

AB MAŽEIKIŲ NAFTA
Annual Prospectus-Report for Year 2006

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

TABLE OF CONTENTS

I. GENERAL.....	5
1. ACCOUNTABLE PERIOD FOR WHICH THE ANNUAL PROSPECTUS-REPORT HAS BEEN PREPARED	5
2. MAIN DATA ON THE ISSUER.....	5
3. NATURE OF THE ISSUER’S PRINCIPAL ACTIVITIES.....	5
4. INFORMATION ABOUT WHERE AND HOW ONE CAN GET ACQUAINTED WITH THE REPORT AND THE DOCUMENTS ON THE BASIS OF WHICH IT WAS PREPARED (FINANCIAL STATEMENTS, THE AUDITORS’ REPORTS, ETC.) AND THE NAME OF THE MEANS OF MASS MEDIA	5
5. PERSONS RESPONSIBLE FOR THE ACCURACY OF INFORMATION IN THE REPORT:.....	5
5.1. MEMBERS OF MANAGING BODIES, EMPLOYEES AND HEAD OF ADMINISTRATION OF THE ISSUER RESPONSIBLE FOR THE REPORT:.....	5
II. DATA ON THE ISSUER’S AUTHORIZED CAPITAL AND SECURITIES ISSUED.....	7
7. THE ISSUER’S AUTHORIZED CAPITAL:	7
7.1. AUTHORIZED CAPITAL REGISTERED WITH THE REGISTER OF ENTERPRISES.....	7
7.2. INFORMATION ON THE PROJECTED INCREASE OF THE AUTHORIZED CAPITAL BY CONVERTING OR EXCHANGING DEBT SECURITIES OR DERIVATIVE SECURITIES ISSUED INTO SHARES	7
8. SHAREHOLDERS.....	7
9. MAIN CHARACTERISTICS OF THE SHARES ISSUED FOR PUBLIC TRADING.....	8
10. DATA ABOUT THE SHARES REGISTERED FOR PRIVATE PLACING AND DISTRIBUTED AS SUCH.....	8
11. INFORMATION ABOUT DEPOSITARY RECEIPTS REPRESENTING SHARES.....	8
12. MAIN CHARACTERISTICS OF THE DEBT SECURITIES ISSUED FOR PUBLIC TRADING....	9
13. DATA ABOUT THE DEBT SECURITIES REGISTERED FOR NOT PRIVATE PLACEMENT AND DISTRIBUTED AS SUCH	9
III. DATA ABOUT THE SECONDARY TRADING IN SECURITIES ISSUED BY THE ISSUER.....	10
15. SECURITIES ADMITTED TO THE TRADING LISTS OF THE STOCK EXCHANGES	10
16. DEALING IN THE ISSUER’S SECURITIES ON STOCK EXCHANGES AND OTHER ORGANIZED MARKETS	10
16.1. TRADING ON VILNIUS STOCK EXCHANGE.....	10
16.2. TRADING ON OTHER EXCHANGES.....	11
16.3. TRADING ON OTHER ORGANIZED MARKETS	11
18. DEALING IN THE ISSUER’S SECURITIES ON THE OTC MARKET	12
19. DATA ABOUT THE ISSUER’S BUYING UP OF ITS SHARES	12
20. SUBMISSION OF A TENDER OFFER	12
21. THE ISSUER'S PAYING AGENTS.....	14
22. AGREEMENTS ENTERED INTO WITH INTERMEDIARIES OF PUBLIC TRADING IN SECURITIES.....	14

IV. DATA ABOUT THE ISSUER'S ACTIVITY.....	15
23. LEGAL BASIS FOR THE ISSUER'S ACTIVITY.....	15
24. MEMBERSHIP IN ASSOCIATED STRUCTURES.....	15
25. BRIEF DESCRIPTION OF THE ISSUER'S BACKGROUND.....	16
26. CHARACTERISTICS OF PRODUCTION (SERVICES).....	17
27. SALES MARKETS.....	26
28. SUPPLY.....	29
29. IMMOVABLE PROPERTY AND OTHER MAIN FACILITIES.....	31
30. RISK FACTORS RELATED TO THE ISSUER'S ACTIVITY.....	34
31. TERMINATION AND REDUCTIONS OF PRODUCTION THAT HAVE EXERCISED OR ARE EXERCISING MATERIAL IMPACT UPON THE PERFORMANCE OF THE ISSUER DURING THE LAST TWO FINANCIAL (ECONOMIC) YEARS.....	42
32. PATENTS, LICENSES, CONTRACTS.....	42
33. JUDICIAL ACTIONS AND THIRD PARTY (ARBITRATION) PROCEEDINGS.....	43
34. PERSONNEL.....	44
35. INVESTMENT POLICY.....	49
36. COMPETITORS.....	51
37. DIVIDENDS PAID.....	51
V. FINANCIAL STANDING.....	52
38. FINANCIAL STATEMENTS.....	52
38.1. CONSOLIDATED BALANCE SHEETS (THOUS. LTL).....	52
38.2. CONSOLIDATED PROFIT (LOSS) STATEMENT (THOUS. LTL).....	53
38.3. CONSOLIDATED CASH FLOW STATEMENT (THOUS. LTL).....	54
38.4 CONSOLIDATED STATEMENT OF CHANGES IN EQUITY (THOUS. LTL).....	55
39. COMMENTS ON THE FINANCIAL STATEMENTS.....	56
40. REPORT PREPARED BY THE MANAGING BOARD OF THE ISSUER OR ANY OTHER MANAGING BODY PERFORMING ITS FUNCTIONS.....	57
41. INFORMATION ON THE AUDIT.....	57
VI. INFORMATION ABOUT THE ISSUER'S MANAGING BODIES.....	59
42. MEMBERS OF MANAGING BODIES.....	59
43. INFORMATION ABOUT PAYMENTS AND LOANS TO THE MEMBERS OF MANAGING BODIES.....	63
44. TRANSACTIONS WITH PERSONS CONCERNED.....	63
VII. UPDATED AND MATERIAL EVENTS IN ISSUER'S ACTIVITY AND PERSPECTIVES.....	63
45. UPDATED EVENTS IN THE ISSUER'S ACTIVITY.....	ERROR! BOOKMARK NOT DEFINED.

46. MATERIAL EVENTS IN THE ISSUER'S ACTIVITY ERROR! BOOKMARK NOT DEFINED.

**47. STRATEGY OF ACTIVITY AND ITS PROSPECTIVE CHANGES DURING CURRENT AND
COMING FINANCIAL (ECONOMIC) YEARS 76**

I. GENERAL

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

The year 2006.

2. Main data on the Issuer

Company name of the Issuer	Public Company <i>MAŽEIKIŲ NAFTA</i>
Authorized capital	708 821 122 LTL
Registered office	Juodeikiai, 89467 Mažeikiai distr., Lithuania
Telephone	(443) 9 22 86
Fax	(443) 9 25 25
E-mail address	post@nafta.lt
Legal and organizational form	Public Company
Date and place of registration	January 24, 1991, Mažeikiai district municipality
Date and place of re-registration	October 12, 1998, Ministry of Economy of the Republic of Lithuania
Code in the Register of Enterprises	166451720

3. Nature of the Issuer's principal activities

AB Mažeikių Nafta is a refinery engaged in production as well as wholesale trade of solid, liquid, gas fuel and similar products and their transportation by roads, railway and pipeline.

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

The report and other documents on the basis of which it was prepared are available in AB Mažeikių Nafta at the address: Juodeikiai, 89467 Mažeikiai, on working days from 8⁰⁰ a.m. till 4⁰⁰ p.m.

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

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

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

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

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

6. Declaration by the members of managing bodies, employees and the head of the administration of the Issuer responsible for the report that the information contained in the report does reflect the real situation and there does not exist any concealed information likely to affect the investors' decision concerning purchase, sale or valuation of the Company's securities or the market price of these securities

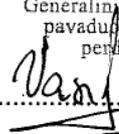
AB MAŽEIKIŲ NAFTA, represented by General Director English P. Nelson and Chief Financial Officer Vita Petrošienė, hereby declare that the information contained in the report does reflect the real situation and there does not exist any concealed information likely to affect the investors' decision concerning purchase, sale or valuation of the Company's securities or the market price of these securities.

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

AB MAŽEIKIŲ NAFTA
General Director

Viktoras Vasilavičius
Generalinio direktoriaus
pavaduotojas naftos
perdirbimui

English P. Nelson



May 26, 2007

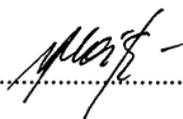
AB MAŽEIKIŲ NAFTA
Chief Financial Officer



Vita Petrošienė

May 26, 2007

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



Vida Mažrimienė

May 26, 2007

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

7. The Issuer's authorized capital:

7.1. Authorized capital registered with the Register of Enterprises

The Company is registered with the Register of Enterprises of the Republic of Lithuania and administrated by the State Enterprise Centre of Registers (V. Kudirkos 18, LT - 03105 Vilnius). The Company's authorized capital amounts to 708 821 122.00 LTL.

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

Type of shares	Number of shares	Nominal value (LTL)	Total nominal value	Weight in authorized capital (%)
Ordinary registered shares	708 821 122	1,00	708 821 122	100,00
Total:	708 821 122		708 821 122	100,00

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

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

8. Shareholders

Total number of AB Mažeikių Nafta shareholders at the last General Meeting of Shareholders held on 27.04.07 (the record date of the meeting being April 20, 2007) amounted to 3910.

707,305,109 ordinary registered shares (herinafter - ORS) are by right of ownership owned by two shareholders: Polski Koncern Naftowy Orlen S.A. (636 555 109 ORS) and the State Lithuania, represented by the Ministry of Economy of the Republic of Lithuania (70 750 000 ORS).

1,516,013 ordinary registered shares (0.21 % of the authorized capital) are by right of ownership owned by 3908 individual shareholders.

Table 8.1 The following is the data on the shareholders having owned more than 5 % of the Company's authorized capital on January 1, 2007

Name and surname of a shareholder (name of enterprise, type, registered office, code in the Register of Enterprises)	Number of ordinary registered shares owned by the shareholder (units)	Percentage of the authorized capital (%)	Percentage of votes granted by the owned shares (%)	Percentage of votes held in concert with other persons (%)
Polski Koncern Naftowy Orlen S.A. (KRS: 0000028860, REGON: 610188201)	596 834 352	84.20	84.20	84.20 %

The State, the Ministry of Economy of the Republic of Lithuania, Gedimino pr. 38/2, 01104 Vilnius. Company Code 188621919	70 750 000	9.98	9.98	9.98 %
---	------------	------	------	--------

9. Main characteristics of the shares issued for public trading

Table 9.1 Main characteristics of AB Mažeikių Nafta securities:

Type of shares	Number of shares	Nominal value (LTL)	Total nominal value (LTL)	Issued
Ordinary registered shares	708 821 122,00	1	708 821 122,00	707.454.130 shares issued when reorganizing the state enterprise into a public company by incorporating AB Būtingės Nafta and AB Naftotiekis into the Company; due to implementation of Company's privatization program 1.366.992 shares issued due to AB Mažeikių Elektrinė (Power Station) incorporation into AB Mažeikių Nafta
Total:	708 821 122,00	-	708 821 122,00	-

On January 8, 2007 the Central Securities Depository of Lithuania opened a general securities account for the new issue of AB Mažeikių Nafta shares in connection with the merger of AB Mažeikių Elektrinė with AB Mažeikių Nafta: ISIN code - LT0000127771; type of securities – equity securities; number of distributed securities – 1,366,992; nominal value per share – 1 LTL; total nominal value – 1,366,992.00 LTL (395,908.00 EUR). The newly issued AB Mažeikių Nafta shares were deposited into personal securities accounts of the shareholders entitled to receive such newly issued shares.

Securities issues as of 18.01.07 with the following CSDL codes: LT0000115552 – 707,454,130 units, LT0000126526 – 1,366,992 units, were aggregated into one account. After the assimilation, the issue code to be used is LT0000115552, amount – 708,821,122 units.

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

11. Information about depositary receipts representing shares

12. Main characteristics of the debt securities issued for public trading
-----**13. Data about the debt securities registered for not private placement and distributed as such**

All debt securities were redeemed in 2000 and the Company held none of such debt securities for the date of 31.12.06

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

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

15. Securities admitted to the trading lists of the Stock Exchanges

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

Table 15.1 Data on AB Mažeikių Nafta securities issue:

ISIN code	LT0000115552
Shortened name	MNF1L
List	BALTIC I-LIST
Nominal value	1.00 LTL
Size of the issue (shares)	708 821 122
Number of shares issued for public trading	708 821 122
Listing date	1996 02 06

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

16.1. Trading on Vilnius Stock Exchange

Table 16.1.1. Historical trading in AB Mažeikių Nafta ordinary registered shares:

PRICE	2007	2006	2005	2004	2003
Open, LTL	10,17	9,47	-	-	-
High, LTL	10,26	10,67	13,40	4,50	2,80
Low, LTL	9,70	7,05	4,17	2,10	0,74
Last, LTL	10,00	10,15	9,47	4,38	2,20
Traded volume	15 787 394	401 393 539	24 648 686	20 171 753	20 684 565
Turnover, million LTL	161,55	4 075,49	205,32	56,36	31,08
Capitalization, million LTL	7 088,21	7 180,66	6 699,59	3 098,65	1 556,40

Table 16.1.1.1. The highest and lowest price and turnover (LTL) of the securities of AB Mažeikių Nafta quoted and sold on the central market of the Exchange within the last 8 quarters (each separately) are as follows:

Trading session	Price (LTL)		Turnover (LTL)	
	highest	lowest	highest	lowest
2005 01 01 – 2005 03 31	5,70	4,37	5 744 470,00	1.297,00
2005 04 01 – 2005 06 30	9,54	5,5	3 810 840,28	16.304,90
2005 07 01 – 2005 09 30	12,79	8,74	5 186 701,94	62.096,54
2005 10 01 – 2005 12 31	13,25	8,90	4 111 583,93	0,00
2006 01 01 – 2006 03 31	10,59	8,50	2 376 084,02	0,00
2006 04 01 – 2006 06 30	10,20	8,15	2 837 263,64	0,00
2006 07 01 – 2006 09 30	8,90	7,27	2 909 884,91	0,00
2006 10 01 – 2006 12 31	10,16	7,85	3 883 709 471,83	0,00
2007 01 01 – 2007 03 31	10,26	9,70	79 836 090,48	0,00

Table 16.1.1.2 Price and turnover (LTL) of the last trading session of the Exchange for the reporting period and the total turnover for the last 8 quarters (each separately) (shares; LTL) according to type and class of securities:

Trading session	Latest trading session		Total turnover	
	price (LTL)	turnover (LTL)	pcs.	LTL
2005 01 01 – 2005 03 31	5,70	220 998,00	3 405 472	16 670 225,00
2005 04 01 – 2005 06 30	9,54	2 246 521,98	5 970 484	46 699 763,90
2005 07 01 – 2005 09 30	12,79	415 139,36	6 590 654	67 290 308,12
2005 10 01 – 2005 12 31	9,40	506 924,55	5 330 551	57 926 294,41
2006 01 01 – 2006 03 31	9,45	550 438,34	5 199 890	48 744 307,13
2006 04 01 – 2006 06 30	8,58	2 074 408,87	3 325 935	29 906 589,09
2006 07 01 – 2006 09 30	8,67	160 962,08	5 434 780	44 151 370,06
2006 10 01 – 2006 12 31	10,15	401 913,59	387 199 160	3 950 668 759,38
2007 01 01 – 2007 03 31	10,05	1 555,00	15 777 360	161 446 927,44

16.2. Trading on other exchanges

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

16.3. Trading on other organized markets

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

17. Capitalization of securities

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

PERIOD	BEGINNING-OF-MONTH (AMOUNT, LTL)	END-OF-MONTH (AMOUNT, LTL)
02.01.2006-01.02.2006	6 699 590 611,10	6 826 932 354,50
01.02.2006-28.02.2006	6 826 932 354,50	6 119 478 224,50
01.03.2006-31.03.2006	6 260 969 050,50	6 933 050 474,00
03.04.2006-05.05.2006	6 834 006 895,80	6 360 012 628,70
08.05.2006-07.06.2006	6 444 907 124,30	6 296 341 757,00
01.06.2006-30.06.2006	6 430 758 041,70	6 069 956 435,40
03.07.2006-02.08.2006	6 119 478 224,50	5 574 738 544,40
01.08.2006-31.08.2006	5 935 540 150,70	5 482 769 507,50
01.09.2006-30.09.2006	5 440 322 259,70	6 133 627 307,10
02.10.2006-01.11.2006	6 140 701 848,40	5 730 378 453,00
01.11.2006-30.11.2006	5 730 378 453,00	6 678 366 987,20
01.12.2006-29.12.2006	6 713 739 693,70	7 180 659 419,50

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

19. Data about the Issuer's buying up of its shares

20. Submission of a tender offer

AB Mažeikių Nafta informs that it has received the Notice on Squeeze-Out of Shares in AB Mažeikių Nafta from its main shareholder PKN ORLEN S.A: The purchase of shares within the squeeze-out process will commence on February 20, 2007, the price is equal to 10.25 LTL for one share. By this notice AB Mažeikių Nafta, code: 1664 51720, having the office at Juodeikiai, Mažeikių district, the Republic of Lithuania, data stored with the Register of Legal Persons of the Republic of Lithuania, VAT payer's code LT664517219 (hereinafter referred to as AB „Mažeikių Nafta“) informs that on February 14, 2007, Polski Koncern Naftowy Orlen S.A., having the office at Chemikow str. 7, Plock, the Republic of Poland (hereinafter referred to as “PKN”), acting in concert with the Republic of Lithuania represented by the Government of the Republic of Lithuania acting by the Minister of the Economy, having the office at Gedimino ave. 38/2, Vilnius, the Republic of Lithuania (PKN and the Republic of Lithuania hereinafter referred to as the “Offerors”) submitted to AB Mažeikių Nafta their notice about squeeze-out of AB Mažeikių Nafta's shares (hereinafter referred to as the “Notice”). The Notice includes a request that all other shareholders of AB Mažeikių Nafta would sell their shareholdings in AB Mažeikių Nafta to PKN at the price indicated in the Notice. As of February 14, 2007 the Offerors owned 705,201,432 (seven hundred five million two hundred and one thousand four hundred thirty two) ordinary registered shares of

AB Mažeikių Nafta, 1 LTL (one litas) par value each, comprising 99.49% of all AB Mažeikių Nafta's shares and conferring 99.49% of votes at the general meeting of shareholders of AB Mažeikių Nafta. The price offered by the Offerors and to be paid by PKN in mandatory sale of shares is 10.25 LTL (ten litas and twenty five cents) per 1 (one) ordinary registered share of AB Mažeikių Nafta with par value of 1 LTL (one litas). The price offered was determined in accordance with Item 1 of Part 4 of Article 37 and Part 5 of Article 37 of the Law on Securities of the Republic of Lithuania. The price offered for the shares is the same as that paid by PKN when acquiring AB Mažeikių Nafta's shares in the way of the mandatory tender offer where the Offerors having submitted the mandatory tender offer had acquired the shares entitling to not less than 95% of all the votes at the general shareholders meeting of AB Mažeikių Nafta. From the end of validity of the mandatory tender offer until the date of submission of the Notice to AB Mažeikių Nafta not more than 3 months have passed. 90 (ninety) days after the date of publication of the notification on squeeze-out of AB Mažeikių Nafta's shares (the date of publication: 19 February 2007), i.e., within the period from February 20, 2007 to May 21, 2007 (inclusive), shareholders are requested to sell their shares in AB Mažeikių Nafta at the price offered by the Offerors, i.e. 10.25 LTL (ten litas and twenty five cents) per 1 (one) ordinary registered share, or may within the same period contest such offered price in the order set forth by law. Payments for the purchased shares of AB Mažeikių Nafta will be made in cash in accordance with the procedure prescribed by laws of the Republic of Lithuania and provided for in the share sale-purchase agreement to be entered between the shareholders and PKN. If a shareholder (s) fail to sell its/their shares in AB Mažeikių Nafta within the indicated period of 90 (ninety) days after the date of publication of the notification on squeeze-out of AB Mažeikių Nafta's shares and do not contest the price offered by the Offerors for the said shares, then the Offerors will acquire on the last day of the above-mentioned period the right to apply to court with a request to obligate account managers to make records in the security accounts about the transfer to PKN of ownership right in respect of the shares, after having paid not later than on the last day of the indicated period (i.e. May 21, 2007) the price for the repurchased shares to the bank account specified by a shareholder or to a deposit account should a shareholder avoid accepting such payment. The shares of AB Mažeikių Nafta will be purchased from the shareholders under the above-mentioned procedure in every branch of AB SEB Vilniaus Bankas during business hours on business days. For the purpose of signing share sale-purchase agreements a shareholder natural person must bring the following documents: 1. Personal ID document (valid passport or personal identification card); 2. An extract from the shareholder's personal securities account with the number of shares held by that shareholder in AB Mažeikių Nafta indicated shall be produced if such shares are accounted for elsewhere than with AB SEB Vilniaus Bankas. For married shareholders: 1. Both spouses shall come to sign share sale-purchase agreements (both shall have their ID documents); if only one of the spouses arrives, he/she shall produce notarised other spouse's power of attorney to sell the shares; 2. If the shares are owned by the right of personal ownership (not joint united ownership) by one of the spouses who comes to sign the share sale-purchase agreement, such shareholder shall provide the documents proving such personal ownership. For the purpose of signing share sale-purchase agreements a shareholder legal person must bring the following documents: 1. The copy of the company's registration certificate; 2. The copy of the company's articles of association; 3. The power of attorney or board resolution to a person who would be authorized to sign the agreement; 4. The power of attorney to a person who would be authorized to place orders and provide other instructions relating to order execution on behalf of the company. Documents substantiating determination of price offered by the Offerors for the shares to be purchased in accordance with the mandatory procedure are available to AB Mažeikių Nafta's shareholders in the office of AB Mažeikių Nafta at Juodeikiai, Mazeikiu district, the Republic of Lithuania. For any additional information shareholders may call AB SEB Vilniaus Bankas at the telephone no. 1528.

