

**MAŽEIKIŲ NAFTA AB**  
**CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION**  
**FOR THE SIX MONTH PERIOD ENDED 30 JUNE 2006**

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## Review Report

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

1. We have reviewed the accompanying condensed consolidated interim balance sheet of Mažeikių Nafta AB (hereinafter “the Company”) and its consolidated subsidiaries (hereinafter together “the Group”) as at 30 June 2006, and the related condensed consolidated interim statements of income, cash flows and changes in equity for the six months then ended. This condensed consolidated interim financial information is the responsibility of the Company’s management. Our responsibility is to issue a report on this condensed consolidated interim financial information based on our review.
2. We conducted our review in accordance with the International Standard on Review Engagements 2400. This Standard requires that we plan and perform the review to obtain moderate assurance about whether the condensed consolidated interim financial information is free of material misstatement. A review is limited primarily to inquiries of company personnel and analytical procedures applied to financial data and thus provides less assurance than an audit. We have not performed an audit and, accordingly, we do not express an audit opinion.
3. 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, recognise 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 the subsidiary and subsequently should have recognised liabilities and related expenses for the actual emissions of carbon dioxide made between the date of acquisition and 30 June 2006. As a result, the Group’s total assets and minority interest in the balance sheet as at 30 June 2006 should be increased by USD 63,273 thousand or LTL 174,185 thousand and USD 9,250 thousand or LTL 25,465 thousand respectively (31 December 2005: USD 64,324 thousand or LTL 187,196 thousand and USD 9,389 thousand or LTL 27,323 thousand respectively), retained earnings increased by USD 51,153 thousand or LTL 148,720 thousand (31 December 2005: USD 55,109 thousand or LTL 159,873 thousand), whilst profit for the six month period then ended should be decreased by USD 4,615 thousand or LTL 13,011 thousand (30 June 2005: nil) and its part attributable to minority interest decreased by USD 659 thousand or LTL 1,858 thousand (30 June 2005: nil). In addition, in the financial information presented in USD the cumulative translation adjustment should be increased by USD 2,870 thousand as at 30 June 2006 (31 December 2005: decreased by USD 174 thousand).
4. Based on our review, except for the effect on the financial information of the matter described in paragraph 3, nothing has come to our attention that causes us to believe that the accompanying condensed consolidated interim financial information has not been properly prepared, in all material respects, in accordance with International Financial Reporting Standards as adopted by the European Union applicable to interim financial reporting (IAS 34) and International Accounting Standard No. 34 “Interim Financial Reporting”.

On behalf of PricewaterhouseCoopers UAB

Christopher C. Butler  
Partner  
Vilnius, Republic of Lithuania  
28 August 2006

**MAŽEIKIŲ NAFTA AB**  
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(all tabular amounts are in USD'000 and LTL'000 unless otherwise stated)

**Condensed consolidated interim balance sheet**

	Note	As at 30 June 2006		As at 31 December 2005	
		USD	LTL	USD	LTL
<b>ASSETS</b>					
<b>Non-current assets</b>					
Property, plant and equipment	5	515,833	1,420,037	509,016	1,481,336
Intangible assets	6	3,309	9,109	3,916	11,396
Goodwill		1,947	5,361	1,842	5,361
Investments in associates		1,368	3,765	1,262	3,672
Deferred income tax assets		25,445	70,048	20,891	60,798
Available-for-sale financial assets		-	-	1	3
Non-current receivables and prepayments		32,636	89,843	27,997	81,478
		<u>580,538</u>	<u>1,598,163</u>	<u>564,925</u>	<u>1,644,044</u>
<b>Current assets</b>					
Inventories	7	318,349	876,383	257,119	748,268
Trade and other receivables	8	187,978	517,484	144,607	420,836
Prepaid current income tax		6,826	18,791	165	480
Cash and cash equivalents	9	731,378	2,013,411	637,813	1,856,164
		<u>1,244,531</u>	<u>3,426,069</u>	<u>1,039,704</u>	<u>3,025,748</u>
Non-current assets classified as held for sale		289	796	953	2,773
		<u>1,244,820</u>	<u>3,426,865</u>	<u>1,040,657</u>	<u>3,028,521</u>
<b>Total assets</b>		<u>1,825,358</u>	<u>5,025,028</u>	<u>1,605,582</u>	<u>4,672,565</u>
<b>EQUITY</b>					
<b>Capital and reserves attributable to equity holders of the Company</b>					
Share capital	10	181,366	707,454	181,366	707,454
Share premium		72,752	283,040	72,752	283,040
Reserves		18,883	50,799	13,603	36,526
Cumulative translation adjustment		3,085	(137,560)	1,457	(30,716)
Retained earnings		531,566	1,319,652	404,069	963,006
		<u>807,652</u>	<u>2,223,385</u>	<u>673,247</u>	<u>1,959,310</u>
<b>Minority interest</b>		1,021	2,811	836	2,433
<b>Total equity</b>		<u>808,673</u>	<u>2,226,196</u>	<u>674,083</u>	<u>1,961,743</u>
<b>LIABILITIES</b>					
<b>Non-current liabilities</b>					
Borrowings	12	452,326	1,245,208	454,076	1,321,452
Provisions for liabilities and charges		11,969	32,949	11,322	32,949
Other non-current liabilities		8,607	23,695	8,506	24,754
		<u>472,902</u>	<u>1,301,852</u>	<u>473,904</u>	<u>1,379,155</u>
<b>Current liabilities</b>					
Trade and other payables	11	492,327	1,355,326	395,457	1,150,833
Current income tax liabilities		38,881	107,036	36,879	107,325
Borrowings	12	8,119	22,351	9,812	28,555
Provisions for liabilities and charges		4,456	12,267	15,447	44,954
		<u>543,783</u>	<u>1,496,980</u>	<u>457,595</u>	<u>1,331,667</u>
<b>Total liabilities</b>		<u>1,016,685</u>	<u>2,798,832</u>	<u>931,499</u>	<u>2,710,822</u>
<b>Total equity and liabilities</b>		<u>1,825,358</u>	<u>5,025,028</u>	<u>1,605,582</u>	<u>4,672,565</u>

The General Director and the Director of Financial Planning and Control approved the condensed consolidated interim financial information on pages 4 to 27 on 28 August 2006.

Paul Nelson English  
General Director

Liudmila Batakienė  
Director of Financial Planning and Control

The notes on pages 9 to 27 form an integral part of this condensed consolidated interim financial information.

**MAŽEIKIŲ NAFTA AB**  
**CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION**  
**FOR THE SIX MONTH PERIOD ENDED 30 JUNE 2006**

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

**Condensed consolidated interim income statement**

	Note	2006				2005			
		3 months ended		6 months ended		3 months ended		6 months ended	
		30 June		30 June		30 June		30 June	
		USD	LTL	USD	LTL	USD	LTL	USD	LTL
Sales	4	1,291,060	3,552,868	2,431,435	6,826,542	955,863	2,616,196	1,793,915	4,818,765
Cost of sales	13	(1,113,344)	(3,063,811)	(2,125,981)	(5,970,788)	(781,881)	(2,136,318)	(1,452,140)	(3,897,893)
<b>Gross profit</b>		177,716	489,057	305,454	855,754	173,982	479,878	341,775	920,872
Other income		1,097	3,018	1,373	3,811	193	525	563	1,497
Selling and marketing costs	13	(48,240)	(132,751)	(102,636)	(288,906)	(50,459)	(138,107)	(103,052)	(276,332)
Administrative expenses	13	(31,144)	(85,706)	(48,348)	(135,093)	(20,201)	(55,290)	(34,866)	(93,832)
<b>Operating profit</b>		99,429	273,618	155,843	435,566	103,515	287,006	204,420	552,205
Finance income		7,421	20,423	12,990	36,409	3,247	8,887	5,546	14,929
Finance costs		(5,388)	(14,829)	(12,025)	(33,880)	(6,835)	(18,705)	(15,728)	(42,075)
Share of profits of associates		15	42	33	93	37	102	63	170
<b>Profit before income tax</b>		101,477	279,254	156,841	438,188	99,964	277,290	194,301	525,229
Income tax expense	14	(15,243)	(41,947)	(23,932)	(66,891)	(12,040)	(32,953)	(23,647)	(63,459)
<b>Profit for the period</b>		86,234	237,307	132,909	371,297	87,924	244,337	170,654	461,770
<b>Attributable to:</b>									
- equity holders of the Company		86,228	237,291	132,777	370,919	87,942	244,388	171,175	463,141
- minority interest		6	16	132	378	(18)	(51)	(521)	(1,371)
		86,234	237,307	132,909	371,297	87,924	244,337	170,654	461,770
<b>Earnings per share for profit attributable to the equity holders of the Company during the period (expressed in USD or LTL per share)</b>									
- basic / diluted	15	0.122	0.335	0.188	0.524	0.124	0.345	0.242	0.655

The notes on pages 9 to 27 form an integral part of this condensed consolidated interim financial information.

