

MAŽEIKIŲ NAFTA AB

CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION

FOR THE NINE MONTH PERIOD ENDED 30 SEPTEMBER 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 September 2006, and the related condensed consolidated interim statements of income, cash flows and changes in equity for the nine 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 September 2006. As a result, the Group's total assets and minority interest in the balance sheet as at 30 September 2006 should be increased by USD 62,140 thousand or LTL 168,618 thousand and USD 9,092 thousand or LTL 24,670 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 49,390 thousand or LTL 143,948 thousand (31 December 2005: USD 55,109 thousand or LTL 159,873 thousand), whilst profit for the nine month period then ended should be decreased by USD 6,672 thousand or LTL 18,579 thousand (30 September 2005: nil) and its part attributable to minority interest decreased by USD 953 thousand or LTL 2,654 thousand (30 September 2005: nil). In addition, in the financial information presented in USD the cumulative translation adjustment should be increased by USD 3,658 thousand as at 30 September 2006 (31 December 2005: decreased by USD 174 thousand). Furthermore, the Group should then have tested the recognised allowances for impairment whenever events or changes in circumstances indicated that the carrying amount may not be recoverable, and recognised an impairment loss, if any. In the absence of information to assess the recoverability of these assets, we were unable to determine the amount of adjustment, if any, for the write down of emission allowances to their recoverable amount.
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
29 November 2006

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FOR THE NINE MONTH PERIOD ENDED 30 SEPTEMBER 2006

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

Condensed consolidated interim balance sheet

	Note	As at 30 September 2006		As at 31 December 2005	
		USD	LTL	USD	LTL
ASSETS					
Non-current assets					
Property, plant and equipment	6	533,956	1,448,890	509,016	1,481,336
Intangible assets	7	2,953	8,013	3,916	11,396
Goodwill		1,975	5,361	1,842	5,361
Investments in associates		1,408	3,821	1,262	3,672
Deferred income tax assets		28,626	77,677	20,891	60,798
Available-for-sale financial assets		-	-	1	3
Non-current receivables and prepayments		26,747	72,576	27,997	81,478
		<u>595,665</u>	<u>1,616,338</u>	<u>564,925</u>	<u>1,644,044</u>
Current assets					
Inventories	8	293,302	795,874	257,119	748,268
Trade and other receivables	9	138,200	375,006	144,607	420,836
Prepaid current income tax		4,920	13,350	165	480
Cash and cash equivalents	10	637,267	1,729,224	637,813	1,856,164
		<u>1,073,689</u>	<u>2,913,454</u>	<u>1,039,704</u>	<u>3,025,748</u>
Non-current assets classified as held for sale		289	784	953	2,773
		<u>1,073,978</u>	<u>2,914,238</u>	<u>1,040,657</u>	<u>3,028,521</u>
Total assets		<u>1,669,643</u>	<u>4,530,576</u>	<u>1,605,582</u>	<u>4,672,565</u>
EQUITY					
Capital and reserves attributable to equity holders of the Company					
Share capital	11	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		3,666	(167,796)	1,457	(30,716)
Retained earnings		532,717	1,322,767	404,069	963,006
		<u>809,384</u>	<u>2,196,264</u>	<u>673,247</u>	<u>1,959,310</u>
Minority interest		913	2,477	836	2,433
Total equity		<u>810,297</u>	<u>2,198,741</u>	<u>674,083</u>	<u>1,961,743</u>
LIABILITIES					
Non-current liabilities					
Borrowings	13	449,716	1,220,304	454,076	1,321,452
Provisions for liabilities and charges	14	553	1,501	11,322	32,949
Other non-current liabilities		8,720	23,662	8,506	24,754
		<u>458,989</u>	<u>1,245,467</u>	<u>473,904</u>	<u>1,379,155</u>
Current liabilities					
Trade and other payables	12	346,033	938,960	395,457	1,150,833
Current income tax liabilities		39,463	107,083	36,879	107,325
Borrowings	13	8,060	21,870	9,812	28,555
Provisions for liabilities and charges	14	6,801	18,455	15,447	44,954
		<u>400,357</u>	<u>1,086,368</u>	<u>457,595</u>	<u>1,331,667</u>
Total liabilities		<u>859,346</u>	<u>2,331,835</u>	<u>931,499</u>	<u>2,710,822</u>
Total equity and liabilities		<u>1,669,643</u>	<u>4,530,576</u>	<u>1,605,582</u>	<u>4,672,565</u>

The General Director and the Chief Financial Officer approved the condensed consolidated interim financial information on pages 4 to 29 on 29 November 2006.

Paul Nelson English
General Director

Vita Petrošienė
Chief Financial Officer

The notes on pages 9 to 29 form an integral part of this condensed consolidated interim financial information.

MAŽEIKIŲ NAFTA AB
CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION
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(all tabular amounts are in USD'000 and LTL'000 unless otherwise stated)

Condensed consolidated interim income statement

	Note	2006				2005			
		3 months ended 30 September		9 months ended 30 September		3 months ended 30 September		9 months ended 30 September	
		USD	LTL	USD	LTL	USD	LTL	USD	LTL
Sales	5	1,179,049	3,191,097	3,610,484	10,017,639	1,089,253	3,081,061	2,883,168	7,899,826
Cost of sales	15	(1,129,275)	(3,056,383)	(3,255,256)	(9,027,171)	(916,000)	(2,590,996)	(2,368,140)	(6,488,889)
Gross profit		49,774	134,714	355,228	990,468	173,253	490,065	515,028	1,410,937
Other income		108	292	1,481	4,103	-	-	545	1,448
Selling and marketing costs	15	(46,005)	(124,513)	(148,641)	(413,419)	(40,506)	(114,574)	(143,558)	(390,906)
Administrative expenses	15	(6,599)	(17,860)	(54,947)	(152,953)	(22,045)	(62,358)	(56,911)	(156,190)
Operating profit		(2,722)	(7,367)	153,121	428,199	110,702	313,133	315,104	865,289
Finance income		8,031	21,735	21,021	58,144	4,093	11,579	9,657	26,557
Finance costs		(4,883)	(13,215)	(16,908)	(47,095)	(7,668)	(21,693)	(23,396)	(63,768)
Share of profits of associates		21	56	54	149	1	3	64	173
Profit before income tax		447	1,209	157,288	439,397	107,128	303,022	301,429	828,251
Income tax expense	16	581	1,573	(23,351)	(65,318)	3,492	9,877	(20,155)	(53,582)
Profit for the period		1,028	2,782	133,937	374,079	110,620	312,899	281,274	774,669
Attributable to:									
- equity holders of the Company		1,151	3,115	133,928	374,034	110,629	312,925	281,804	776,066
- minority interest		(123)	(333)	9	45	(9)	(26)	(530)	(1,397)
		1,028	2,782	133,937	374,079	110,620	312,899	281,274	774,669
Earnings per share for profit attributable to the equity holders of the Company during the period (expressed in USD or LTL per share)									
- basic / diluted	17	0.002	0.004	0.189	0.529	0.156	0.442	0.398	1.097

The notes on pages 9 to 29 form an integral part of this condensed consolidated interim financial information.

