MAŽEIKIŲ NAFTA AB
U.S. GAAP
Interim Condensed Consolidated Financial Statements
(expressed in US dollars)
September 30, 2006

PRICEWATERHOUSECOOPERS

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

Report of Independent Auditor

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

1. We have reviewed the accompanying interim condensed consolidated balance sheet of Mažeikių Nafta AB and its subsidiaries (“the Company”) as of September 30, 2006 and the related interim condensed consolidated statements of income, comprehensive income, shareholders’ equity and cash flows for the three-month and nine-month periods ended September 30, 2006. These interim condensed consolidated financial statements are the responsibility of the Company's management.

2. We conducted our review in accordance with standards established by the American Institute of Certified Public Accountants. A review of interim financial information consists principally of applying analytical procedures and making inquires of persons responsible for financial and accounting matters. It is substantially less in scope than audit conducted in accordance with auditing standards generally accepted in the United States of America, the objective of which is the expression of an opinion regarding the financial statements taken as a whole. Accordingly, we do not express such an opinion.

3. Based on our review, we are not aware of any material modifications that should be made to the accompanying interim condensed consolidated financial statements for them to be in conformity with accounting principles generally accepted in the United States of America.

PricewaterhouseCoopers UAB

Vilnius, Republic of Lithuania
November 29, 2006

MAŽEIKIŲ NAFTA AB
Interim Condensed Consolidated Balance Sheets (UNAUDITED)
(Expressed in thousands of US Dollars, except as indicated)

	Note	September 30, 2006	December 31, 2005
Assets			
Cash and cash equivalents, net		211,965	172,610
Restricted cash		237,585	465,203
Held-to-maturity investments	6	187,717	-
Trade accounts receivable, net	4	122,129	127,880
Accounts receivable from related parties, net	14	469	851
Inventories, net	5	293,591	258,072
Current portion of deferred income tax asset, net		4,452	1,733
Other current assets, net		20,522	16,042
Total current assets		1,078,430	1,042,391
Equity investees and long-term investments at cost, net		1,408	1,263
Property, plant and equipment, net	7	550,000	515,653
Intangible assets, net	8	7,004	6,537
Long term inventories		8,532	8,532
Non-current portion of deferred income tax asset, net		619	588
Non-current accounts receivable from related parties, net	14	-	10,807
Non-current accounts receivable, net		875	2,005
Total assets		1,646,868	1,587,776
Liabilities and shareholders' equity			
Short-term debt and current portion of long-term debt	11	8,017	9,559
Current portion of capital lease liabilities		43	253
Trade accounts payable	9	258,796	314,913
Accounts payable to related parties	14	1,671	1,257
Taxes payable and accrued	10	101,897	92,976
Other current liabilities		29,933	38,637
Total current liabilities		400,357	457,595
Long-term debt, net of current maturities	11	449,702	454,048
Capital lease liabilities, net of current maturities		14	28
Other non-current liabilities		9,273	19,828
Total liabilities		859,346	931,499
Minority interest		1,694	1,005
Ordinary shares (707,454,130 authorized and issued at September 30, 2006 and December 31, 2005; nominal value – LTL 1 per share)		181,366	181,366
Additional paid in capital		216,986	216,986
Legal reserve		18,774	13,494
Revaluation reserve		109	109
Foreign currency translation adjustment		3,662	1,437
Accumulated surplus		364,931	241,880
Total shareholders' equity		785,828	655,272
Total liabilities and shareholders' equity		1,646,868	1,587,776

Paul Nelson English
General Director

Vita Petrošienė
Chief Financial Officer

The accompanying notes are an integral part of these interim condensed consolidated financial statements

MAŽEIKIŲ NAFTA AB

Interim Condensed Consolidated Statements of Income (UNAUDITED)

(Expressed in thousands of US Dollars, except as indicated)