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**Condensed consolidated interim statement of changes in equity (in USD'000)**

	Capital and reserves attributable to equity holders of the Company							Minority interest	Total equity
	Share capital	Share premium	Statutory revaluation reserve	Legal reserve	Cumulative translation adjustments	Retained earnings	Total		
<b>Balance at 1 January 2005</b>	181,366	72,752	109	-	4,344	190,756	449,327	686	450,013
Currency translation differences recognised directly in equity	-	-	-	-	(2,293)	-	(2,293)	(39)	(2,332)
Profit for the period	-	-	-	-	-	171,175	171,175	(521)	170,654
<b>Total recognised income for the period</b>	-	-	-	-	(2,293)	171,175	168,882	(560)	168,322
Transfer to legal reserve	-	-	-	13,111	-	(13,111)	-	-	-
Dividend relating to 2004	-	-	-	-	-	(92,671)	(92,671)	-	(92,671)
Other	-	-	-	-	-	-	-	135	135
<b>Balance at 30 June 2005</b>	181,366	72,752	109	13,111	2,051	256,149	525,538	261	525,799
<b>Balance at 1 July 2005</b>	181,366	72,752	109	13,111	2,051	256,149	525,538	261	525,799
Currency translation differences recognised directly in equity	-	-	-	-	(594)	-	(594)	318	(276)
Profit for the period	-	-	-	-	-	148,303	148,303	(234)	148,069
<b>Total recognised income for the period</b>	-	-	-	-	(594)	148,303	147,709	84	147,793
Minority interest arising on business combinations	-	-	-	-	-	-	-	794	794
Transfer to legal reserve	-	-	-	383	-	(383)	-	-	-
Other	-	-	-	-	-	-	-	(303)	(303)
<b>Balance at 31 December 2005</b>	181,366	72,752	109	13,494	1,457	404,069	673,247	836	674,083
<b>Balance at 1 January 2006</b>	181,366	72,752	109	13,494	1,457	404,069	673,247	836	674,083
Currency translation differences recognised directly in equity	-	-	-	-	1,628	-	1,628	53	1,681
Profit for the period	-	-	-	-	-	132,777	132,777	132	132,909
<b>Total recognised income for the period</b>	-	-	-	-	1,628	132,777	134,405	185	134,590
Transfer to legal reserve	-	-	-	5,280	-	(5,280)	-	-	-
<b>Balance at 30 June 2006</b>	181,366	72,752	109	18,774	3,085	531,566	807,652	1,021	808,673

The notes on pages 9 to 27 form an integral part of this condensed consolidated interim financial information.

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**Condensed consolidated interim statement of changes in equity (in LTL'000)**

	Capital and reserves attributable to equity holders of the Company							Minority interest	Total equity
	Share capital	Share premium	Statutory revaluation reserve	Legal reserve	Cumulative translation adjustments	Retained earnings	Total		
<b>Balance at 1 January 2005</b>	707,454	283,040	437	-	(211,052)	358,940	1,138,819	1,739	1,140,558
Currency translation differences recognised directly in equity	-	-	-	-	147,313	-	147,313	22	147,335
Profit for the period	-	-	-	-	-	463,141	463,141	(1,371)	461,770
<b>Total recognised income for the period</b>	-	-	-	-	147,313	463,141	610,454	(1,349)	609,105
Transfer to legal reserve	-	-	-	35,043	-	(35,043)	-	-	-
Dividend relating to 2004	-	-	-	-	-	(247,609)	(247,609)	-	(247,609)
Other	-	-	-	-	-	-	-	359	359
<b>Balance at 30 June 2005</b>	707,454	283,040	437	35,043	(63,739)	539,429	1,501,664	749	1,502,413
<b>Balance at 1 July 2005</b>	707,454	283,040	437	35,043	(63,739)	539,429	1,501,664	749	1,502,413
Currency translation differences recognised directly in equity	-	-	-	-	33,023	-	33,023	882	33,905
Profit for the period	-	-	-	-	-	424,623	424,623	(679)	423,944
<b>Total recognised income for the period</b>	-	-	-	-	33,023	424,623	457,646	203	457,849
Minority interest arising on business combinations	-	-	-	-	-	-	-	2,282	2,282
Transfer to legal reserve	-	-	-	1,046	-	(1,046)	-	-	-
Other	-	-	-	-	-	-	-	(801)	(801)
<b>Balance at 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 at 1 January 2006</b>	707,454	283,040	437	36,089	(30,716)	963,006	1,959,310	2,433	1,961,743
Currency translation differences recognised directly in equity	-	-	-	-	(106,844)	-	(106,844)	-	(106,844)
Profit for the period	-	-	-	-	-	370,919	370,919	378	371,297
<b>Total recognised income for the period</b>	-	-	-	-	(106,844)	370,919	264,075	378	264,453
Transfer to legal reserve	-	-	-	14,273	-	(14,273)	-	-	-
<b>Balance at 30 June 2006</b>	707,454	283,040	437	50,362	(137,560)	1,319,652	2,223,385	2,811	2,226,196

The notes on pages 9 to 27 form an integral part of this condensed consolidated interim financial information.

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**Condensed consolidated interim cash flow statement**

	Note	Six months ended 30 June			
		2006		2005	
		USD	LTL	USD	LTL
<b>Cash flows from operating activities</b>					
Cash generated from operations	16	174,760	418,511	253,689	851,101
Interest paid		(15,326)	(43,087)	(13,698)	(36,555)
Income tax paid		(34,300)	(96,205)	(233)	(638)
Net cash generated from operating activities		125,134	279,219	239,758	813,908
<b>Cash flows from investing activities</b>					
Purchases of property, plant and equipment		(45,544)	(125,751)	(23,068)	(61,796)
Change in cash restricted for investing activities		-	-	11,205	30,062
Proceeds from sale of property, plant and equipment		2,031	5,627	185	493
Proceeds from sale of non-current assets classified as held for sale		1,261	3,606	61	165
Purchases of intangible assets		(549)	(1,698)	(178)	(473)
Proceeds from sale of available-for-sale financial assets		-	-	19	49
Interest received		12,990	36,326	5,546	14,929
Acquisition of shares in subsidiary from minority		-	-	(208)	(554)
Net cash used in investing activities		(29,811)	(81,890)	(6,438)	(17,125)
<b>Cash flows from financing activities</b>					
Repayments of borrowings		(4,981)	(14,038)	(10,635)	(28,788)
Proceeds from borrowings		1,117	3,074	-	-
Finance lease principal payments		(172)	(484)	(157)	(421)
Dividends paid to the Company's shareholders		-	-	(92,665)	(247,592)
Contribution of minority shareholders to the share capital of subsidiary		-	-	3	7
Net cash used in financing activities		(4,036)	(11,448)	(103,454)	(276,794)
<b>Net increase in cash and cash equivalents and bank overdrafts</b>					
		91,287	185,881	129,866	519,989
Cash and cash equivalents and bank overdrafts at beginning of period	9	637,813	1,856,164	382,434	969,282
Exchange gains/(losses) on cash and bank overdrafts		1,829	(29,870)	(5,772)	(36,598)
<b>Cash and cash equivalents and bank overdrafts at end of period</b>	9	730,929	2,012,175	506,528	1,452,673

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**Notes to the condensed consolidated interim financial information**

**1. General information**

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

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

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

As at 30 June 2006 and 31 December 2005 the Company’s two primary shareholders were Yukos International UK B.V. (part of the Yukos Group) with 53.7 percent and the Government of the Republic of Lithuania (hereinafter “the Government”) with 40.7 percent of shares. The remaining shares are widely held.

