *Mažeikių Nafta* Trading House are also involved in wholesale of petroleum products in Latvia, Estonia and Poland.

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

The services rendered by UAB *Juodeikių Nafta* are loading of petroleum products onto car-tanks.

14.1. Table. Enterprises having more than 30 per cent of AB *Mažeikių Nafta* stake in their authorized capital as at June 30, 2006:

Company	UAB <i>Juodeikių Nafta</i>	UAB <i>Uotas</i> under liquidation	UAB <i>Mažeikių Nafta</i> Trading House	AB <i>Mažeikių Elektrinė</i> POHO	Lithuanian-French joint venture UAB <i>Naftelf</i>
Company code	166688363	166578511	126237146	110871088	110765252
Registered office	Juodeikiai, Mažeikiai distr.	Skuodo g. 14, Mažeikiai	Jasinskio g. 16a, Vilnius	Juodeikiai Mažeikiai distr.	Šeimyniškių g.22, Vilnius

Nature of activity	Loading of tank-trucks with petroleum products	None	Agency services	Production and supply of heat and electricity	Retail and wholesale trade in fuels
Authorized capital (LTL)	1 385 000	107 800 000	7 060 000	11 131 244	12 000 000
Percentage of voting shares owned by AB <i>Mažeikių Nafta</i>	100 %	100 %	100 %	85.72 %	34 %

Subsidiary-related changes in the course of the first half-year of 2006:

On 18.01.2006 liquidation procedures were accomplished and the liquidated UAB *Biržietiška Aibė* was excluded from the Register of Legal Entities of the Republic of Lithuania.

On 29.06.2006, the Articles of Association of AB *Mažeikių Elektrinė* (Power House) were re-registered with the Register of Legal Entities as a result of the decreased authorized capital. The authorized capital of AB *Mažeikių Elektrinė* (Power House) was decreased in order to eliminate the losses entered onto the Company's Balance Sheet.

14.2. Table. Key performance indicators of *Mažeikių Nafta* Company Group:

Indicator	1st half-year of 2006	1st half-year of 2005	Difference (%)
Revenue (thous. LTL)	6 826 542	4 818 765	57.3
Gross margin (thous. LTL)	801 237	719 831	(10.2)
EBITDA	563 117	618 862	62.6
EBITDA margin, %	8.2	12.8	
Profit from operations, thous. LTL	435 566	552 205	(21.1)
Operation profit margin, %	6.4	11.5	
Profit (loss) before income tax (thous. LTL)	438 188	525 229	71.0
Net profit (loss), (thous. LTL)	371 297	461 770	(19.6)
Net profit (loss) margin, %	5.4	9.6	
Return on assets (ROA), %	7.39	11.6	
Debt ratio	0.56	0.64	
Debt-to-equity ratio	0.56	0.87	
Assets turnover	1.36	1.16	

Total liquidity ratio	79.54	56.98
Return on equity (ROE), %	52.48	65.27
Net earnings per share (LTL)	0.52	0.65
Average number of shares, pcs.	707 454 130	707 454 130

In 2006 the Company launched the production of the new products: bio-gasoline and bio-diesel. Upon Lithuania's undertaking of the obligation to the European Union, all motor fuels shall contain 2 per cent of bio-components. As a bio-component, fatty acid methyl ester (FAME) is added to diesel fuel, and ethyl-tret-butyl ether (ETBE) – to gasoline. As a component FAME is procured by the Company from suppliers, and ETBE is obtained from ethanol in a reconstructed unit which, depending on the need, may (adequately adjusted) produce MTBE or ETBE.

### FEEDSTOCK SUPPLY AND TRANSPORTATION

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 separate oil suppliers and 9 million tons of crude oil was delivered to the Refinery during 2005. The management plans on approximately 8.6 million tons of crude oil to be delivered to the refinery in 2006. Crude is currently supplied from the below listed three main producers: *Lukoil*, *Rosneft* and *TNK-BP*.

Although the Company is largely dependent on the supply of crude via the pipelines carrying oil through the territory of Russian Federation, it does have the possibility of importing crude through its oil terminal in Būtingė. A significant and lengthy disruption of crude supply would have material adverse effects on the Group's financial position, operation results and liquidity. However, the management believes that basing on its actions and the Group's capital investments, financing and operating plans for 2006, the operating difficulties experienced by the *Yukos* Group will have no material adverse impact on the Group.