	Notes	Three months ended September 30, 2006	Three months ended September 30, 2005	Nine months ended September 30, 2006	Nine months ended September 30, 2005
Sales and other operating revenues*		1,179,049	1,089,253	3,610,484	2,883,168
Operating costs and other deductions					
Cost of sales, excluding depreciation and amortization		(1,121,678)	(908,567)	(3,222,332)	(2,345,226)
Selling and distribution expenses, excluding depreciation and amortization		(44,744)	(39,126)	(144,862)	(139,281)
General and administrative expenses, excluding depreciation and amortization		(5,874)	(21,448)	(52,991)	(55,026)
Depreciation and amortization		(9,597)	(9,410)	(38,698)	(29,076)
Total operating costs and other deductions		(1,181,893)	(978,551)	(3,458,883)	(2,568,609)
Other income (expenses)					
Interest income		8,031	4,111	21,021	9,657
Interest expense		(7,915)	(7,382)	(23,291)	(21,134)
Exchange gain (loss), net		3,032	(290)	6,383	(2,249)
Other income (expenses), net		129	(12)	1,535	596
Total other income (expenses), net		3,277	(3,573)	5,648	(13,130)
Income before income tax and minority interest		433	107,129	157,249	301,429
Income tax					
Current income tax expense		(2,600)	(17,643)	(31,086)	(42,666)
Deferred income tax benefit		1,975	887	2,750	2,263
Total income tax expense, net		(625)	(16,756)	(28,336)	(40,403)
Income before minority interest		(192)	90,373	128,913	261,026
Minority interest		121	9	(582)	530
Net income		(71)	90,382	128,331	261,556
Earnings per share (USD per share)					
Basic / diluted	12	0	0.128	0.181	0.370
* excludes excise taxes on sold refined oil products		118,535	125,061	317,015	341,407

The accompanying notes are an integral part of these interim condensed consolidated financial statements

MAŽEIKIŲ NAFTA AB

Interim Condensed Consolidated Statements of Cash Flow (UNAUDITED)

(Expressed in thousands of US Dollars, except as indicated)

	Three months ended September 30,		Nine months ended September 30,	
	2006	2005	2006	2005
Operating activities				
Net income	(71)	90,382	128,331	261,556
Adjustments to reconcile net income to cash provided by operations:				
Depreciation and amortization	9,597	9,410	38,698	29,076
Equity in (earnings) of associates	(21)	(1)	(54)	(64)
Minority interest	(121)	(9)	582	(530)
(Profit) / loss on sales and retirement of property, plant and equipment and intangible assets	(27)	659	(1,172)	3,184
Impairment of property, plant and equipment	-	931	-	931
Changes in deferred income taxes	(1,975)	(887)	(2,750)	(2,263)
Other	-	-	-	(1,411)
Changes in operating assets and liabilities:				
Trade accounts receivable and accounts receivable from related parties	54,450	(19,471)	18,069	(80,850)
Inventories	25,047	(118,143)	(36,183)	(85,019)
Other current assets	2,935	1,080	(4,480)	7,717
Trade accounts payable and accounts payable to related parties	(151,292)	159,008	(55,662)	199,941
Taxes payable, other current liabilities and other non-current liabilities	(3,676)	(18,188)	(12,409)	18,229
Restricted cash	101,510	(143,399)	227,618	(340,251)
Net cash generated from operating activities	36,356	(38,628)	300,588	10,246
Investing activities				
Purchases of property, plant and equipment and intangible assets	(26,629)	(11,652)	(72,722)	(34,898)
Proceeds from sale of property, plant and equipment	36	284	3,328	469
Purchases (sales) of held to maturity investments	62,648	-	(187,717)	-
Proceeds from sale of investments	-	-	-	19
Acquisition of shares in subsidiary from minority	-	-	-	(208)
Net cash used for investing activities	36,055	(11,368)	(257,111)	(34,618)
Financing activities				
Net proceeds from short-term debt	12	4,509	461	59,920
Repayments of long-term debt	(2,634)	(2,786)	(7,615)	(13,421)
Proceeds from long term loans	123	-	1,240	-
Principal payments of capital lease obligations	(67)	(78)	(239)	(235)
Contribution of minority to share capital of subsidiary	-		-	3
Dividends paid	-		-	(92,665)
Net cash used for financing activities	(2,566)	1,645	(6,153)	(46,398)
Effect of foreign exchange on cash balances	202	212	2,031	(5,925)
Net change in cash and cash equivalents	70,047	(48,139)	39,355	(76,695)
Cash and cash equivalents at beginning of period	141,918	175,352	172,610	203,908
Cash and cash equivalents at end of period	211,965	127,213	211,965	127,213

The accompanying notes are an integral part of these interim condensed consolidated financial statements

(Expressed in thousands of US Dollars, except as indicated)