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

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

	Capital and reserves attributable to equity holders of the Company								Total equity
	Share capital	Share premium	Statutory revaluation reserve	Legal reserve	Cumulative translation adjustments	Retained earnings	Total	Minority interest	
Balance at 1 January 2005	181,366	72,752	109	-	4,344	190,756	449,327	686	450,013
Currency translation differences recognised directly in equity	-	-	-	-	(2,336)	-	(2,336)	(38)	(2,374)
Profit for the period	-	-	-	-	-	281,804	281,804	(530)	281,274
Total recognised income for the period	-	-	-	-	(2,336)	281,804	279,468	(568)	278,900
Transfer to legal reserve	-	-	-	13,194	-	(13,194)	-	-	-
Dividend relating to 2004	-	-	-	-	-	(92,671)	(92,671)	-	(92,671)
Other	-	-	-	-	-	-	-	135	135
Balance at 30 September 2005	181,366	72,752	109	13,194	2,008	366,695	636,124	253	636,377
Balance at 1 October 2005	181,366	72,752	109	13,194	2,008	366,695	636,124	253	636,377
Currency translation differences recognised directly in equity	-	-	-	-	(551)	-	(551)	317	(234)
Profit for the period	-	-	-	-	-	37,674	37,674	(225)	37,449
Total recognised income for the period	-	-	-	-	(551)	37,674	37,123	92	37,215
Minority interest arising on business combinations	-	-	-	-	-	-	-	794	794
Transfer to legal reserve	-	-	-	300	-	(300)	-	-	-
Other	-	-	-	-	-	-	-	(303)	(303)
Balance at 31 December 2005	181,366	72,752	109	13,494	1,457	404,069	673,247	836	674,083
Balance at 1 January 2006	181,366	72,752	109	13,494	1,457	404,069	673,247	836	674,083
Currency translation differences recognised directly in equity	-	-	-	-	2,209	-	2,209	68	2,277
Profit for the period	-	-	-	-	-	133,928	133,928	9	133,937
Total recognised income for the period	-	-	-	-	2,209	133,928	136,137	77	136,214
Transfer to legal reserve	-	-	-	5,280	-	(5,280)	-	-	-
Balance at 30 September 2006	181,366	72,752	109	18,774	3,666	532,717	809,384	913	810,297

The notes on pages 9 to 29 form an integral part of this condensed consolidated interim financial information.

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

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		
Balance at 1 January 2005	707,454	283,040	437	-	(211,052)	358,940	1,138,819	1,739	1,140,558
Currency translation differences recognised directly in equity	-	-	-	-	147,697	-	147,697	23	147,720
Profit for the period	-	-	-	-	-	776,066	776,066	(1,397)	774,669
Total recognised income for the period	-	-	-	-	147,697	776,066	923,763	(1,374)	922,389
Transfer to legal reserve	-	-	-	35,264	-	(35,264)	-	-	-
Dividend relating to 2004	-	-	-	-	-	(247,609)	(247,609)	-	(247,609)
Other	-	-	-	-	-	-	-	359	359
Balance at 30 September 2005	707,454	283,040	437	35,264	(63,355)	852,133	1,814,973	724	1,815,697
Balance at 1 October 2005	707,454	283,040	437	35,264	(63,355)	852,133	1,814,973	724	1,815,697
Currency translation differences recognised directly in equity	-	-	-	-	32,639	-	32,639	881	33,520
Profit for the period	-	-	-	-	-	111,698	111,698	(653)	111,045
Total recognised income for the period	-	-	-	-	32,639	111,698	144,337	228	144,565
Minority interest arising on business combinations	-	-	-	-	-	-	-	2,282	2,282
Transfer to legal reserve	-	-	-	825	-	(825)	-	-	-
Other	-	-	-	-	-	-	-	(801)	(801)
Balance at 31 December 2005	707,454	283,040	437	36,089	(30,716)	963,006	1,959,310	2,433	1,961,743
Balance at 1 January 2006	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	-	-	-	-	(137,080)	-	(137,080)	(1)	(137,081)
Profit for the period	-	-	-	-	-	374,034	374,034	45	374,079
Total recognised income for the period	-	-	-	-	(137,080)	374,034	236,954	44	236,998
Transfer to legal reserve	-	-	-	14,273	-	(14,273)	-	-	-
Balance at 30 September 2006	707,454	283,040	437	50,362	(167,796)	1,322,767	2,196,264	2,477	2,198,741

The notes on pages 9 to 29 form an integral part of this condensed consolidated interim financial information.

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

Condensed consolidated interim cash flow statement

	Note	9 months ended 30 September			
		2006		2005	
		USD	LTL	USD	LTL
Cash flows from operating activities					
Cash generated from operations	18	110,477	226,124	409,062	1,268,400
Interest paid		(23,429)	(65,195)	(21,129)	(57,738)
Income tax paid		(34,256)	(96,085)	(47,303)	(135,367)
Net cash generated from operating activities		52,792	64,844	340,630	1,075,295
Cash flows from investing activities					
Purchases of property, plant and equipment		(71,913)	(196,147)	(30,677)	(84,764)
Change in cash restricted for investing activities		-	-	11,205	30,062
Proceeds from sale of property, plant and equipment		2,058	5,723	469	1,284
Proceeds from sale of non-current assets classified as held for sale		1,270	3,606	210	587
Purchases of intangible assets		(809)	(1,455)	(4,221)	(12,335)
Proceeds from sale of available-for-sale financial assets		-	-	19	48
Interest received		20,178	55,772	9,657	23,969
Acquisition of shares in subsidiary from minority		-	-	(208)	(554)
Net cash used in investing activities		(49,216)	(132,501)	(13,546)	(41,703)
Cash flows from financing activities					
Repayments of borrowings		(7,615)	(21,167)	(13,421)	(36,669)
Proceeds from borrowings		1,240	3,406	-	-
Finance lease principal payments		(239)	(666)	(235)	(643)
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		(6,614)	(18,427)	(106,318)	(284,897)
Net increase (decrease) in cash and cash equivalents and bank overdrafts					
		(3,038)	(86,084)	220,766	748,695
Cash and cash equivalents and bank overdrafts at beginning of period	10	637,813	1,856,164	382,434	969,282
Exchange gains/(losses) on cash and bank overdrafts		2,031	(42,107)	(5,925)	(8,755)
Cash and cash equivalents and bank overdrafts at end of period	10	636,806	1,727,973	597,275	1,709,222

The notes on pages 9 to 29 form an integral part of this condensed consolidated interim financial information.