14.3 Table. Volumes refined, transshipped and transported by AB *Mažeikių Nafta*:

Indicator	1st half-year of 2006	1st half-year of 2005	Difference (%)
Volumes refined, thous. t	4 709	4 429	6.3
Volumes transported, thous. t	10 438	9 631	8.4
Volumes transshipped, thous. t	2 527	2 597	(2.7)

As seen from the provided data, in the course of the first half-year of 2006 the Company continued on increasing its refining volumes which during the particular half-year amounted to 4.7 million t, i.e. 63 per cent more than during the comparative period of 2005. Keeping in mind that the Company itself takes care of feedstock procurement and supply, the result is considered extremely good. Apart from crude oil, refined was also vacuum distillate. Additional feedstock available enabled full working load of the Company's process units: in some cases the units were operated at their hundred-per-cent or even higher capacity.

The volumes transshipped via Būtingė Oil Terminal reduced by 8.4 per cent as compared to the adequate period in 2005. Transshipping of crude oil via Būtingė Oil Terminal tends to reduce due to the intensified competition with other ports of the Baltic Sea, especially - the new Primorsk port most of the Russian crude oil is directed to. In order idle times in the operation of Būtingė Oil Terminal are avoided, the Company's management renewed the contract signed with *Vitol Baltic* for crude oil transshipment. Besides, the incident of 29 December 2005 during which the buoy was damaged also contributed to the decrease in the volumes transshipped; in January the damage done to the buoy was being analyzed and comprehensive investigation of the incident and consequences thereof was carried out by independent experts. As a result of which, transshipment was discontinued in January.

Biržai Pipeline transported 8.4 % of feedstock more than in the previous year. In the course of the first half of the current year, 9.3 % of crude oil more was transshipped into the refinery, and 17.6 % of diesel fuel more to Ventspils.

## REVENUE AND MARGIN

The first half-year of 2006 was profitable to AB *Mažeikių Nafta*. The net profit gained by the Company in the course of the said period amounted to 371.3 million LTL, the profit was calculated according to the International Financial Reporting Standards (IFRS), i.e. the profit was 19.6 % less as compared to the adequate period of the previous year.

The revenue of *Mažeikių Nafta* Company Group during the first half-year of 2006 amounted to 6 826.5 million LTL, whereas, the revenue gained during the adequate period of the previous year amounted to 4 818.8 million LTL, i.e. during the said period of 2006 the revenue increased by 41.7 %.

14.3. Table. Dynamics of AB *Mažeikių Nafta* revenue

Description	1 <sup>st</sup> half-year of 2006	1 <sup>st</sup> half-year of 2005	Difference %
	thous. LTL	thous. LTL	
Oil Refinery	6 690 731	4 710 537	42,04
Oil Terminal	36 625	37 504	-2,3
Pipeline operator	42 054	36 411	15,5
Retail (filling-station) Network Operator	57 123	34 313	66,5
Other	9	-	
<b>Total revenue</b>	<b>6 826 542</b>	<b>4 818 765</b>	<b>41,7</b>

Crucial factor in the successful performance of the Group for in the course of the first half-year of 2006 was positive situation on the world markets enjoyed by the refiners for several recent years with the combined effect of increased crude oil and petroleum products prices and refining margins.

The levels of world prices of crude oil and petroleum products during the first four months of the year 2006 equaled to those featured in the course of the adequate period of 2005. However, the margins of world prices featured in May and June, 2006 exceeded those of the yesteryear. Consequentially, the average world price margin of the first half of the current year amounted to 117.19 \$/t, i.e. was 10.3 % bigger than that of the yesteryear which amounted to 106.27 \$/t.

Therefore, the refining margin of MN is also expected to be bigger. (World price (*Urals*) margin calculated as for *Brent*, minus quoted difference between *Brent* and *Urals*). The increase in the price of crude oil and petroleum products during the 1<sup>st</sup> half-year of 2006 resulted from the growing world economy.

However, the actual gross margin as for the 1<sup>st</sup> half-year of 2006 is smaller. The result of the 1<sup>st</sup> half-year of 2006 was largely impaired by the increased feedstock purchase costs due to the suspended feedstock supply from YUKOS as well as reduced economy of Russian crude oil export due to the increased crude oil export tax as a result of which the margin decreased by 17.5 million US dollars. The increase in the feedstock purchase costs was partially determined by the fact, that starting from 2006 the production of bio-fuels (motor bio-gasoline and bio-diesel) has been launched onto the Lithuanian market. For production of the said products started was procurement of the following bio-components: ethanol for production of ETBE and blending of bio-gasolines, and FAME – for mixing into diesel fuel. 8.5 million US dollars was spent on procurement of the bio-components.