	Number of ordinary shares issued (thousand)	Ordinary shares	Additional paid in capital	Revaluation reserve	Legal reserve	Accumulated other comprehensive income (foreign currency translation adjustment)	Accumulated surplus	Total shareholders' equity
Balance at December 31, 2005	707,454	181,366	216,986	109	13,494	1,437	241,880	655,272
Net income for the period	-	-	-	-	-	-	128,402	128,402
Other comprehensive income, net of tax	-	-	-	-	-	1,628	-	1,628
Transfer to legal reserve	-	-	-	-	5,280	-	(5,280)	-
Balance at June 30, 2006	707,454	181,366	216,986	109	18,774	3,065	365,002	785,302
Net income for the period	-	-	-	-	-	-	(71)	(71)
Other comprehensive income, net of tax	-	-	-	-	-	597	-	597
Balance at September 30, 2006	707,454	181,366	216,986	109	18,774	3,662	364,931	785,828

Comprehensive income for the three-month and nine-month periods ended September 30, 2006 and 2005 was as follows:

	Three months ended September 30,		Nine months ended September 30,	
	2006	2005	2006	2005
Net income	(71)	90,382	128,331	261,556
Other comprehensive income, net of tax				
Foreign currency translation adjustment	597	(43)	2,225	(2,336)
Total comprehensive income	526	90,339	130,556	259,220

Note 1: Nature of Business

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 reorganized into a public company following a partial privatization 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 of September 30, 2006 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.

Note 2: Significant matters affecting the Company

(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 these interim condensed consolidated financial statements, 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 these interim condensed consolidated financial statements 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 Company. 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 15 to these interim condensed consolidated financial statements, due to a fire on October 12, 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 Company's profit by approximately USD 38 million for the year ending December 31, 2006.

(Expressed in thousands of US Dollars, except as indicated)

(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 Company's financial position, the results of operations and liquidity position. However, the management believes that based on its actions and the Company'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 these interim condensed consolidated financial statements.

Note 3: Basis of preparation

These unaudited interim condensed consolidated financial statements should be read in conjunction with the Mažeikių Nafta AB consolidated financial statements as of and for the year ended December 31, 2005. The year-end condensed consolidated balance sheet data has been derived from those audited financial statements, but since it is presented on a condensed basis it does not include all the disclosures required by the accounting principles generally accepted in the United States of America for annual financial statements.

In the opinion of the Company's management, the information furnished herein reflects all known accruals and adjustments necessary for a fair presentation of the financial position, results of operations and cash flows for the periods reported herein. All such adjustments are of a normal recurring nature.

Management's use of estimations. The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the amounts reported in the financial statements and footnotes thereto. Actual results may differ from those estimates.

Reporting and functional currencies. The functional currency of the Company is the US dollar (USD) as a significant portion of its business is conducted in the USD and management uses the USD to manage business risks and exposures and to measure performance of its businesses. The functional currencies of the Company's subsidiaries are official currencies of the countries in which subsidiaries operate. The financial statements of the subsidiaries were translated to US Dollars, the reporting currency of the Company, in accordance with the relevant provisions of SFAS No. 52, *Foreign Currency Translation.*

Currency controls. Until January 31, 2002 the exchange rate of the Lithuanian Litas (LTL) was fixed to the US Dollar (USD) at a rate of 4 LTL=1 USD. From February 1, 2002 Lithuania repegged the Lithuanian Litas to the Euro at the rate of 3.4528 LTL=1 Euro.

Currency exchange rates. The following summarizes the end of period exchange rates of Lithuanian Litas (LTL) to US Dollar (USD) for the dates presented:

LTL per USD	2006	2005
December 31,	-	2.9102
September 30,	2.7135	2.8617
June 30,	2.7529	2.8679
March 31,	2.8641	2.6645

Recent accounting pronouncements In February 2006, the FASB issued SFAS No.155, "Accounting for Certain Hybrid Financial Instruments", an amendment of FASB Statements No. 133 and 140. This Statement permits fair value remeasurement for any hybrid financial instrument that contains an embedded derivative that otherwise would require bifurcation, clarifies which interest-only strips and principal-only strips are not subject to the requirements of Statement 133, establishes a requirement to evaluate interests in securitized financial assets to identify interests that are freestanding derivatives or that are hybrid financial instruments that contain an embedded derivative requiring bifurcation, clarifies that concentrations of credit risk in the form of subordination are not embedded derivatives and amends Statement 140 to eliminate the prohibition on a qualifying special-purpose entity from holding a derivative financial instrument that pertains to a beneficial interest other than another derivative financial instrument. SFAS 155 is effective for all financial instruments acquired or issued after the beginning of an entity's first fiscal year that begins after September 15, 2006, and is required to be adopted by the Company effective January 1, 2007. The Company does not expect SFAS No. 155 to have a material impact on the Company's consolidated results of operations or financial condition.