21. The Issuer's paying agents

22. Agreements entered into with intermediaries of public trading in securities

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

IV. DATA ABOUT THE ISSUER'S ACTIVITY

23. Legal basis for the Issuer's activity

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

24. Membership in associated structures

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

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

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

25. Brief description of the Issuer's background

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

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

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

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

At the end of 1998 AB Mažeikių Nafta was reorganized in a manner of merging the companies AB Būtingės Nafta and AB Naftotiekis into it. Consequently, the Company's authorized capital on December 1, 1998 increased from 584 634 390 LTL to 693 443 200 LTL. The State held 613 703 642 ordinary registered shares which represented 88,5% of votes.

On October 29, 1999 AB Mažeikių Nafta sold 341 546 650 ordinary registered shares of a new issue (nominal value of the issue - 341 546 650 LTL) to the strategic investor Williams

International Company for the amount of 150 million USD. Upon acquisition of the shares the strategic investor obtained 33% of votes and the authorized capital of AB Mažeikių Nafta increased to 1 034 989 850 LTL.

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

On June 18, 2002 AB Mažeikių Nafta distributed 189 959 205 ordinary registered shares having a par value 1 (one) LTL each, which were acquired by Yukos Finance B.V. (26,85%). The amount of this issue increased the authorized capital of AB Mažeikių Nafta up to 707 454 130 LTL. As a result of these share issues 26,85% of the shares belonged to Williams International Company and 40,66% - to the Ministry of Economy.

On September 19, 2002 Yukos Finance B.V. and Williams International Company signed a package of agreements according to which Yukos Finance B.V. additionally obtained 189 959 206 of AB Mažeikių Nafta ordinary registered shares. Upon a closure of the transaction, 53,7% of AB Mažeikių Nafta ordinary registered shares are owned by Yukos Finance B.V. and 40.66 % - by the Ministry of Economy.

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

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

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

On December 15, 2006, Yukos International UK B.V. and the Government of the Republic of Lithuania sold their blocks of Company shares of respectively 53.7 and 30.66 per cent to Polski Koncern Naftowy Orlen S.A. On December 31, 2006, the two main shareholders of the Company were PKN ORLEN which held 84.2 per cent of the Company shares, and the Government holding 9.98 per cent of the shares (in 2005, Yukos International UK B.V. held 53.7 per cent, and the Government – 40.7 per cent of the Company shares). The rest of the shares belong to a number of minor shareholders.

26. Characteristics of production (services)

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

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

Description	2006		2005	
	thous. LTL	structure , %	thous. LTL	structure, %
Oil Refinery	11 633 028	98.1	10 906 071	97.8
Oil Terminal	49 208	0.4	83 932	0.7
Pipeline operator	53 257	0.4	78 060	0.7
Retail (filling-station) Network Operator	129 453	1.1	87 689	0.8
Other	9	0.0	19	0.0
Total revenue	11 864 955	100.0	11 155 771	100.0

Table 26.2. Key performance indicators of Mažeikių Nafta Group:

Indicator	2006	2005
Revenue, thous. LTL	11 864 955	11 155 771
EBITDA, thous. LTL	421 854	1 192 375
EBITDA margin, %	3.6	10.7
Operating Profit (loss), thous. LTL	182 242	1 050 750
Operating Profit (loss) margin, % (Operating Profit/Income x 100)	1.5	9.4
Profit (loss) before tax, thous. LTL	203 304	1 004 412
Profit (loss) before tax margin, %	1.7	9.0
Net Profit (loss), thous. LTL	197 075	885 714
Net profit (loss) margin, % (Net profit/sales x 100)	1.7	7.9
Average return on assets, % (Net profit/total equity x 100)	4.7	18.5
Assets turnover (Income/total equity)	2.8	2.3
Debt ratio (Total liabilities/total equity x 100)	0.5	0.6
Debt-to-equity ratio (Total liabilities/total owners' equity x 100)	1.1	1.4

Total liquidity ratio (Current assets/current liabilities)	2.5	2.3
Return on equity (ROE), % (Net profit/owners' equity x 100)	10.0	45.2
Net earnings per share, LTL (Net profit/number of shares)	0.27	1.26
Average number of shares, pcs.	708 821 122	707 454 130

The main reasons causing lower net profit of the year 2006 are as follows:

Decrease of world refining margins and the prices of petroleum products in August through December, 2006;

from August 2006 the Company did not receive crude oil by pipeline meanwhile the crude oil import through Būtingė Terminal is respectively more expensive, besides, no revenues were received for crude oil transportation by Pipeline and its transshipment in Būtingė Terminal (if comparing to the same period of 2005 the revenues of the Oil Terminal and the Pipeline decreased by 41.1% and 31.8% respectively);

the fire in October, 2006 caused decreased crude refining efficiency, less volumes of light petroleum products were produced.

Oil Refinery

The year 2006 was complicated for the Company in respect of both management and work organization - execution, as well as psychologically. In August, 2006, terminated was transportation of crude oil via *Druzba* pipeline. Despite the disturbances in supply, the Refinery's goal is to operate at as high as possible capacity with crude oil imported via Būtingė Terminal.

The fire, which took place in the Refinery on October 12, 2006, tore down the vacuum distillation unit used for production of light petroleum products. After the fire, through to the end of the first stage of the reconstruction plan in February, 2007, the Refinery was operating at its half capacity. The first stage of the reconstruction plan was over in February, 2007, when the revamped vacuum distillation block of Bitumen Unit, previously mothballed, was re-started. The revamped unit is capable of processing approximately 50 per cent of the quantity the fire-damaged unit could process. Subject to the management's calculations, restoration of the full capacity might take 12 to 14 months.

The fire which took place in October, 2006, modified the Company's plans – the Refinery was able to operate at its half capacity only. Because of the accident and the termination of crude oil supply via the pipeline in 2006, the processing volume reduced down to 8.3 million tons. VGO was purchased to increase the yields of light petroleum products and assure optimal using of the process units. Operational capacities in 2006 made up 81.5 %.

Table 26.3. The volume of processed crude oil and other feedstocks by AB Mažeikių Nafta and its dynamics over the past 3 years are shown in the table below:

Product groups	Volume of crude oil and other feedstock processed					
	2006		2005		2004	
Year	thous.t	structure, %	thous.t	structure, %	thous.t	structure, %
Own feedstock						
Crude oil	8027.8	96.29	9195.6	99.14	8 661.1	99.72
Alkylate	11.7	0.14	12.7	0.14	0.9	0.01
Heavy fuel oil			23.0	0.25		
Vacuum gasoil	219.5	2.63	15.5	0.17		
Methanol	12.4	0.15	21.5	0.23	21.4	0.25
Metilretbutil ether	43.1	0.52	6.4	0.07	1.8	0.02
FAME	13.2	0.16				
Ethanol	5.7	0.07				
Gas condensate	3.7	0.04				
Total:	8337.1	100.0	9274.7	100.00	8 685.2	100.00

The Oil Refinery produces transport fuels and fuel for power and heating needs. A small part of the products refined are consumed for other than heating purposes. In 2006, production range was as follows:

- Gasoline (Grades 92, 95, 95 with bio-ETBE, 98)
- Diesel fuel (arctic, for agricultural engines) and heating gasoil;
- Biodiesel
- Jet fuel (Jet A-1);
- Fuel oil;
- Bitumen (paving, roofing);
- Liquefied gas (automobile and domestic);
- Elemental sulphur;
- Isomerizate (gasoline component).

Table 26.4. AB Mažeikių Nafta production volume according to types of finished products and its dynamics over the past 3 years are shown in the table below:

Product groups	Production volume					
	2006		2005		2004	
Year	thous.t	Structure, %	thous.t	Structure, %	thous.t	Structure, %
Gasoline	2 285.2	29.5	2 660.4	30.9	2 488.6	30.9
Diesel fuel	2475.5	31.9	3 041.4	35.4	2 819.8	35.1
Kerosene	542.5	7.0	571.3	6.6	553.4	6.9
Heavy fuel oil	1 826.8	23.6	1 637.0	19.0	1 530.8	19.0
Liquefied gas	404.6	5.2	452.8	5.3	453.5	5.6
Petroleum bitumen	153.5	2.0	162.7	1.9	133.4	1.7
Sulphur	61.1	0.8	74.3	0.9	67.1	0.8
Total:	7749.2	100.0	8 600.0	100.0	8 046.6	100.0

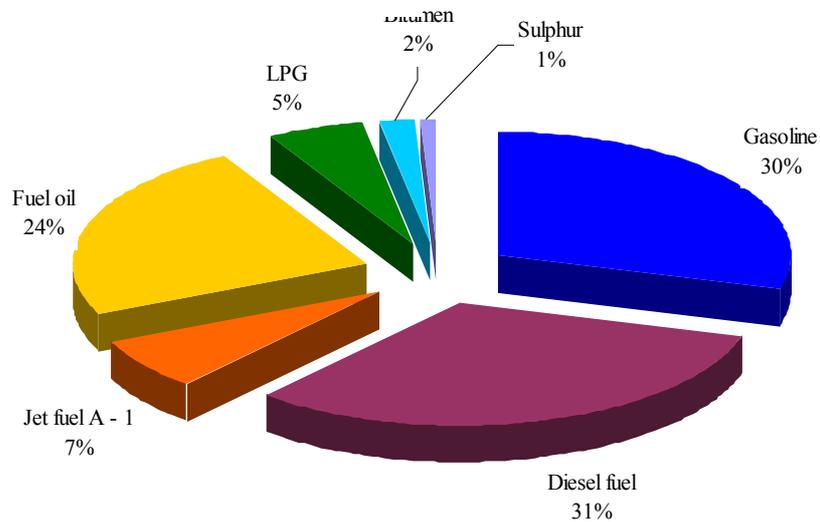


Figure 26.1 Production structure in 2006

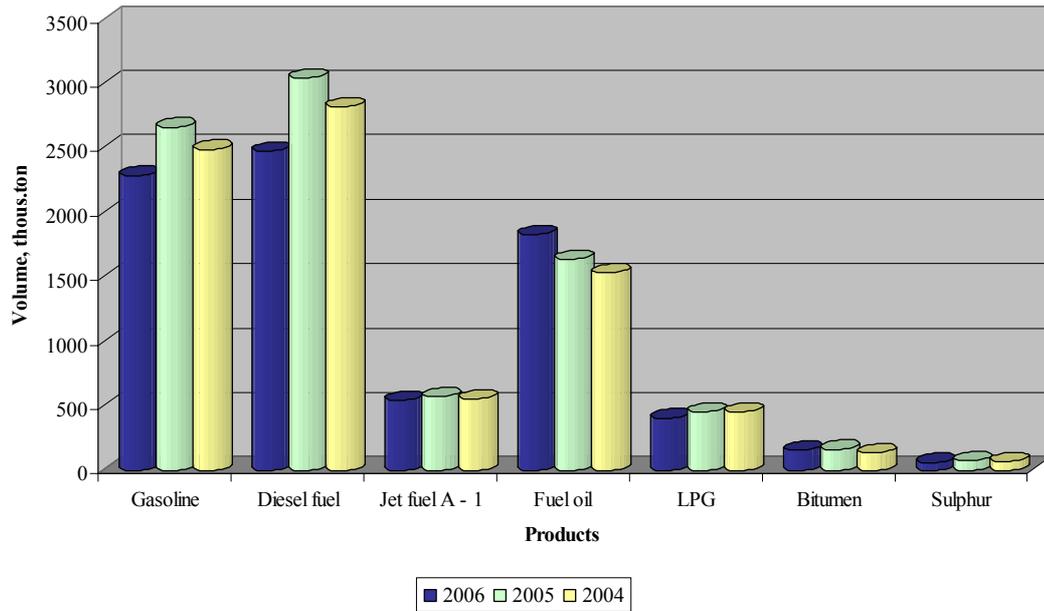


Figure 26.2 Changes in the production structure

Table 26.5. Average sales prices of AB Mažeikių Nafta according to types of products and their dynamics over the past 3 years are shown in the table below:

Product groups	Prices, LTL/t		
	2006	2005	2004
Gasoline	1801.03	1494.73	1114.04
Diesel fuel	1679.36	1477.22	1050.64
Kerosene	1816.16	1598.02	1142.47
Heavy fuel oil	727.43	562.01	352.57
Liquefied gas	1439.64	1223.22	978.29
Petroleum bitumen	813.53	671.09	479.42
Sulphur	52.1	70.55	70.70

In 2006, continued to grow world prices of both crude oil and products thereof. The changes in prices of AB Mažeikių Nafta products is shown in figure 26.3.

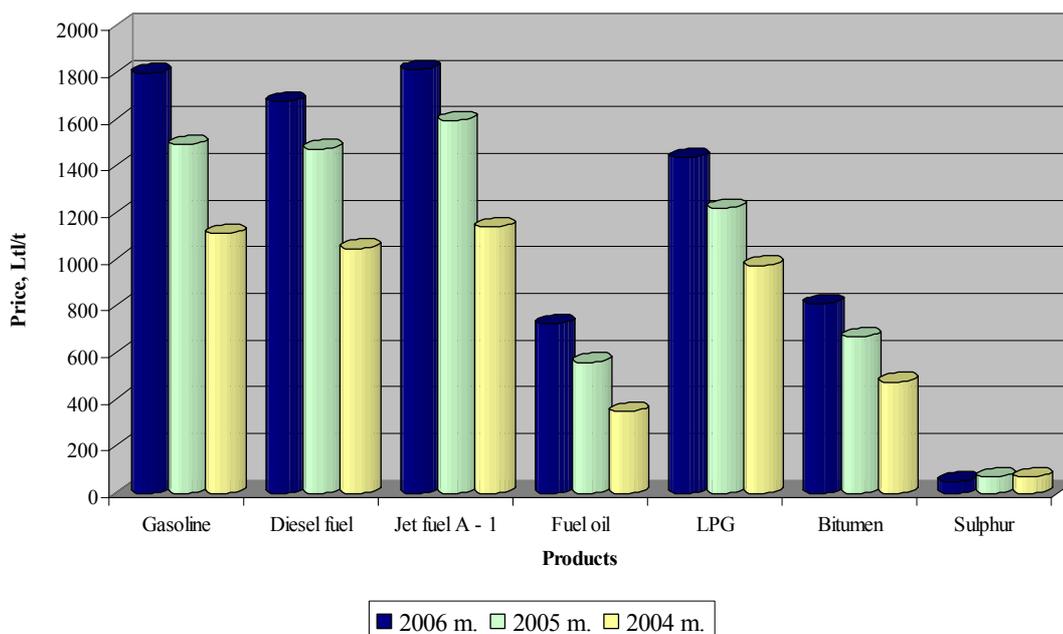


Figure 26.3 Changes in product prices

In 2006 the Company proceeded with implementation of Phase II of Modernization Program: 313,2 million LTL in total was invested to the long-term tangible and intangible assets. Just like in 2005, in 2006 most attention was paid to the projects meant to ensure the conformity of the refined petroleum products with the new requirements set by the European Union for clean fuel and pollutants emitted.

In 2006, AB Mažeikių Nafta launched the production of the new products: biogasoline and biodiesel. In order to follow the directives of the European Union, Lithuania has undertaken to consume up to 2 per cent of fuel produced from renewable energy sources. The bio-ethanol used for production of ETBE is also treated as a bio-fuel from renewable sources. Therefore, ethanol storage tanks were erected in the Company, and production of ETBE - a gasoline E-95 component - was started at MTBE Unit. For production of bio-diesel, used is fatty acid methyl ester (FAME) made from plant oils or animal fat. For the particular purpose, operation of fatty acid methyl ester (FAME) Dosing Unit was started in 2006. The amount invested in the completion of the project associated with production of fuel with bio-components comprised 6.5 million LTL.

The major part of the investments was allotted for implementation of the projects under the Modernization Program. A new PRIME G+ unit was being build expeditiously; the unit is meant for hydro-treatment of FCC gasoline. This unit will enable production of all the gasolines containing max 10 ppm sulphur. In 2006 50.4 million LTL was expended for implementation of this project.

23.6 million LTL was spent for reconstruction of terminal for loading of light petroleum products onto tank trucks. The purpose of this project was to reduce hydrocarbon emissions. In 2006 40.6 million LTL was spent for replacement of the heater in LK-2 Complex, Atmospheric Distillation Unit which was one of the major projects of the efficiency improvement program. 71.6 million LTL was spent for KT 1/1 Complex pre-modernization works.

In 2006 large amounts were invested to restoration of the production units when liquidating the consequences of October fire accident: 29.1 million LTL was spent for renovation of

Vaccum Block of the Bitumen Unit, 5.1 million LTL was spent for restoration of FCC Vacuum Distillation Unit, 16.8 million LTL was allocated to replacement of Būtingė Terminal SPM Buoy to liquidate the consequences of incident on December 29, 2005.

Oil Terminal

The Oil Terminal was built at the Baltic Sea as a supplemental source of crude oil supply to Lithuania, also, for the purpose of crude oil export to Europe. While designing the Terminal it was anticipated to export 8 million tons of crude oil and import another 6 million tons of crude oil through the Terminal every year. From 2003 the export/import capacity of the Terminal was increased to 14 million tons per year.

Up to the end of July, 2006 the Terminal was used for crude oil export. After suspension of crude oil supply by pipeline via Russia the Group started using own oil terminal for import of crude oil intended for refining.