Maximum working capacity of the units as well as emergency shut-downs resulted in the reduced yields of light petroleum products. The reduction was also influenced by emergency shut-downs of process units (idle time of the Visbreaker Unit lasted for 20 days during the 1<sup>st</sup> half-year). When summarizing the production, it is possible to state that the yield of heavy oil products increased by 1.1 %, however, for the account of light ones resulting in a 20.1 million US dollars loss.

The margin was positively influenced by the increased volumes of product sales. Efficient operation of *Mažeikių Nafta* Trading House facilitated the growth of sales in target markets. During the 1<sup>st</sup> half-year of 2006, *Mažeikių Nafta* Trading House sold 1.8 million tons of petroleum products, i.e. 0.23 million tons or 15 per cent more than during the adequate period in 2005. The largest volumes were sold on the Lithuanian, Estonian and Latvian markets. The growth of sales on target markets was basically determined by the increasing diesel fuel consumption.

The Company's Division of Petroleum Product Waterborne Export in the course of the said period exported 2.7 million tons of petroleum products to the Western Europe, i.e. 22 per cent more than during the adequate period of 2005. The growth of sales on the profitable target markets resulted in the marginal growth of sales on the markets of the Western Europe and Northern America.

Būtingė Oil Terminal transshipped 8.4 per cent less of crude oil as compared to the first half-year of 2005 and gained 0.9 million LTL less revenue.

Biržai Pipeline Operator transported 8.4 % of feedstock more as compared to the yesteryear and gained 42.0 million LTL, i.e. 15.3 per cent more revenue.

## **EXPENSES**

The largest part of the Company's expenses is comprised of crude oil costs which are greatly influenced by the fluctuation of prices on the world market, and which the Company has no impact on. The expenses which may be adjusted by the Company itself are: refining and transporting, operating as well as financial costs. The reduction of costs was and still remains one of the main tasks for improvement of the AB *Mažeikių Nafta* performance.



Steady feedstock supply in the course of the first half-year of 2006 was the factor having ensured the stable operation of the refinery: 4.7 million tons of feedstock was refined, i.e. 6.3 per cent more than during the comparative period of 2005.

The significantly increased refining volumes resulted not only in the increased feedstock-related costs, but also in bigger refining costs directly influenced by the production scope. The above mentioned refining costs increased by 22.4 per cent (in total). The increase of the particular expenses was basically determined by the significantly increased consumption of electric power and thermal energy. The increased expenses on electric power (32.9 per cent or 13.0 million LTL) was determined by the increased electric power price for calculation whereof considered is the price of the fuel oil sold to *Mažeikių Elektrinė* (Power House). The growing prices of the fuel oil resulted in the growth of expenses on electric power.

The high catalyst-related expenses (23.4 per cent or 1.6 million LTL) resulted from the re-loaded catalysts which are to ensure high quality of petroleum products meeting the quality requirements set forth by the European Union.

During the year 2006, experienced was also the increase in indirect refining expenses such as salaries, social insurance deductions, auxiliary materials, maintenance services, etc. The expenses on auxiliary materials and maintenance services increased by 9.7 million LTL. With units operating at the particular capacity and under the high efficiency featured, required was special maintenance for and constant monitoring of the condition of the units. A special inspection program is implemented in the Company, the program enables forecasting and eliminating of to-be-failures; the units are also tested with the method of acoustic emissions meant to assess the condition of a unit's shell and indicate any micro-cracks present. In the course of the first half of the current year, diesel hydro-treating catalysts (catalyst replacement related costs) were replaced, heaters - repaired, repair works at Visbreaker and Vacuum Distillate Hydro-Treatment Units (having suffered fire) - performed. The increase in the expenses on auxiliary materials was also influenced by the fact that in 2006 the Company has undertaken the procurement of materials meeting the requirements provided for by the European Union, and the prices of such materials are much higher.

The Company's employees were and remain its most important asset. Diligent and conscientious work of our employees was one of the fundamental factors contributing to our successful results. In order to preserve the employees' potential, the management of the Company has since 2006 participated in the researches of the Lithuanian salary market, and basing on the results obtained has undertaken the obligation to yearly increase the salary of the employees whose basic salary is below the average one on the Lithuanian salary market, in case the individual activity of the employees is satisfactory. The provision has been included into the newly approved Collective Bargaining Agreement for 2006 – 2008; besides, the Agreement anticipates annual bonuses the size whereof depends on the Company's results and is determined in accordance with the anticipated net profit of the Company, the profit is estimated basing on International Accounting Standards (in US dollars). The financial statement of the half-year included the accrued bonuses which the Employer undertakes to pay for contribution into the Company's success in 2005, and a sum amounting to 50 per cent of the bonus calculated according to the forecasted net profit for 2006. The expenses on salaries and social insurance deductions increased by 16.7 million LTL as compared with the previous year.