In March 2006, the FASB issued SFAS No.156, "Accounting for Servicing of Financial Assets", an amendment of FASB Statement No. 140 with respect to the accounting for separately recognized servicing assets and servicing liabilities. Entities should adopt this Statement as of the beginning of the first fiscal year that begins after September 15, 2006. This Statement is required to be adopted by the Company effective January 1, 2007. The Company does not expect SFAS No. 156 to have a material impact on the Company's consolidated results of operations or financial condition.

In September 2006, the FASB issued SFAS No.157, "Fair Value Measurements". This Statement defines fair value, establishes a framework for measuring fair value in generally accepted accounting principles, and expands disclosures about fair value measurements. This Statement is effective for financial statements issued for fiscal years beginning after November 15, 2007, and interim periods within those fiscal years. This Statement is required to be adopted by the Company effective January 1, 2008. The Company does not expect SFAS No. 157 to have a material impact on the Company's consolidated results of operations or financial condition.

In September 2006, the FASB issued SFAS No.158, "Employers' Accounting for Defined Benefit Pension and Other Postretirement Plans an amendment of FASB Statements No. 87, 88, 106, and 132(R)". This Statement requires an employer to recognize the overfunded or underfunded status of a defined benefit postretirement plan (other than a multiemployer plan) as an asset or liability in its statement of financial position and to recognize changes in that funded status in the year in which the changes occur through comprehensive income of a business entity or changes in unrestricted net assets of a not-for-profit organization. This Statement also requires an employer to measure the funded status of a plan as of the date of its year-end statement of financial position, with limited exceptions. An employer with publicly traded equity securities is required to initially recognize the funded status of a defined benefit postretirement plan and to provide the required disclosures as of the end of the fiscal year ending after December 15, 2006. The Company does not expect SFAS No. 158 to have a material impact on the Company's consolidated results of operations or financial condition.

In June 2006, the FASB issued Interpretation No. 48, "Accounting for Uncertainty in Income Taxes", an interpretation of FASB Statement No. 109. This Interpretation clarifies the accounting for uncertainty in income taxes recognized in an enterprise's financial statements in accordance with FASB Statement No. 109, "Accounting for Income Taxes". It prescribes a recognition threshold and measurement attribute for the financial statement recognition and measurement of a tax position taken or expected to be taken in a tax return. This Interpretation also provides guidance on derecognition, classification, interest and penalties, accounting in interim periods, disclosure, and transition. This Interpretation is required to be adopted by the Company effective January 1, 2007. The Company does not expect it to have a material impact on the Company's consolidated results of operations or financial condition.

(Expressed in thousands of US Dollars, except as indicated)

Correction of errors: In preparing its interim condensed consolidated financial statements for the nine month period ended September 30, 2006 the Company discovered an error made in its interim condensed consolidated financial statements for the nine month period ended September 30, 2005 and consolidated financial statements for the year ended December 31, 2005 in respect of related party disclosures. Petroval PTE Ltd was disclosed as a related party, although it was not related to the Company. As a result of correcting this error, as of December 31, 2005 accounts receivable from related parties were decreased and trade accounts receivable were increased by USD 52,187 thousand; accounts payable to related parties were decreased by USD 5,591 thousand, trade accounts payable were increased by USD 3,560 thousand and other current liabilities were increased by USD 2,031 thousand. Sales to related parties were decreased by USD 10,965 thousand and purchases from related parties were decreased by USD 57,820 thousand for the nine month period ended September 30, 2005; sales and purchases from third parties were increased accordingly.