Within seven months of 2006 2.9 million tons of crude oil were exported via Būtingė Terminal. At the end of July, 2006 the crude oil import via Būtingė Terminal was commenced. 2.9 million tons of crude oil was imported during this period.

Table 26.6. The Oil Terminal transportation volume and its dynamics over the past 3 years are given in the table below:

Description	2006	2005	2004
	thous.t	thous.t	thous.t
Crude oil (export)	2927.9	6 126.9	7 242.6
Crude oil (import)	2960.5	-	-

Pipeline Operator

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

Before suspension of crude oil supply by pipeline via Russia in July, 2006 the Pipeline Operator used to transport crude oil to the Refinery and Būtingė Oil Terminal and the diesel fuel to Ventspils Terminal (Latvia). From August, 2006 only diesel fuel is transported to Ventspils Terminal. Suspension of crude oil supply by Druzhba pipeline caused 28.1% lower transportation volumes by Biržai pipeline, if compared to the previous year, and was 14.5 million tons. While diesel fuel transportation volumes to Ventspils increased by 22.0%.

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

	2006		2005		2004	
	thous.t	structure ,%	thous.t	structure ,%	thous.t	structure ,%
Crude oil						
to Mažeikiai	4993.45	34.3	8 528.3	30.7	7 013.8	35.7
to Ventspils						
to Būtingė	2856.9	19.7	6 214.0	42.2	7 106.4	36.1
Total:	7850.35	54.0	14 742.2	72.9	14 120.2	71.8
Diesel fuel						
Total:	6690.35	46.0	5 484.7	27.1	5 547.3	28.2
TOTAL:	14540.7	100.0	20 226.9	100.0	19 667.5	100.0

Retail (filling-station) Network Operator

From the very beginning of its establishment the Company is engaged in retail trade of the petroleum products and industrial retail trade. The Company's filling-stations operate under the trademark of VENTUS. As of the end of 2006 the number of full service own filling-stations operating under the above trademark was 25 (in June, 2006 four unprofitable and not perspective filling-stations were sold, two new ones were acquired and two – reconstructed) and 9 ones operating under franchise.

In VENTUS filling-stations the customers may purchase not only fuel but also various goods in the filling-station shops. The shops offer the customers various actions, snacks and hot meals, the range of goods and services is continuously being updated. As of the end of 2006 six filling-stations were equipped with the vehicle washing facilities.

In 2006 72.9 million litres of fuels, i.e. 46% more than in 2005 were sold in VENTUS filling stations. The shop sales increased by 32.5% if compared with the year 2005. The Company's sales from the operating activities amounted to 173.5 million LTL, this is the increase by 47,2% if compared to the year 2005. The main reason of revenue increase is larger volumes of fuel sales and higher prices thereof.

Table 26.8. AB Ventus Nafta sales volume and its dynamics over the past 3 years are given in the table below:

Description	2006	2005	2004
	thous. litres	thous. litres	thous. litres
Gasoline A-80	-	-	44.1
Gasoline A-92	2 500.5	2 927.8	3 148.5
Gasoline A-95	14 545.1	12 905.5	10 989.9
Gasoline A-98	658.9	535.7	369.7
Diesel fuel	29 858.2	21 447.6	16 538.5
LPG	15 388.9	11 844.9	7 362.1
Total:	62 951.7	49 661.6	38 452.9

Increase in sales was resulted from flexible discount system to the Company's customers, actions to promote sales to the final user, activities of the card section intended for attraction of new business customers, advertizing.

To minimize fuel loss risk in 2006 a modern electronic fuel level measuring system and video monitoring system were being implemented in the fuel tanks of fillings stations of AB Ventus Nafta which is the Company’s subsidiary.

27. Sales markets

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

Product sales are executed via two channels:

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

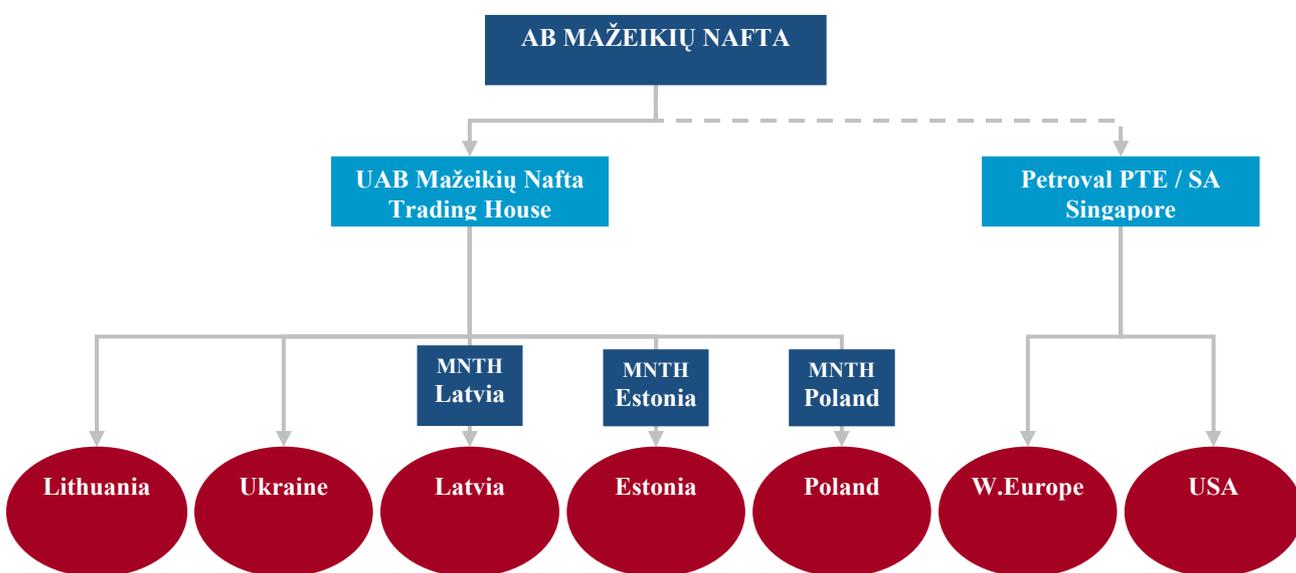


Figure 27.1 AB Mažeikių Nafta sales channels and markets

The highest profitability may be achieved by selling products in regional markets because this allows saving a part of transportation costs. Therefore the Company proceeded to expand sales in local markets. However, October 12, 2006 fire accident in FCC Vacuum Distillation Unit made considerable changes to AB Mažeikių Nafta sales capabilities. Light product export to the Western Europe considerably reduced while the fuel oil exports increased. Upon increase of diesel fuel and LPG demand, volumes of gasoline consumption in the regional markets reduced. It was impossible to satisfy the demand of some of the products therefore, they were imported.

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

Country	Volume of products sold					
	2006		2005		2004	
	thous.t.	structure ,%	thous.t.	structure ,%	thous.t.	structure ,%
GASOLINE						
Lithuania	287.2	12.1	334.1	12.6	331.4	13.5
Abroad:	2095	87.9	2308.9	87.4	2115.0	86.5
including: Latvia	235	9.9	246.8	9.3	262.0	10.7
Estonia	275.3	11.6	254.2	9.6	226.1	9.2
Russia	0.2	0.0			0.0	0.0
Ukraine	183	7.7	127.7	4.8	144.3	5.9
Belarus	0.2	0.0			0.0	0.0
Poland	25.3	1.1	57.0	2.2	107.6	4.4
W. Europe	1368.2	57.4	1611.2	60.9	1357.8	55.5
Other countries	7.8	0.3	12.0	0.5	17.2	0.7
DIESEL FUEL						
Lithuania	883.5*	34.7	821.9	26.8	649.6	23.1
Abroad:	1661.8	65.3	2245.7	73.2	2156.5	76.9
including: Latvia	260.3*	10.2	212.0	6.9	211.0	7.5
Poland	271.2	10.7	273.8	8.9	205.7	7.3
Ukraine	20.6	0.8	13.5	0.4	2.4	0.1
Estonia	234.4*	9.2	207.2	6.8	165.7	5.9
W. Europe	874.7	34.4	1538.2	50.1	1571.0	56.0
Other countries	0.6	0.0	1.0	0.0	0.8	0.0
JET FUEL						
Lithuania	54.1*	9.3	50.9	9.3	41.1	7.3
Abroad:	529.71	90.7	494	90.7	524.0	92.7
including: Latvia	66.2*	11.3	79.4	14.6	115.6	20.4
Estonia	34.1*	5.8	25.9	4.8	11.7	2.1
W. Europe	429.4*	73.6	388.7	71.3	369.7	70.2
Other countries	0.01	0.0	0.0	0.0	0.0	0.0
FUEL OIL						
Lithuania	180.1	9.8	147.7	9.5	211.5	13.4
Abroad:	1663.9	90.2	1409	90.5	1363.9	86.6
including: Poland			2.5	0.2	0.4	0.0
Latvia	2.1	0.1	3.6	0.2	0.8	0.1
W. Europe	1661.8	90.1	1402.9	90.1	1362.6	86.5
LPG						
Lithuania	184.3	45.6	219.7	48.5	216.4	0.5
Abroad:	219.9	54.4	233.6	51.5	238.2	0.5
including: Latvia	8.8	2.2	4.5	1.0	5.7	0.0
Estonia	0.8	0.2	0.3	0.1	0.0	0.0
Poland	210	52.0	228.8	50.4	232.4	0.5
Other countries	0.3	0.1	0.003	0.0		

* Including imported petroleum products

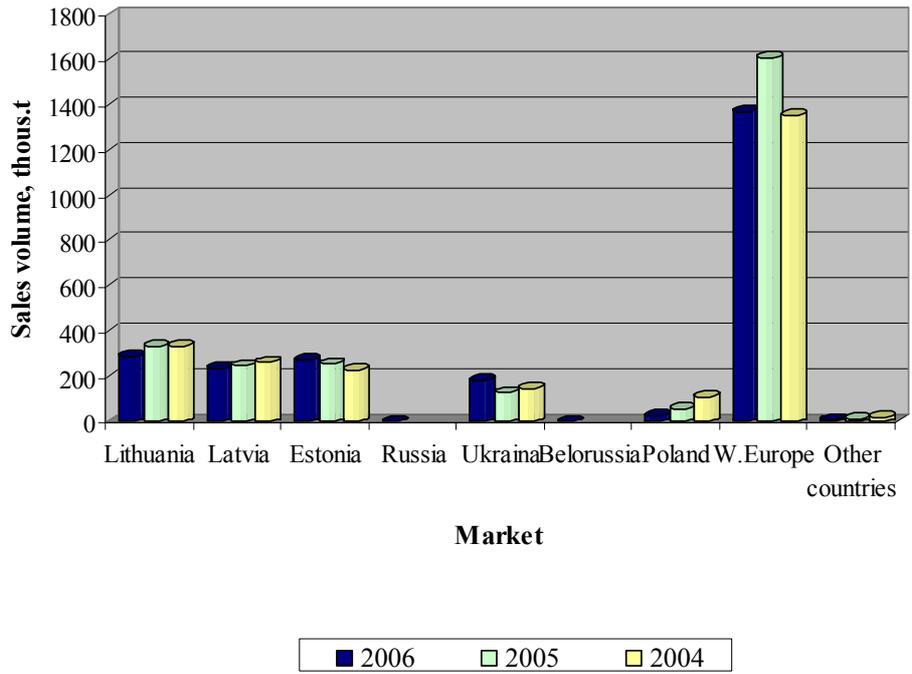


Fig. 27.1.1 Gasoline sales markets in 2004 – 2006

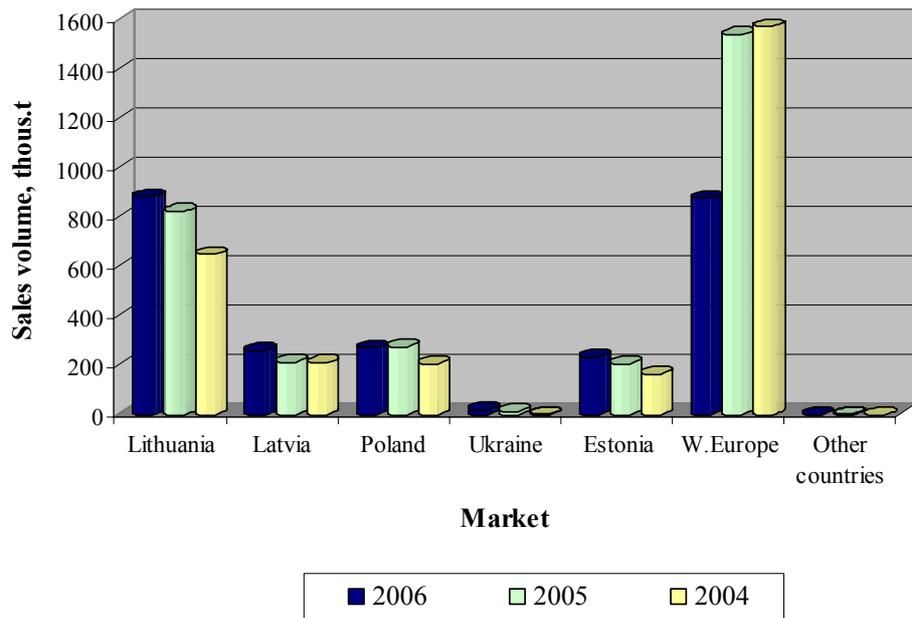


Fig. 27.1.2 Diesel sales markets in 2004 – 2006

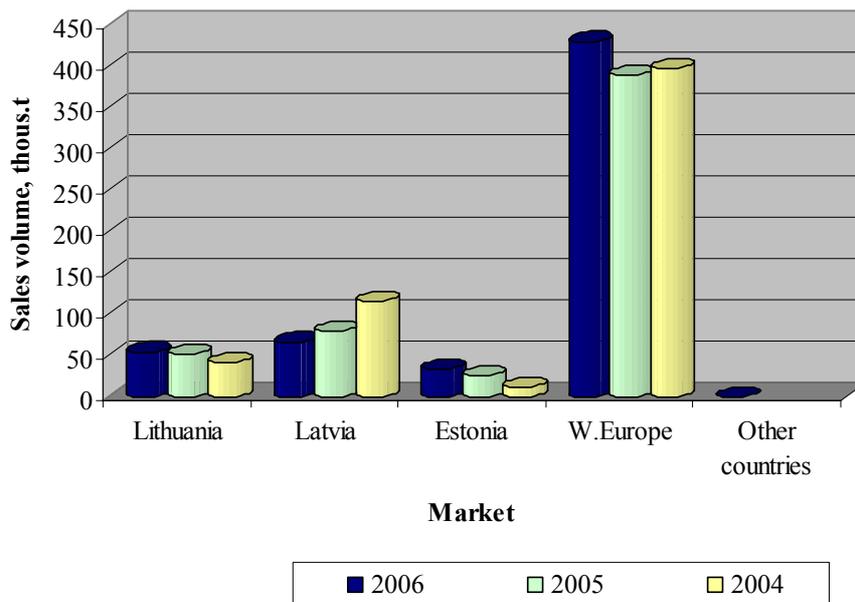


Fig. 27.1.3 Jet fuel sales markets in 2004 – 2006

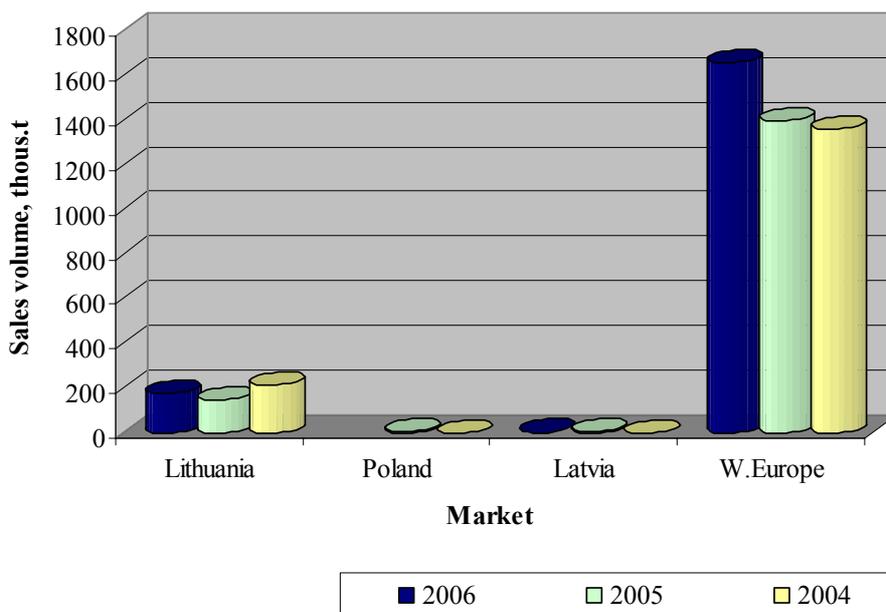


Fig. 27.1.4 Fuel oil sales markets in 2004 – 2006

28. Supply

In the year 2006 feedstock to the Refinery was supplied from Russia. From August, 2006 the crude oil supply by pipeline Druzhba was suspended therefore, the Company imported it through Būtingė Oil Terminal. About 60.8 % of the total quantity was supplied via pipeline Druzhba, 35.8 % - using waterway, 2.6% by railway in tank cars and 0.8 % - by trucks. 64.0 thous. tons of Lithuanian crude oil in 2006 was purchased from AB Geonafta.

Table 28.1. The main AB Mažeikių Nafta feedstock suppliers in 2006.

Supplier	Feedstock	Volume of supplies in 2006		Nature of relations
		thous.t.	%	
Glencore Energy UK LTD	crude oil	2584.0	31.28	short-term
Gunvor International LTD	crude oil	1718.2	20.80	short-term
Litasko	crude oil	1085.6	13.14	short-term
TNK Trade Limited	crude oil	936.0	11.33	short-term
Vitol	crude oil	868.6	10.51	short-term
Watherway Petroleum LTD.	crude oil	402.2	4.87	short-term
Petraco Oil Company LTD	crude oil	201.4	2.44	short-term
Unex Trade LTD	crude oil	187.6	2.27	short-term
BP Oil International LTD	crude oil	100.8	1.22	short-term
Belorusneft	crude oil	88.0	1.07	short-term
AB Geonafta	crude oil	64.0	0.77	short-term
SWS Handellsgesellschaft mbH	crude oil	24.9	0.30	short-term
Total of crude oil:		8 261.3	100.0	
Petroval PTE. LTD	alkylate	15.1	100	short-term
Total of alkylate:		15.1	100.0	
UAB Rapsoila	FAME	7.3	54.48	short-term
Energy Solutions SIA	FAME	2.2	16.42	short-term
UAB Legatina	FAME	0.2	1.49	short-term
MAMAS-D SIA	FAME	1.3	9.70	short-term
OVI Ltd.	FAME	0.6	4.48	short-term
Delta Riga SIA	FAME	1.8	13.43	short-term
Total of FAME		13.4	100.0	
Ipcos Trading SA	Vacuum gasoil	144.6	64.61	short-term
Petroval PTE, Ltd	Vacuum gasoil	31.5	14.08	short-term
TNK Trade LTD	Vacuum gasoil	47.7	21.31	short-term
Total of vacuum gasoil:		223.8	100	
Citco Waren-Handelsgesellschaft	MTBE	20.76	42.69	short-term
Petroval PTE. LTD	MTBE	27.87	57.31	short-term
Total of MTBE:		48.63	100.0	
Ortus	ethanol	2.19	37.06	short-term
AB Stumbras-AB Biofuture	ethanol	3.72	62.94	short-term
Total of ethanol		5.91	100.0	
Skelton Construction Estonia OU	Gas condensate	3,7	100	short-term
Total of gas condensate		3.7	100	
Total of feedstock:		8 571,8		

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

29. Immovable property and other main facilities

Table 29.1. The total area of the land plot leased by AB Mažeikių Nafta covers 1,266.8725 ha, including the following:

District	Total area (according to State Land Lease Contracts; ha)	Total area (according to Land Lease Contracts with private natural persons; ha)
Mažeikiai	1093,4406	68,77
Palanga	58,6846	
Biržai	17,649	0,0613
Joniškis	22,9358	
Other (Vilnius, Skuodas, Rokiškis, Zarasai, Akmenė, Pasvalys, Pakruojis)	5,0542	0,277

In addition, AB Mažeikių Nafta owns 0.5295 ha allotment in Skuodas district and three allotments of 0.0175 ha in total in Mažeikiai district.