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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 September 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 condensed consolidated interim financial information are listed below:

Subsidiary / associate	Country of incorporation	Year of establishment /acquisition	Group’s share (%) as at		Profile
			30 September 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 Tirdzniecibas 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. The entity is under liquidation process.
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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2 Significant matters affecting the Group

(1) 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.

(2) 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 needed 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 all these institutions has been received.

In June 2006, the Government signed a preliminary share sale-purchase agreement with PKN Orlen for the sale of 30.66 percent of the Company's shares. The sale will take place only if the share sale-purchase transaction between Yukos International UK B.V. and PKN Orlen is completed.

(3) 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 Company has in the past been 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 import-export 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. The management plans that approximately 8.3 million tons of crude oil will be delivered to the refinery in 2006.

(4) Fire at the oil refinery

As further disclosed in note 22 to this condensed consolidated interim financial information, due to a fire on 12 October 2006 the oil refinery is currently able to operate at approximately half its normal capacity. Management estimates that it will take from 6 to 9 months to restore full capacity and that the fire might reduce the Group's profit by approximately USD 38 million or LTL 105 million for the year ending 31 December 2006.

(5) Going concern

The combined effects of the bankruptcy of Yukos Group, the suspension of oil supply via the pipeline and the fire at the oil refinery will have a significant adverse effect on the Group's financial position, the results of operations and liquidity position. However, the management believes that based on its actions and the Group's capital, financing and operating plans for 2006 and 2007 there is no reason to doubt the appropriateness of the going concern assumption in the preparation of this condensed consolidated interim financial information.

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

3. Summary of significant accounting policies

3.1 Basis of preparation

This condensed consolidated interim financial information of the Group is for the nine months ended 30 September 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.

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. At the date of the issuance of this condensed consolidated interim financial information this Interpretation was not adopted by the EU.

In November 2006, the IASB issued IFRIC 11, *IFRS 2 - Group and Treasury Share Transactions*, which is effective for annual periods beginning on or after 1 March 2007. The Group has not early adopted IFRIC 11. The Interpretation addresses how to apply IFRS 2, "Share-based Payments", to share-based payment arrangements involving an entity's own equity instruments or equity instruments of another entity in the same group. The Group does not expect it to have a significant impact on its financial reports. At the date of the issuance of this condensed consolidated interim financial information this Interpretation was not adopted by the EU.

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 nine month period ended 30 September 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 September 2005 increased by USD 16,631 thousand or LTL 42,151 thousand and deferred tax asset increased by the same amount.

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3.1 Basis of preparation (continued)

In preparing its condensed consolidated interim financial information for the nine month period ended 30 September 2006 the Group discovered an error made in its consolidated financial statements for the nine month period ended 30 September 2005 and consolidated financial statements for the year ended 31 December 2005 in respect of related party disclosures. Petroval PTE Ltd was disclosed as a related party, although it was not related to the Group. As a result of correcting this error, as at 31 December 2005 receivables from related parties were decreased by USD 52,187 thousand or LTL 151,875 thousand and amounts payable to related parties were decreased by USD 5,591 thousand or LTL 16,270 thousand; receivables and payables to third parties were increased accordingly. Sales to related parties were decreased by USD 10,965 thousand or LTL 28,818 thousand and purchases from related parties were decreased by USD 57,820 thousand or LTL 157,498 thousand for the nine month period ended 30 September 2005; sales and purchases from third parties were increased accordingly.

3.2 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.

4. 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.

(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 the final explanation from the state 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 6,576 thousand or LTL 18,343 thousand for the nine month period ended 30 September 2006. If the state authorities treat social tax as a new tax, income tax expenses will have to be reduced by USD 6,576 thousand or LTL 18,343 thousand.

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5. Segment information

The Group owns an oil import-export terminal in Būtingė. Until the end of July 2006 the terminal was used for export of crude oil. After the crude oil supply to the Company via the pipeline from Russia was suspended, the Group started using its oil terminal for the import of crude oil which is further used in the production process of oil refinery. This resulted in decreased oil terminal's revenue.

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

USD	Oil refinery	Oil terminal	Pipeline	Petrol stations	Other	Group
Total gross segment sales	1,166,719	3,385	2,919	13,991	378	1,187,392
Inter-segment sales	(7,965)	-	-	-	(378)	(8,343)
Sales	1,158,754	3,385	2,919	13,991	-	1,179,049
Operating profit / segment result	(749)	(2,712)	601	31	107	(2,722)
Finance income						8,031
Finance costs						(4,883)
Share of profit of associates	21	-	-	-	-	21
Profit before income tax						447
Income tax expense (Note 16)						581
Profit for the period						1,028

LTL

LTL	Oil refinery	Oil terminal	Pipeline	Petrol stations	Other	Group
Total gross segment sales	3,157,725	9,162	7,900	37,867	1,023	3,213,677
Inter-segment sales	(21,557)	-	-	-	(1,023)	(22,580)
Sales	3,136,168	9,162	7,900	37,867	-	3,191,097
Operating profit / segment result	(2,028)	(7,340)	1,627	84	290	(7,367)
Finance income						21,735
Finance costs						(13,215)
Share of profit of associates	56	-	-	-	-	56
Profit before income tax						1,209
Income tax expense (Note 16)						1,573
Profit for the period						2,782

The business segment results for the nine months ended 30 September 2006 were as follows:

USD

USD	Oil refinery	Oil terminal	Pipeline	Petrol stations	Other	Group
Total gross segment sales	3,561,574	16,486	17,931	34,377	953	3,631,321
Inter-segment sales	(19,887)	-	-	-	(950)	(20,837)
Sales	3,541,687	16,486	17,931	34,377	3	3,610,484
Operating profit / segment result	153,754	(11,754)	10,987	75	59	153,121
Finance income						21,021
Finance costs						(16,908)
Share of profit of associates	54	-	-	-	-	54
Profit before income tax						157,288
Income tax expense (Note 16)						(23,351)
Profit for the period						133,937

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5. Segment information (continued)

LTL

	Oil refinery	Oil terminal	Pipeline	Petrol stations	Other	Group
Total gross segment sales	9,881,838	45,787	49,954	94,990	2,635	10,075,204
Inter-segment sales	(54,939)	-	-	-	(2,626)	(57,565)
Sales	9,826,899	45,787	49,954	94,990	9	10,017,639
Operating profit / segment result	430,102	(32,941)	30,703	183	152	428,199
Finance income						58,144
Finance costs						(47,095)
Share of profit of associates	149	-	-	-	-	149
Profit before income tax						439,397
Income tax expense (Note 16)						(65,318)
Profit for the period						374,079