Consultancy expenditures increased by 6.1 million LTL. Expenses on legal and business-related consultancy comprised the biggest part of the expenditures (3.2 million LTL). Legal consultancy was employed for investigating of the size of the sanctions imposed upon and the appeal lodged by the Company to the Vilnius Regional Administrative Court regarding the Resolution No. 2S-16 of 22 December 2005 passed by the Competition Council of the Republic of Lithuania,

whereby the Company was adjudged to have violated paragraph 3 of Art. 9 of the Law on Competition of the Republic of Lithuania, and clause c) of Art. 82 of the Treaty establishing the European Community, the Company was also imposed upon a penalty amounting to 32 million litas.

The operation of the refinery causes pollution. On 31 December 2005 approved was the deferment of 31.4 million litas for all the expenses to be incurred when dealing with the waste accumulated through to the year 1999. The Group established that the associated compensation for environmental obligations undertaken is to be received from the Government and *Williams International Company* (which was replaced by *B.V. Yukos Finance*); the Government undertook indemnification of the strategic investor and the Company for all the losses incurred prior to privatization. In case the Investment Agreement is terminated due to changing of shareholders of the Company, the latter may have certain influence on the indemnification to be received from the Government. On 9 June 2006, the Government of the Republic of Lithuania, *AB Mažeikių Nafta* and the Polish Concern *Naftowy Orlen S.A.* all signed the Statement terminating the above agreement and exempting from obligations undertaken in respect of investments, shareholders or other contracts and rights associated with *AB Mažeikių Nafta*; upon the Statement signed by the Polish Concern *Naftowy Orlen S.A.* upon conclusion of (i) a Share Purchase-Sale Agreement with *Yukos International UK B.V.* concerning the procurement of all the *AB Mažeikių Nafta* shares belonging to *Yukos International UK B.V.* by right of ownership and (ii) a Share Purchase-Sale Agreement with the Government of the Republic of Lithuania concerning the procurement of the part of *AB Mažeikių Nafta* shares belonging to the state by right of ownership, also basing on the provisions set forth in the above transactions, upon procurement of the said shares by right of ownership and/or upon acquirement of all the related thereto rights, the parties waive all their rights provided for in the Investment, Shareholder and any other agreements associated with *AB Mažeikių Nafta*. Pursuant to the above, the financial statement as of 30 June 2006 included the accrued 50 per cent of the above mentioned sum, i.e. waste recovery expenses amounted to 15.7 million LTL.

During the period from January to June, 2006 the interest expenses which comprise the biggest part of the financial activities expenses increased by 17.1 per cent as compared to the adequate period of 2005. Interest expenses increased due to the increased exchange rate of the dollar for all the Company's loans are in US dollars.

The below are the credit line agreements signed by *AB Mažeikių Nafta* in the course of the 1<sup>st</sup> half-year of 2006:

On 30 January 2006 an Agreement on the Limit of Financial Obligations No. 10705FI was signed with **AB Bank DnB NORD**. According to this Agreement the bank grants a credit line of **29 million US dollars**. The purpose of the credit – circulating funds and opening of letters of credit and fulfillment thereof. The validity term of the financial obligation line – 30 November 2007 (inclusively). The fulfillment of the obligation shall be secured by means of: monthly circulation (by *AB Mažeikių Nafta*) of 30 million US dollars via the accounts held with **DNB NORD**.

For using of the credit, the bank shall be paid 3 months US dollars LIBOR + 1.1 percent.

On 30 March 2006, *AB Mažeikių Nafta* concluded the Guarantee and Letter of Credit Limit Agreement with **AB SEB Vilniaus Bankas and the Scandinavian Enskilda Banken AB (SEB)**. The object of the Agreement - **112.5 million** US dollars, within the scope of which *AB Mažeikių Nafta* may issue letters of credit and guarantees. The validity term of L/Cs and guarantees shall not extend beyond 1 July 2007. Every time the Company opens an L/C (issues a guarantee), it shall deposit (place a time deposit) of not 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 pledge/mortgage bonds, total value of which is not 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 utilization of the credit limit. Interest after the L/C reimbursement term – 1 month US dollars LIBOR + 1.35 percent by quarterly fixation for the next three-month period.

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 June 23, 2006. The object of the Arrangement is the limit of 350 million US dollars within the limit of which AB *Mažeikių Nafta* may open letters of credit whose expiry date is not later than 31 July 2007. Inclusively, the L/C amount of up to **90 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 undertaking. 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 Petroleum 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.