Table 29.2. Location of the main divisions

Basic business divisions	Location/Unit	Design capacity, thous. tons
Oil Refinery	Juodeikiai, Mažeikiai distr.	10 000
Būtingė Terminal	Terminalo kelias 2, Palanga	14 000
Biržai Pipeline	Stačkūnai, Biržai distr.	34 700
Thermal Power Plant	Juodeikiai, Mažeikiai distr.	210 MW electrical energy 675 MW heat energy

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

Description	Balance Value, thous. LTL
Land and buildings	118 307
Mechinery and equipment	932 599
Other long-term tangible assets	103 576
Construction in progress	298 227
Total	1 452 709

29.4. Table. Main buildings, units and facilities

Description	Functional purpose	Balance Value, thous. LTL	Life, years	Condition
<i>Main buildings:</i>				
Main administration building of AB Mažeikių Nafta	Administrative	4 296	26	Satisfactory
Central Control Room Building	Administrative	4 503	18	Satisfactory
Administration building of Maintenance-Mechanical Shop	Administrative	2 431	28	Satisfactory
Administration Building of Būtingė Terminal	Administrative	5 284	10	Good
Administration Building of Biržai Pipeline	Administrative	859	28	Satisfactory
Engineering Block of Power Plant	Administrative	1 713	23	Satisfactory
Building of the Main Production Block of Power Plant	Production	7 849	27	Satisfactory
<i>Basic units and facilities:</i>				
Complex Unit LK-6 No.1	Oil network	53 435	26	Satisfactory
Complex Unit LK-6 No.2	Oil network	50 859	23	Satisfactory
Isomerization Unit PENEX	Oil network	120 834	3	Good
KT-1/1 (FCC Complex)	Oil network	36 471	17	Satisfactory*

Hydrogen Production Unit	Oil network	11 440	17	Satisfactory
Sulfur Production Unit	Oil network	25 274	26	Satisfactory
Bitumen Production Unit	Oil network	4 638	24	Satisfactory
LPG Farm	Oil network	10 024	26	Satisfactory
Tank Farm of Shipment/Storage Shop	Oil network	9 479	26	Satisfactory
Loading Rack Section of Shipment/Storage Shop	Oil network	60 700	26	Satisfactory
Būtingė Crude Oil Tank TK-101	Oil network	13 381	7	Good
Būtingė Crude Oil Tank TK-102	Oil network	13 381	7	Good
Būtingė Crude Oil Tank TK-103	Oil network	13 381	7	Good
Būtingė Crude Oil Tank TK-104	Oil network	12 432	2	Good
Būtingė Crude Oil Tank TK-105	Oil network	12 381	2	Good
Pipeline Polotsk-Biržai-Ventspils	Oil network	3 223	38	Satisfactory
Pipeline Polotsk-Biržai-Mažeikiai	Oil network	2 809	27	Satisfactory
Crude Pipeline Mažeikiai – Būtingė	Oil network	126 366	7	Good
Product Pipeline Ilukste-Biržai-Ventspils	Oil network	1 431	35	Satisfactory
SPM Buoy	Oil network	18 678	7	Good
Units and facilities of Power Plant	Heat and electrical energy production	17 587	21-27	Satisfactory

Note:

* During October 12, 2006 fire accident, part of Section S-001/1 of FCC complex including Vacuum Distillation Unit was demolished the restoration of which is scheduled for November, 2007.

Table 29.5. Major projects of construction in progress

Description	Functional purpose	Estimated cost, thous. LTL	Spent, thous. LTL	Scheduled completion date
FCC Hydrotreatment Unit	Oil network	142 510	110 324	2007 05
Replacement of Heaters KR-101, KR-101/1 at LK-2, S-100, Crude Unit with the new ones	Oil network	77 894	40 607	2007 11
Bitumen Unit restoration	Oil network	85 000	14 744	2007 02

30. Risk factors related to the Issuer's activity

Economic and financial risk factors

Business activities of AB Mažeikių Nafta are closely related to the foreign markets; therefore the Company faces significant risks associated with refining margins, prices of goods, rate of interest, credit and currency exchange risks. Risk management activities are executed by Company's Management in conformity with the written risk management policies.

Crude refining margin risk

This is the main risk effecting the Company's activity results. The Company is very sensitive to this risk. To reduce the crude oil refineries' margin risk the Company prepared the Modernization Program. The Program includes the number of projects to be implemented within a four year period in order to increase profitability per ton of crude oil refined.

Continuity of operation

The combined effects of the suspension of oil supply via the pipeline and the fire at the oil refinery had in 2006 and will continue to have in future a significant adverse effect on the Group's operations. However, the management believes that based on its actions and the Group's capital, financing and operating plans for 2007 and that the Company holds the property and business interruption insurance policies there is no reason for doubts regarding the appropriateness of the assumption of the ongoing operation.

Prices of goods risk

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

Credit risk

Financial instruments that potentially subject the Group to a concentration of credit risk consist principally of temporary cash investments and accounts receivable. Maximum exposure to credit risk is reflected in the carrying values of the financial assets; the effect of any rights of set-off is not significant.

The Group restricts placement of cash investments to financial institutions evaluated as highly creditworthy.

Concentrations of customers in the oil industry may impact the Group's overall exposure to credit risk, as these customers may be similarly effected by the changes in economic conditions. The Group has procedures in place to ensure on a continuous basis that sales are made to customers with an appropriate credit history and do not exceed an acceptable credit exposure limit established by the management. Management believes that there is no significant risk of loss to the Group beyond the provisions already established.

Cash flow and fair value interest rate risk

The Group's income and operating cash flows are substantially independent of changes in market interest rates. The interest rates of finance leases to which the Group is lessee are fixed at inception of the lease. These leases expose the Group to fair value interest rate risk. The Group's cash flow and fair value interest rate risk arises from long-term borrowings. Borrowings issued at variable rates expose the Group to cash flow interest rate risk. Borrowings issued at fixed rates expose the Group to fair value interest rate risk.

Liquidity risk

Prudent liquidity risk management implies maintaining sufficient cash, the availability of funding through an adequate amount of committed credit facilities. The Group aims to maintain flexibility in funding by keeping committed credit lines available.

Currency exchange risk

The Group operates internationally and is exposed to currency exchange risk arising from various currency exposures, primarily with respect to the Polish Zloty and Lithuanian Litas. Currency exchange risk arises from future commercial transactions, recognized assets and liabilities and net investments in foreign operations.

The Group has a currency exchange risk management strategy that utilizes derivatives to reduce its exposure to unanticipated fluctuations in cash flows derived from sales to Poland caused by changes in foreign currency exchange rates.

Occasionally the Group uses forward and options contracts to manage their currency exchange risk arising from future commercial transactions, recognized assets and liabilities. Currency exchange risk arises when future commercial transactions, recognized assets and liabilities are denominated in a currency that is not the entity's functional currency.

Crude oil supply risk

In February 2005 crude oil supply to the Group was suspended by Yukos Group, which was the Company's major shareholder by December 15, 2006 and later on its main crude oil supplier based on long-term supply contracts. The management has taken steps to ensure the continuity of supply by signing agreements with several separate oil suppliers as a consequence 8.2 million tons of crude oil were delivered to the Refinery during 2006 (while in 2005 it was 9 million tons).

Although the Company was dependent on the supply of crude oil via the pipelines carrying oil through the territory of Russian Federation, it does have the possibility of importing crude oil through its oil import-export terminal in Būtingė. At the end of July, 2006 the crude oil supply by pipelines to the Company was suspended and the Company continued its activities by importing the crude oil through Oil Terminal.

On January 5, 2007, the Company signed the Agreement with PKN ORLEN granting PKN ORLEN the exclusive right for the crude oil supply to the Company. The contract signing is associated with centralization of crude oil purchases in PKN ORLEN Group. The Agreement has been concluded for an indefinite period.

Risk of arrears

For circulating funds and to finance its activities, the Company has received a number of loans from the local as well as foreign creditors (See the table below). Despite constant decrease in total value of loans recently, the level of indebtedness continues to be high enough. Nearly all the Company's credits are in USD. In February 2002, the Government of the Republic of Lithuania unpegged the Litas from the US dollar and pegged to the Euro. Throughout 2006, the US dollar rate was going down in respect to the Euro and this had a positive impact on the financials of the Company and lead to reduction of accounts payable.

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

Table 30.1. Information on the status of long-term loans of Mažeikių Nafta Group as of December 31, 2006.

Lender/purpose	Currency	Interest rate	Maturity date / repayment terms	Balance, thous. LTL
Working capital finance				
Government of the Republic of Lithuania*	USD	7 %	31.07.13 semi-annually	759 995
AB Vilniaus Bankas	USD	3 month LIBOR +1.1%	2013.07.31 semi-annually	197 280
Government of the Republic of Lithuania	EUR	4.95 %	15.04.11 semi-annually	3 058
Investment program				
AB Vilniaus Bankas	USD	3 month LIBOR +1.1%	31.07.13 semi-annually	197 280
Investment in the Oil Terminal				
AB Hansabankas	USD	6 month LIBOR+0.9%	By 31.01.09 semi-annually	20 766
Investment in petrol stations				
AB Bank <i>Snoras</i>	LTL	3 month LIBOR+1.62%	By 31.08.11 semi-annually	5 832
Total long-term loan				1 184 211

* The repayment of loans shall begin in 2009

Certain contractual liabilities, such as an exclusive use of loans and restricted ability of the management to pledge, mortgage or sell the assets, the acquisition of which was financed by loans, throughout the duration of the loan agreements without the lenders' approval, shall apply to outstanding loans as of 31.12.06. The management believes that the Group has observed these contractual liabilities.

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

Credit limit agreements of AB Mažeikių Nafta effective as of 31.12.06 are as follows:

1. On March 30, 2006, AB Mažeikių Nafta concluded the Guarantee and Letter of Credit Limit Agreement with AB SEB Vilniaus Bankas and the Scandinavian Enskilda Banken AB (SEB). The object of the Agreement - 112.5 million USD, within the scope of which AB Mažeikių Nafta may issue letters of credit and guarantees. The expiry date of L/Cs and guarantees shall not extend beyond July 1, 2007. Every time the Company opens an L/C (issues a guarantee), it shall deposit (place a time deposit) of not less than 25 percent of the L/C (guarantee) value to be opened upon application. Instruments assuring the fulfilment of AB Mažeikių Nafta undertakings are as follows: inventory (crude oil, diesel fuel, jet fuel, bitumen, gas, fuel oil) pledge under pledge/mortgage bonds, total value of which is not less than 110 million USD.

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

2. On June 23, 2006 the Arrangement No. 14 to the Agreement No. 100081-003-08 of September 23, 2004 was concluded with Bayerische Hypo –und Vereinsbank AG, Vilnius Branch. The object of the Arrangement is the limit of 350 million USD within the scope of which AB Mažeikių Nafta is entitled to open letters of credit with expiry date which shall not extend beyond July 31, 2007. Inclusively, the L/C amount of up to 90 million USD may not be repaid using AB Mažeikių Nafta funds, however it shall not exceed 70 percent of the funds securing the fulfilment of the undertakings. The fulfilment of the obligations of this Arrangement shall be secured by the transfer of monetary rights to claim the funds receivable (according to the Petroleum Product Sales Agreement concluded with the agent Petroval PTE LTD) to the bank.

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

3. On September 29, 2006 Supplemental Agreement No. DCP 06/09/09 to 30/09/2005 General Agreement No. DC 05/08/01 for opening of L/Cs was signed with Nordea Bank Finland Plc. The Agreement entitles AB Mažeikių Nafta to issue L/Cs in the maximum amount of 300 million EUR or equivalent amount of the other currency with the expiry date not extending beyond August 31, 2007. AB Mažeikių Nafta reserves the funds up to 25% of L/C or guarantee value, however, the portion of L/C and guarantee limit amount not covered by the deposit pledged must not exceed 40 million EUR. The fulfilment of the obligations hereof shall be secured by the pledge of the funds reserved on time deposit by concluding a Deposit Pledge Agreement between AB Mažeikių Nafta and the bank. The pledge term shall be no shorter than the L/C expiry term plus 10 calendar days.

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

4. On October 17, 2006 Agreement No. 05-057569-KL-2 re amendment and supplement of 24/10/2005 Credit Line Agreement No. 05-057569-KL was signed with AB Bankas Hansabankas. According to this Agreement the bank grants a credit line of 60 million USD. Credit purpose – opening and management of L/Cs for settlements for crude oil. The L/C expiry date – October 17, 2007 (inclusively). The fulfilment of the obligation shall be secured by means of: a) a pledge of rights to claim the funds receivable (according to Supply Agreements between AB Mažeikių Nafta and the buyers acceptable to the bank) under the mortgage bond; b) a pledge of all existing and future funds in AB Mažeikių Nafta account with AB Hansabankas, the sum of which does not exceed the credit amount, under the mortgage bond.

Until the L/C payment date, the Company shall pay the obligation charge of 1.45 % of annual interest to the bank for credit utilization. Annual interest rate of the credit after the L/C payment term – 3 months USD LIBOR + 1.5 percent.

On December 17, 2004 Guarantee Limit Agreement No. 04-057018-JL was signed with AB Bankas Hansabankas for the guarantee limit in the amount of 12 million LTL. On June 27, 2005 Agreement No. 04-057018-JL-2 re amendment of 17/12/2004 Guarantee Limit Agreement No. 04-057018-JL was signed. According to this Agreement the bank grants a guarantee limit of 13.8 million LTL. The limit has been used for guarantee issue to STI and Ministry of Environment of the Republic of Lithuania. This Agreement includes the annual interest at a rate of 0.55% applicable for the guarantees.

5. On January 30, 2006 an Agreement on the Limit of Financial Liabilities No.1079-05FI was signed with AB Bankas DnB NORD. According to this Agreement the bank grants a credit line of 29 million USD. The purpose of the credit – circulating funds and opening of letters of credit and fulfilment thereof. The expiry date of the financial obligation line of November 30, 2007 (inclusively). The fulfilment of the obligation shall be secured by means of: monthly circulation (by AB Mažeikių Nafta) of 30 million USD via the accounts held with DNB NORD.

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

Social risk factors

As Lithuanian economic leader AB Mažeikių Nafta aims to steer also in the areas of corporate social responsibility that has affect not only on the Company's operating results but also contributes to improving the quality of living of AB Mažeikių Nafta employees and their families as well as the community of Mažeikiai, Biržai and Palanga counties and the entire Lithuania.

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

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

AB Mažeikių Nafta is obliged to implement business procedures and practices and directs its endeavours to business fairness and integrity, focus on business ethics, environment, health and safety at work standards complying not only with legal requirements but also with social, economic and environmental-role expectations of the community, customers, shareholders, state government and society.

Principles of social policy:

- AB Mažeikių Nafta takes care of the community.
- AB Mažeikių Nafta is capable and must contribute to positive changes in Lithuania.
- AB Mažeikių Nafta, applying the world's best social investment practices, prepares its own social programs.
- AB Mažeikių Nafta social policy constantly contributes to solving social issues and seeking business goals.

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

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

AB Mažeikių Nafta employees do not encounter problems related to timely disbursement of remuneration, salaries are always paid on a timely basis, twice per month. Should the Company confronts the above mentioned risks, there is no refutation that the problem would arise.

Technical and technological risk factors

The fire, which took place in the Refinery on October 12, 2006, tore down the vacuum distillation unit used for production of light petroleum products. After the fire, through to the end of the first stage of the reconstruction plan in February, 2007, the Refinery was operating at its half capacity. The first stage of the reconstruction plan was over in February, 2007, when the old vacuum distillation tower (after it was revamped), previously taken out of operation, was started. The revamped tower is capable of processing approximately 50 per cent of the quantity the fire-damaged unit could process. Subject to the management's calculations, restoration of the full capacity might take 12 to 14 months. The Company has its

assets insured and hedged against the risk of suspension of the refining process on the international insurance market via the insurance broker AON Limited in London. The assets are insured for their replacement cost. The Company has civil liability insurance taken out on international insurance market too.

In 2006 the Company proceeded with the Modernization Program implementation. The Program anticipates all required measures upon implementation of which the production of the Refinery will comply with EU product quality requirements and increasingly stringent environmental requirements for emissions. Having failed to perform modernization works in full, there is a risk that the products may not comply with EU product quality requirements and lose competitiveness.

Ecological risk factors

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

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

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

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

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

Planning. The Company has to determine the so-called environmental aspects specific to its field of activity, i.e. elements of products or services subject to environmental impact. This

requires environmental impact estimation of Company's activities, material used, on-going technological processes and waste. Thus the factors significantly affecting the environment are determined and environmental objectives and tasks are set.

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

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

Analysis of system operation. The information about the environmental management system operation and environmental indicators compliance shall be compiled on a periodical basis. With reference to this information and aiming for higher efficiency, the decisions may be made regarding amendment of environmental protection policy, objectives or other system elements.

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

In 2006, investment into environmental protection amounted to 14,975.9 thous. LTL and 16,990.0 thous. LTL were allocated to operating expenditure.

An ecological aspect prevails in basically all modernization projects. Upon EU requirements coming into effect, the situation regarding refining waste has changed. Today the waste accumulation is not allowed any more, it must be recycled immediately. Such production waste includes the crude sludge resulted from cleaning the waste water of the refinery and collected spilled petroleum product. In 2006 the state commission signed the Transfer-Acceptance Act of the expanded soil contaminated with petroleum product regeneration site. The expansion of the site does not only mean its expanded area. UAB Biocentra's modified technology of cleaning the soil contaminated with petroleum products allowed increasing the capacity of the expanded site up to 12 000 tons of soil per year. While the capacity of the old site was only 2 000 tones per year. This will enable more rapid cleaning of the sludge which the sludge has been accumulated since the refinery start-up.

In 2006 AB Mažeikių Nafta implemented the following environment protection measures to reduce the Company's negative impact to the environment:

In 2006 a new emission treatment facility - vapor recovery unit - was started up in the petroleum product loading terminal.

Low-NOx burners were installed in Heater 20 Kr-1 of Sulfur Unit.

Stage I of clean-up of soil and underground water contaminated with petroleum products was commenced in the current year.

In 2006 1.76 km of potable water piping was replaced with the polythene one in the Company territory, the Environmental Laboratory was provided with some new equipment.

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

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

AB Mažeikių Nafta is open to the public and welcomes delegations from state enterprises of Lithuania and foreign states.

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

In 2006, the Oil Refinery did not experience shutdowns due to the feedstock shortage.

32. Patents, licenses, contracts

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

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

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

Description	2006 12 31	2005 12 31	2004 12 31
Cost price	50 767	41 910	35 506
Accumulated amortization	(31 102)	(30 514)	(23 629)
Residual value at the end-of-period	19 665	11 396	11 877

33. Judicial Actions and Third Party (Arbitration) Proceedings

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

BUAB Klevo Lapas on the above specified grounds has lodged a civil claim in the court, the amount of which as of December 31, 2004 was equal to 741 thous. LTL. This claim, as per individual assessments of the representative of the plaintiff, can be increased to 7500 thous. LTL. Yet, the potential final amount mostly depends on the results of the investigation prescribed by the court. An additional court-ordered investigation of the amount of loss incurred by BUAB Klevo Lapas is still in progress.