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

USD

	Oil refinery	Oil terminal	Pipeline	Petrol stations	Other	Group
Total gross segment sales	1,069,610	7,698	7,262	9,727	339	1,094,636
Inter-segment sales	(5,053)	-	-	-	(330)	(5,383)
Sales	1,064,557	7,698	7,262	9,727	9	1,089,253
Operating profit / segment result	104,649	2,037	4,656	(366)	(274)	110,702
Finance income						4,093
Finance costs						(7,668)
Share of profit of associates	1	-	-	-	-	1
Profit before income tax						107,128
Income tax expense (Note 16)						3,492
Profit for the period						110,620

LTL

	Oil refinery	Oil terminal	Pipeline	Petrol stations	Other	Group
Total gross segment sales	3,025,499	21,775	20,541	27,514	958	3,096,287
Inter-segment sales	(14,293)	-	-	-	(933)	(15,226)
Sales	3,011,206	21,775	20,541	27,514	25	3,081,061
Operating profit / segment result	296,011	5,762	13,170	(1,035)	(775)	313,133
Finance income						11,579
Finance costs						(21,693)
Share of profit of associates	3	-	-	-	-	3
Profit before income tax						303,022
Income tax expense (Note 16)						9,877
Profit for the period						312,899

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5. Segment information (continued)

The business segment results for the nine months ended 30 September 2005 were as follows:

USD

	Oil refinery	Oil terminal	Pipeline	Petrol stations	Other	Group
Total gross segment sales	2,829,529	21,660	20,817	22,501	932	2,895,439
Inter-segment sales	(11,348)	-	-	-	(923)	(12,271)
Sales	2,818,181	21,660	20,817	22,501	9	2,883,168
Operating profit / segment result	299,072	4,675	13,013	(866)	(790)	315,104
Finance income						9,657
Finance costs						(23,396)
Share of profit of associates	64	-	-	-	-	64
Profit before income tax						301,429
Income tax expense (Note 16)						(20,155)
Profit for the period						281,274

LTL

	Oil refinery	Oil terminal	Pipeline	Petrol stations	Other	Group
Total gross segment sales	7,752,945	59,279	56,952	61,827	2,551	7,933,554
Inter-segment sales	(31,202)	-	-	-	(2,526)	(33,728)
Sales	7,721,743	59,279	56,952	61,827	25	7,899,826
Operating profit / segment result	821,384	12,840	35,614	(2,388)	(2,161)	865,289
Finance income						26,557
Finance costs						(63,768)
Share of profit of associates	173	-	-	-	-	173
Profit before income tax						828,251
Income tax expense (Note 16)						(53,582)
Profit for the period						774,669

6. Property, plant and equipment

USD

	Land and buildings	Plant and machinery	Other PPE	Construction in progress	Total
At 1 January 2005					
Cost	86,464	669,771	75,100	17,829	849,164
Accumulated depreciation and impairment	(30,817)	(290,689)	(29,847)	-	(351,353)
Net book amount	55,647	379,082	45,253	17,829	497,811
Nine months ended 30 September 2005					
Opening net book amount at 1 January 2005	55,647	379,082	45,253	17,829	497,811
Exchange differences	(1,386)	(766)	(308)	(25)	(2,485)
Additions	146	2,337	1,942	26,092	30,517
Disposals	(158)	(62)	(56)	-	(276)
Retirements	-	(376)	(2,154)	-	(2,530)
Transfers	680	4,038	592	(5,310)	-
Reversal of impairment charge	1,411	-	-	-	1,411
Impairment charge	-	-	-	(1,564)	(1,564)
Depreciation charge	(1,817)	(21,472)	(4,749)	-	(28,038)
Closing net book amount at 30 September 2005	54,523	362,781	40,520	37,022	494,846

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6. Property, plant and equipment (continued)

USD	Land and buildings	Plant and machinery	Other PPE	Construction in progress	Total
Three months ended 31 December 2005					
Opening net book amount at 1 October 2005	54,523	362,781	40,520	37,022	494,846
Exchange differences	(223)	(142)	(46)	(15)	(426)
Acquisition of subsidiary	1,960	4,328	252	1,174	7,714
Additions	27	3,769	1,444	12,320	17,560
Disposals	(22)	-	-	-	(22)
Retirements	-	-	(18)	-	(18)
Transfers	250	2,276	68	(2,594)	-
Reclassification to non-current assets classified as held for sale	(937)	(10)	(5)	-	(952)
Reversal of impairment charge	-	-	-	117	117
Impairment charge	-	(58)	(72)	-	(130)
Depreciation charge	(620)	(7,255)	(1,798)	-	(9,673)
Closing net book amount at 31 December 2005	54,958	365,689	40,345	48,024	509,016
At 31 December 2005					
Cost	83,530	676,775	75,341	48,024	883,670
Accumulated depreciation and impairment	(28,572)	(311,086)	(34,996)	-	(374,654)
Net book amount	54,958	365,689	40,345	48,024	509,016
Nine months ended 30 September 2006					
Opening net book amount at 1 January 2006	54,958	365,689	40,345	48,024	509,016
Exchange differences	932	698	154	64	1,848
Additions	2,496	3,921	5,483	50,261	62,161
Disposals	(854)	(445)	(69)	(4)	(1,372)
Retirements	(4)	(3)	(37)	(56)	(100)
Transfers	800	7,878	17	(8,695)	-
Reclassification to other assets	-	-	-	(103)	(103)
Depreciation charge	(1,887)	(31,232)	(4,375)	-	(37,494)
Closing net book amount at 30 September 2006	56,441	346,506	41,518	89,491	533,956
At 30 September 2006					
Cost	86,887	686,830	79,886	89,491	943,094
Accumulated depreciation and impairment	(30,446)	(340,324)	(38,368)	-	(409,138)
Net book amount	56,441	346,506	41,518	89,491	533,956

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6. Property, plant and equipment (continued)