*The consolidated group*

The consolidated group (hereinafter “the Group”) consists of the Company and its eight subsidiaries (December 2005: nine subsidiaries). The Group has one associate accounted for using the equity method. The subsidiaries and associate included in the Group’s consolidated financial statements are listed below:

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

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**1. General information (continued)**

*Current situation at the Yukos Group*

As a result of numerous claims issued by the Russian tax authorities during 2003 and 2004, the Yukos Group has been placed in serious financial and operating difficulties. In August 2006 it was declared bankrupt by Moscow arbitration court. As explained below, as at the date of this condensed consolidated interim financial information, the Yukos Group is in the process of selling its shareholding in the Company. In addition to being the Company's major shareholder, the Yukos Group was in the past its major supplier of crude oil based on long term supply agreements.

*(1) Sale of shares*

In May 2006, Yukos International UK B.V. signed a preliminary share sale-purchase agreement with PKN Orlen (Poland) for the sale of 53.7 percent of the Company's shares. In order to complete the deal PKN Orlen will need to get approval from the Government, the Parliament of the Republic of Lithuania and the European Commission for the purchase of the Company's shares. As at the date of this condensed consolidated interim financial information the approval from the Government and the Parliament of the Republic of Lithuania has been received.

*(2) Supply of crude oil*

In February 2005, the Yukos Group suspended crude oil supplies to the Group. However, management has taken steps to ensure the continuity of supply by signing agreements with several separate oil traders and 9 million tons of crude oil were delivered to the refinery during 2005. The management plans that approximately 8.6 million tons will be delivered to the refinery in 2006. Currently crude oil is being sourced from three main producers: Lukoil, Rosneft and TNK-BP.

The Company is largely dependent on receiving its crude oil deliveries from pipelines carrying oil through the Russian Federation, although it also has the capacity to import crude oil through its Būtingė oil terminal. At the end of July 2006 crude oil deliveries to the Company via the pipeline were suspended and the Company has subsequently been operating by importing crude oil through the oil terminal.

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 or of the suspension of oil supplies via the pipeline.

**2. Summary of significant accounting policies**

**2.1 Basis of preparation**

This condensed consolidated interim financial information of the Group is for the six months ended 30 June 2006. It has been prepared in accordance with IAS 34, "Interim Financial Reporting", and IFRSs as adopted by the European Union applicable to interim financial reporting (IAS 34, "Interim Financial Reporting").

All International Financial Reporting Standards issued by the IASB and effective at the time of preparing this condensed consolidated interim financial information have been adopted by the EU through the endorsement procedure established by the European Commission, with the exception of the International Accounting Standard IAS 39, Financial Instruments: Recognition and Measurement. Following recommendations from the Accounting Regulatory Committee, the Commission adopted Regulations 2086/2004 and 1864/2005 requiring the use of IAS 39, minus certain provisions on portfolio hedging of core deposits, by all listed companies from 1 January 2005.

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

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**MAŽEIKIŲ NAFTA AB**  
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## **2.1 Basis of preparation (continued)**

This condensed interim financial report should be read in conjunction with the annual financial statements for the year ended 31 December 2005. The same accounting policies and methods of computation were followed in the preparation of this condensed consolidated interim financial information as in the annual consolidated financial statements for the year ended 31 December 2005. These policies have been consistently applied to all the periods presented. Certain new standards, interpretations and amendments to the existing standards, as disclosed in the consolidated financial statements for the year ended 31 December 2005, became effective for the Group from 1 January 2006. They have not significantly affected the condensed consolidated interim financial information of the Group.

As described in the annual financial statements, IFRICs 7, 8, 9, IFRS 7 and an amendment to IAS 1 (Capital Disclosures) are effective for the Group from 1 January 2007. These are not early adopted by the Group. In July 2006, the IASB issued IFRIC 10, *Interim Financial Reporting and Impairment*, which is effective for annual periods beginning on or after 1 November 2006. The Group has not early adopted IFRIC 10. IFRIC 10 prohibits reversals of impairment losses recognised in interim periods in respect of goodwill and financial assets carried at cost. The Group does not expect it to have a significant impact on its financial reports.

This condensed consolidated interim financial information has been prepared under the historical cost convention, as modified by the revaluation of available-for-sale financial assets.

### *Correction of errors*

In preparing its consolidated financial statements for the year ended 31 December 2005 the Group discovered an error made in its consolidated interim financial statements for the six month period ended 30 June 2005 related to the recognition of deferred tax asset on transition to IFRS. As a result of correcting this error, the Group's retained earnings as at 1 January 2005 and 30 June 2005 increased by USD 16,631 thousand or LTL 42,151 thousand and deferred tax asset increased by the same amount.

## **2.2 Interim period measurement**

### *(a) Seasonality of the business*

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

### *(b) Income tax expense*

Income tax expense is recognised in this condensed consolidated interim financial information based on management's best estimates of the weighted average annual income tax rate expected for the full financial year.

### *(c) Costs*

Costs that incur unevenly during the financial year are anticipated or deferred in the interim report only if it would also be appropriate to anticipate or defer such costs at the end of the financial year.

## **3. Critical accounting estimates and assumptions**

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

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

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**3. Critical accounting estimates and assumptions (continued)**

*(a) Income taxes*

The Investment Agreement, signed between the Company, the Government and Williams International Company (replaced by Yukos Finance B.V.) guaranteed that starting from 29 October 1999 the corporate income tax rates payable by the Company will not be increased for the period of 10 years and no new taxes will be imposed on the Company. If the Government fails to ensure at least for a period of 10 years application of the above conditions, the Government shall be responsible for and shall indemnify and hold harmless the Company from any and all losses, liabilities and expenses incurred or sustained by the Company as a result of such failure. In 2005, the Law on Social Tax was adopted, which provides that the tax base for this tax is taxable profit calculated in accordance with the procedure stipulated in the Lithuanian Law on Corporate Profit Tax. Social tax rates are set at 4% for 2006 and 3% for 2007. At the date of the issuance of this condensed consolidated interim financial information the Company has not received explanation from the tax authorities if social tax will be treated as new tax or increase in corporate profit tax rate. If social tax is treated as increase in corporate profit tax rate, it will be payable by the Company because the increased corporate profit tax rate still will be lower than that on the date when Investment Agreement was signed. Following the principle of prudence the Company calculated and accounted for the social tax amounting to USD 6,483 thousand or LTL 18,091 thousand for the six month period ended 30 June 2006. If the tax authorities treat social tax as a new tax, income tax expenses will have to be reduced by USD 6,483 thousand or LTL 18,091 thousand.

*(b) Accounts receivable from sales commissioner*

In 2005 and 2006, the majority of sales of refined oil products, except for domestic sales and sales to Latvia, Estonia and Poland were made through sales commissioner Petroval PTE Ltd, an entity related to the Yukos Group. Trade receivables from Petroval PTE Ltd amounted to USD 76,396 thousand or LTL 210,311 thousand as at 30 June 2006 (Note 19). Negative changes in relationships with the Yukos Group could have an adverse impact on the recoverability of receivables. The management believes that all receivables outstanding will be collected.