In case of the court's ruling to the Company's disadvantage, the financial position of the Company would not be substantially affected on the account that the court had satisfied the Company's claim for BUAB Klevo Lapas liability of 5 298 thous. LTL for the supplied petroleum products. The respective court ruling regarding defendant's insolvency has not been implemented.

In the financial year of 2003 a civil claim was lodged against the Company by a natural person requesting 400 thous. LTL for using of certain technological process upgrade, implemented in the Refinery in 1995 and licensed in accordance with the laws of the Republic of Lithuania, in 1998. In a court of first instance the claim was rejected, the claim of the plaintiff is being investigated under the appeal procedure. Currently the repeated court-ordered expertise is in process.

In case of the court's resolution to the Company's disadvantage, the Company may expect other claims on similar grounds. Given that the mentioned upgrading, including some related innovations implemented under two patents issued compliant with laws of the Republic of Lithuania, was invented by the group of 7 to 9 co-authors and that analogous claims were made to the Company over the period of 1996-2001 (though not adjudicated in the court), the total claimed amount with reference to the unilateral assessments in the mentioned claims by the potential plaintiffs is likely to make 14000 thous. LTL. The Company disallowed these claims as ungrounded.

The Company acted as a civil plaintiff in a penal case submitted to the court in an attempt to recover 6 556 831, 32 LTL unpaid by company Porcol Trading Ltd for the petroleum products supplied. The hearing of the case and award of the claim would entitle the Company to demand payment of the said amount from the defendants. The penal case is still being adjudicated into.

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

On December 27, 2006 the Company brought a suit against RESORT MARITIME SA, THE LONDON STEAM-SHIP OWNERS' MUTUAL INSURANCE ASSOCIATION LIMITED (the London P&I Club), SIGMA TANKERS INC, CARDIFF MARITIME INC., HEIDENREICH MARINE and HEIDENREICH MARITIME INC, HEIDMAR INC. (the list of the defendants may be subject to amendment) to Klaipėda District Court for the preliminary amount of 72 775 589 LTL to cover the damage incurred during 29/12/2005 Būtingė Oil Terminal accident – after the tanker collision with SPM Buoy. The case handling has not been commenced yet.

The Company attended other trial procedures throughout the financial year 2006, however the results of these trials have never had and/or will not have a substantial effect on the financial position of the Company.

34. Personnel

The Company's employees were and still remain its most important asset. Diligent and conscientious work of our employees was one of the fundamental factors in our success. As of December 31, 2005 the Company had 3276 employees employed. As of December 31, 2006 this number increased to 3495. In 2006 the number of natural wastage of the employees was 44, however on December 29, 2006 AB Mažeikių Elektrinė having 263 employees joined AB Mažeikių Nafta. This resulted in total increase of the number of employees by 219.

Table 34.1. Average number of the staff enrolled

Division	2006	2005	2004
Mažeikiai Oil Refinery	3192	3161	3240
Pipeline and Terminal Operations Division	175	197	211
AB Mažeikių Nafta	3367	3358	3451

In 2006 141.0 million LTL was expended for salaries. During this year an average monthly salary in the Company increased by 1.4 percent and amounted to 3528 LTL, while an average monthly salary of a worker was 3000 LTL.

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

Division	2006	2005	2004	Increase (decrease) comparison 2006-2005, %
Mažeikiai Oil Refinery	3520	3467	3188	1.5
Pipeline and Terminal Operations Division	3651	3653	3351	0
AB Mažeikių Nafta	3528	3478	3198	1.4

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

Category	Number enrolled		Educational Background										Avg. monthly compensation, LTL	
			university		college		vocational		secondary		secondary (not completed)			
	2006	2005	2006	2005	2006	2005	2006	2005	2006	2005	2006	2005	2006	2005
Managers	375	332	268	239	85	70	9	7	13	16	-	-	6609	6404
Specialists	670	657	404	346	198	246	28	24	40	41	-	-	3878	3790
Clerks	79	87	14	14	15	30	20	19	30	24	-	-	2738	2781
Workers	2371	2210	81	100	564	541	822	740	845	788	59	41	3000	2986
Total:	3495	3286	767	699	862	887	879	790	928	869	59	41	3528	3478

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

One of the most important trends of the Company policy is improvement of employees' qualification.

The Company holds the licence issued by Ministry of Education and Science of the Republic of Lithuania to train the employees according to 33 labour market professional training programs. Twenty two programs are related to safety training and eleven programs - to the professional qualification. Eighty eight employees attended the training according to these programs.

Occupational Medical Center performed the first aid training and hygienic training. 193 employees of the Company passed these trainings and obtained Health Knowledge Certificates.

Since employee training and professional development is a very important issue to the Company, it allocated funds for training premise arrangement as a consequence the Training Center equipped with the advanced training appliances was opened in 2006. It contains 4 training rooms, two of which are computerized.

AB Mažeikių Nafta was one of the first business enterprises of Lithuania which in 2005 started implementation of EU funded project *Development of Labour Force Competencies and the Ability to Adapt to Changes* in accordance with the measure of the Single Programming Document. The implementation of Project Program of Professional Competency Development for Current and Potential Managers was still in progress in 2006. While implementing this program 362 employees participated in the business ethics, English language improvement, oil refinery technological process management and improvement training modules. The project was successfully implemented. The financial support of over 372 thous. LTL was received from the Republic of Lithuania and European Union.

Collective Bargaining Agreement

On June 16, 2006 AB Mažeikių Nafta signed a new Collective Bargaining Agreement which will remain effective until the end of 2008.

The new Collective Bargaining Agreement enforces continuity of the previous undertakings of the Company regarding the compensations, social benefits and guarantees to the employees, it also includes the new compensation policy oriented to the labour market the basic principle of which is to assure the internal fairness and external competitiveness of the compensation. Based on above the Company committed to participate annually in research of Lithuanian salary market and assure the base salary to be at least equal to that of Lithuanian salary market median. When increasing the employees' salaries three major factors will be considered: work efficiency, inflation and changes in Lithuanian labour market.

The Major Guarantees and Social Benefits for Employees under Collective Bargaining Agreement

At the end of each calendar year the annual performance bonus amounting up to 3 (three) base monthly compensations is paid to employees for the Company performance results. The above annual bonus is paid starting from 2006 and its specific amount is subject to the Company performance results and is established based on the forecasted Company's net profit estimated following the international accounting standards.

For up to one month idle time not due to employee's fault average compensation is paid, for more extensive idle time period the compensation is estimated as established by the laws.

Increased annual vacation pay is applied to the Company employees (except for the ones working under the secondary job or temporary or seasonal employment contracts and the ones working for the Company for less than 11 (eleven) months) by paying a one-time bonus in the amount of 900 (nine hundred) LTL once per calendar year. Such one-time bonuses shall be paid to every employee before his/her annual vacation or, in case of partial vacation, before the major part of vacation which must extent at least 14 days.

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

Apart from the cases provided by law, the priority among employees of sufficient tenure to keep a job upon downsizing shall be granted to employees who have no more than 5 years left until their retirement age, provided they have served the Company for no less than 10 years

successively, and provided that their qualification and performance is no lower than the same of other employees who are performing the same kind of work.

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

- Service period of up to 5 years – 6 (six) average salaries;
- Service period from 5 to 10 years – 9 (nine) average salaries;
- Service period greater than 10 years – 12 (twelve) average salaries.

The Company allocates funds for the dismissed employees' re-training or acquisition of new skills which the funding does not exceed 5,000 (five thousand) LTL per employee to pay the amounts associated with the training under the training programs selected by the employees and held within the notification period established by laws.

When terminating the Employment Contract in cases of inability to work as approved by medical commission (except for the accidents that are not work-related), and if there is no other work in the Company fit to that employee, severance payment, greater than that provided by laws, are paid taking into consideration the continuous service period at the Company:

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

Employees who by the law are provided a shortened work time are paid as for a full workday. The base salary/hourly salaries for employees working a shortened day is established at a higher rate (1.1 coefficient rate).

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

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

The Company makes available free transport for employees going to/from work, taking the following routes: Mažeikiai-Juodeikiai, Klaipėda/Palanga-Būtingė, Biržai-Stačkūnai, and Joniškis-Valiūnai.

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

- For 5 years of service the employee receives one day off with pay;
- For 10 years of service the employee receives 500 LTL;
- For 15 years of service, the employee receives 1000 LTL;

- For 20 years of service the employee receives 2000 LTL;
- For 25 years of service the employee receives 3500 LTL;
- For 30 and 35 years of service, the employee receives 5000 LTL.

An employee who has 1 (one) year until or reaches his/her retirement age terminates his/her employment contract at his/her request within one month of retirement age date (or all contracts, if such existed) shall be paid, considering his/her uninterrupted service in the Company, the following severance payments:

- from 5 to 10 years of uninterrupted service – 4 (four) average monthly salaries;
- from 10 to 20 years of uninterrupted service – 6 (six) average monthly salaries;
- uninterrupted service period greater than 20 year – 9 (nine) average monthly salaries.

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

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

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

The Company provides free medical services and apply preventive and rehabilitation measures for health recovery and improvement in the Occupational Medical Center of the Company within the limits of licenses held by the Company and according to Lithuanian standards for provision for first aid and emergency medical care, including free dental services.

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

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

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

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

- Illegal possession of weapons, ammunition and explosives in the Company territory or attempting to bring them into the territory without a special permit;
- Any possession and/or distribution of drugs or other intoxicating substances in the Company territory;

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

In order to preclude the possibility of any conflict of personal and corporate interests, the Administration officials shall declare their and their family members' shares, interests, as well as other personal interests in any entities (enterprises), which do business with the Company and which may involve cooperation with a respective employee based on the nature of his/her activities, including, without limitation, adoption of business decisions with respect to such entities (enterprises).

Individuals/employees that have links of relationship or are brothers and sisters-in-law (parents, stepmothers and stepfathers, spouses, brothers, sisters, children, adoptees, sons-in-law, daughters-in-law, nieces, nephews as well as parents, brothers and sisters of the spouses) can not be directly subordinate to each other. Individuals/employees that have close links of relationship (parents, stepparents, spouses, brothers, sisters, children, adoptees, sons-in-law, daughters-in-law) are not allowed to perform the work that is related to their direct as well as indirect subordination to each other.

35. Investment policy

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

On January 18, 2006 liquidation procedures were accomplished and the liquidated UAB Biržietiška Aibė was excluded from the Register of Legal Entities of the Republic of Lithuania.

Based on the Terms of Reorganization prepared on October 28, 2006, AB Mažeikių Nafta and AB Mažeikių Elektrinė have been reorganized pursuant to Article 2.97(3) of the Civil Code of the Republic of Lithuania by way of merger of AB Mažeikių Elektrinė, wound up as a legal person after reorganization, into AB Mažeikių Nafta continuing its activities after reorganization. After reorganization closing on December 28, 2006, the authorized capital of the Company was increased from 707,454,130 LTL to 708,821,122 LTL. Upon exchange of the shares issued by AB Mažeikių Elektrinė for the shares of AB Mažeikių Nafta, continuing its activities after reorganization, at the exchange ratio of 0.859757 share of AB Mažeikių Nafta against 1 share issued by AB Mažeikių Elektrinė, and allocation of the newly issued

shares of AB Mažeikių Nafta pursuant to the principles of shares allocation provided for in the Terms of Reorganization, the shareholders of AB Mažeikių Elektrinė became entitled to 1,366,992 ordinary registered shares of AB Mažeikių Nafta with a nominal value of 1 LTL each.

Table 35.1. Enterprises having more than 30 percent of AB Mažeikių Nafta stake in their authorized capital as of 31.12.06

Company	UAB Juodeikiu Nafta under liquidation	UAB Uotas under liquidation	AB Ventus-Nafta	UAB Mažeikių Nafta Trading House	Lithuanian-French joint venture UAB Naftelf
Registered office	Juodeikiai, Mazeikiai District	Skuodo g. 14, Mazeikiai	J.Jasinskio g. 16B, Vilnius	J.Jasinskio g. 16A, Vilnius	Šeimyniškių g.22, Vilnius
Nature of activity	Under liquidation, operation interrupted	Under liquidation, operation interrupted	Retail trade in petroleum products	Agency services	Retail and wholesale trade in fuels
Authorized capital (LTL)	1 385 000	107 800 000	53 328 500	7 060 000	12 000 000
Unpaid AB Mažeikių Nafta portion in authorized capital	-	-	-	-	-
2006 Net Profit (loss) (LTL)	(703 248)	(95 581 816)	(167 103)	9 122 205	352 563
Ratio of current liabilities and current assets	0,188	0,814	0,99	0,489	0,026
Ratio of total liabilities and total assets	0,188	0,814	0,28	0,207	0,018
Type and class of shares held by AB Mažeikių Nafta	ORS	ORS	ORS	ORS	ORS
Number of shares held by AB Mažeikių Nafta	13 850	107 800	5 257 796	7 060 000	4 080
Nominal value (LTL)	100	1000	10	1	1000
Percentage of voting shares by the right of ownership held by AB Mažeikių Nafta	100 %	100 %	98.59 %	100 %	34 %
Percentage of AB Mažeikių Nafta votes alongside with associates	-	-	-	-	-
Dividends paid by AB Mažeikių Nafta in 2006 (LTL)	-	-	-	10 000 000	-
Loans granted to companies by AB Mažeikių Nafta in 2006 (LTL)	-	-	-	-	-
Loans granted to AB Mažeikių Nafta by companies in 2006 (LTL)	-	-	-	-	-
Characteristics of debt securities acquired by AB Mažeikių Nafta	-	-	-	-	-
Total nominal value of debt securities acquired by AB mažeikių nafta (LTL)	-	-	-	-	-

36. Competitors

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

37. Dividends paid

Year	Dividends paid (LTL)	Amount of dividend per share (LTL)	Weight in nominal value of share (%)
1995	-	-	-
1996	-	-	-
1997	9 000 000	0.1539	1.539
1998	-	-	-
1999	-	-	-
2000	-	-	-
2001	-	-	-
2002	-	-	-
2003	-	-	-
2004	-	-	-
2005	247 608 946,00	0.35	3.5
2006	-	-	-

On April 27, 2007, during the Ordinary General Meeting of Shareholders of AB *Mažeikių Nafta* a resolution was passed whereby it was decided not to pay the shareholders the dividends when appropriating the profit of 2006.

V. FINANCIAL STANDING

38. Financial statements

2006 Financial Statements of AB Mažeikių Nafta and its subsidiaries are prepared in accordance with the International Financial Reporting Standards (IFRS). Consolidated financial statements in litas are prepared on the basis of consolidated financial statement in US dollars which is the Company's functional and presentation currency.

38.1. Consolidated Balance Sheets (thous. LTL)

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

	2006 -12 - 31	2005 -12 - 31	2004 -12 - 31
ASSETS			
Long-term assets			
Long-term tangible assets	1 509 174	1 481 336	1 261 702
Intangible assets	19 665	11 396	11 877
Goodwill	12 481	5 361	-
Investments in associated enterprises	3 848	3 672	3 386
Deferred income tax assets	94 957	60 798	42 184
Available-for-sale financial assets	-	3	51
Long-term receivables and prepayments	75 435	81 478	24 135
	1 715 560	1 644 044	1 343 335
Short-term assets			
Inventories	916 479	748 268	491 302
Trade-related and other receivables	246 932	420 836	347 661
Prepaid income tax	141 068	480	168
Cash and cash equivalents	1 147 859	1 856 164	997 881
	2 452 338	3 025 748	1 837 012
Long-term assets intended for sale	768	2 773	677
	2 453 106	3 028 521	1 837 689
TOTAL ASSETS	4 168 666	4 672 565	3 181 024
EQUITY			
Capital and reserves attributable to the Company's shareholders			
Authorised capital	708 821	707 454	707 454
Share premium account	295 548	283 040	283 040
Reserves	50 799	36 526	437
Accrued currency conversion adjustment	(229 580)	(30 716)	(211 052)
Non-appropriated profit	1 142 651	963 006	358 940
	1 968 239	1 959 310	1 138 819
Minority interest	697	2 433	1 739
Total equity	1 968 936	1 961 743	1 140 558
LIABILITIES			
Long-term liabilities			
Borrowings	1 184 211	1 321 452	1 180 865

Other long-term liabilities	23 250	24 754	12 634
Deffered provisions for other liabilities	6 458	32 949	-
	1 213 919	1 379 155	1 193 499
Short-term liabilities			
Trade-related and other payables	946 631	1 150 833	671 561
Income tax liabilities	4 222	107 325	135 053
Borrowings	18 134	28 555	30 294
Deffered provisions for other liabilities	16 824	44 954	10 059
	985 811	1 331 667	846 967
Total liabilities	2 199 730	2 710 822	2 040 466
TOTAL EQUITY AND LIABILITIES	4 168 666	4 672 565	3 181 024

38.2. Consolidated profit (loss) statement (thous. LTL)

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

	2006 -12 -31	2005 -12 -31	2004 -12 -31
Revenue from goods sold and services rendered	11 864 955	11 155 771	7 663 481
Cost of goods sold and services rendered	(10 960 665)	(9 302 596)	(6 124 239)
Gross profit	904 290	1 853 175	1 539 242
Other income	39 469	2 739	481
Selling and marketing expenses	(516 210)	(572 270)	(451 661)
Administrative expenses	(245 307)	(232 894)	(196 845)
Profit from operations	182 242	1 050 750	891 217
Revenue from financial activities	107 655	41 633	9 832
Financial activities expenses	(86 772)	(88 257)	(51 249)
Share of profit (loss) of associates	179	286	(453)
Profit before income tax	203 304	1 004 412	849 347
Income tax	(6 229)	(118 698)	(128 187)
Profit of the year	197 075	885 714	721 160
Profit for appropriation for:			
Shareholders of the Company	192 058	887 764	721 883
Minority interest	5 017	(2 050)	(723)
	197 075	885 714	721 160

38.3. Consolidated cash flow statement (thous. LTL)

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

	2006 -12 -31	2005 -12 -31	2004 -12 -31
Practised operating activities			
Cash flows from practised operating activities	1 236	1 538 651	880 592
Interest paid	(86 389)	(78 500)	(73 166)
Income tax paid	(278 566)	(170 057)	(1 196)
Net cash generated from operating activities	(363 719)	1 290 094	806 230
Investing activities			
Purchases of long-term tangible assets	(339 297)	(164 224)	(78 714)
Change in cash restricted for financing activities	-	28 399	36 637
Proceeds from sale of long-term tangible assets	5 743	1 414	7 512
Proceeds from sale of long-term assets classified as held for sale	3 606	587	-
Purchases of intangible assets	(2 478)	(2 552)	(1 817)
Revenue from sale of available-for-sale financial assets	-	48	644
Interest received	71 952	41 723	9 832
Acquisition of subsidiary, net of cash acquired	-	(16 466)	-
Acquisition of subsidiary from minority	-	(554)	-
Dividends received from associates	-	-	-
Other	-	-	44
Net cash flows from investing activities	(260 474)	(111 625)	(25 862)
Financing activities			
Credits raised	5 341	2 113	-
Credits repaid	(26 242)	(42 624)	(30 612)
Finance lease principal payments	(751)	(917)	(1 326)
Dividends paid to the Company's shareholders	-	(247 592)	-
Contribution of minority shareholders to the share capital of subsidiary	-	7	-
Net cash flows from financial activities	(21 652)	(289 013)	(31 938)
Net increase in cash and bank overdrafts	(645 845)	889 456	748 430
Cash and bank overdrafts at the beginning of period	1 856 164	969 282	300 092
Exchange gains (losses) on cash and bank overdrafts	(64 304)	(2 574)	(79 240)
Cash and bank overdrafts at the end of the period	1 146 015	1 856 164	969 282