LTL	Land and buildings	Plant and machinery	Other PPE	Construction in progress	Total
At 1 January 2005					
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
Nine months ended 30 September 2005					
Opening net book amount at 1 January 2005	141,037	960,784	114,694	45,187	1,261,702
Exchange differences	14,499	119,255	13,352	9,259	156,365
Additions	385	6,531	5,358	70,581	82,855
Disposals	(440)	(175)	(158)	-	(773)
Retirements	-	(1,045)	(5,896)	-	(6,941)
Transfers	1,790	11,427	1,556	(14,773)	-
Reversal of impairment charge	3,721	-	-	-	3,721
Impairment charge	-	-	-	(4,309)	(4,309)
Depreciation charge	(4,964)	(58,606)	(12,950)	-	(76,520)
Closing net book amount at 30 September 2005	156,028	1,038,171	115,956	105,945	1,416,100
Three months ended 31 December 2005					
Opening net book amount at 1 October 2005	156,028	1,038,171	115,956	105,945	1,416,100
Exchange differences	2,061	17,331	1,843	1,885	23,120
Acquisition of subsidiary	5,629	12,430	724	3,372	22,155
Additions	78	10,934	4,186	35,742	50,940
Disposals	(65)	-	-	-	(65)
Retirements	-	-	(54)	-	(54)
Transfers	725	6,603	197	(7,525)	-
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)	-	(377)
Depreciation charge	(1,799)	(21,046)	(5,216)	-	(28,061)
Closing net book amount at 31 December 2005	159,939	1,064,226	117,412	139,759	1,481,336
At 31 December 2005					
Cost	243,089	1,969,548	219,257	139,759	2,571,653
Accumulated depreciation and impairment	(83,150)	(905,322)	(101,845)	-	(1,090,317)
Net book amount	159,939	1,064,226	117,412	139,759	1,481,336
Nine months ended 30 September 2006					
Opening net book amount at 1 January 2006	159,939	1,064,226	117,412	139,759	1,481,336
Exchange differences	(8,277)	(68,185)	(7,518)	(11,610)	(95,590)
Additions	6,858	10,732	15,180	139,163	171,933
Disposals	(2,365)	(1,225)	(191)	(11)	(3,792)
Retirements	(11)	(9)	(105)	(156)	(281)
Transfers	2,247	21,719	49	(24,015)	-
Reclassification to other assets	-	-	-	(296)	(296)
Depreciation charge	(5,238)	(87,014)	(12,168)	-	(104,420)
Closing net book amount at 30 September 2006	153,153	940,244	112,659	242,834	1,448,890

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6. Property, plant and equipment (continued)

LTL	Land and buildings	Plant and machinery	Other PPE	Construction in progress	Total
At 30 September 2006					
Cost	235,768	1,863,713	216,771	242,834	2,559,086
Accumulated depreciation and impairment	(82,615)	(923,469)	(104,112)	-	(1,110,196)
Net book amount	153,153	940,244	112,659	242,834	1,448,890

7. Intangible assets

USD	Software	Patents and licences	Total
At 1 January 2005			
Cost	7,952	6,057	14,009
Accumulated amortisation	(4,516)	(4,807)	(9,323)
Net book amount	3,436	1,250	4,686
Nine months ended 30 September 2005			
Opening net book amount at 1 January 2005	3,436	1,250	4,686
Exchange differences	(13)	-	(13)
Additions	168	-	168
Amortisation charge	(732)	(306)	(1,038)
Closing net book amount at 30 September 2005	2,859	944	3,803
Three months ended 31 December 2005			
Opening net book amount at 1 October 2005	2,859	944	3,803
Exchange differences	(1)	-	(1)
Additions	447	16	463
Amortisation charge	(246)	(103)	(349)
Closing net book amount at 31 December 2005	3,059	857	3,916
At 31 December 2005			
Cost	8,328	6,073	14,401
Accumulated amortisation	(5,269)	(5,216)	(10,485)
Net book amount	3,059	857	3,916
Nine months ended 30 September 2006			
Opening net book amount at 1 January 2006	3,059	857	3,916
Exchange differences	28	-	28
Additions	174	-	174
Amortisation charge	(866)	(299)	(1,165)
Closing net book amount at 30 September 2006	2,395	558	2,953
At 30 September 2006			
Cost	8,564	6,073	14,637
Accumulated amortisation	(6,169)	(5,515)	(11,684)
Net book amount	2,395	558	2,953

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7. Intangible assets (continued)

LTL

	Software	Patents and licences	Total
At 1 January 2005			
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>
Nine months ended 30 September 2005			
Opening net book amount at 1 January 2005	8,708	3,169	11,877
Exchange differences	1,026	368	1,394
Additions	447	-	447
Amortisation charge	(2,000)	(836)	(2,836)
Closing net book amount at 30 September 2005	<u>8,181</u>	<u>2,701</u>	<u>10,882</u>
Three months ended 31 December 2005			
Opening net book amount at 1 October 2005	8,181	2,701	10,882
Exchange differences	135	46	181
Additions	1,299	46	1,345
Amortisation charge	(713)	(299)	(1,012)
Closing net book amount at 31 December 2005	<u>8,902</u>	<u>2,494</u>	<u>11,396</u>
At 31 December 2005			
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>
Nine months ended 30 September 2006			
Opening net book amount at 1 January 2006	8,902	2,494	11,396
Exchange differences	(486)	(150)	(636)
Additions	486	-	486
Amortisation charge	(2,403)	(830)	(3,233)
Closing net book amount at 30 September 2006	<u>6,499</u>	<u>1,514</u>	<u>8,013</u>
At 30 September 2006			
Cost	23,238	16,479	39,717
Accumulated amortisation	(16,739)	(14,965)	(31,704)
Net book amount	<u>6,499</u>	<u>1,514</u>	<u>8,013</u>

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 September 2006 actual emissions of the Group amounted to 3,699,200 tons (December 2005: 2,238,440 tons). The market value of remaining unused allowances amounted to USD 90,476 thousand or LTL 245,506 thousand as at 30 September 2006 (December 2005: USD 182,203 thousand or LTL 530,246 thousand).

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8. Inventories

	30 September 2006		31 December 2005	
	USD	LTL	USD	LTL
Raw and supplementary materials (at cost)	4,955	13,445	24,247	70,564
Raw and supplementary materials (at net realisable value)	81,550	221,285	769	2,238
Finished goods and goods for resale (at cost)	109,760	297,834	177,534	516,659
Finished goods and goods for resale (at net realisable value)	37,879	102,785	1,016	2,957
Semi-finished goods (at cost)	6,374	17,296	12,501	36,380
Semi-finished goods (at net realisable value)	25,092	68,087	20,475	59,586
Spare parts and other (at cost)	27,692	75,142	20,577	59,884
	293,302	795,874	257,119	748,268

9. Trade and other receivables

	30 September 2006		31 December 2005	
	USD	LTL	USD	LTL
Trade receivables	137,681	373,597	143,246	416,875
Less provision for impairment of receivables	(15,552)	(42,200)	(15,366)	(44,718)
Trade receivables – net	122,129	331,397	127,880	372,157
Receivables from related parties (Note 21)	469	1,273	851	2,476
Prepaid and recoverable taxes, other than income tax	2,789	7,568	2,807	8,169
Accrued income and deferred charges	5,573	15,122	10,515	30,601
Other receivables	7,240	19,646	2,554	7,433
	138,200	375,006	144,607	420,836

10. Cash and cash equivalents

	30 September 2006		31 December 2005	
	USD	LTL	USD	LTL
Cash at bank and in hand	348,233	944,930	536,616	1,561,660
Bonds issued by financial institutions	187,717	509,370	-	-
Short-term bank deposits	101,317	274,924	101,197	294,504
	637,267	1,729,224	637,813	1,856,164

The effective interest rate on short-term bank deposits was 5.07% (December 2005: 3.58%). These deposits have an average maturity of 67 days (December 2005: 30 days).