14.4. Table. Information on the status of long-term loans of Mažeikių Nafta Group as at 30 June 2006.

Lender/purpose	Currency	Interest rate	Maturity date / repayment terms	Balance, thous. LTL
<b>Working capital finance</b>				
Government of the Republic of Lithuania*	USD	7 %	31.07.2013 semi-annually	795 387
AB Vilniaus Bankas	USD	3 months LIBOR +1.1%	31.07.2013 semi-annually	206 468
<b>Investment program</b>				
AB Vilniaus Bankas	USD	3 months LIBOR +1.1%	30.07.2013 semi-annually	206 468
<b>Investment in the Oil Terminal</b>				
Kreditanstalt fur Wiederaufbau	USD	8,065%	By 30.09.2006 semi-annually	421
Kreditanstalt fur Wiederaufbau	USD	6 months LIBOR+0,875%	By 31.12.2006 semi-annually	1 704
Kreditanstalt fur Wiederaufbau	USD	6 months LIBOR+0.875%	By 31.12.2006 semi-annually	2 301
Kreditanstalt fur Wiederaufbau	USD	6 months LIBOR+0.875%	By 31.12.2006 semi-annually	418
AB Hansabankas	USD	6 months LIBOR+0.9%	By 31.01.2009 semi-annually	43 465
<b>Investment in petrol stations</b>				
AB Bank <i>Snoras</i>	USD	6 months LIBOR+0.875%	By 31.10.2007 semi-annually	5 187

**AB Mažeikių elektrinė**

Government of the Republic of Lithuania	USD	4.95 %	15.04.2011 semi-annually	4 154
<b>Investment in Trading House</b>				
Nordea Bank Finland Plc	USD	3,90%	By 31.12.2006 monthly	11
Less: current portion of long-term loan				(20 820)
<b>Total long-term loan</b>				<b>1 245 164</b>

\* The repayment of loans shall begin in 2009

**BALANCE, CASH FLOWS**

Corporate property of the *Mažeikių Nafta* Company Group as at 30 June 2006 amounted to 5 025.0 million LTL and was 21.4 per cent larger than that featured at the exact time in 2005. Long-term assets increased by 3.5 per cent (as comparing to the first half-year of 2005) and decreased by 5.2 per cent if compared to that of 31 December 2005. The decrease was basically determined by expenses incurred due to the expeditiously written off buoy at Būtingė Oil Terminal. From January through to June written off was 40.1 million LTL of the buoy value. Short-term assets increased by 32.0 per cent due to the increased reserves, cash and cash equivalent. Larger reserves resulted from the increased feedstock price. Cash and cash equivalents comprised 26.3 per cent of the total assets and in the course of the six months of the current year have increased by 157.3 million LTL (if compared to the first half-year of 2005, change in cash increased by 401.6 million LTL).

During the first half-year of 2006, the shareholders' equity increased by 48.2 per cent as compared to the adequate period of the yesteryear; the increase resulted from the accrued profit brought forward from the previous year. On 26 May 2006, during the Ordinary General Meeting of Shareholders of *AB Mažeikių Nafta* a resolution was passed whereby it was decided not to pay the shareholders the dividends when appropriating the profit of 2005.

During the six months of 2006, net cash flows from operating activities amounted to 279.2 million LTL, i.e. 65.7 per cent less that during the adequate period of the yesteryear – 813.9 million LTL.

In the course of the first half of the current year, 125.7 million LTL was budgeted for long-term investments, i.e. 63.9 million LTL more that during the comparative period of the yesteryear.

During the first half-year of 2006 the Group continued the implementation of the Second Phase of the Modernization Program. Just like during the previous periods, exceptional attention was drawn to the projects intended for ensuring of the compliance of the refined petroleum products with the EU clean fuel requirements and air emission standards. A new unit PRIME G+ designed for hydro-treatment of FCC gasoline is currently being constructed at a rather quick pace. FCC gasoline with 70-80 ppm sulphur content will be treated by means of selective hydro-treatment. Final objective – removing of sulphur and mercaptans (light thiols) from a product in order the content is up to 10 ppm. After the unit is commissioned, the sulphur content of all the gasoline refined within the refinery shall not exceed 10 ppm. In the course of the current year, increased has been the production of the diesel fuel with 10 ppm sulphur content. Last year produced was

50 thous. tons of the particular fuel, this year approximately 150 thous. tons has already been refined. The product is mostly sold on the Estonian market.