Note 4: Trade accounts receivable, net

	September 30, 2006	December 31, 2005
Oil refinery	133,703	135,301
Other	3,978	7,945
Total gross trade accounts receivable	137,681	143,246
Less: allowance for doubtful trade accounts receivable	(15,552)	(15,366)
Total trade accounts receivable, net	122,129	127,880

Note 5: Inventories

	September 30, 2006	December 31, 2005
Raw and supplementary materials	86,505	25,016
Finished goods and goods for resale	147,639	178,550
Semi-finished goods	31,466	32,976
Spare parts and other (net of allowance of USD 8,728 thousand as of September 30, 2006 and as of December 31, 2005)	27,692	20,577
Other	289	953
Total inventories	293,591	258,072

Note 6: Held to maturity investments

Held to maturity investments of USD 187,717 thousand (December 2005: nil) consist of short-term bonds issued by financial institutions which are not traded in an active market. The effective interest rate on bonds was 5.12%. They have an average maturity of 25 days.

(Expressed in thousands of US Dollars, except as indicated)

Note 7: Property, plant and equipment, net

	September 30, 2006	December 31, 2005
Machinery and equipment	687,206	677,158
Buildings	87,243	83,888
Other tangible assets	79,948	75,169
Construction in progress and prepayments	110,892	59,373
Total property, plant and equipment at cost	965,289	895,588
Less: accumulated depreciation	(415,289)	(379,935)
Total property, plant and equipment, net	550,000	515,653

No interest has been capitalized during the three-month and nine-month period ended September 30, 2006 (September 30, 2005: none).

Note 8: Intangible assets, net

	September 30, 2006	December 31, 2005
Patents and licenses	6,073	6,075
Goodwill	1,975	1,842
Prepayments for patents and licenses	4,471	3,836
Total intangible assets at cost	12,519	11,753
Less: accumulated amortization	(5,515)	(5,216)
Total intangible assets, net	7,004	6,537

Note 9: Trade accounts payable

	September 30, 2006	December 31, 2005
Oil refinery	256,594	310,640
Other	2,202	4,273
Total trade accounts payable	258,796	314,913

Note 10: Taxes payable and accrued

	September 30, 2006	December 31, 2005
Accrued income tax	39,463	36,879
VAT payables	35,738	31,637
Excise tax	22,946	22,090
Other taxes	3,750	2,370
Total taxes payable	101,897	92,976

(Expressed in thousands of US Dollars, except as indicated)

Note 11: Debt

	September 30, 2006	December 31, 2005
Long-term debt	457,258	463,607
Current portion of long-term debt	(7,556)	(9,559)
Non-current portion of long-term debt	449,702	454,048
Current portion of long-term debt	7,556	9,559
Overdraft	461	-
Total short-term debt and current portion of long-term debt	8,017	9,559

Balance of long-term borrowings can be further analyzed as follows:

Lender/Purpose	Repayment terms	Annual interest rate	Maturity date (mm/yy)	Loan amount	Balance as of September 30,2006
Working capital finance					
the Government	Semi-annually	7.00%	07/13	323,928	288,927
SEB Vilniaus Bankas AB and Vereins-und Westbank AG	Semi-annually	3 months LIBOR +1.100%	07/13	75,000	75,000
Investment program					
SEB Vilniaus Bankas AB and Vereins-und Westbank AG	Semi-annually	3 months LIBOR +1.100%	07/13	75,000	75,000
Investment in oil terminal					
Hansabankas AB	Semi-annually	6 months LIBOR +0.900%	01/09	50,000	13,158
Kreditanstalt fur Wiederaufbau	Semi-annually	6 months LIBOR +0.875%	12/06	17,395	836
Kreditanstalt fur Wiederaufbau	Semi-annually	6 months LIBOR +0.875%	12/06	11,855	618
Kreditanstalt fur Wiederaufbau	Semi-annually	6 months LIBOR +0.875%	12/06	4,294	152
Petrol stations					
Bankas Snoras AB	Quarterly	6 months LIBOR +0.875%	10/07	2,948	2,034
Trading houses					
Nordea Bank Finland Plc	Monthly	3.900%	12/06	24	2
Manufacturer of electricity					
the Government	Semi-annually	4.950%	04/11	2,222	1,531
Less: current portion of long-term debt					(7,556)
Total long term debt					449,702

Note 12: Earnings per share

Basic earnings per share is computed by dividing net income (the “numerator”) by the weighted-average number of ordinary shares outstanding (the “denominator”). Diluted earnings per share is similarly computed, except that the denominator is increased to include the dilutive effect of outstanding stock options calculated using treasury share method. 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 June 18, 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 October 29, 2004 and to the Company on November 5, 2004.