Bonds issued by financial institutions of USD 187,717 thousand or LTL 509,370 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 5.12 %. They have an average maturity of 25 days.

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

	30 September 2006		31 December 2005	
	USD	LTL	USD	LTL
Cash held at banks to secure issued letters of credit	217,823	591,063	457,788	1,332,255
Cash held at banks to secure guaranties issued by banks	19,762	53,624	7,415	21,579
	237,585	644,687	465,203	1,353,834

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10. Cash and cash equivalents (continued)

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

	30 September 2006		31 December 2005	
	USD	LTL	USD	LTL
Cash and cash equivalents	637,267	1,729,224	637,813	1,856,164
Bank overdrafts (Note 13)	(461)	(1,251)	-	-
	<u>636,806</u>	<u>1,727,973</u>	<u>637,813</u>	<u>1,856,164</u>

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.

11. Share capital

As at 30 September 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.

12. Trade and other payables

	30 September 2006		31 December 2005	
	USD	LTL	USD	LTL
Trade payables	258,796	702,243	314,913	916,460
Amounts due to related parties (Note 21)	1,100	2,985	686	1,997
Advances received	5,928	16,086	6,312	18,368
Accruals and deferred income	12,862	34,901	13,740	39,984
Taxes other than income tax	62,434	169,414	56,097	163,255
Social security contributions	1,626	4,412	2,847	8,287
Other current liabilities	3,287	8,919	862	2,482
	<u>346,033</u>	<u>938,960</u>	<u>395,457</u>	<u>1,150,833</u>

13. Borrowings

	30 September 2006		31 December 2005	
	USD	LTL	USD	LTL
Non-current				
Bank borrowings	159,509	432,827	163,815	476,734
Loans from related parties (Note 21)	290,193	787,439	290,233	844,636
Finance lease liabilities	14	38	28	82
	<u>449,716</u>	<u>1,220,304</u>	<u>454,076</u>	<u>1,321,452</u>
Current				
Bank overdrafts	461	1,251	-	-
Bank borrowings	7,291	19,784	9,321	27,126
Loans from related parties (Note 21)	265	719	238	693
Finance lease liabilities	43	116	253	736
	<u>8,060</u>	<u>21,870</u>	<u>9,812</u>	<u>28,555</u>
Total borrowings	<u>457,776</u>	<u>1,242,174</u>	<u>463,888</u>	<u>1,350,007</u>

Borrowings amounting to USD 167,259 thousand or LTL 453,857 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 290,460 thousand or LTL 788,163 thousand (December 2005: USD 290,785 thousand or LTL 846,242) are bearing fixed interest rate.

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14. Provisions for liabilities and charges

USD

	Claims received from customers	Claim received from supplier	Environmental obligations	Penalty imposed by Competition Council	Total
At 1 January 2006	1,551	2,900	11,322	10,996	26,769
Charged to the income statement					
- additional provisions	-	-	-	-	-
- unused amounts reversed	-	-	(9,095)	-	(9,095)
Used during the period	-	-	(22)	(11,173)	(11,195)
Exchange differences	43	-	655	177	875
At 30 September 2006	1,594	2,900	2,860	-	7,354

LTL

	Claims received from customers	Claim received from supplier	Environmental obligations	Penalty imposed by Competition Council	Total
At 1 January 2006	4,514	8,440	32,949	32,000	77,903
Charged to the income statement					
- additional provisions	-	-	-	-	-
- unused amounts reversed	-	-	(24,616)	-	(24,616)
Used during the period	-	-	(59)	(32,000)	(32,059)
Exchange differences	(188)	(571)	(513)	-	(1,272)
At 30 September 2006	4,326	7,869	7,761	-	19,956

During the nine months period ended 30 September 2006 the Group wrote off reimbursement for environmental obligations receivable from the Government of USD 11,424 thousand or LTL 31,449 thousand which was recognised based on the Investment Agreement signed between the Company, the Government and Williams International Company (replaced by Yukos Finance B.V.). The receivable was written off because after the share sale-purchase transaction between Yukos International UK B.V. and PKN Orlen is completed, the Investment Agreement will expire and the Government will not be liable for compensation of expenses incurred by the Group in relation to environmental obligations.

As at 30 September 2006 the Group reviewed the provisions and reduced provision for environmental obligations by USD 9,095 thousand or LTL 24,616 thousand due to the changes in estimates of the expenses to be incurred for the cleaning up the contamination caused by the oil refinery.

