



# BASHNEFT

**Management's analysis of financial position and operating  
results of Bashneft Group for the three months ended  
30 June and 31 March 2012, and for the six months ended  
30 June 2012 and 2011**



This report contains a review of financial position and operating results of JSOC Bashneft and includes operating results of Bashneft Group for the six months ended 30 June 2012. The terms “Bashneft”, “Bashneft Group” and “the Group” in various forms mean JSOC Bashneft and its subsidiaries and special purpose entities. The financial position and operating results analysed in this document are consolidated data on Bashneft Group.

Certain statements in this report may contain assumptions or forecasts with respect to forthcoming events within Bashneft Group. Such statements may contain the words “is expected”, “is estimated”, “intends”, “will”, “could”, negations of these expressions or other similar expressions. These statements are only assumptions, and actual events or results may differ materially from them. Actual results of Bashneft Group may differ substantially from what is declared in our assumptions and forecasts as a result of a large number of factors. Such factors may include the general economic conditions, Bashneft’s competitive environment, risks associated with operating in Russia, rapid technological and market changes in the Company’s areas of business, as well as many other risks directly related to Bashneft Group.

The barrel-tonne conversion factor used in this report is 7.3.

The financial results of Bashneft Group for the 6 months of 2011 have been adjusted for the financial results of OJSC Bashkirenergo, which was deconsolidated in May 2011.



## **OVERVIEW**

Bashneft Group is one of Russian leading vertically integrated oil companies involved in crude oil production and refining, as well as in selling oil and petroleum products.

The Group was established as an open joint-stock company on 13 January 1995 after the privatization of Bashneft production association.

The Group holds licences for the development of 188 oil and gas fields in the Republic of Bashkortostan, the Khanty-Mansi Autonomous District, the Nenets Autonomous District, the Orenburg Region and the Republic of Tatarstan. 166 of the Group's fields are in commercial production.

According to the results of an audit conducted by Miller & Lents Ltd. using international PRMS (SPE) criteria, the Group's proved oil reserves as of 31 December 2011 amounted to 278.5 million tonnes. Bashneft Group has a reserves-to-production ratio of 18.5 years. Proved and probable (2P) reserves totalled 337.5 million tonnes. Overall reserves of Bashneft Group (including possible reserves) amounted to 419.2 million tonnes. For the six months ended 30 June 2012, production at the developed licence areas totalled 7.7 million tonnes.

Bashneft Group includes three refineries, OJSC Ufaneftekhim, OJSC Ufimsky refinery plant, OJSC Novoil, and a petrochemical plant, OJSC Ufaorgsintez. The Group has some of the most technologically advanced facilities in Russia that are leaders in terms of refining depth and quality of petroleum products and petrochemicals. The refineries' installed capacity totals 24.1 million tonnes of hydrocarbons per year.

For the six months ended 30 June 2012, the Group's refineries processed 10.1 million tonnes of hydrocarbons. The average refining depth amounted to 85.1%, which is one of the best results among Russian vertically integrated oil companies.

In 2011, Bashneft Group produced about 13% of gasoline manufactured in Russia. The Group's engine fuels fully comply with the standards of the Technical Regulations for fuels (Euro 3); the Group also produces gasoline and diesel fuel to Euro 4 and Euro 5 standards.

OJSC Ufaorgsintez is a major producer of phenol, acetone, high-density polyethylene and polypropylene.

For the six months ended 30 June 2012, Bashneft Group sold 5.0 million tonnes of petroleum products and petrochemicals on the domestic market and exported 4.1 million tonnes of petroleum products and petrochemicals. The Group also sold 2.4 million tonnes of crude oil, including 2.2 million tonnes of exported crude oil.

As of 30 June 2012, Bashneft Group owned 486 filling stations.

## **KEY FINANCIAL AND OPERATING RESULTS**

	2Q	1Q		1H	1H	
	2012	2012	Change	2012	2011	Change
Sales revenue (US\$ million)	4,082	3,923	4.1%	8,005	8,008	0.0%
EBITDA (US\$ million)	763	824	-7.4%	1,587	1,648	-3.7%
Operating profit (US\$ million)	601	678	-11.4%	1,279	1,331	-3.9%
Profit for the period attributable to the owners of the parent company (US\$ million)	337	444	-24.1%	781	902	-13.4%
Net debt (US\$ million)	2,103	2,346	-10.4%	2,103	2,693	-21.9%
Oil production (thousand tonnes)	3,811	3,840	-0.8%	7,651	7,418	3.1%
Oil refining (thousand tonnes)	4,954	5,120	-3.2%	10,074	10,430	-3.4%

Major events during six months of 2012 that had an impact on the performance of Bashneft Group:

- in January and February 2012, Bashneft Group won auctions for the right to conduct geological exploration, prospecting, surveying and production of hydrocarbons at the Priikskiy, Yangareyskiy and Sabriyaginskiy subsoil block;
- in February 2012, Bashneft Group issued series 04 corporate bonds with a total book value of 10 billion roubles;
- in April 2012 Bashneft has acquired a 100% stake in LLC Uraloil owning a network of 12 filling stations in the Kurgan region operating under the brand name TRANSOIL;
- in April 2012 International rating agency Moody's Investors Service assigned a Ba2 corporate family rating and probability of default rating to the Company, in May 2012 International rating agency Fitch assigned the Company Long-term foreign and local currency Issuer Default Ratings of 'BB';
- in May 2012, the Federal Subsoil Resources Management Agency cancelled the order to transfer the licence for the R. Trebs and A. Titov oilfields located in the Nenets Autonomous District from JSOC Bashneft to LLC Bashneft-Polyus (a joint venture of the Group and OJSC Lukoil); as a result, the licence was returned to JSOC Bashneft;
- in March 2012, Bashneft's Board of Directors approved the plan of Group's reorganization through a consolidation of its subsidiaries, OJSC Ufaneftekhim, OJSC Novoil, OJSC Ufimsky refinery plant, OJSC Bashkirnefteprodukt and OJSC Orenburgnefteprodukt with Bashneft. The shares of the subsidiaries are to be exchanged for the shares of Bashneft. On 27 April 2012, the Extraordinary General Meeting of Shareholders of JSOC Bashneft was convened; it made the decision to reorganize the Group through a consolidation of its subsidiaries with Bashneft and approved the Consolidation Agreement. In June 2012, as part of reorganization of the Group, JSOC Bashneft and its subsidiaries (OJSC Ufimsky refinery plant, OJSC Novoil, OJSC Ufaneftekhim, OJSC Bashkirnefteprodukt, and OJSC Orenburgnefteprodukt) bought back the securities from the shareholders who had submitted buyback requests. The amount of funds transferred by the companies mentioned above for the buyout of shares totalled US\$ 576 million.

## **MAIN FACTORS INFLUENCING OPERATING RESULTS**

Operating results of Bashneft Group depend on the following key external factors:

- international and domestic market prices for crude oil and petroleum products;
- rouble/dollar exchange rate and inflation rate;
- taxation and government regulation of tariffs of natural monopolies.

### **Prices for crude oil and petroleum products**

Price for crude oil and petroleum products is the main factor determining financial and, indirectly, operating results of Bashneft Group. The Group's ability to control the prices for its products is limited, as these prices mostly depend on the global market and on the supply and demand balance in particular regions of Russia. A decrease in prices for crude oil or petroleum products may adversely affect Bashneft's performance and financial position, lead to a reduction of oil production profitability of the Group. This will result in a decline in the volume of Bashneft's economically effective hydrocarbon reserves for development and economic efficiency of its geological exploration programmes and geological and engineering operations.

	<u>2Q</u>	<u>1Q</u>		<u>1H</u>	<u>1H</u>	
	2012	2012	Change	2012	2011	Change
<b>Prices for crude oil and petroleum products<sup>1</sup></b>						
Brent crude (US\$ per barrel)	108.3	118.6	-8.7%	113.6	110.9	2.4%
Urals crude (US\$ per barrel)	106.8	117.0	-8.7%	112.1	108.1	3.7%
Fuel oil (average FOB Rotterdam/CIF NWE) (US\$ per tonne)	625.8	686.3	-8.8%	657.0	589.9	11.4%
Diesel fuel (average FOB Rotterdam/CIF NWE) (US\$ per tonne)	926.7	993.6	-6.7%	961.2	920.9	4.4%
Naphtha (average FOB Rotterdam/CIF NWE) (US\$ per tonne)	876.6	1,014.3	-13.6%	947.7	944.5	0.3%
Vacuum gas oil (FOB NWE) (US\$ per tonne)	772.2	833.7	-7.4%	803.9	767.4	4.8%
<b>Russian market (US\$ per tonne, with excises, not including VAT)<sup>2</sup></b>						
Crude oil	306.4	352.6	-13.1%	329.2	313.0	5.2%
Fuel oil	295.2	295.9	-0.2%	295.5	283.1	4.4%
Diesel fuel (summer gasoil)	722.7	706.3	2.3%	714.6	650.2	9.9%
Diesel fuel (winter gasoil)	752.7	811.7	-7.3%	781.8	738.8	5.8%
High-octane gasoline	788.2	766.4	2.8%	777.5	809.0	-3.9%
Low-octane gasoline	742.0	747.7	-0.8%	744.8	744.3	0.1%

### **Rouble/dollar exchange rate and inflation rate**

Over 50% of the Group's revenue comes from exports of oil and petroleum products. Therefore, fluctuations in rouble exchange rates have a direct impact on the financial and operating results of Bashneft Group.