The reconstruction of the petroleum product terminal in Juodeikiai is coming to an end. The objective of the Project is minimization of hydrocarbon emissions and trade losses by installing a closed hermetic loading device with hydrocarbon recovery system complying with the LAND-35-2000 requirements.

14.5. Table. Consolidated cash flow statement (thous. LTL)

	30.06.2006	30.06.2005
<b>Practiced operating activities</b>		
Cash flows from practiced operating activities	418 511	851 101
Interest paid	(43 087)	(36 555)
Income tax paid	(96 205)	(638)
<b>Net cash flows from practiced operating activities</b>	<b>279 219</b>	<b>813 908</b>
<b>Investing activities</b>		
Purchases of long-term tangible assets	(125 751)	(61 796)
Change in cash restricted for financing activities	-	30 062
Revenue from sale of long-term tangible assets	5 627	493
Revenue from sale of long-term assets classified as held for sale	3 606	165
Purchases of intangible assets	(1 698)	(473)
Revenue from sale of available-for-sale financial assets	-	49
Interest received	36 326	14 929
Procurement of shares of a subsidiary by minority shareholders	-	(554)
<b>Net cash flows from investing activities</b>	<b>(81 890)</b>	<b>(17 125)</b>
<b>Financing activities</b>		
Credits repaid	(14 038)	(28 788)
Credit raised	3 074	-
Leasing commitments paid	(484)	(421)
Dividends paid to Company shareholders	-	(247 592)
Contribution of minority shareholders to the share capital of a subsidiary	-	7
<b>Net cash flows from financial activities</b>	<b>(11 448)</b>	<b>(276 794)</b>
<b>Net increase in cash and bank overdrafts</b>	<b>185 881</b>	<b>519 989</b>
Cash and bank overdrafts at the beginning of the period	1 856 164	969 282
Impact of currency exchange gains (losses) on the balance of cash and bank overdrafts	(29 870)	(36 598)
<b>Cash and bank overdrafts at the end of the period</b>	<b>2 012 175</b>	<b>1 452 673</b>

14.6. Table. Consolidated interim statement of changes in equity (thous. LTL)

	Portion attributed to Company shareholders						Minority interest	Total equity	
	Authorized capital	Share premium account	Legal revaluation reserves	Legal reserves	Cumulative currency conversion adjustments	Non-appropriated profit			Total
<b>Balance as of 1 January 2005</b>	707 454	283,040	437	-	(211,052)	358,940	1 138 819	1,739	1,140,558
Currency conversion adjustments recognized as direct equity	-	-	-	-	147,313	-	147 313	22	147,335
Profit for the period	-	-	-	-	-	463,141	463 141	(1,371)	461,770
Total recognized revenue for the period	-	-	-	-	147,313	463,141	610 454	(1,349)	609,105
Transfer into legal (mandatory) reserve	-	-	-	35,043	-	(35,043)	-	-	-
Dividend for 2004	-	-	-	-	-	(247,609)	-	-	(247,609)
Other	-	-	-	-	-	-	(247 609)	359	359
<b>Balance as of 30 June 2005</b>	707 454	283,040	437	35,043	(63,739)	539,429	1 501 664	749	1,502,413
<b>Balance as of 1 July 2005</b>	707,454	283,040	437	35,043	(63,739)	539,429	1 501 664	749	1,502,413
Currency conversion adjustments recognized as direct equity	-	-	-	-	33,023	-	33 023	882	33,905
Profit for the period	-	-	-	-	-	424,623	424 623	(679)	423,944
Total recognized revenue for the period	-	-	-	-	33,023	424,623	457 646	203	457,849
Minority interest arising on business merging	-	-	-	-	-	-	-	2 282	2 282
Transfer into legal (mandatory) reserve	-	-	-	1 046	-	(1 046)	-	-	-
Other	-	-	-	-	-	-	-	(801)	(801)
<b>Balance as of 31 December 2005</b>	707 454	283 040	437	36 089	(30 716)	963 006	1 959 310	2 433	1 961 743
<b>Balance as of 1 January 2006</b>	707 454	283 040	437	36 089	(30 716)	963 006	1 959 310	2 433	1 961 743
Currency conversion adjustments recognized as direct equity	-	-	-	-	(106 844)	-	(106 844)	-	(106 844)
Profit for the period	-	-	-	-	-	370,919	370 919	378	371 297
Total recognized revenue for the period	-	-	-	-	(106 844)	370 919	264 075	378	264 453
Transfer into legal (mandatory) reserve	-	-	-	14 273	-	(14 273)	-	-	-
<b>Balance as of 30 June 2006</b>	707 454	283 040	437	50 362	(137 560)	1 319 652	2 223 385	2 811	2 226 196

## 15. Information on the audit

The financial statements of AB *Mažeikių Nafta* for the first half-year of 2006 shall not be audited.