**4. Segment information**

The business segment results for the three months ended 30 June 2006 were as follows:

<b>USD</b>					<b>Petrol</b>	
	<b>Oil refinery</b>	<b>Oil terminal</b>	<b>Pipeline</b>	<b>stations</b>	<b>Other</b>	<b>Group</b>
Total gross segment sales	1,269,348	8,281	8,757	11,774	325	1,298,485
Inter-segment sales	(7,100)	-	-	-	(325)	(7,425)
<b>Sales</b>	<b>1,262,248</b>	<b>8,281</b>	<b>8,757</b>	<b>11,774</b>	<b>-</b>	<b>1,291,060</b>
Operating profit / segment result	95,965	(2,995)	6,221	235	3	99,429
Finance income						7,421
Finance costs						(5,388)
Share of profit of associates	15	-	-	-	-	15
<b>Profit before income tax</b>						<b>101,477</b>
Income tax expense (Note 14)						(15,243)
<b>Profit for the period</b>						<b>86,234</b>

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**4. Segment information (continued)**

**LTL**

	<b>Oil refinery</b>	<b>Oil terminal</b>	<b>Pipeline</b>	<b>Petrol stations</b>	<b>Other</b>	<b>Group</b>
Total gross segment sales	3,493,119	22,788	24,098	32,401	894	3,573,300
Inter-segment sales	(19,538)	-	-	-	(894)	(20,432)
<b>Sales</b>	<b>3,473,581</b>	<b>22,788</b>	<b>24,098</b>	<b>32,401</b>	<b>-</b>	<b>3,552,868</b>
Operating profit / segment result	264,085	(8,242)	17,120	647	8	273,618
Finance income						20,423
Finance costs						(14,829)
Share of profit of associates	42	-	-	-	-	42
<b>Profit before income tax</b>						<b>279,254</b>
Income tax expense (Note 14)						(41,947)
<b>Profit for the period</b>						<b>237,307</b>

The business segment results for the six months ended 30 June 2006 were as follows:

**USD**

	<b>Oil refinery</b>	<b>Oil terminal</b>	<b>Pipeline</b>	<b>Petrol stations</b>	<b>Other</b>	<b>Group</b>
Total gross segment sales	2,394,855	13,101	15,012	20,386	575	2,443,929
Inter-segment sales	(11,922)	-	-	-	(572)	(12,494)
<b>Sales</b>	<b>2,382,933</b>	<b>13,101</b>	<b>15,012</b>	<b>20,386</b>	<b>3</b>	<b>2,431,435</b>
Operating profit / segment result	154,503	(9,042)	10,386	44	(48)	155,843
Finance income						12,990
Finance costs						(12,025)
Share of profit of associates	33	-	-	-	-	33
<b>Profit before income tax</b>						<b>156,841</b>
Income tax expense (Note 14)						(23,932)
<b>Profit for the period</b>						<b>132,909</b>

**LTL**

	<b>Oil refinery</b>	<b>Oil terminal</b>	<b>Pipeline</b>	<b>Petrol stations</b>	<b>Other</b>	<b>Group</b>
Total gross segment sales	6,724,112	36,625	42,054	57,123	1,612	6,861,526
Inter-segment sales	(33,381)	-	-	-	(1,603)	(34,984)
<b>Sales</b>	<b>6,690,731</b>	<b>36,625</b>	<b>42,054</b>	<b>57,123</b>	<b>9</b>	<b>6,826,542</b>
Operating profit / segment result	432,130	(25,601)	29,076	99	(138)	435,566
Finance income						36,409
Finance costs						(33,880)
Share of profit of associates	93	-	-	-	-	93
<b>Profit before income tax</b>						<b>438,188</b>
Income tax expense (Note 14)						(66,891)
<b>Profit for the period</b>						<b>371,297</b>

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**4. Segment information (continued)**

The business segment results for the three months ended 30 June 2005 were as follows:

**USD**

	<b>Oil refinery</b>	<b>Oil terminal</b>	<b>Pipeline</b>	<b>Petrol stations</b>	<b>Other</b>	<b>Group</b>
Total gross segment sales	936,503	8,325	7,364	7,515	337	960,044
Inter-segment sales	(3,844)	-	-	-	(337)	(4,181)
<b>Sales</b>	<b>932,659</b>	<b>8,325</b>	<b>7,364</b>	<b>7,515</b>	<b>-</b>	<b>955,863</b>
Operating profit / segment result	96,968	3,171	4,634	(1,082)	(176)	103,515
Finance income						3,247
Finance costs						(6,835)
Share of profit of associates	37	-	-	-	-	37
<b>Profit before income tax</b>						<b>99,964</b>
Income tax expense (Note 14)						(12,040)
<b>Profit for the period</b>						<b>87,924</b>

**LTL**

	<b>Oil refinery</b>	<b>Oil terminal</b>	<b>Pipeline</b>	<b>Petrol stations</b>	<b>Other</b>	<b>Group</b>
Total gross segment sales	2,563,343	22,689	20,140	20,491	920	2,627,583
Inter-segment sales	(10,467)	-	-	-	(920)	(11,387)
<b>Sales</b>	<b>2,552,876</b>	<b>22,689</b>	<b>20,140</b>	<b>20,491</b>	<b>-</b>	<b>2,616,196</b>
Operating profit / segment result	269,245	8,478	12,660	(2,884)	(493)	287,006
Finance income						8,887
Finance costs						(18,705)
Share of profit of associates	102	-	-	-	-	102
<b>Profit before income tax</b>						<b>277,290</b>
Income tax expense (Note 14)						(32,953)
<b>Profit for the period</b>						<b>244,337</b>

The business segment results for the six months ended 30 June 2005 were as follows:

**USD**

	<b>Oil refinery</b>	<b>Oil terminal</b>	<b>Pipeline</b>	<b>Petrol stations</b>	<b>Other</b>	<b>Group</b>
Total gross segment sales	1,759,919	13,962	13,555	12,774	593	1,800,803
Inter-segment sales	(6,295)	-	-	-	(593)	(6,888)
<b>Sales</b>	<b>1,753,624</b>	<b>13,962</b>	<b>13,555</b>	<b>12,774</b>	<b>-</b>	<b>1,793,915</b>
Operating profit / segment result	194,443	2,638	8,357	(501)	(517)	204,420
Finance income						5,546
Finance costs						(15,728)
Share of profit of associates	63	-	-	-	-	63
<b>Profit before income tax</b>						<b>194,301</b>
Income tax expense (Note 14)						(23,647)
<b>Profit for the period</b>						<b>170,654</b>

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**4. Segment information (continued)**

**LTL**

	<b>Oil refinery</b>	<b>Oil terminal</b>	<b>Pipeline</b>	<b>Petrol stations</b>	<b>Other</b>	<b>Group</b>
Total gross segment sales	4,727,446	37,504	36,411	34,313	1,593	4,837,267
Inter-segment sales	(16,909)	-	-	-	(1,593)	(18,502)
<b>Sales</b>	<b>4,710,537</b>	<b>37,504</b>	<b>36,411</b>	<b>34,313</b>	<b>-</b>	<b>4,818,765</b>
Operating profit / segment result	525,428	7,078	22,444	(1,356)	(1,389)	552,205
Finance income						14,929
Finance costs						(42,075)
Share of profit of associates	170	-	-	-	-	170
<b>Profit before income tax</b>						<b>525,229</b>
Income tax expense (Note 14)						(63,459)
<b>Profit for the period</b>						<b>461,770</b>

**5. Property, plant and equipment**

**USD**

	<b>Land and buildings</b>	<b>Plant and machinery</b>	<b>Other PPE</b>	<b>Construction in progress</b>	<b>Total</b>
<b>At 1 January 2005</b>					
Cost	86,464	669,771	75,100	17,829	849,164
Accumulated depreciation and impairment	(30,817)	(290,689)	(29,847)	-	(351,353)
Net book amount	<u>55,647</u>	<u>379,082</u>	<u>45,253</u>	<u>17,829</u>	<u>497,811</u>
<b>Six months ended 30 June 2005</b>					
Opening net book amount at 1 January 2005	55,647	379,082	45,253	17,829	497,811
Exchange differences	(1,425)	(774)	(324)	(23)	(2,546)
Additions	137	689	1,463	20,769	23,058
Disposals	(57)	-	(2)	-	(59)
Retirements	-	(214)	(2,144)	-	(2,358)
Transfers	664	67	591	(1,322)	-
Reversal of impairment charge	1,411	-	-	-	1,411
Impairment charge	-	-	-	(293)	(293)
Depreciation charge	(1,211)	(14,562)	(3,202)	-	(18,975)
Closing net book amount at 30 June 2005	<u>55,166</u>	<u>364,288</u>	<u>41,635</u>	<u>36,960</u>	<u>498,049</u>
<b>Six months ended 31 December 2005</b>					
Opening net book amount at 1 July 2005	55,166	364,288	41,635	36,960	498,049
Exchange differences	(184)	(134)	(30)	(17)	(365)
Acquisition of subsidiary	1,960	4,328	252	1,174	7,714
Additions	36	5,417	1,923	17,643	25,019
Disposals	(123)	(62)	(54)	-	(239)
Retirements	-	(162)	(28)	-	(190)
Transfers	266	6,247	69	(6,582)	-
Reclassification to non-current assets classified as held for sale	(937)	(10)	(5)	-	(952)
Reversal of impairment charge	-	-	-	117	117
Impairment charge	-	(58)	(72)	(1,271)	(1,401)
Depreciation charge	(1,226)	(14,165)	(3,345)	-	(18,736)
Closing net book amount at 31 December 2005	<u>54,958</u>	<u>365,689</u>	<u>40,345</u>	<u>48,024</u>	<u>509,016</u>
<b>At 31 December 2005</b>					
Cost	83,530	676,775	75,341	48,024	883,670
Accumulated depreciation and impairment	(28,572)	(311,086)	(34,996)	-	(374,654)
Net book amount	<u>54,958</u>	<u>365,689</u>	<u>40,345</u>	<u>48,024</u>	<u>509,016</u>