38.4 Consolidated statement of changes in equity (thous. LTL)

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

	Authorised capital	Share premium account	Revaluation reserve	Legal reserve	Fair value reserve	Cumulative translation adjustments	Non-appropriated profit	Minority interest	Total equity
Balance as of 01.01.04	707 454	342 484	437	-	35	(114 802)	(422 387)	2 502	515 723
Changes in fair value of cash flow hedges	-	-	-	-	(2 272)	-	-	-	(2 272)
Transfer of accumulated loss on cash flow hedges to income statement	-	-	-	-	2 237	-	-	-	2 237
Currency translation differences	-	-	-	-	-	(96 250)	-	(40)	(96 290)
Net (expenses) recognized directly in equity	-	-	-	-	(35)	(96 250)	-	(40)	(96 325)
Profit of the year	-	-	-	-	-	-	721 883	(723)	721 160
Total recognized income for 2004	-	-	-	-	(35)	(96 250)	721 883	(763)	(624 835)
Increase in retained earnings by decreasing share premium	-	(59 444)	-	-	-	-	59 444	-	-
Balance as of 31.12.04	707 454	283 040	437	-	-	(211 052)	358 940	1 739	1 140 558
Balance as of 01.01.05	707 454	283 040	437	-	-	(211 052)	358 940	1 739	1 140 558
Currency translation differences	-	-	-	-	-	180 336	-	904	181 240
Net income recognized directly in equity	-	-	-	-	-	180 336	-	904	181 240
Profit for the period	-	-	-	-	-	-	887 764	(2 050)	885 714
Total recognized income for 2005	-	-	-	-	-	180 336	887 764	(1 146)	1 066 954
Increase in share in subsidiary	-	-	-	-	-	-	-	(442)	(442)
Minority interest arising on business combinations	-	-	-	-	-	-	-	2 282	2 282
Transfer to legal reserve	-	-	-	36 089	-	-	(36 089)	-	-
Dividend for 2004	-	-	-	-	-	-	(247 609)	-	(247 609)
Balance as of 31.12.05	707 454	283 040	437	36 089	-	(30 716)	963 006	2 433	1 961 743
Currency conversion differences recognised as direct equity	-	-	-	-	-	(197 004)	-	2	(197 002)
Profit of the year	-	-	-	-	-	-	192 058	5 017	197 075
Total recognized income for 2005	-	-	-	-	-	(197 004)	192 058	5 019	73
Transfer to legal reserve	-	-	-	14 273	-	-	(14 273)	-	-
Interchange of increase of	1 367	12 508	-	-	-	-	-	(6 755)	7120

authorized capital with minority share of subsidiary										
Transferred accrued currency conversion adjustments upon integration of the subsidiary	-	-	-	-	-	(1 860)	1 860	-	-	
Balance as of 31.12.06	708 821	295 548	437	50 362	-	(229 580)	1 142 651	697	1 968 936	

39. Comments on the Financial Statements

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

Mažeikių Nafta Group Accounting

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

The purchase method of accounting is used to account for the acquisition of subsidiaries by the Group. The cost of an acquisition is measured as the fair value of the assets given and liabilities incurred or assumed as of the date of exchange. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values as of the acquisition date, irrespective of the extent of any minority interest. The excess of the cost of acquisition over the fair value of the Group's share of the identifiable net assets acquired is recorded as goodwill. If the cost of acquisition is less than the fair value of the Group's share of the identifiable net assets of the subsidiary acquired, the difference is recognized directly in the income (loss) statement.

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

The Group's share of its associates' post-acquisition profits or losses is recognized in the income (loss) statement, and its share of post-acquisition movements in reserves is recognized in reserves. Investment in an associate is initially recognized at cost and the carrying amount is increased or decreased to recognize the Group's share of the profit or loss of the associate after the date of acquisition. When the Group's share of losses in an associate equals or exceeds its interest in the associate, including any other unsecured receivables, the Group does not recognize further losses, unless it has incurred obligations or made payments on behalf of the associate.

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

the transaction provides evidence of an impairment of the asset transferred. Accounting policies of associates have been changed where necessary to ensure consistency with the policies adopted by the Group.

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

41. Information on the audit

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

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

The audit of Financial Statements of 2006 of Mažeikių Nafta Group, prepared in accordance with the International Financial Reporting Standards, was conducted in accordance with International Standards on Auditing and completed on 17.04.07. The auditor's report on behalf of UAB PricewaterhouseCoopers was signed by Christopher C. Butler, Partner with UAB PricewaterhouseCoopers and Ona Armalienė, Auditor (auditor's certificate No. 000008).

In 2001, Internal Audit Department was established within the Company. The establishment and liquidation of this department are determined by order of the Company's General Director. Internal Audit Department performs the internal auditing functions within the Company. Internal Audit Department reports to Company's General Director and is established and liquidated under his/her order issued.

The mission of the Internal Audit Department is to provide independent and objective inspection and consulting services intended for the improvement of Company's activities and its value creation. Internal Audit Department assists the Company in systematic and comprehensive appraisal of Company's risk management, efficiency of control and supervision processes and promotion of improvement thereof.

The major goal of the Internal Audit Department is to appraise the status of the Company's risk management processes and internal control system and provide recommendations for their improvement.

The internal auditing activities in the Company is performed based on the International Standards for Professional Practice of Internal Auditing and Code of Ethics of Internal Auditing. In the daily activities the Company's internal auditors follow the Methodology of Internal Auditing approved by the Head of Internal Audit Department. The methodology provides the following major principles of internal auditing:

- during a year the audit is performed according to the approved annual internal audit plan or under special instructions of the Company management;

- annual audit plan is prepared following the method based on risk assessment;
- internal auditing process is composed of four stages: determination of scope, planning, execution and provision of conclusions;
- during the *Scope Determination* stage the internal auditors identify the risks of the audited area, review the information about the control measures used and using various sources obtain all the required information about the audited area;
- during the *Planning* stage the audit project plan is prepared, resources required for auditing are considered, the course of the audit is discussed with the clients;
- during the *Execution* stage the procedures required for appraising the internal control system are executed. This stage is intended for revision of internal control design and the testing required to check its efficiency;
- the conclusions made during auditing are documented by issuing the auditing report which is provided to the audit clients and Company's top management;
- implementation of the required action plans are agreed upon with the audit clients and responsible persons;
- internal auditors periodically inspect the process of implementation of the actions plans.

VI. Information About the Issuer's Managing Bodies

42. Members of Managing Bodies

Managing bodies of AB Mažeikių Nafta are as follows:

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

Company's activities are under auditor's control.

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

Supervisory Council (January 1, 2006 – May 26, 2006)

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

Genovaitė Geleževičienė – Member of the Supervisory Council. Head of the Analysis and Forecast Division of the Economy Strategy Department of the Ministry of Economy. No Company shares possessed. Member of the Board of UAB *Toksika* and State Enterprise *Ignalina Nuclear Power Plant*. Member of the Supervisory Council of AB *Lietuvos Energija*; Chairperson of the Supervisory Council of AB *Alytaus Tekstilė*; Member of the Council of the Public Enterprise *Lithuanian Development Agency for Small and Medium-Sized Business Enterprises* (SMEDA).

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

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

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

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

Pavel P. Ivlev - Member of the Supervisory Council. No Company shares possessed.

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

Supervisory Council (May 26, 2006 – November 24, 2006)

Piotr S. Zolotariov – Chairman of the Supervisory Council. Elected for a 4-year term. General Director of Russian Company OAO Ruskye Mashini. Chairman of the GAZ Group Board. No Company shares possessed.

Genovaitė Geleževičienė – Member of the Supervisory Council. Elected for a 4-year term. Head of the Analysis and Forecast Division of the Economy Strategy Department of the Ministry of Economy. No Company shares possessed. Member of the Board of UAB *Toksika* and State Enterprise *Ignalina Nuclear Power Plant*. Member of the Supervisory Council of AB *Lietuvos Energija*; Chairperson of the Supervisory Council of AB *Alytaus Tekstilė*;

Member of the Council of the Public Enterprise *Lithuanian Development Agency for Small and Medium-Sized Business Enterprises* (SMEDA).

Vytautas Aršauskas - Member of the Supervisory Council. Elected for a 4-year term. Chief Specialist of the Petroleum Division of the Energy Resources Department of the Ministry of Economy. No Company shares possessed. Member of the Supervisory Council of *AB Klaipėdos Nafta*.

Oleg Sheyko - Member of the Supervisory Council. Elected for a 4-year term. No Company shares possessed.

Vladimir N. Kasterin - Member of the Supervisory Council. Elected for a 4-year term. Vice President for Oil Refining in oil-and-gas company *ZAO RusNefť*. No Company shares possessed.

Martin Parr – Member of the Supervisory Council. Elected for a 4-year term. Executive Director of *Yukos Services (UK) Ltd.* elected for the first time for the first term of office.

Pavel P. Ivlev – Member of the Supervisory Council since September 21, 2002. Elected for a 4-year term. No Company shares possessed.

Vladas Kazimieras Gagilas – Member of the Supervisory Council. Elected for a 4-year term. Director of the Energy Resources Department of the Ministry of Economy. No Company shares possessed. Member of the Board of *AB Lietuvos Dujos*; Chairman of the Board of *AB Klaipėdos Nafta*.

Supervisory Council (November 24, 2006 – December 14, 2006)

Martin Parr – Chairman of the Supervisory Council. Executive Director of *Yukos Services (UK) Ltd.* elected for the first time for the first term of office.

Genovaitė Geleževičienė – Member of the Supervisory Council. Head of the Analysis and Forecast Division of the Economy Strategy Department of the Ministry of Economy. No Company shares possessed. Member of the Board of *UAB Toksika* and State Enterprise *Ignalina Nuclear Power Plant*. Member of the Supervisory Council of *AB Lietuvos Energija*; Chairperson of the Supervisory Council of *AB Alytaus Tekstilė*; Member of the Council of the Public Enterprise *Lithuanian Development Agency for Small and Medium-Sized Business Enterprises* (SMEDA).

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

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

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

Pavel P. Ivlev - Member of the Supervisory Council. No Company shares possessed.

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

Supervisory Council (December 14 - 31, 2006)

Marek Moroz – Chairman of the Supervisory Council. Elected for a 4-year term. PKN ORLEN Director of Capital Department;

Vytautas Aršauskas - Member of the Supervisory Council. Elected for a 4-year term. Chief Specialist of the Petroleum Division of the Ministry of Economy of the Republic of Lithuania; No Company shares possessed. Member of the Supervisory Council of *AB Klaipėdos Nafta*.

Czesław Bugaj - Member of the Supervisory Council. Elected for a 4-year term. PKN ORLEN Deputy General Director.

Vladas Kazimieras Gagilas – Member of the Supervisory Council. Elected for a 4-year term. Director of Energy Resources Department of the Ministry of Economy of the Republic of Lithuania; No Company shares possessed. Member of the Board of AB *Lietuvos Dujos*; Chairman of the Board of AB *Klaipėdos Nafta*.

Genovaitė Geleževičienė – Member of the Supervisory Council. Elected for a 4-year term. Head of Analysis and Forecast Department of the Ministry of Economy of the Republic of Lithuania; No Company shares possessed. Member of the Board of UAB *Toksika* and State Enterprise *Ignalina Nuclear Power Plant*. Member of the Supervisory Council of AB *Lietuvos Energija*; Chairperson of the Supervisory Council of AB *Alytaus Tekstilė*; Member of the Council of the Public Enterprise *Lithuanian Development Agency for Small and Medium-Sized Business Enterprises (SMEDA)*.

Piotr Kearney - Member of the Supervisory Council. Elected for a 4-year term. PKN ORLEN Director of Strategy.

Wojciech Wróblewski - Member of the Supervisory Council. Elected for a 4-year term. PKN ORLEN Strategy Advisor.

Rafał Zwierz - Member of the Supervisory Council. Elected for a 4-year term. Lawyer, Weil Gotschal & Manges

Marcin Wasilewski – Member of the Supervisory Council. Elected for a 4-year term. PKN ORLEN Project Manager.

THE BOARD OF DIRECTORS (January 1, 2006 – November 24, 2006)

Nerijus Eidukevičius - Chairman of the Board of Directors since April 30, 2004. Elected for a 4-year term. University degree education, Diploma of an Economist, Vilnius University. Employment: 1993-1996 Financial brokerage firm UAB *Suprema*, Project Manager; 1997 01 - 1999 01 Hansa Investments, Project Manager; 1999 01 - 2000 01 Hansa Investments, General Director; 2000 02 - 2000 12 Deloitte&Touche Manager; since 2001 01 Vice Minister of the Ministry of Economy, since 2006 09 03 General Director of UAB *Kauno Tiltai*. No Company shares possessed. Chairman of the Board of Directors of AB *Alytaus Tekstilė*.

Jurij V. Kalner - Member of the Board of Directors since September 21, 2002. Elected for a 4-year term. Head of Strategic Planning Centre of OAO *SUEK*. No Company shares possessed.

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

Michail V. Elfimov - Member of the Board of Directors since April 30, 2004. Elected for a 4-year term. No Company shares possessed.

Vladislavas Paulius – Member of the Board of Directors since October 18, 2002. Elected for a 4-year term. General Director of Russian company OOO *Objedinionaja Neftenaja Grupa*. No Company shares possessed.

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

Gediminas Vaičiūnas – Member of the Board of Directors since September 21, 2002. Elected for a 4-year term. Advisor on Energy Issues of the Office of the Government. No Company shares possessed. Deputy Chairman of the Council of the State Nuclear Energy Safety Inspection. Not involved in management of other Lithuanian companies and their capital.

THE BOARD OF DIRECTORS (November 24, 2006 – December 15, 2006)

Nerijus Eidukevičius - Member of the Board of Directors. University degree education, Diploma of an Economist, Vilnius University. Employment: 1993 - 1996 Financial brokerage firm UAB *Suprema*, Project Manager; 01.1997 – 01.1999 *Hansa Investments*, Project Manager; 01.1999 – 01.2000 *Hansa Investments*, General Director; 02.2000 – 12.2000 *Deloitte&Touche*, Manager; General Director of AB Kauno Tiltai. No Company shares possessed. Chairman of the Board of Directors of AB *Alytaus Tekstilė* by 07.12.2006.

Paul Nelson English - Member of the Board of Directors. General Director of AB Mažeikių Nafta. No Company shares possessed.

Daniel Feldman - Member of the Board of Directors. Director of Big Sky Energy Corp.

Krystian Pater – Member of the Board of Directors. Executive Director of Refining of PKN Orlen S.A.

Dariusz Formela – Member of the Board of Directors. Executive Director of Business Administration of PKN Orlen S.A.

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

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

THE BOARD OF DIRECTORS (December 15 - 31, 2006)

Igor Adam Chalupiec – Chairman of the Board of Directors. Background – Warsaw University diploma. President and Chairman of the Board of Directors of PKN Orlen S.A.; 2003-2004 Deputy State Secretary; General Inspector of Financial Information Department by Ministry of Finance; 2000-2003 Vice President of Bank Polska Kasa Opieki S.A.; 1995-2000 Member of the Board of Directors of Bank Polska Kasa Opieki S.A.

Paul Nelson English - Member of the Board of Directors. General Director of AB Mažeikių Nafta. No Company shares possessed.

Krystian Pater – Member of the Board of Directors. Elected for a 4-year term. Executive Director of Refining of PKN Orlen S.A.

Pawel Szymanski – Member of the Board of Directors. Elected for a 4-year term. Member of the Board of Directors, CFO of PKN Orlen S.A.

Jan Maciejewicz - Member of the Board of Directors. Elected for a 4-year term. Vice Chairman of the Board of Directors for cost management of PKN Orlen S.A.

Piotr Kownacki – Member of the Board of Directors. Elected for a 4-year term. Vice President of Auditing of PKN Orlen S.A.

Saulius Spėčius – Member of the Board of Directors. Elected for a 4-year term. Advisor for State Investment to Prime Minister of the Republic of Lithuania. Member of Privatization Commission. Member of the Board of Directors of AB Klaipėdos Nafta; Member of the Supervisory Council of AB Lietuvos Energija; Member of the Supervisory Council of AB Rytų Skirstomieji Tinklai.

ADMINISTRATION

Paul Nelson English (born in 1943). General Director of AB *Mažeikių Nafta* since 2002. University degree education, Bachelor of Science in Engineering Mechanics (1972) and Master of Science in Nuclear Engineering (1975).

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

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

Vita Petrošienė (born in 1952). Chief Financial Officer of AB *Mažeikių Nafta* since September 27, 2002. University degree education. Diploma in Engineering. 05.1995 – 12.1995 AB *Mažeikių Nafta*, Deputy Director of Economics and Finance; 12.1995 – 11.1999 AB *Mažeikių Nafta*, Director of Economics and Finance; 11.1999 – 04.2001 AB *Mažeikių Nafta*, Director of Finance; 04.2001 – 09.2002 AB *Mažeikių Nafta*, Deputy Chief Financial Officer.

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

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

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

44. Transactions with persons concerned

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

45. Updated events in the Issuer's activity

January 4, 2007. New revision of AB Mažeikių Nafta Articles of Association: On December 28, 2006 AB Mažeikių Nafta registered the new revision of the Articles of Association which reflected the increase of AB Mažeikių Nafta authorized capital from 707 454 130 LTL to 708 821 122 LTL due to merge of AB Mažeikių Elektrinė to AB Mažeikių Nafta.

January 8, 2007 Agreement signing with PKN ORLEN regarding crude oil supply: Be informed that on January 5, 2007, AB Mažeikių Nafta signed the Agreement with Polski Koncern Naftowy ORLEN S.A. (hereinafter - PKN ORLEN) being the largest crude oil refining company in the Central Europe, granting PKN ORLEN the exclusive right for the crude oil supply to AB Mažeikių Nafta (hereinafter – the Agreement). The Agreement signing is related to centralization of the crude oil supply to PKN ORLEN Group including supply to Polish, Czech and Lithuanian refineries. The open-ended Agreement became effective since its signing date. Supplies under this Agreement would be performed via Druzhba pipeline and Būtingė Terminal. On the Agreement signing day the estimated value of the transaction of crude oil supply to AB Mažeikių Nafta within first five years was nearly 19 billion USD (i.e. about 49.8 billion LTL based on the USD/LTL rate of January 5, 2007 in Bank of Lithuania.) From January 5, 2007 84.2% of AB Mažeikių Nafta authorized capital belong to PKN ORLEN.

January 9, 2007 New issue of AB Mažeikių Nafta: On January 8, 2007 the Central Securities Depository of Lithuania opened a general securities account for the new issue of AB Mažeikių Nafta shares in connection with the merger of AB Mažeikių Elektrinė with AB Mažeikių Nafta: ISIN code - LT0000127771; type of securities – equity securities; number of distributed securities – 1,366,992; nominal value per share – 1 LTL; total nominal value – 1,366,992.00 LTL (395,908.00 EUR). The newly issued AB Mažeikių Nafta shares were deposited into personal securities accounts of the shareholders entitled to receive such newly issued shares.

January 22, 2007 Re resignation of the Chairman of AB Mažeikių Nafta Board: On January 18, 2007 the Chairman of AB Mažeikių Nafta Board Igor Chalupec notified the Company about his resignation.

January 31, 2007 Election of the member of AB Mažeikių Nafta Board: On January 31, 2007 in the meeting of the Supervisory Council of AB Mažeikių Nafta Dariusz Formela was elected to be a member of the Board of AB Mažeikių Nafta for the term of the acting Board.