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15. Expenses by nature

	2006				2005			
	3 months ended		9 months ended		3 months ended		9 months ended	
	30 September		30 September		30 September		30 September	
	USD	LTL	USD	LTL	USD	LTL	USD	LTL
Depreciation and amortisation (Notes 6 and 7)	9,583	25,936	38,659	107,653	9,410	26,618	29,076	79,356
Wages and salaries	13,323	36,059	46,373	128,552	12,014	33,983	40,027	109,168
Social security costs	4,216	11,411	14,439	40,020	3,665	10,367	12,249	33,406
Costs of crude oil, feedstock and other inventory	1,017,410	2,753,620	3,082,180	8,546,387	959,293	2,713,456	2,336,013	6,405,656
Additives and catalysts	1,222	3,307	4,469	12,467	1,522	4,305	4,926	13,395
Changes in inventories of finished goods and work in progress	60,452	163,613	38,973	109,601	(82,477)	(233,294)	(82,487)	(230,080)
Transit and freight	18,161	49,153	60,200	167,887	11,439	32,356	48,948	132,950
Railway services	12,071	32,670	38,747	107,568	14,775	41,793	43,717	119,360
Terminal and laboratory services	6,114	16,548	20,497	56,959	6,922	19,580	23,444	63,871
Electricity	9,716	26,296	28,200	77,887	8,953	25,324	26,642	72,766
Steam power	-	-	-	-	2,259	6,390	11,014	29,735
Intermediary services	2,438	6,598	11,496	32,087	3,219	9,105	10,712	29,213
Consumables and office supplies	3,775	10,217	11,708	32,504	4,029	11,396	10,701	29,321
Taxes, other than income tax	1,916	5,186	5,698	15,805	1,792	5,069	7,265	19,765
Insurance	2,840	7,686	5,510	15,245	1,846	5,222	5,563	15,187
Operating lease	2,009	5,437	5,460	15,133	1,976	5,589	5,330	14,589
Professional fees	2,514	6,804	7,681	21,311	2,342	6,625	4,119	11,384
Change in provision for impairment of receivables	5,653	15,300	11,365	31,019	22	62	(1,342)	(3,669)
Reversal of provision for environmental obligations (Note 14)	(9,095)	(24,616)	(9,095)	(24,616)	-	-	-	-
Long-term employee benefits	109	295	194	517	2,396	6,777	2,396	6,777
Change in provision for inventory	-	-	-	-	3,126	8,842	3,126	8,842
Other expenses	17,452	47,236	36,090	99,557	10,028	28,363	27,170	74,993
	<u>1,181,879</u>	<u>3,198,756</u>	<u>3,458,844</u>	<u>9,593,543</u>	<u>978,551</u>	<u>2,767,928</u>	<u>2,568,609</u>	<u>7,035,985</u>
	2006				2005			
	3 months ended		9 months ended		3 months ended		9 months ended	
	30 September		30 September		30 September		30 September	
	USD	LTL	USD	LTL	USD	LTL	USD	LTL
Classified as:								
– cost of sales	1,129,275	3,056,383	3,255,256	9,027,171	916,000	2,590,996	2,368,140	6,488,889
– selling and marketing costs	46,005	124,513	148,641	413,419	40,506	114,574	143,558	390,906
– administrative expenses	6,599	17,860	54,947	152,953	22,045	62,358	56,911	156,190
	<u>1,181,879</u>	<u>3,198,756</u>	<u>3,458,844</u>	<u>9,593,543</u>	<u>978,551</u>	<u>2,767,928</u>	<u>2,568,609</u>	<u>7,035,985</u>

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16. Income tax expense

	2006				2005			
	3 months ended 30 September		9 months ended 30 September		3 months ended 30 September		9 months ended 30 September	
	USD	LTL	USD	LTL	USD	LTL	USD	LTL
Current tax	2,600	7,036	31,086	86,546	17,643	49,905	42,666	117,069
Deferred tax	(3,181)	(8,609)	(7,735)	(21,228)	(21,135)	(59,782)	(22,511)	(63,487)
	(581)	(1,573)	23,351	65,318	(3,492)	(9,877)	20,155	53,582

17. 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 30 September		9 months ended 30 September		3 months ended 30 September		9 months ended 30 September	
	USD	LTL	USD	LTL	USD	LTL	USD	LTL
Profit attributable to equity holders of the Company	1,151	3,115	133,928	374,034	110,629	312,925	281,804	776,066
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)	0.002	0.004	0.189	0.529	0.156	0.442	0.398	1.097

Diluted

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

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

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 expired on 29 October 2006 as Yukos Finance B.V. did not execute the first option.

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17. Earnings per share (continued)

According to the most dilutive interpretation of the Investment Agreement, the dilutive effect would be an additional 308,067 thousand shares for the three months ended 30 September 2006 (three months ended 30 September 2005: 316,924 thousand shares) and 311,365 thousand shares for the nine months ended 30 September 2006 (nine months ended 30 September 2005: 305,288 thousand shares), that would give a diluted earnings per share of USD 0.001 or LTL 0.003 for the three months ended 30 September 2006 (three months ended 30 September 2005: USD 0.108 or LTL 0.305) and USD 0.131 or LTL 0.367 for the nine months ended 30 September 2006 (nine months ended 30 September 2005: USD 0.278 or LTL 0.766). According to the less dilutive interpretation, the dilutive effect would be an additional 163,086 thousand shares for the three months ended 30 September 2006 (three months ended 30 September 2005: 167,306 thousand shares) and 164,400 thousand shares for the nine months ended 30 September 2006 (nine months ended 30 September 2005: 161,230 thousand shares), that would give a diluted earnings per share of USD 0.001 or LTL 0.004 for the three months ended 30 September 2006 (three months ended 30 September 2005: USD 0.126 or LTL 0.358) and USD 0.154 or LTL 0.429 for the nine months ended 30 September 2006 (nine months ended 30 September 2005: USD 0.324 or LTL 0.893).

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.

18. Cash generated from operations

	9 months ended			
	30 September 2006		30 September 2005	
	USD	LTL	USD	LTL
Profit for the period	133,937	374,079	281,274	774,669
Adjustments for:				
– tax (Note 16)	23,351	65,318	20,155	53,582
– depreciation (Note 6)	37,494	104,420	28,038	76,520
– amortisation (Note 7)	1,165	3,233	1,038	2,836
– (profit) on sale of non-current assets classified as held for sale	(577)	(892)	(1)	(2)
– (profit) on sale of PPE	(695)	(1,852)	(172)	(389)
– retirement of PPE (Note 6)	100	281	2,530	6,941
– impairment charge of PPE (Note 6)	-	-	1,564	4,309
– reversal of impairment charge of PPE (Note 6)	-	-	(1,411)	(3,721)
– interest income	(21,021)	(58,144)	(9,657)	(26,557)
– interest expense	23,291	64,634	21,134	57,773
– net movement in provisions for liabilities	(20,290)	(56,675)	14,494	39,669
– share of (profit) from associates	(54)	(149)	(64)	(173)
– Excess of the acquirer's interest in the net assets acquired recognised as income	-		(104)	(278)
– exchange (gains)/losses on borrowings	41	(90,657)	(361)	160,407
Changes in working capital:				
– inventories	(36,183)	(47,606)	(85,228)	(307,324)
– trade and other receivables	19,187	83,032	(72,026)	(252,823)
– trade and other payables	(49,269)	(212,898)	207,859	682,961
Cash generated from operations	110,477	226,124	409,062	1,268,400

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19. 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 Tirdzniecibas 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 Tirdzniecibas Nams SIA did not abuse its dominant position in the Latvian market.

20. Commitments

Capital commitments

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

	30 September 2006		31 December 2005	
	USD	LTL	USD	LTL
Property, plant and equipment	60,784	164,936	44,002	128,055

21. Related-party transactions

As at 30 September 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.

Petroval SA is an entity related to the Yukos Group.

Naftelf UAB is an associated company, where the Company holds 34 percent of 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.