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**5. Property, plant and equipment (continued)**

<b>USD</b>	<b>Land and buildings</b>	<b>Plant and machinery</b>	<b>Other PPE</b>	<b>Construction in progress</b>	<b>Total</b>
<b>Six months ended 30 June 2006</b>					
Opening net book amount at 1 January 2006	54,958	365,689	40,345	48,024	509,016
Exchange differences	722	558	127	48	1,455
Additions	2,253	2,007	4,257	26,719	35,236
Disposals	(851)	(445)	(65)	(4)	(1,365)
Retirements	(4)	(3)	(36)	(55)	(98)
Transfers	692	7,286	17	(7,995)	-
Reclassification to other assets	-	-	-	(103)	(103)
Depreciation charge	(1,251)	(23,979)	(3,078)	-	(28,308)
Closing net book amount at 30 June 2006	56,519	351,113	41,567	66,634	515,833
<b>At 30 June 2006</b>					
Cost	86,290	684,140	78,870	66,634	915,934
Accumulated depreciation and impairment	(29,771)	(333,027)	(37,303)	-	(400,101)
Net book amount	56,519	351,113	41,567	66,634	515,833
<b>LTL</b>					
<b>At 1 January 2005</b>					
Cost	219,143	1,697,535	190,341	45,187	2,152,206
Accumulated depreciation and impairment	(78,106)	(736,751)	(75,647)	-	(890,504)
Net book amount	141,037	960,784	114,694	45,187	1,261,702
<b>Six months ended 30 June 2005</b>					
Opening net book amount at 1 January 2005	141,037	960,784	114,694	45,187	1,261,702
Exchange differences	14,751	121,539	13,604	9,558	159,452
Additions	360	1,869	4,003	55,537	61,769
Disposals	(154)	-	(6)	-	(160)
Retirements	-	(586)	(5,868)	-	(6,454)
Transfers	1,745	195	1,552	(3,492)	-
Reversal of impairment charge	3,721	-	-	-	3,721
Impairment charge	-	-	-	(792)	(792)
Depreciation charge	(3,250)	(39,060)	(8,574)	-	(50,884)
Closing net book amount at 30 June 2005	158,210	1,044,741	119,405	105,998	1,428,354
<b>Six months ended 31 December 2005</b>					
Opening net book amount at 1 July 2005	158,210	1,044,741	119,405	105,998	1,428,354
Exchange differences	1,809	15,047	1,591	1,586	20,033
Acquisition of subsidiary	5,629	12,430	724	3,372	22,155
Additions	103	15,596	5,541	50,786	72,026
Disposals	(351)	(175)	(152)	-	(678)
Retirements	-	(459)	(82)	-	(541)
Transfers	770	17,835	201	(18,806)	-
Reclassification to non-current assets classified as held for sale	(2,718)	(29)	(15)	-	(2,762)
Reversal of impairment charge	-	-	-	340	340
Impairment charge	-	(168)	(209)	(3,517)	(3,894)
Depreciation charge	(3,513)	(40,592)	(9,592)	-	(53,697)
Closing net book amount at 31 December 2005	159,939	1,064,226	117,412	139,759	1,481,336



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**5. Property, plant and equipment (continued)**

LTL	Land and buildings	Plant and machinery	Other PPE	Construction in progress	Total
<b>At 31 December 2005</b>					
Cost	243,089	1,969,548	219,257	139,759	2,571,653
Accumulated depreciation and impairment	(83,150)	(905,322)	(101,845)	-	(1,090,317)
Net book amount	<u>159,939</u>	<u>1,064,226</u>	<u>117,412</u>	<u>139,759</u>	<u>1,481,336</u>
<b>Six months ended 30 June 2006</b>					
Opening net book amount at 1 January 2006	159,939	1,064,226	117,412	139,759	1,481,336
Exchange differences	(6,618)	(54,698)	(5,953)	(9,189)	(76,458)
Additions	6,200	5,552	11,862	75,448	99,062
Disposals	(2,357)	(1,225)	(180)	(11)	(3,773)
Retirements	(11)	(9)	(102)	(153)	(275)
Transfers	1,955	20,117	49	(22,121)	-
Reclassification to other assets	-	-	-	(296)	(296)
Depreciation charge	(3,517)	(67,384)	(8,658)	-	(79,559)
Closing net book amount at 30 June 2006	<u>155,591</u>	<u>966,579</u>	<u>114,430</u>	<u>183,437</u>	<u>1,420,037</u>
<b>At 30 June 2006</b>					
Cost	237,548	1,883,369	217,121	183,437	2,521,475
Accumulated depreciation and impairment	(81,957)	(916,790)	(102,691)	-	(1,101,438)
Net book amount	<u>155,591</u>	<u>966,579</u>	<u>114,430</u>	<u>183,437</u>	<u>1,420,037</u>

**6. Intangible assets**

USD	Software	Patents and licences	Total
<b>At 1 January 2005</b>			
Cost	7,952	6,057	14,009
Accumulated amortisation	(4,516)	(4,807)	(9,323)
Net book amount	<u>3,436</u>	<u>1,250</u>	<u>4,686</u>
<b>Six months ended 30 June 2005</b>			
Opening net book amount at 1 January 2005	3,436	1,250	4,686
Exchange differences	(14)	-	(14)
Additions	155	-	155
Amortisation charge	(487)	(204)	(691)
Closing net book amount at 30 June 2005	<u>3,090</u>	<u>1,046</u>	<u>4,136</u>
<b>Six months ended 31 December 2005</b>			
Opening net book amount at 1 July 2005	3,090	1,046	4,136
Additions	460	16	476
Amortisation charge	(491)	(205)	(696)
Closing net book amount at 31 December 2005	<u>3,059</u>	<u>857</u>	<u>3,916</u>
<b>At 31 December 2005</b>			
Cost	8,328	6,073	14,401
Accumulated amortisation	(5,269)	(5,216)	(10,485)
Net book amount	<u>3,059</u>	<u>857</u>	<u>3,916</u>

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**6. Intangible assets (continued)**

**USD**

	<b>Software</b>	<b>Patents and licences</b>	<b>Total</b>
<b>Six months ended 30 June 2006</b>			
Opening net book amount at 1 January 2006	3,059	857	3,916
Exchange differences	7	-	7
Additions	154	-	154
Amortisation charge	(569)	(199)	(768)
Closing net book amount at 30 June 2006	<u>2,651</u>	<u>658</u>	<u>3,309</u>
<b>At 30 June 2006</b>			
Cost	8,534	6,073	14,607
Accumulated amortisation	(5,883)	(5,415)	(11,298)
Net book amount	<u>2,651</u>	<u>658</u>	<u>3,309</u>