February 7, 2007 Election of a Chairman of AB Mažeikių Nafta Board: AB Mažeikių Nafta informed that under the decision of AB Mažeikių Nafta Board made on February 7, 2007 Mr. Piotr Kownacki has been elected to be a chairman of the Board for a one year term.

February 15, 2007 Re squeeze-out of AB Mažeikių Nafta shares: AB Mažeikių Nafta informed that it has received the Notice on Squeeze-Out of Shares in AB Mažeikių Nafta from its main shareholder PKN ORLEN S.A: The purchase of shares within the squeeze-out process commenced on February 20, 2007, the price was equal to 10.25 LTL for one share.

February 20, 2007 AB Mažeikių Nafta started-up the renovated Vacuum Tower: On February 14, 2007 AB Mažeikių Nafta started-up the renovated Vacuum Tower at Bitumen and Sulfur Complex and completed Stage I of the operation restoration plan. Restored Vacuum Tower

was capable to process about 50% of the atmospheric residue volume which used to be processed in the Tower suffered in the fire of October, 2006. The restored tower would allow significantly optimizing the production and increasing the feedstock processing efficiency.

February 28, 2007 Preliminary performance results of 2006: preliminary unaudited consolidated net profit of AB Mažeikių Nafta for 2006 under International Financial Reporting Standards (IFRS) was 192,058 million LTL (65,996 million USD or 55,624 million EUR). Consolidated net profit of AB Mažeikių Nafta for 2005 was 887,764 million LTL (319,478 million USD or 257,114 million EUR). The Company's income in 2006 was 11,865 billion LTL (4,300 billion USD or 3,436 billion EUR). While the income of the Company in 2005 was 11,156 billion LTL (4,006 billion USD or 3,231 billion EUR). It must be noted that the main reasons causing the preliminary net profit lower than the adjusted profit forecast announced on 27.10.2006 were as follows: - Decrease of world refining margins and the prices of petroleum products in August through December, 2006;

- from August 2006 the Company did not receive crude oil by pipeline meanwhile the crude oil import through Būtingė Terminal was respectively more expensive, besides, no revenues were received for crude oil transportation by Pipeline and its transshipment in Būtingė Terminal;

- the fire in October, 2006 caused decreased crude refining efficiency, less volumes of light petroleum products were produced. The Company continued increase of petroleum products sales in the target markets. In 2006 1,834 million tons of petroleum products (gasoline, diesel, aviation fuel, fuel oil, bitumen, LPG and sulfur) were sold in Lithuanian market, i.e. 4.9 % more than in 2005; 1,122 million tons of petroleum products were sold in Latvian and Estonian markets (3.2 % more than in 2005). In 2006 the Company sold 7,963 million tons of petroleum products (gasoline, diesel, aviation fuel, fuel oil, bitumen, LPG and sulfur) while this number in 2005 was 8,511 millions tons. Western Europe continued to be the largest market for AB Mažeikių Nafta. 39 % of total sales (3,091 million tons) was attributed to this market. Other major markets of the Company still remained Lithuania (23 %) and USA (16 % or 1,250 million tons). 7 % of petroleum products went to Estonian and Latvian markets and 6 % - to Polish market (566 thous., 556 thous. and 453 thous. tons respectively). 214 thous. tons of petroleum products (3 %) were sold to Ukraine and Moldova. In 2006 AB Mažeikių Nafta collected and paid more than 3,489 billion LTL taxes, this was 431 million LTL more than in 2005. Further, the Company repaid the long-term credits for the amount of 25,347 million LTL (9,243 million USD or 7,34 million EUR) and paid interests of 84,334 million LTL (30,795 million USD or 24,425 million EUR) including the interests of 56,302 million LTL (20,506 million USD or 16,306 million EUR) paid to the Lithuanian budget. 2006 audited annual financial statements of AB Mažeikių Nafta would be submitted on April 19, 2007.

March 19, 2007 Re resignation of the member of AB Mažeikių Nafta Board: On March 16, 2007 the member of AB Mažeikių Nafta Board Jan Maciejewicz submitted a 14-day prior notification as established by the Law on Companies regarding his resignation from the member of the Board.

March 22, 2007 The announcement of the General Meeting of Shareholders of AB Mažeikių Nafta: basing on the decision of the Board of Directors of AB Mažeikių Nafta (which instigated to convene the meeting of shareholders), on April 27, 2007 at 1:00 p.m. convened shall be the Ordinary General Meeting of Shareholders of AB Mažeikių Nafta, company code 166451720, registered office: Juodeikiai, LT-89467, Mažeikiai distr. The Ordinary General Meeting was held in AB Mažeikių Nafta facilities, located at Juodeikiai, Mažeikiai distr. Record date of the Meeting: April 20, 2007. Agenda of the Ordinary General Meeting of Shareholders of AB Mažeikių Nafta: (i) consideration of AB Mažeikių Nafta auditor's conclusions on AB Mažeikių Nafta Annual Financial Statements for 2006 and AB Mažeikių

Nafta consolidated Performance Report for the financial year 2006; (ii) approval of AB Mažeikių Nafta Performance Report for the financial year 2006; (iii) approval of AB Mažeikių Nafta consolidated Performance Report for the financial year 2006; (iv) appropriation of AB Mažeikių Nafta profit (loss) of 2006; (v) selection of AB Mažeikių Nafta audit company and establishment of provisions of payment for the services provided by the auditor; (vi) revocation of members of AB Mažeikių Nafta Supervisory Council and election of the new ones.

April 19, 2007 For approval by the Meeting of Shareholders of AB Mažeikių Nafta held on April 27, 2007, the attached Financial Statements (Stand Alone), Annual Report and independent Auditor's Report as well as Consolidated Financial Statements, Consolidated Annual Report and independent Auditor's Report for the year ended December 31, 2006, were submitted.

April 27, 2007 The decisions of the Ordinary General Meeting of Shareholders of AB Mažeikių Nafta held on 27.04.07 were as follows:

Ordinary General Meeting of Shareholders of AB Mažeikių Nafta decided: (i) To take into consideration Report prepared by UAB PricewaterhouseCoopers, the Auditor of AB Mažeikių Nafta, on AB Mažeikių Nafta Company Financial Statements (Stand Alone) for the year ended December 31, 2006, and AB Mažeikių Nafta Consolidated Financial Statements for the year ended December 31, 2006, while considering the issues on the agenda of this ordinary General Meeting of Shareholders regarding the approval of the indicated financial statements;

(ii) To approve AB Mažeikių Nafta Company Financial Statements (Stand Alone) for the year ended December 31, 2006; (iii) To approve AB Mažeikių Nafta Consolidated Financial Statements for the year ended December 31, 2006. (iv) To approve the profit (loss) appropriation of AB Mažeikių Nafta for the financial year 2006 (attached). Based on the profit (loss) appropriation approved, the amount of 52 thousand USD (132 thous. LTL or 38 thous. EUR) has been appropriated to legal reserves, while the balance of the profit to be appropriated in the amount of 463,918 thous. USD (1,141,114 thous. LTL or 330,489 thous. EUR) has been carried forward to the next financial year. (v) To elect UAB KPMG Baltics as the Auditor of AB Mažeikių Nafta for the period of 1 (one) year, and establish the fee amounting to 870,000 (eight hundred seventy thousand) LTL, without VAT, payable for audit of the annual financial statements for the year 2007 and review of the interim (quarterly) financial statements, including all necessary associated expenses; (vi) (i) To recall Vytautas Aršauskas, Vladas Kazimieras Gagilas and Genovaitė Geleževičienė from the members of the Supervisory Council of AB Mažeikių Nafta before expiry of the term of the current Supervisory Council; (vi) (ii) To elect Arūnas Laurinaitis, Robertas Tamošiūnas and Gediminas Vaičiūnas as new members of the Supervisory Council of AB Mažeikių Nafta for the term of the current Supervisory Council.

May 15, 2007 Preliminary Result of AB Mažeikių Nafta for the 1st quarter of 2007:

AB Mažeikių Nafta announced that its preliminary un-audited consolidated net loss for the 1st quarter of 2007 amounted to 134.988 million LTL (51.250 million USD or 39.095 million EUR) according to the International Financial Reporting Standards (IFRS). Interim financial statements of AB Mažeikių Nafta for the 1st quarter of 2007 will be announced by May 31, 2007.

May 15, 2007 Regarding forecast of AB Mažeikių Nafta business result for 2007:

The notification was posted in response to misleading information published by BNS on May 15, 2007 that said about forecasted loss of AB Mažeikių Nafta for the full financial year of 2007 in the amount of over 500 million LTL. AB Mažeikių Nafta denied with determination

the abovementioned information provided by BNS agency and recognizes it as misleading and urged the market players to rely on the official information published by AB Mažeikių Nafta. AB Mažeikių Nafta does not intend to publish the forecast of the results for the year 2007.

May 16, 2007 Regarding business result of AB Mažeikių Nafta for the 1st quarter of 2007. AB Mažeikių Nafta explained that the difference between the consolidated net loss of AB Mažeikių Nafta for 1st quarter of 2007 as announced on May 15, 2007 and AB Mažeikių Nafta group result announced by PKN ORLEN mainly was due to the difference in the value of AB Mažeikių Nafta group assets as reflected in AB Mažeikių Nafta's and PKN ORLEN books.

Assets of AB Mažeikių Nafta Group reflected in AB Mažeikių Nafta books are accounted at their historical acquisition value, while PKN ORLEN used the fair value of the assets. The fair value of AB Mažeikių Nafta in PKN ORLEN's books is materially different due to the fact that the acquisition of AB Mažeikių Nafta was accounted under the purchase method in accordance with IFRS 3 'Business combinations'. This results in the higher level of depreciation and amortization in PKN ORLEN's books as the value of the assets of AB Mažeikių Nafta is much higher. The difference in the financial statements of AB Mažeikių Nafta and PKN ORLEN will be visible due to this fact also in the future. This difference makes AB Mažeikių Nafta result for the 1st quarter of 2007 much better than AB Mažeikių Nafta result effecting consolidated statement of PKN ORLEN for the 1st quarter of 2007.

46. Material events in the Issuer's activity

January 10, 2006 The announcement of the Second Extraordinary General Meeting of Shareholders: The repeated Extraordinary General Meeting of Shareholders of AB Mažeikių Nafta (Company Code: 166451720, with the registered office at Juodeikiai, 98467 Mažeikiai District) was called on January 17, 2006 at 11:00 a. m. The Meeting was held in AB Mažeikių Nafta Administration Building, located at Juodeikiai, Mažeikiai distr. Record date of the Meeting: January 10, 2006. Agenda of the Meeting: 1. Re: approval of the preparation for AB Mažeikių Nafta reorganization conditions.

January 18, 2006 The below is the decision passed by the Repeated Extraordinary General Meeting of Shareholders: The decision of the Repeated Extraordinary General Meeting of Shareholders held on January 17, 2006 was as follows: 1. To approve of the preparation of AB Mažeikių Nafta reorganization conditions, when AB Mažeikių Nafta in operation incorporates AB Mažeikių Elektrinė (Power House) whose existence as such terminates after reorganization, and to assign the Board of Directors of the Company to prepare the indicated reorganization conditions in accordance with applicable laws.

February 10, 2006 Preliminary financial results reported by AB Mažeikių Nafta for 2005: preliminary unaudited consolidated net profit of AB Mažeikių Nafta for 2005 under International Financial Reporting Standards (IFRS) was 929.915 million LTL (269.322 million EUR).

February 28, 2006 Submission of the annual financial statement for 2005: the annual financial statements for 2005 were due from the auditor UAB Pricewaterhouse Coopers and were to be submitted by March 31, 2006.

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

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

April 19, 2006. Regarding AB Mažeikių Nafta Annual Financial Statements for 2005: During the meeting held on April 14, 2006, the Board of Directors of AB Mažeikių Nafta decided to approve AB Mažeikių Nafta Annual Financial Statement for 2005 prepared in accordance with the International Financial Reporting Standards.

April 19, 2006. The draft decisions of the Ordinary General Meeting of Shareholders of AB Mažeikių Nafta to be held on April 28, 2006 are as follows: (i) to consider AB Mažeikių Nafta Auditor's report when approving of the Annual Financial Statements of AB Mažeikių Nafta for the year 2005 and AB Mažeikių Nafta Performance Report for the financial year 2005; (ii) to take into consideration comments and suggestions of the Supervisory Council of AB Mažeikių Nafta on the Annual Financial Statements AB Mažeikių Nafta for the year 2005 and AB Mažeikių Nafta Performance Report for the financial year 2005; (iii) to approve AB Mažeikių Nafta Performance Report for the financial year 2005 as prepared by the Board of AB Mažeikių Nafta; (iv) to approve the Annual Financial Statements of AB Mažeikių Nafta for the year 2005; (v) to approve the appropriation of AB Mažeikių Nafta profit of the financial year 2005; (vi) to establish the Auditor's fee amounting to 880,000 LTL (eight hundred eighty thousand Litas), VAT excluded, for the audit services to be rendered by AB Mažeikių Nafta Auditor UAB PricewaterhouseCoopers during the financial year 2006; (vii) upon expiration of the term of AB Mažeikių Nafta Supervisory Council having discharged its functions by the date of the Ordinary General Meeting of Shareholders, to elect these members for the Supervisory Council of AB Mažeikių Nafta for a term of four (4) years: [Persons proposed by the Company's shareholders and/or by the managing bodies of the Company having the right, according to the Law on Companies, to propose candidates for appointment to the Supervisory Council].

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

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

April 28, 2006. Regarding the Ordinary General Meeting of Shareholders of AB Mažeikių Nafta to be held on April 28, 2006: The Ordinary General Meeting of Shareholders of AB Mažeikių Nafta failed to take place on April 28, 2006 due to absence of quorum.

April 28, 2006. AB Mažeikių Nafta reported its preliminary financial results for the 1st quarter of 2006: preliminary unaudited consolidated net profit of AB Mažeikių Nafta for the 1st quarter of 2006 in accordance with the International Financial Reporting Standards was 133.628 thous. LTL (38.701 thous. EUR).

April 28, 2006 Regarding the appropriation of AB Mažeikių Nafta profit of the financial year 2005: During the meeting held on April 27, 2006 the Supervisory Council of AB Mažeikių Nafta decided to propose the following appropriation of AB Mažeikių Nafta profit of the financial year 2005: to transfer 14 897 thous. LTL (EUR 4 314 thous. or 5 119 thous. USD at the official rate as of December 31, 2005) to legal reserves and to appropriate 115 million USD (an appropriate amount in litas to be determined at the official rate of the day the Meeting approving dividend payment was held) to payment of dividends and to carry (at the end of the current financial year) forward the rest of unappropriated profit over to the following financial year. Additional information: According to the official rate as of April 28, 2006, the amount of dividend per share would be 0.45 LTL (0.13 EUR).

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

May 26, 2006. Resolutions of the Repeated Ordinary Meeting of Shareholders of AB Mažeikių Nafta convened on May 26, 2006. The Repeated Ordinary General Meeting of Shareholders of AB Mažeikių Nafta decided on the following actions: (i) to consider AB Mažeikių Nafta Auditor's report when approving of the Annual Financial Statements of AB Mažeikių Nafta for the year 2005 and AB Mažeikių Nafta Performance Report for the financial year 2005; (ii) to take into consideration comments and suggestions of the Supervisory Council of AB Mažeikių Nafta on the Annual Financial Statements AB Mažeikių Nafta for the year 2005 and AB Mažeikių Nafta Performance Report for the financial year 2005; (iii) to approve AB Mažeikių Nafta Performance Report for the financial year 2005 as prepared by the Board of AB Mažeikių Nafta; (iv) to approve the Annual Financial Statements of AB Mažeikių Nafta for the year 2005; (v) to approve the appropriation of AB

Mažeikių Nafta profit of the financial year 2005 according to which 5 119 thous. USD (13,828 thous. LTL or 4,005 thous. EUR) shall be transferred to legal reserves and unappropriated profit, i.e. 399 068 thous. USD (962,755 thous. LTL or 278,833 thous. EUR) was carried forward to the next financial year; (vi) to establish the Auditor's fee amounting to LTL 880,000 (eight hundred eighty thousand Litass), VAT excluded, for the audit services to be rendered by AB Mažeikių Nafta Auditor – UAB PricewaterhouseCoopers – during the financial year 2006; (vii) to elect the following Supervisory Council of AB Mažeikių Nafta for the term of 4 (four) years: Vytautas Aršauskas, Vladas Kazimieras Gagilas, Genovaitė Geleževičienė, Pavel P. Ivlev, Vladimir N. Kasterin, Oleg V. Šeiko, Piotr S. Zolotariov, Martin Parr.

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

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

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

July 26, 2006 AB Mažeikių Nafta processing volumes of I half of 2006: First half of the year the Company processed 4.7 million tons of feedstock, this is 6.3 % more than previous year at the same period (4.4 million tons). This year Būtingė Terminal transshipped 2,528 million tons of crude oil, this is 2.7 % less (2,597 million tons).

July 28, 2006. AB Mažeikių Nafta results for the 1st half 2006: Preliminary consolidated net profit of AB Mažeikių Nafta for the first half of 2006 according to the International Financial Reporting Standards (IFRS) amounted to 371 million LTL (133 million USD or 107 million EUR). The revenue of 6,83 billion LTL (2,43 billion USD or 1,98 billion EUR) was received at the first half of 2006.

July 28, 2006. AB Mažeikių Nafta results for the 1st half 2006: Preliminary consolidated net profit of AB Mažeikių Nafta for the first half of 2006 according to the International Financial Reporting Standards (IFRS) amounted to 371 million LTL (133 million USD or 107 million EUR). The revenue of 6,83 billion LTL (2,43 billion USD or 1,98 billion EUR) was received at the first half of 2006.

July 28, 2006 Adjusted planned result of AB Mažeikių Nafta in the year 2006: Adjusted planned net profit of AB Mažeikių Nafta in the financial year 2006 is 507.8 million LTL (204.9 million USD or 147,07 million EUR).

August 2, 2006 Crude Oil Supplies to AB Mažeikių Nafta: Over the past three and a half years, AB Mažeikių Nafta has demonstrated outstanding financial and technical performance, in spite of some difficulties. Though the business activities of AB Mažeikių Nafta's major shareholder "Yukos" were disrupted and crude supplies were interrupted from time to time, AB Mažeikių Nafta successfully continued its operations and increased its crude refining

volumes from 8 million tons to 10 million tons per year or 830 thousand tons per month. AB Mažeikių Nafta plan was to process 830 thousand tons of crude per month.

Refinery: In July, AB Mažeikių Nafta scheduled to process 830 thousand tons of crude, however difficulties were experienced in receiving the crude by pipeline. With the help of Russian producers and Transneft, AB Mažeikių Nafta was able to get some crude. Besides, it was the first time in 5 years for the Būtingė Terminal to import 100 thousand tons of crude; consequentially in July the volume of crude processing totaled 660 thousand tons. In August AB Mažeikių Nafta's plan was to process 830 thousand tons of crude oil by supplying the major volume of the crude oil by pipeline. However, due to an accident related to the pipeline in the Russian territory nearby Bryansk on July 29, crude deliveries were terminated. The crude delivery was expected to be resumed in a few days, however, according to the available information the repair works would take considerably more time; the exact dates were not known. AB Mažeikių Nafta was trying again to rely on its Būtingė Terminal with respect to crude import. AB Mažeikių Nafta has revised its plan and intended to process 730 thousand tons of crude oil by supplying all the quantities in August by alternative means of transportation to satisfy all Lithuanian and Baltic state fuel demands. AB Mažeikių Nafta would operate at reduced rates until receipt of more crude oil through its terminal, however, the Company was planning to take the advantage of this situation and perform repairs of the Refinery.