The following transactions were carried out with related parties:

(a) Sales of goods and services

	2006				2005			
	3 months ended		9 months ended		3 months ended		9 months ended	
	30 September		30 September		30 September		30 September	
	USD	LTL	USD	LTL	USD	LTL	USD	LTL
– Naftelf UAB	9,075	24,560	22,496	62,197	6,609	18,694	16,974	46,633
– Yukos Group*	8	22	22	61	1	3	37	99
– Petroval SA	-	-	-	-	40,555	114,715	75,797	210,539
	9,083	24,582	22,518	62,258	47,165	133,412	92,808	257,271

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21. Related-party transactions (continued)

(b) Purchases of goods and services

	2006				2005			
	3 months ended 30 September		9 months ended 30 September		3 months ended 30 September		9 months ended 30 September	
	USD	LTL	USD	LTL	USD	LTL	USD	LTL
– Petroval SA	115	312	115	312	187	529	922	2,502
– Yukos Group* (purchase of crude oil)	-	-	-	-	-	-	896	2,356
– Yukos Finance B.V. (management fee)	718	1,943	1,711	4,719	630	1,782	1,134	3,109
	833	2,255	1,826	5,031	817	2,311	2,952	7,967

(c) Domestic tax expenses – the Government

	2006				2005			
	3 months ended 30 September		9 months ended 30 September		3 months ended 30 September		9 months ended 30 September	
	USD	LTL	USD	LTL	USD	LTL	USD	LTL
Domestic income tax	(790)	(2,138)	22,223	62,207	(3,712)	(10,500)	19,637	52,160
Domestic taxes, other than income tax	1,880	5,088	5,535	15,357	1,714	4,848	7,108	19,330
Social security costs	4,130	11,178	14,162	39,252	3,554	10,053	11,986	32,685
	5,220	14,128	41,920	116,816	1,556	4,401	38,731	104,175

(d) Key management compensation

	2006				2005			
	3 months ended 30 September		9 months ended 30 September		3 months ended 30 September		9 months ended 30 September	
	USD	LTL	USD	LTL	USD	LTL	USD	LTL
Salaries and other short-term employee benefits	210	569	523	1,444	151	427	473	1,292

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

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

Receivables from related parties (Note 9):

	30 September 2006		31 December 2005	
	USD	LTL	USD	LTL
Yukos Group* trade receivables	2,169	5,886	2,162	6,292
Less provision for impairment of receivables	(2,166)	(5,877)	(2,159)	(6,284)
Yukos Group* trade receivables - net	3	9	3	8
Petroval SA	10	26	147	428
Naftelf UAB	456	1,238	701	2,040
	469	1,273	851	2,476
Reimbursement for environmental obligations receivable from the Government	-	-	10,807	31,449
	469	1,273	11,658	33,925

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21. Related-party transactions (continued)

Amounts due to related parties (Note 12):

	30 September 2006		31 December 2005	
	USD	LTL	USD	LTL
Amounts payable to related parties:				
Yukos Finance B.V.	718	1,948	320	931
Petroval SA	347	942	350	1,019
the Government	35	95	16	47
	<u>1,100</u>	<u>2,985</u>	<u>686</u>	<u>1,997</u>
Provision for claim from Yukos Group*	571	1,551	571	1,662
Government grant relating to purchases of PPE	4,963	13,467	4,963	14,443
	<u>6,634</u>	<u>18,003</u>	<u>6,220</u>	<u>18,102</u>

(f) Period-end balances arising from domestic taxes paid/payable – the Government

	30 September 2006		31 December 2005	
	USD	LTL	USD	LTL
Prepaid domestic taxes:				
Prepaid domestic current income tax	4,920	13,350	165	480
Long term portion of prepayment for domestic real estate tax	-	-	1,134	3,300
Prepaid domestic taxes, other than income tax	2,353	6,385	2,739	7,971
	<u>7,273</u>	<u>19,735</u>	<u>4,038</u>	<u>11,751</u>
Domestic taxes payable:				
	30 September 2006		31 December 2005	
	USD	LTL	USD	LTL
Domestic current income tax payable	39,358	106,798	36,636	106,618
Domestic taxes other than income tax	33,467	90,813	26,186	76,206
	<u>72,825</u>	<u>197,611</u>	<u>62,822</u>	<u>182,824</u>
Deferred taxes:				
	30 September 2006		31 December 2005	
	USD	LTL	USD	LTL
Deferred income tax assets	28,560	77,498	20,841	60,651

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21. Related-party transactions (continued)

(g) Loans from related parties – the Government (Note 13)

	USD	LTL
Beginning of period	288,983	732,427
Interest charged	15,338	42,057
Interest paid	(15,394)	(42,199)
Exchange differences	-	94,537
End of the nine month period 30 September 2005	288,927	826,822
Beginning of period	288,927	826,822
Acquisition of subsidiary	1,717	4,932
Interest charged	5,187	15,178
Interest paid	(5,209)	(15,249)
Loan repayments made	(113)	(329)
Exchange differences	(22)	14,022
End of the three month period 31 December 2005	290,487	845,376
Beginning of period	290,487	845,376
Interest charged	15,394	42,712
Interest paid	(15,377)	(42,664)
Loan repayments made	(124)	(340)
Exchange differences	113	(56,831)
End of the nine month period 30 September 2006	290,493	788,253

Loans from related parties consist of loans granted by the Government to the Company amounting to USD 288,927 thousand or LTL 784,003 thousand (December 2005: USD 288,927 thousand or LTL 840,837 thousand) and Mažeikių Elektrinė AB amounting to USD 1,531 thousand or LTL 4,155 thousand (December 2005: USD 1,544 thousand or LTL 4,492 thousand) plus interest accrued amounting to USD 35 thousand or LTL 95 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.

22. Events after the balance sheet date

On 12 October 2006 a fire in the oil refinery destroyed vacuum distillation unit which was used in manufacturing of light oil products. After the fire the oil refinery is able to work at approximately half capacity. The management estimates that it will take from 6 to 9 months to restore full capacity. According to the management estimates, the fire might reduce the Group's profit by app. USD 38 million or LTL 105 million for the year ending 31 December 2006. The property, plant and equipment destroyed during the fire were fully depreciated as at 30 September 2006. The Company has its property and business interruption losses insured in the international insurance market via the broker AON Limited, London. Property is insured under reinstatement value. The Company's civil liability is also insured in the international insurance market. As at the date of the issuance of this condensed consolidated interim financial information the fire is under investigation by the insurance companies and amounts of the compensation of losses are unknown.

On 28 October 2006 the Board of the Company and the Board of Mažeikių Elektrinė AB approved Mažeikių Elektrinė AB and Mažeikių Nafta AB reorganisation plan according to which Mažeikių Elektrinė AB, the subsidiary of the Company, will be merged with the Company. In exchange of Mažeikių Elektrinė AB shares the minority shareholders of Mažeikių Elektrinė AB will receive newly issued 1,366,992 shares of the Company. The reorganisation plan has to be approved by the shareholders of the Company and Mažeikių Elektrinė AB. As at the date of this condensed consolidated interim financial information the plan has not been approved by the shareholders.