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 September 30, 2006 (three months ended September 30, 2005: 316,924 thousand shares) and 311,365 thousand shares for the nine months ended September 30, 2006 (nine months ended September 30, 2005: 305,288 thousand shares), that would give a diluted earnings per share of USD 0 for the three months ended September 30, 2006 (three months ended September 30, 2005: USD 0.088) and USD 0.126 for the nine months ended September 30, 2006 (nine months ended September 30, 2005: USD 0.258). According to the less dilutive interpretation, the dilutive effect would be an additional 163,086 thousand shares for three months ended September 30, 2006 (three months ended September 30, 2005: 167,306 thousand shares) and 164,400 thousand shares for the nine months ended September 30, 2006 (nine months ended September 30, 2005: 161,230 thousand shares) giving a diluted earnings per share of USD 0 for the three months ended September, 30 2006 (three months ended September, 30 2005: USD 0.103) and USD 0.147 for the nine months ended September 30, 2006 (nine months ended September 30, 2005: USD 0.301).

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

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.

Note 13: Commitments and contingent liabilities

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

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

(Expressed in thousands of US Dollars, except as indicated)

Note 14: Related Parties

As of September 30, 2006 Yukos Finance B.V. was the majority shareholder of the Company.

In June 2002, the Company 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 September 30, 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 Company 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 the shares. The Company sells jet fuel to Naftelf UAB.

The Government has significant influence over the Company.

Transactions carried out with the related parties and balances arising from these transactions are shown as follows:

	September 30, 2006	December 31, 2005
Accounts receivable from related parties, net		
Naftelf UAB	456	701
Petroval SA (acting as a sales commissioner and direct sales client)	10	147
Yukos Group* (net of allowance for doubtful accounts of USD 2,166 thousand and USD 2,159 thousand as of September 30, 2006 and December 31, 2005, respectively)	3	3
Total accounts receivable from related parties, net	469	851

	September 30, 2006	December 31, 2005
Non-current accounts receivable from related parties, net		
the Government	-	10,807
Total non-current accounts receivable from related parties, net	-	10,807

	September 30, 2006	December 31, 2005
Accounts payable (including accruals) to related parties		
Yukos Group* (crude oil purchases, management fee, accrual for claim)	1,289	891
Petroval SA (crude oil purchases, commission fee and compensation of expenses)	347	350
Total accounts payable (including accruals) to related parties	1,636	1,241
Accrued interest payable		
the Government	35	16
Total accrued interest payable	35	16
Government grant relating to purchases of property, plant and equipment		
the Government	4,963	4,963
Total government grants	4,963	4,963
Total accounts payable to related parties	6,634	6,220

(Expressed in thousands of US Dollars, except as indicated)

	September 30, 2006	December 31, 2005
Loans received from related parties		
the Government	290,458	290,471
Total loans received from related parties	290,458	290,471

	Three-months ended September 30,		Nine-months ended September 30,	
	2006	2005	2006	2005
Sales of products and services to related parties				
Petroval SA (acting as direct sales client)	-	40,555	-	75,797
Yukos Group*	8	1	22	37
Naftelf UAB	9,075	6,609	22,496	16,974
Total sales to related parties	9,083	47,165	22,518	92,808

	Three-months ended September 30,		Nine-months ended September 30,	
	2006	2005	2006	2005
Interest on borrowings from related parties				
the Government	5,188	5,169	15,394	15,338
Total interest on borrowings from related parties	5,188	5,169	15,394	15,338
Crude oil and services purchases from related parties				
Yukos Group* (purchase of crude oil and management fee)	718	630	1,711	2,030
Petroval SA	115	187	115	922
Total purchases from related parties	833	817	1,826	2,952

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

Note: 15 Events after the balance sheet date

On October 12, 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 Company's profit by app. USD 38 million for the year ending December 31, 2006. The property, plant and equipment destroyed during the fire were fully depreciated as of September 30, 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 these interim condensed consolidated financial statements the fire is under investigation by the insurance companies and amounts of the compensation of losses are unknown.

On October 28, 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 these interim condensed consolidated financial statements the plan has not been approved by the shareholders.