UAB *PriceWaterhouseCoopers* reviewed interim shortened consolidated financial statement, provided in US dollars by AB *Mažeikių Nafta* and its subsidiaries for 30 June 2006 and those for the immediately preceding three months as well as six months; basing on the statement, the interim shortened consolidated financial statement in litas was prepared.

## IV. MATERIAL EVENTS IN THE ISSUER'S ACTIVITIES

### 16. Material events in the Issuer's activity

The announcement of the Second Extraordinary General Meeting of Shareholders on January 10, 2006 read:

On 17 January 2006, at 11 a.m. convened shall be the Repeated Extraordinary General Meeting of Shareholders of AB *Mažeikių Nafta* (company code 166451720, registered office: Juodeikiai, 98467 Mažeikiai District). The Meeting will be held in AB *Mažeikių Nafta* Administration Building, located at Juodeikiai, Mažeikiai distr. Record date of the Meeting: January 10, 2006. Agenda of the Meeting: 1. Re: approval of the preparation for AB *Mažeikių Nafta* reorganization conditions.

The below is the decision passed by the Repeated Extraordinary General Meeting of Shareholders, held on January 17, 2006: The decision of the Repeated Extraordinary General Meeting of Shareholders held on January 17, 2006 is as follows: 1. To approve of the preparation of AB *Mažeikių Nafta* reorganization conditions, when AB *Mažeikių Nafta* in operation incorporates AB *Mažeikių Elektrinė* (Power House) whose existence as such terminates after reorganization, and to assign the Board of Directors of the Company to prepare the indicated reorganization conditions in accordance with applicable laws.

Preliminary financial results reported by AB *Mažeikių Nafta* for February 10, 2006: preliminary non-audited consolidated net profit of AB *Mažeikių Nafta* for 2005 under International Financial Reporting Standards (IFRS) is 929.915 million litas (269.322 million euros).

As concerning the alteration of the annual financial statement for 2005, on February 28, 2006 AB *Mažeikių Nafta* posted that: the annual financial statements for 2005 were due from the auditor UAB *Pricewaterhouse Coopers* and were to be submitted by March 31, 2006.

The announcement of the General Meeting of Shareholders of AB *Mažeikių Nafta* of March 27, 2006 read:

Basing on the decision of the Board of Directors of AB *Mažeikių Nafta* (which instigated to convene the meeting of shareholders), on April 28, 2006 at 11:00 a.m. convened shall be the Ordinary General Meeting of Shareholders of AB *Mažeikių Nafta*, company code 166451720, registered office: Juodeikiai, LT-89467, Mažeikiai distr. The Meeting will be held in AB *Mažeikių Nafta* Administration Building, located at Juodeikiai, Mažeikiai distr. Record date for the Meeting: April 21, 2006. Agenda of the 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 remuneration rate 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:

During the meeting held on 14 April 2006, the Board of Directors of AB *Mažeikių Nafta* decided to approve AB *Mažeikių Nafta* Annual Financial Statement for 2005 prepared in accordance with the 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 for 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 a term 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 the appropriation of AB *Mažeikių Nafta* profit for the financial year 2005: During 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 appropriation 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 at the end of the financial period to carry forward the rest of the non-appropriated profit over to the following financial year.

April 28, 2006. Regarding presentation of reports for the three-month period of 2006: financial statements of AB *Mažeikių Nafta* for the three-month period of 2006 are due from the auditor UAB *Pricewaterhouse Coopers* and are 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* failed to take place on April 28, 2006 due to absence of quorum.

April 28, 2006. AB *Mažeikių Nafta* reported its preliminary financial results for the 1<sup>st</sup> quarter of 2006: preliminary unaudited consolidated net profit of AB *Mažeikių Nafta* for the 1<sup>st</sup> quarter of 2006 in accordance with the International Financial Reporting Standards is 133.628 million litas (38.701 million EUR).