**LTL**

	<b>Software</b>	<b>Patents and licences</b>	<b>Total</b>
<b>At 1 January 2005</b>			
Cost	20,154	15,352	35,506
Accumulated amortisation	(11,446)	(12,183)	(23,629)
Net book amount	<u>8,708</u>	<u>3,169</u>	<u>11,877</u>
<b>Six months ended 30 June 2005</b>			
Opening net book amount at 1 January 2005	8,708	3,169	11,877
Exchange differences	1,050	378	1,428
Additions	410	-	410
Amortisation charge	(1,307)	(547)	(1,854)
Closing net book amount at 30 June 2005	<u>8,861</u>	<u>3,000</u>	<u>11,861</u>
<b>Six months ended 31 December 2005</b>			
Opening net book amount at 1 July 2005	8,861	3,000	11,861
Exchange differences	111	36	147
Additions	1,336	46	1,382
Amortisation charge	(1,406)	(588)	(1,994)
Closing net book amount at 31 December 2005	<u>8,902</u>	<u>2,494</u>	<u>11,396</u>
<b>At 31 December 2005</b>			
Cost	24,236	17,674	41,910
Accumulated amortisation	(15,334)	(15,180)	(30,514)
Net book amount	<u>8,902</u>	<u>2,494</u>	<u>11,396</u>
<b>Six months ended 30 June 2006</b>			
Opening net book amount at 1 January 2006	8,902	2,494	11,396
Exchange differences	(437)	(124)	(561)
Additions	432	-	432
Amortisation charge	(1,599)	(559)	(2,158)
Closing net book amount at 30 June 2006	<u>7,298</u>	<u>1,811</u>	<u>9,109</u>
<b>At 30 June 2006</b>			
Cost	23,495	16,718	40,213
Accumulated amortisation	(16,197)	(14,907)	(31,104)
Net book amount	<u>7,298</u>	<u>1,811</u>	<u>9,109</u>

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**6. Intangible assets (continued)**

In 2005 the Company was issued allowances by the Government to emit 6,622,887 tons of carbon dioxide in 2005 – 2007. In the balance sheet the Group recognised allowances and the related government grant at a nominal amount, i.e. zero. In October 2005 through a business combination the Group acquired additional allowances to emit 2,651,020 tons of carbon dioxide in 2005 – 2007. These allowances were not recognised in the balance sheet of the Group. Until 30 June 2006 actual emissions of the Group amounted to 2,873,394 tons (December 2005: 2,238,440 tons). The market value of remaining unused allowances amounted to USD 122,961 thousand or LTL 338,500 thousand as at 30 June 2006 (December 2005: USD 182,203 thousand or LTL 530,246 thousand).

**7. Inventories**

	30 June 2006		31 December 2005	
	USD	LTL	USD	LTL
Raw and supplementary materials (at cost)	57,522	158,352	24,247	70,564
Raw and supplementary materials (at net realisable value)	-	-	769	2,238
Finished goods and goods for resale (at cost)	206,882	569,526	177,534	516,659
Finished goods and goods for resale (at net realisable value)	1,144	3,149	1,016	2,957
Semi-finished goods (at cost)	29,693	81,742	12,501	36,380
Semi-finished goods (at net realisable value)	-	-	20,475	59,586
Spare parts and other (at cost)	23,108	63,614	20,577	59,884
	318,349	876,383	257,119	748,268

**8. Trade and other receivables**

	30 June 2006		31 December 2005	
	USD	LTL	USD	LTL
Trade receivables	106,798	294,004	91,059	265,000
Less provision for impairment of receivables	(15,596)	(42,934)	(15,366)	(44,718)
Trade receivables – net	91,202	251,070	75,693	220,282
Receivables from related parties (Note 19)	80,145	220,631	53,038	154,351
Prepaid and recoverable taxes, other than corporate income tax	5,130	14,122	2,807	8,169
Accrued income and deferred charges	7,501	20,650	10,515	30,601
Other receivables	4,000	11,011	2,554	7,433
	187,978	517,484	144,607	420,836

**9. Cash and cash equivalents**

	30 June 2006		31 December 2005	
	USD	LTL	USD	LTL
Cash at bank and in hand	395,881	1,089,821	536,616	1,561,660
Bonds issued by financial institutions	250,365	689,230	-	-
Short-term bank deposits	85,132	234,360	101,197	294,504
	731,378	2,013,411	637,813	1,856,164

The effective interest rate on short-term bank deposits was 4.74% (December 2005: 3.58%). These deposits have an average maturity of 55 days (December 2005: 30 days).

Bonds issued by financial institutions of USD 250,365 thousand or LTL 689,230 thousand (December 2005: nil) consist of short-term bonds which are not traded in an active market. The effective interest rate on the bonds was 4.93%. They have an average maturity of 38 days.

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**9. Cash and cash equivalents (continued)**

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

	<b>30 June 2006</b>		<b>31 December 2005</b>	
	<b>USD</b>	<b>LTL</b>	<b>USD</b>	<b>LTL</b>
Cash held at banks to secure issued letters of credit	332,820	916,221	457,788	1,332,255
Cash held at banks to secure issued guaranties	6,275	17,274	7,415	21,579
	<b>339,095</b>	<b>933,495</b>	<b>465,203</b>	<b>1,353,834</b>

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

	<b>30 June 2006</b>		<b>31 December 2005</b>	
	<b>USD</b>	<b>LTL</b>	<b>USD</b>	<b>LTL</b>
Cash and cash equivalents	731,378	2,013,411	637,813	1,856,164
Bank overdrafts (Note 12)	(449)	(1,236)	-	-
	<b>730,929</b>	<b>2,012,175</b>	<b>637,813</b>	<b>1,856,164</b>

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

**10. Share capital**

As at 30 June 2006, the Company's authorised share capital comprised 707,454,130 (December 2005: 707,454,130) ordinary registered shares with a par value of LTL 1 per share. There were no movements in number of shares outstanding during 2006 and 2005. All issued shares are fully paid.

**11. Trade and other payables**

	<b>30 June 2006</b>		<b>31 December 2005</b>	
	<b>USD</b>	<b>LTL</b>	<b>USD</b>	<b>LTL</b>
Trade payables	408,642	1,124,951	311,353	906,100
Amounts due to related parties (Note 19)	4,475	12,319	6,277	18,267
Advances received	5,902	16,248	4,281	12,458
Accruals and deferred income	16,449	45,282	13,740	39,984
Taxes other than corporate income tax	51,577	141,986	56,097	163,255
Social security contributions	1,799	4,952	2,847	8,287
Other current liabilities	3,483	9,588	862	2,482
	<b>492,327</b>	<b>1,355,326</b>	<b>395,457</b>	<b>1,150,833</b>

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**12. Borrowings**

	<b>30 June 2006</b>		<b>31 December 2005</b>	
	<b>USD</b>	<b>LTL</b>	<b>USD</b>	<b>LTL</b>
<b>Non-current</b>				
Bank borrowings	162,135	446,341	163,815	476,734
Loans from related parties (Note 19)	290,175	798,823	290,233	844,636
Finance lease liabilities	16	44	28	82
	<u>452,326</u>	<u>1,245,208</u>	<u>454,076</u>	<u>1,321,452</u>
<b>Current</b>				
Bank overdrafts	449	1,236	-	-
Bank borrowings	7,302	20,101	9,321	27,126
Loans from related parties (Note 19)	261	719	238	693
Finance lease liabilities	107	295	253	736
	<u>8,119</u>	<u>22,351</u>	<u>9,812</u>	<u>28,555</u>
<b>Total borrowings</b>	<u>460,445</u>	<u>1,267,559</u>	<u>463,888</u>	<u>1,350,007</u>

Borrowings amounting to USD 169,729 thousand or LTL 467,247 thousand (December 2005: USD 172,822 thousand or LTL 502,947 thousand) are bearing floating interest rate with repricing period between 1 and 6 months. Borrowings (excluding finance lease liabilities) of USD 290,593 thousand or LTL 799,973 thousand (December 2005: USD 290,785 thousand or LTL 846,242) are bearing fixed interest rate.