Būtingė Terminal: In December 2005 a tanker collided with the terminal's floating Single Point Mooring (SPM) buoy making it necessary to make extensive repairs this summer. In order to minimize the time that the terminal would be out of service to make these repairs, AB Mažeikių Nafta has chosen to replace the SPM buoy with a new one. The terminal was planning to be out of service for 12 to 13 days in September, barring the weather delays which should be minimal. AB Mažeikių Nafta was confident that it could and would overcome its difficulties.

September 19, 2006 SPM replacement at Būtingė Terminal: Today Būtingė Terminal has been shut down for replacement of its Single Point Mooring (SPM) buoy. A tanker's collision with the Terminal's SPM buoy in December 2005 necessitated extensive repairs scheduled for this summer. In order to minimize the time that the Terminal would be out of service for such repairs, AB Mažeikių Nafta has chosen replacement of the SPM with a new one. The Terminal was planning to be out of service for 10-14 days, barring weather delays. AB Mažeikių Nafta has accumulated sufficient crude inventory to keep its refinery operating during Būtingė's SPM replacement.

October 13, 2006 Fire at AB Mažeikių Nafta Extinguished: The fire having started at the Vacuum Distillation Unit of Operation Complex KT of AB Mažeikių Nafta at 2:34 p.m. was extinguished at 8:07 p.m. As already reported, the operation of the FCC Complex has been terminated. The remaining units of the Refinery operated at their minimum capacity mode. No people were injured during the incident. An Investigation Commission has been constituted at the Company which was investigating the causes of the incident.

October 13, 2006 Regarding Fire at AB Mažeikių Nafta (supplemented): On October 12, 2006, at 2.32 p.m., according to the preliminary data, there was a leakage of the bottom product at FCC Complex, Vacuum Distillation Tower consequentially the bottom product contacted with atmosphere causing the self-ignition of the bottom product. Because of the flame impact on the supporting structure of the Vacuum Distillation Tower, the latter started leaning and fell on the heat exchangers block. Additional petroleum products released and ignited. Vacuum Unit and Visbreaker experienced emergency shut-down, while the VGO Hydrotreatment Unit, FCC unit and MTBE Unit were subject to the routine shut-down. Fire rescue forces localized the fire which was completely extinguished at 8.09 p.m. Crude oil

refining is continued. Refining throughput of Mažeikiai Refinery was 12,000 tons per day without the Vacuum unit. AB Mažeikių Nafta handled the emergency response activities, and preparation for reinstatement of the previous capacities. Damage suffered by AB Mažeikių Nafta would be preliminary assessed upon completion of all necessary investigation activities.

October 13, 2006 Regarding Fire AB Mažeikių Nafta (supplemented): All AB Mažeikių Nafta property and business interruption losses were insured at the international insurance market via the broker AON Limited, London. The biggest insurance risk part (46.2 %) is shared among three companies: Liberty International Underwriters (London, UK), AIG Europe (UK) Limited and SCOR UK Company Limited. Property was insured under reinstatement value. AB Mažeikių Nafta liability insurance was arranged at the international insurance market as well. The insurance companies were informed regarding the incident.

October 16, 2006 Statement of AB Mažeikių Nafta: Following an incident at refinery on October 12, 2006, Management of AB Mažeikių Nafta has developed the action plan for emergency response. Refinery operations and product supply: Company operations have been organized to ensure petroleum product supplies to the markets and Baltic states (i.e. Lithuania, Latvia, and Estonia) with minimum impacts. Crude oil refining was continued. After the accident AB Mažeikių Nafta refinery operated at a throughput of 15,000 tons per day without the Vacuum unit. The refinery would face two or more stages of process recovery to achieve normal and optimal operations. The company estimated that it would take from 6 to 9 months for the Refinery could reach the pre-fire daily throughput of 27,400 tons a day. Financial impact: Based on the preliminary assessment, incident associated damages were estimated to be between 62 million and 131 million LTL (between 22.5 and 47.5 million USD). 2006 net profit of the Company was forecasted to be reduced due to the incident by 105 million LTL (38 million USD). Insurance: As previously reported AB Mažeikių Nafta had property and business interruption losses insured in the international insurance market via the broker AON Limited, London. The biggest insurance risk part (46.2 %) was shared among three companies: Liberty International Underwriters (London, UK), AIG Europe (UK) Limited and SCOR UK Company Limited. Property was insured under reinstatement value. AB Mažeikių Nafta liability insurance was secured in the international insurance market as well. Investigation: Currently the Company was involved in a thorough investigation of the incident supported by industry experts and including the involvement of state institutions. Upon completion of the investigation and more detailed assessment of the damage an adjusted estimate of greater accuracy would be developed and hopefully the true cause of the incident would be identified and understood with the ultimate goal of prevention of recurrence.

October 16, 2006 Fitch kept AB Mažeikių Nafta on Rating Watch Positive Despite Refinery Fire: Fitch Ratings was keeping Lithuanian oil refining company AB Mažeikių Nafta Issuer Default rating ('IDR') of 'B+' on Rating Watch Positive ('RWP') despite fire at its Mažeikiai refinery. AB Mažeikių Nafta's Short-term rating was affirmed at 'B'.

October 27, 2006 Presentation of the financial statements for 9 months of the year 2006: Financial statements of AB Mažeikių Nafta for 9 months of the year 2006 to be obtained from the Company's Auditor UAB PricewaterhouseCoopers by November 30, 2006.

October 27, 2006 AB Mažeikių Nafta Business Results for Nine Months of 2006 and Revised Forecast for the whole year 2006: Consolidated preliminary financial results for nine months of 2006: the Company earned 374.034 million LTL (133.928 million USD or 108.328 million EUR) of net profit during nine months of 2006 under International Financial Reporting Standards (IFRS), while net profit for nine months of 2005 was 776.066 million LTL (281.804 million USD). As a result of the 12th October fire AB Mažeikių Nafta revised

financial forecast for the year 2006. The Company planned to earn 245 million LTL (88 million USD or 71 million EUR) net profit in 2006. Company's revenues reached 10.017 billion LTL (3.610 billion USD or 2.9 billion EUR) during nine months of 2006, compared to 7.899 billion LTL (2.883 billion USD) revenues during the same period last year. Despite unfavourable situation in the world crude oil and products market, the Company managed to avoid losses in the third quarter. Rapid decline of crude and products prices in August and September negatively impacted value of inventories. This factor negatively affected the Company's performance results by 103 million LTL (38 million USD). Company sold 6.44 million tons of refined products during nine months of 2006 compared to 6.25 million tons for the same period of 2005. Western Europe remained the largest market for AB Mažeikių Nafta with 39 per cent of sales volumes (2.466 million metric tons) followed by Lithuania (22 per cent or 1,402 million metric tons) and the USA (18 per cent or 1,173 million metric tons). Estonia and Latvia each made for 7 per cent and Poland for 5 per cent of total sales (464 thousand, 438 thousand and 347 thousand metric tons respectively). The remaining 2 per cent of sales fell on the Ukraine and Moldova (146 thousand metric tons). AB Mažeikių Nafta refined almost 6.77 million metric tons of crude and other feedstock during the nine months of 2006, which was by 45 thousand metric tons more than in the same period last year. The Būtingė Terminal transhipped 4.47 million metric tons of crude during nine months of 2006 – 2.93 million metric tons for export and 1.54 million metric tons for import. In the same period of 2005, Būtingė Terminal operated in the export direction only and handled 4.2 million metric tons. The pipeline system transhipped 13 million metric tons of crude and diesel during nine months of 2006, compared to 14.79 million metric tons for the same period a year ago. AB Mažeikių Nafta collected and paid over 2.5 billion LTL in taxes during nine months of 2006. The company also repaid 21.1 million LTL (7.6 million USD) in principal on long-term loans and a total of 64 million LTL (23 million USD) in interest payments, including 42.5 million LTL (15.3 million USD) in interest paid to the state budget.

October 30, 2006 Re Convening of the Extraordinary General Meeting of Shareholders of AB Mažeikių Nafta: Under a decision of AB Mažeikių Nafta Board the Extraordinary General Meeting of Shareholders of AB Mažeikių Nafta, Company's Code 166451720, Headquarters address: Juodeikiai, 89467 Mažeikiai District would be held on December 5, 2006 at 11:00 a.m. in the premises of AB Mažeikių Nafta, Juodeikiai, 89467 Mažeikiai District. Meeting accounting day was November 28, 2006. The agenda of the Extraordinary General Meeting of Shareholders of AB Mažeikių Nafta: (i) Regarding reorganization of AB Mažeikių Nafta; (ii) Regarding approval of the amended Articles of Association of AB Mažeikių Nafta.

October 30, 2006 Re draft decisions of the Extraordinary General Meeting of Shareholders of AB Mažeikių Nafta to be held on December 5, 2006: (i) To reorganize AB Mažeikių Nafta in accordance with Paragraph 3 of Article 2.97 of the Civil Code of the Republic of Lithuania by way of merger of AB Mažeikių Elektrinė, which will be wound up as a legal person after reorganization, into AB Mažeikių Nafta continuing its activities after reorganization in accordance with the Terms of Reorganization of AB Mažeikių Nafta and AB Mažeikių Elektrinė. (ii) To approve the amended Articles of Association of AB Mažeikių Nafta continuing its activities after reorganization of AB Mažeikių Elektrinė and AB Mažeikių Nafta.

October 30, 2006 Notice of Intended Reorganization: On October 28, 2006, the Board of the public company Mažeikių Nafta, code of legal entity 1664 51720, approved Terms of Reorganization of Public Company Mažeikių nafta and AB Mažeikių Elektrinė ("Reorganization Terms").

October 30, 2006 Regarding recovery plan associated with the accident in FCC Complex of AB Mažeikių Nafta: The operation of Vacuum tower of AB Mažeikių Nafta Bitumen and Sulfur Plant was scheduled to be renewed by the end of December. This would allow increasing the yield of light petroleum products by 22% and reducing the yield of heavy oil products.

November 10, 2006 Regarding Resignation of AB Mažeikių Nafta Board Members: On November 9, 2006 the four members of AB Mažeikių Nafta Board submitted their notices so that to give the Company a warning of their resignation according to the procedure prescribed by the Law on Companies. Upon resignation of the four Board members after 14 days from the submission date of the said notices, the members of the Board would comprise less than 2/3 of the Board's composition indicated in the Articles of Association.

November 13, 2006 Regarding Convening of the Extraordinary General Meeting of Shareholders of AB Mažeikių Nafta: By decision of the General Director of AB Mažeikių Nafta (at initiative of Yukos International UK B.V., the shareholder of AB Mažeikių Nafta) the Extraordinary General Meeting of Shareholders of AB Mažeikių Nafta (company code 166451720, legal address: Juodeikiai, 89467 Mažeikiai District) was convened on December 14, 2006, at 11:00 a.m. The General Meeting of Shareholders was held in the Administrative building of AB Mažeikių Nafta, at Juodeikiai, Mažeikiai District. Meeting record date: December 7, 2006. Agenda of the Extraordinary General Meeting of Shareholders of AB Mažeikių Nafta: 1. Regarding recalling of the members of the Supervisory Council of AB Mažeikių Nafta and election of new members to the Supervisory Council of the Company.

November 14, 2006 AB Mažeikių Nafta Operations: In order to minimize the losses associated with the 12th October fire the Company is purchasing vacuum gasoil. In addition the operations in KT Vacuum Gasoil Hydrotreatment Unit and Catalytic Cracker were resumed. This allowed increasing yields of light products by 4 per cent (up to 53 per cent). AB Mažeikių Nafta resumed sales of motor LPG. The quantity of motor LPG scheduled for sales amounts to 5,000 tons per month. The Company was running almost 18,000 tons of crude oil and other feedstock daily, as scheduled.

November 16, 2006 Regarding Resignation of the Member of AB Mažeikių Nafta Supervisory Council. On November 14, 2006 Piotr S. Zolotariov, a Chairman of AB Mažeikių Nafta Supervisory Council submitted his notice as to, according to the procedure prescribed by the Law on Companies, give the Company a 14-day warning of his resignation from the Supervisory Council members.

November 17, 2006 Regarding Resignation of the Member of AB Mažeikių Nafta Supervisory Council: On November 14, 2006 Oleg V. Seiko, a member of AB Mažeikių Nafta Supervisory Council submitted his notice as to, according to the procedure prescribed by the Law on Companies, give the Company a 14-day notice of his resignation from the Supervisory Council members.

November 24, 2006 Changes in the management bodies of AB Mažeikių Nafta: On November 24, 2006, the Supervisory Council of AB Mažeikių Nafta elected Daniel Feldman, Director of Big Sky Energy Corp., Dariusz Formela, Executive Director of Business Organization Department of PKN Orlen, Krystian Pater, Executive Director of Refinery Production for PKN Orlen, and Paul Nelson English, General Director of AB Mažeikių Nafta, as new members of the Board of AB Mažeikių Nafta. The new members replaced Mikhail V. Elfimov, Tomas Gižas, Vladislavas Paulius and Yury V. Kalner who resigned from the Board. Supervisory Council of AB Mažeikių Nafta recalled Piotr S. Zolotariov from the

position of the Chairman of the Supervisory Council and elected Martin J. Parr as new Chairman of the Supervisory Council of AB Mažeikių Nafta.

Decemebr 5, 2006 Resolutions of Extraordinary General Meeting of Shareholders of AB Mažeikių Nafta of December 5, 2006: Extraordinary General Meeting of Shareholders of AB Mažeikių Nafta decided on the following actions: 1. To reorganize AB Mažeikių Elektrinė, which will be wound up as a legal person after reorganization, by way of merger into AB Mažeikių Nafta continuing its activities after reorganization in accordance with the Terms of Reorganization of AB Mažeikių Nafta and AB Mažeikių Elektrinė. 2.1. To approve the amended Articles of Association of AB Mažeikių Nafta continuing its activities after reorganization of AB Mažeikių Elektrinė; 2.2. To authorize Paul Nelson English, General Director of AB Mažeikių Nafta, to sign the amended Articles of Association of the Company and submit these for registration with the Register of Legal Entities in accordance with the procedure established by laws.

Decemebr 5, 2006 Draft decisions of the Extraordinary General Meeting of Shareholders of AB Mažeikių Nafta to be held on December 14, 2006: To recall [persons to be indicated by Yukos International UK B.V. prior or on the December 14, 2006 GMS] from the Supervisory Council of AB Mažeikių Nafta and to elect [candidates to the Supervisory Council of AB Mažeikių Nafta to be proposed prior or on the December 14, 2006 GMS by the persons entitled to suggest nominees to the Supervisory Council of the Company] as new members of the Supervisory Council of AB Mažeikių Nafta until the expiry of the term of office of the presently functioning Supervisory Council of the Company.

Decemebr 14, 2006 Resolutions of Extraordinary General Meeting of Shareholders of AB Mažeikių Nafta of December 14, 2006: Extraordinary General Meeting of Shareholders of AB Mažeikių Nafta decided: 1. To recall Pavel I. Ivlev, Vladimir N. Kasterin and Martin Parr from the Supervisory Council of the Company from December 14, 2006. 2. To elect Marek Moroz, Czesław Bugaj, Wojciech Wroblewski, Piotr Kearney, Rafał Zwierz and Marcin Wasilewski as new members of the Supervisory Council of AB Mažeikių Nafta.

Decemebr 14, 2006 Election of Management Bodies of AB Mažeikių Nafta: On December 14, 2006, the Supervisory Council of AB Mažeikių Nafta elected Marek Moroz as the Chairman of the Supervisory Council. The Supervisory Council of AB Mažeikių Nafta recalled Daniel Feldman, Dariusz Formela, Krystian Pater and Paul Nelson English from the Board of the Company and elected the new ones: Jan Maciejewicz, Krystian Pater, Paul Nelson English and Paweł Szymanski.

Decemebr 15, 2006 Election of Management Bodies of AB Mažeikių Nafta: On December 15, 2006, the Supervisory Council of AB Mažeikių Nafta recalled Nerijus Eidukevičius, Gediminas Vaičiūnas and Petras Lapeška from the members of the Board of the Company and elected the new ones: Igor Chalupec, Piotr Kownacki and Saulius Spėčius. Igor Chalupec is elected as the Chairman of the Board of AB Mažeikių Nafta.

Decemebr 15, 2006 Sale of a 84.36% block of shares of AB Mažeikių Nafta: On December 15, 2006 Polski Koncern Naftowy ORLEN S.A. (PKN ORLEN) purchased 379,918,411 and 216,915,941 shares of AB Mažeikių Nafta from Yukos International UK B.V. and the Government of the Republic of Lithuania respectively. After finalising these transactions PKN ORLEN became the holder of a total number of 596,834,352 (84.36%) shares of AB Mažeikių Nafta.

December 15, 2006 PKN Orlen Acquired AB Mažeikių Nafta. Igor Chalupiec Elected as Chairman of the Board: Today PKN ORLEN became the holder of a total number of 596,834,352 shares of AB Mažeikių Nafta with the par value of 1 LTL. The AB Mažeikių Nafta shares held by PKN ORLEN represent 84.36% of AB Mažeikių Nafta's authorized capital and entitle PKN ORLEN to 596,834,352 votes or 84.36% of the total number of votes at the General Meeting of Shareholders of AB Mažeikių Nafta. The price paid for 379,918,411 AB Mažeikių Nafta shares purchased by PKN ORLEN from Yukos International amounted to 1,492,000,000 USD. The price paid by PKN ORLEN for 216,915,941 AB Mažeikių Nafta shares purchased from the Government of the Republic of Lithuania amounted to 851,828,900.31 USD. Today's meeting of the Supervisory Council of AB Mažeikių Nafta elected Igor Chalupiec, Piotr Kownacki and Saulius Specius as new members of the Board of AB Mažeikių Nafta. The meeting of the Board of AB Mažeikių Nafta followed the Supervisory Council meeting and elected Igor Chalupiec as the Chairman of the Board.

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

In 2007 it is projected to process 6.5 million tons of feedstock in the Oil Refinery, import 5.8 million tons of crude oil through Būtingė Oil Terminal and transport 6.8 million tons of diesel by Biržai Pipeline towards Ventspils. In 2007 it is planned to reconstruct some of AB Ventus-Nafta filling station, arrange new washing facilities and increase sales of fuels by 21% and goods – by 15%.

On January 5, 2007 the Company signed the agreement granting PKN ORLEN with the exclusive rights to supply crude oil to the Company. The agreement has been signed for unlimited term and it is related to crude oil purchase centralization in PKN ORLEN Group.

One of the major initiatives of the new Company's shareholder is the Value Creation Program started at the beginning of 2007. It is intended for establishment of the perspective strategy and the activity trends of the Company and the companies of its Group. This program should also assist in improvement of the Company's management processes, reduction of costs, improvement and implementation of the new process technologies seeking for challenging long-term goals.

The program participants will set and generate ideas, which later on become the properly prepared initiatives in the business teams including the areas such as production and its improvement, logistics, retail and wholesale trade, personnel, procurement and cost management, IT, finance management and other.

In 2007 the Company will proceed with the implementation of the projects under Modernization Program. After implementation of these projects the crude oil conversion is supposed to increase as well as the profitability per ton of feedstock processed.

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

- Financial – aiming at the optimal profit, maximization of the value of shareholders' assets;
- Economic – financial control and analysis improvement, revenue increase and cost reduction in every division.

- Operational – operation at full production capacity, improvement of operational processes for the purpose to achieve financial goals and lay foundations for future progress;
- Sales and marketing – retention of market share and penetration into new profitable markets, development of services;
- Management – to employ Company personnel in the most effective way and further contribute to their professional development through career planning and training.

The Company will further pursue the goal of creating shareholder value by trying to achieve the operational excellence in the spheres of crude refining, production, marketing, logistics, and financial management and organizational improvements, by becoming one of the most successful and efficient oil companies in North East Europe.