April 28, 2006. Regarding the appropriation of AB *Mažeikių Nafta* profit of the financial year 2005: During the meeting held on April 27, 2006 the Supervisory Council of AB *Mažeikių Nafta* decided to propose the following appropriation of AB *Mažeikių Nafta* profit of 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 appropriate USD 115 million (an appropriate amount in litas will be determined at the official rate of the day the Meeting approving dividend payment was held) for payment of dividends and to carry (at the end of the current financial year) forward the rest of non-appropriated profit over to the following 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. The announcement of the Repeated General Meeting of Shareholders of AB *Mažeikių Nafta* to be held on May 26, 2006 read: On 26 May 2006, at 11 a.m. convened shall be the Repeated Ordinary General Meeting of Shareholders of AB *Mažeikių Nafta* (company code 166451720, registered office: Juodeikiai, 98467 Mažeikiai district). The Meeting will be held in AB *Mažeikių Nafta* Administration Building, located at 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 consider AB *Mažeikių Nafta* Auditor's report when approving of 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* made 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 Directors of AB *Mažeikių Nafta*; (iv) to approve the Annual Financial Statements of AB *Mažeikių Nafta* for the year 2005; (v) to approve the appropriation of AB *Mažeikių Nafta* profit of the financial year 2005 according to which USD 5 119 thousand (LTL 13,828 thousand or EUR 4,005 thousand) shall be transferred over to legal reserves and the non-appropriated profit, i.e. USD 399 068 thousand (LTL 962,755 thousand or EUR 278 833 thousand) shall be carried forward to the next financial year; (vi) to establish the Auditor's fee amounting to LTL 880,000 (eight hundred eighty thousand Litas), VAT excluded, 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 term 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*: During 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* elected the below listed members of the Board of AB *Mažeikių Nafta* for the term 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 anticipated net profit of AB *Mažeikių Nafta* in the year 2006: The anticipated 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: During the meeting of the Board of Directors of AB *Mažeikių Nafta* Nerijus Eidukevičius was elected to be a Chairman of the Board.

On 9 June 2006, the Government of the Republic of Lithuania, AB *Mažeikių Nafta* and the Polish Concern *Naftowy Orlen S.A.* all signed the Statement terminating and exempting from obligations undertaken in respect of investments, shareholders or other contracts and rights associated with AB *Mažeikių Nafta*; upon the Statement signed by the Polish Concern *Naftowy Orlen S.A.*, upon conclusion of (i) a Share Purchase-Sale Agreement with *Yukos International UK B.V.* concerning the procurement of all the AB *Mažeikių Nafta* shares belonging to *Yukos International UK B.V.* by right of ownership and (ii) a Share Purchase-Sale Agreement with the Government of the Republic of Lithuania concerning the procurement of the part of AB *Mažeikių Nafta* shares belonging to the state by right of ownership, also basing on the provisions set forth in the above transactions, upon procurement of the said shares by right of ownership and/or upon acquirement of all the related thereto rights, the parties waive all their rights provided for in the Investment, Shareholder and any other agreements associated with AB *Mažeikių Nafta*.

## **17. Court and arbitration proceedings**

In the financial year of 2003 settled was AB *Mažeikių Nafta*'s appeal lodged against the resolution of the Competition Council of the Republic of Lithuania (in accordance with the UAB *Klevo Lapas* application). The resolution of the Competition Council establishing that the Company had infringed the Law on Competition by abusing the dominant position in the market was not repealed. The 100 thousand litas penalty paid by AB *Mažeikių Nafta* which was imposed by a certain resolution of the Competition Council was not subject to refunding. The above resolution made it possible for other AB *Mažeikių Nafta* petroleum product buyers, whose economic activities could have been adversely affected by the competitive actions of the Company, to demand the award of losses.

BUAB *Klevo Lapas* on the above specified grounds has 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 representative of the plaintiff, can 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 still 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 civil case was adjudicated in by a trial court, the claim was rejected. The plaintiff has recently lodged an appeal.

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 claim was rejected the adjudication.

The Company acted as a civil plaintiff in a penal case submitted 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 defendant. The penal case is still being adjudicated into.

The Riga District Court did award the claim entered by the Company regarding the recovery of the indemnification amounting to LTL 2 702 797.00 in the penal case brought before the court after the company's SIA *Stimers* failure to pay for the supplied petroleum products (civil defendant – Maris Poliaks). An appeal has been lodged against the above specified court judgment.

Vilnius Regional Administrative Court has been lodged with the Company's appeal regarding the resolution No. 2S-16 of 22 December 2005 passed by the Competition Council of the Republic of Lithuania whereby the Company was adjudged to have violated paragraph 3 of Art. 9 of the Law on Competition of the Republic of Lithuania, and clause c) of Art. 82 of the Treaty establishing the European Community, the Company was also imposed upon a penalty amounting to 32 million litas. The appeal has not been adjudicated yet.

The Company attended other trial procedures during the first half of financial year 2006. The results of these trials should have no substantial effect on the Company's finances.