**13. Expenses by nature**

	<b>2006</b>				<b>2005</b>			
	<b>3 months ended</b>		<b>6 months ended</b>		<b>3 months ended</b>		<b>6 months ended</b>	
	<b>30 June</b>		<b>30 June</b>		<b>30 June</b>		<b>30 June</b>	
	<b>USD</b>	<b>LTL</b>	<b>USD</b>	<b>LTL</b>	<b>USD</b>	<b>LTL</b>	<b>USD</b>	<b>LTL</b>
Depreciation and amortisation (Notes 5 and 6)	14,738	40,558	29,076	81,717	9,662	26,445	19,666	52,738
Wages and salaries	20,066	55,220	33,050	92,493	14,353	39,366	28,013	75,267
Social security costs	6,221	17,120	10,223	28,609	4,401	12,070	8,584	23,064
Costs of crude oil and feedstock	1,132,723	3,117,140	2,064,770	5,792,767	714,194	1,953,635	1,376,720	3,694,885
Additives and catalysts	1,360	3,743	3,247	9,160	1,317	3,661	3,404	9,146
Changes in inventories of finished goods and work in progress	(64,375)	(177,154)	(21,479)	(54,012)	29,787	78,286	(10)	(27)
Transit and freight	16,398	45,126	42,039	118,734	18,499	50,819	37,509	100,781
Railway services	14,146	38,928	26,676	74,898	13,808	37,989	28,942	77,764
Terminal and laboratory services	7,398	20,359	14,383	40,411	7,979	21,938	16,522	44,391
Electricity	12,387	34,088	18,484	51,591	8,747	24,028	17,689	47,529
Steam power	-	-	-	-	3,084	8,620	8,755	23,525
Intermediary services	4,323	11,896	9,058	25,489	3,811	10,456	7,493	20,133
Consumables and office supplies	4,093	11,264	7,933	22,287	3,574	9,785	6,672	17,927
Taxes, other than corporate income tax	2,004	5,515	3,782	10,619	2,872	7,869	5,473	14,705
Insurance	886	2,438	2,670	7,559	1,804	4,960	3,717	9,988
Operating lease	1,774	4,882	3,451	9,696	1,698	4,660	3,354	9,012
Professional fees	2,744	7,551	5,167	14,507	815	2,246	1,777	4,774
Other expenses	15,842	43,594	24,435	68,262	12,136	32,882	15,778	42,455
	<u>1,192,728</u>	<u>3,282,268</u>	<u>2,276,965</u>	<u>6,394,787</u>	<u>852,541</u>	<u>2,329,715</u>	<u>1,590,058</u>	<u>4,268,057</u>

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**13. Expenses by nature (continued)**

	2006				2005			
	3 months ended		6 months ended		3 months ended		6 months ended	
	30 June		30 June		30 June		30 June	
	USD	LTL	USD	LTL	USD	LTL	USD	LTL
Classified as:								
– cost of sales	1,113,344	3,063,811	2,125,981	5,970,788	781,881	2,136,318	1,452,140	3,897,893
– selling and marketing costs	48,240	132,751	102,636	288,906	50,459	138,107	103,052	276,332
– administrative expenses	31,144	85,706	48,348	135,093	20,201	55,290	34,866	93,832
	1,192,728	3,282,268	2,276,965	6,394,787	852,541	2,329,715	1,590,058	4,268,057

**14. Income tax expense**

	2006				2005			
	3 months ended		6 months ended		3 months ended		6 months ended	
	30 June		30 June		30 June		30 June	
	USD	LTL	USD	LTL	USD	LTL	USD	LTL
Current tax	19,065	52,465	28,486	79,510	12,850	35,170	25,023	67,164
Deferred tax	(3,822)	(10,518)	(4,554)	(12,619)	(810)	(2,217)	(1,376)	(3,705)
	15,243	41,947	23,932	66,891	12,040	32,953	23,647	63,459

**15. Earnings per share**

*Basic*

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

	2006				2005			
	3 months ended		6 months ended		3 months ended		6 months ended	
	30 June		30 June		30 June		30 June	
	USD	LTL	USD	LTL	USD	LTL	USD	LTL
Profit attributable to equity holders of the Company	86,228	237,291	132,777	370,919	87,942	244,388	171,175	463,141
Weighted average number of ordinary shares in issue (thousands)	707,454	707,454	707,454	707,454	707,454	707,454	707,454	707,454
Basic earnings per share (USD or LTL per share)	0.122	0.335	0.188	0.524	0.124	0.345	0.242	0.655

*Diluted*

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

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**15. Earnings per share (continued)**

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

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

According to the most dilutive interpretation of the Investment Agreement, the dilutive effect would be an additional 312,167 thousand shares for the three months ended 30 June 2006 (three months ended 30 June 2005: 306,407 thousand shares) and 313,188 thousand shares for the six months ended 30 June 2006 (six months ended 30 June 2005: 295,479 thousand shares), that would give a diluted earnings per share of USD 0.085 or LTL 0.233 for the three months ended 30 June 2006 (three months ended 30 June 2005: USD 0.087 or LTL 0.241) and USD 0.130 or LTL 0.363 for the six months ended 30 June 2006 (six months ended 30 June 2005: USD 0.171 or LTL 0.462). According to the less dilutive interpretation, the dilutive effect would be an additional 165,075 thousand shares for the three months ended 30 June 2006 (three months ended 30 June 2005: 161,834 thousand shares) and 165,193 thousand shares for the six months ended 30 June 2006 (six months ended 30 June 2005: 156,094 thousand shares), that would give a diluted earnings per share of USD 0.099 or LTL 0.272 for the three months ended 30 June 2006 (three months ended 30 June 2005: USD 0.101 or LTL 0.281) and USD 0.152 or LTL 0.425 for the six months ended 30 June 2006 (six months ended 30 June 2005: USD 0.198 or LTL 0.536).

Despite notice having been provided by Yukos Finance B.V., no new shares have been issued and without agreement between the parties it is not likely that any will be issued. Furthermore, if the share sale-purchase transaction between Yukos International UK B.V. and PKN Orlen is completed, the Investment Agreement will expire and no new shares will be issued.

**16. Cash generated from operations**

	Six months ended			
	30 June 2006		30 June 2005	
	USD	LTL	USD	LTL
Profit for the period	132,909	371,297	170,654	461,770
Adjustments for:				
– tax (Note 14)	23,932	66,891	23,647	63,459
– depreciation (Note 5)	28,308	79,559	18,975	50,884
– amortisation (Note 6)	768	2,158	691	1,854
– (profit) on sale of non-current assets classified as held for sale	(577)	(892)	(6)	(15)
– (profit) on sale of PPE	(666)	(1,852)	(126)	(341)
– retirement of PPE (Note 5)	98	275	2,358	6,454
– impairment charge of PPE (Note 5)	-	-	293	792
– reversal of impairment charge of PPE (Note 5)	-	-	(1,411)	(3,721)
– interest income	(12,990)	(36,409)	(5,546)	(14,929)
– interest expense	15,376	43,212	13,752	36,895
– net movement in provisions for liabilities	(10,996)	(32,000)	14,494	42,534
– share of (profit) from associates	(33)	(93)	(63)	(170)
– Excess of the acquirer's interest in the net assets acquired recognised as income	-	-	(104)	(278)
– exchange (gains)/losses on borrowings	144	(72,236)	(361)	163,590
Changes in working capital:				
– inventories	(61,230)	(128,115)	33,014	30,051
– trade and other receivables	(37,135)	(76,571)	(54,649)	(204,041)
– trade and other payables	96,852	203,287	38,077	216,313
Cash generated from operations	174,760	418,511	253,689	851,101

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### **17. Contingencies**

There were no significant changes in contingent liabilities and contingent assets since 31 December 2005, except as follows:

#### *Investigation of the Latvian Competition Council*

In November 2005, the Latvian Competition Council commenced an investigation against Mazeikiu Nafta Tridniecibas Nams SIA whether it did not abuse its dominant position in the Latvian market. The investigation was completed in June 2006. The Latvian Competition Council concluded that Mazeikiu Nafta Tridniecibas Nams SIA did not abuse its dominant position in the Latvian market.

### **18. Commitments**

#### *Capital commitments*

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

	<b>30 June 2006</b>		<b>31 December 2005</b>	
	<b>USD</b>	<b>LTL</b>	<b>USD</b>	<b>LTL</b>
Property, plant and equipment	44,483	122,458	44,002	128,055

### **19. Related-party transactions**

As at 30 June 2006 Yukos International UK B.V was the majority shareholder of the Company.

In June 2002, the Group and Yukos Oil Company OAO signed a crude oil supply agreement for an annual quantity of 4,800 thousand metric tons of crude oil. The price of crude oil is determined based on open market terms. The agreement is valid until 30 September 2012. In 2004, Yukos Oil Company OAO commitments under this agreement were transferred to Samaraneftegas OAO, the Yukos Group company. In February 2005, Yukos Oil Company OAO suspended supply of crude oil to the Group both for refining and transportation purposes.

On 1 January 2005 the Group signed a sales commissioner agreement with Petroval PTE Ltd, an entity related to Yukos Oil Company OAO. According to this agreement Petroval PTE Ltd sells the Group's oil products for a defined fee. Accounts receivable balance represents receivables from the third parties which have to be collected by Petroval PTE Ltd on behalf of the Group. Petroval PTE Ltd has shareholding in Petroval Bunker International B.V.

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

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



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**19. Related-party transactions (continued)**

The following transactions were carried out with related parties:

*(a) Sales of goods and services*

	2006				2005			
	3 months ended		6 months ended		3 months ended		6 months ended	
	30 June		30 June		30 June		30 June	
	USD	LTL	USD	LTL	USD	LTL	USD	LTL
– Naftelf UAB	7,518	20,689	13,422	37,638	6,413	17,552	10,365	27,939
– Yukos Group*	6	17	14	40	8	22	36	96
– Petroval SA (acting as direct sales client)	-	-	-	-	29,421	80,525	35,242	95,824
– Petroval PTE Ltd (acting as direct sales client)	-	-	-	-	-	-	10,966	28,821
– Petroval Bunker International B.V. (acting as direct sales client)	85,741	235,951	137,596	384,811	-	-	-	-
	93,265	256,657	151,032	422,489	35,842	98,099	56,609	152,680

*(b) Purchases of goods and services*

	2006				2005			
	3 months ended		6 months ended		3 months ended		6 months ended	
	30 June		30 June		30 June		30 June	
	USD	LTL	USD	LTL	USD	LTL	USD	LTL
– Petroval PTE Ltd (commission fee and purchases of goods)	21,401	58,893	51,649	145,726	19,348	52,955	40,702	109,078
– Petroval SA (commission fee and purchase of goods)	-	-	-	-	(330)	(826)	735	1,973
– Yukos Group* (purchase of crude oil)	-	-	-	-	-	-	896	2,356
– Yukos Finance B.V. (management fee)	634	1,745	993	2,776	22	60	504	1,327
	22,035	60,638	52,642	148,502	19,040	52,189	42,837	114,734

*(c) Domestic tax expenses – the Government*

	2006				2005			
	3 months ended		6 months ended		3 months ended		6 months ended	
	30 June		30 June		30 June		30 June	
	USD	LTL	USD	LTL	USD	LTL	USD	LTL
Domestic income tax	14,468	39,815	23,013	64,345	11,899	32,567	23,349	62,660
Domestic taxes, other than corporate income tax	1,879	5,171	3,655	10,269	2,809	7,688	5,394	14,482
Social security costs	6,102	16,792	10,032	28,074	4,325	11,838	8,432	22,632
	22,449	61,778	36,700	102,688	19,033	52,093	37,175	99,774

*(d) Key management compensation*

	2006				2005			
	3 months ended		6 months ended		3 months ended		6 months ended	
	30 June		30 June		30 June		30 June	
	USD	LTL	USD	LTL	USD	LTL	USD	LTL
Salaries and other short-term employee benefits	162	445	312	875	172	472	322	865

Key management includes 7 (June 2005: 7) members of the management of the Company.

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**19. Related-party transactions (continued)**

*(e) Period-end balances arising from sales/purchases of goods/services*

	<b>30 June 2006</b>		<b>31 December 2005</b>	
	<b>USD</b>	<b>LTL</b>	<b>USD</b>	<b>LTL</b>
Receivables from related parties (Note 8):				
Yukos Group* trade receivables	2,167	5,966	2,162	6,292
Less provision for impairment of receivables	(2,164)	(5,958)	(2,159)	(6,284)
Yukos Group* trade receivables - net	3	8	3	8
Petroval PTE Ltd	76,396	210,311	52,187	151,875
Petroval SA	125	344	147	428
Naftelf UAB	748	2,059	701	2,040
	<u>77,272</u>	<u>212,722</u>	<u>53,038</u>	<u>154,351</u>
Prepayments made to related parties:				
Petroval PTE Ltd	2,873	7,909	-	-
	<u>80,145</u>	<u>220,631</u>	<u>53,038</u>	<u>154,351</u>
Reimbursement for environmental obligations receivable from the Government	5,712	15,725	10,807	31,449
	<u>85,857</u>	<u>236,356</u>	<u>63,845</u>	<u>185,800</u>
Amounts due to related parties (Note 11):				
Amounts payable to related parties:				
Yukos Finance B.V.	317	873	320	931
Petroval SA	347	955	350	1,019
Petroval PTE Ltd	1,435	3,951	3,560	10,360
the Government	16	43	16	47
	<u>2,115</u>	<u>5,822</u>	<u>4,246</u>	<u>12,357</u>
Advance payments received from related parties:				
Petroval PTE Ltd	2,360	6,497	2,031	5,910
	<u>4,475</u>	<u>12,319</u>	<u>6,277</u>	<u>18,267</u>
Provision for claim from Yukos Group*	571	1,573	571	1,662
Government grant relating to purchases of PPE	4,962	13,660	4,963	14,443
	<u>10,008</u>	<u>27,552</u>	<u>11,811</u>	<u>34,372</u>
<i>(f) Period-end balances arising from domestic taxes paid/payable – the Government</i>				
Prepaid domestic taxes:				
Prepaid domestic current income tax	6,826	18,791	165	480
Long term portion of prepayment for domestic real estate tax	-	-	1,134	3,300
Prepaid domestic taxes, other than corporate income tax	2,777	7,645	2,739	7,971
	<u>9,603</u>	<u>26,436</u>	<u>4,038</u>	<u>11,751</u>
Domestic taxes payable:				
Domestic current income tax payable	38,730	106,618	36,636	106,618
Domestic taxes other than corporate income tax	25,203	69,381	26,186	76,206
	<u>63,933</u>	<u>175,999</u>	<u>62,822</u>	<u>182,824</u>

**MAŽEIKIŲ NAFTA AB**  
**CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION**  
**FOR THE SIX MONTH PERIOD ENDED 30 JUNE 2006**

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

**19. Related-party transactions (continued)**

Deferred taxes:	<b>30 June 2006</b>		<b>31 December 2005</b>	
	<b>USD</b>	<b>LTL</b>	<b>USD</b>	<b>LTL</b>
Deferred income tax assets	25,404	69,935	20,841	60,651

*(g) Loans from related parties – the Government (Note 12)*

	<b>USD</b>	<b>LTL</b>
Beginning of period	288,983	732,427
Interest charged	10,169	27,436
Interest paid	(10,225)	(27,438)
Exchange differences	-	96,331
End of the six month period 30 June 2005	<u>288,927</u>	<u>828,756</u>
Beginning of period	288,927	828,756
Acquisition of subsidiary	1,717	4,932
Interest charged	10,356	29,799
Interest paid	(10,378)	(30,010)
Loan repayments made	(113)	(329)
Exchange differences	(22)	12,228
End of the six month period 31 December 2005	<u>290,487</u>	<u>845,376</u>
Beginning of period	290,487	845,376
Interest charged	10,206	28,671
Interest paid	(10,208)	(28,674)
Loan repayments made	(124)	(340)
Exchange differences	90	(45,450)
End of the six month period 30 June 2006	<u>290,451</u>	<u>799,583</u>

Loans from related parties consist of loans granted by the Government to the Company amounting to USD 288,927 thousand or LTL 795,387 thousand (December 2005: USD 288,927 thousand or LTL 840,837 thousand) and Mažeikių Elektrinė AB amounting to USD 1,509 thousand or LTL 4,155 thousand (December 2005: USD 1,544 thousand or LTL 4,492 thousand) plus interest accrued amounting to USD 15 thousand or LTL 41 thousand (December 2005: USD 16 thousand or LTL 47 thousand).

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

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

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