<sup>1</sup> Source: Platts

<sup>2</sup> Source: Kortes



Besides, the Consumer Price Index also affects the financial position of Bashneft Group; the inflation rate affects both the capital and operating expenses of the Group.

	2Q	1Q		1H	1H	
	2012	2012	Change	2012	2011	Change
Rouble inflation (Consumer Price Index) during the stated periods <sup>3</sup>	1.7%	1.5%	0.2 p.p.	3.2%	5.0%	-1.8 p.p.
Rouble/dollar exchange rate at the end of the period	32.8	29.3	11.9%	32.8	28.1	16.7%
Rouble/dollar exchange rate, period average	31.0	30.3	2.3%	30.6	28.6	7.0%

### **Taxation**

Price fluctuations on the foreign markets also affect export duties and mineral extraction tax.

	2Q	1Q		1H	1H	
	2012	2012	Change	2012	2011	Change
<b>Mineral extraction tax (roubles per tonne)</b>						
Crude oil	4,826	5,284	-8.7%	5,055	4,278	18.2%
<b>Export duty (US\$ per tonne)</b>						
Crude oil	443	401	10.5%	422	395	6.8%
Gasoline	399	361	10.5%	380	302	25.8%
Light and medium distillates	292	265	10.2%	278	267	4.1%
Fuel oil	292	265	10.2%	278	180	54.4%

According to the amendments to the tax legislation that became effective in December 2010, excise rates are increased and differentiated in accordance with the requirements for fuel quality:

<sup>3</sup> Source: Rosstat



(roubles per tonne)	2011	1 January - 30 June 2012	1 July - 31 December, 2012	2013	2014
<b>Gasoline</b>					
non-compliant with class 3, 4, 5	5,995	7,725	8,225	10,100	11,110
compliant with class 3	5,672	7,382	7,882	9,750	10,725
compliant with class 4	5,143	6,822	6,822	8,560	9,416
compliant with class 5	5,143	6,822	5,143	5,143	5,657
<b>Naphtha</b>	6,089	7,824	7,824	9,617	10,579
<b>Diesel fuel</b>					
non-compliant with class 3, 4, 5	2,753	4,098	4,300	5,860	6,446
compliant with class 3	2,485	3,814	4,300	5,860	6,446
compliant with class 4	2,247	3,562	3,562	4,934	5,427
compliant with class 5	2,247	3,562	2,962	4,334	4,767
<b>Lubricants</b>	4,681	6,072	6,072	7,509	8,260

### Mineral extraction tax

Mineral extraction tax rate is calculated based on Urals world prices in dollars per barrel of crude oil and is set monthly in Russian roubles based on the exchange rate for the corresponding month.

The Tax Code of the Russian Federation stipulates reduced or zero mineral extraction tax rate for certain fields. A number of Bashneft Group's fields have a level of depletion exceeding 80%; as a result, actual mineral extraction tax expenses for the six months ended 30 June 2012 are 27% lower than the current mineral extraction tax rate.

	2Q 2012	1Q 2012	Change	1H 2012	1H 2011	Change
<b>Mineral extraction tax</b>						
Current mineral extraction tax rates (US\$ per barrel)	21.3	23.9	-10.9%	22.6	20.5	10.2%
Actual mineral extraction tax expenses (US\$ per barrel)	16.0	17.1	-6.4%	16.5	15.6	5.8%



## **OPERATING RESULTS**

### **Production**

	2Q	1Q		1H	1H	
	2012	2012	Change	2012	2011	Change
Crude oil production (thousand tonnes)	3,811	3,840	-0.8%	7,651	7,418	3.1%
Daily average production of crude oil (thousand barrels per day)	305.7	308.0	-0.7%	306.9	299.2	2.6%

An increase in crude oil production for the six months of 2012 as compared to the same period in 2011 is due to improved efficiency of production drilling and the use of enhanced oil recovery techniques in 2011.

Starting from the 4th quarter of 2011, crude oil production became stable and remained at the level of 3.8 million tonnes.

### **Refining**

	2Q	1Q		1H	1H	
(thousand tonnes)	2012	2012	Change	2012	2011	Change
<b>Crude oil refining</b>	<b>4,954</b>	<b>5,120</b>	<b>-3.2%</b>	<b>10,074</b>	<b>10,430</b>	<b>-3.4%</b>
<b>Production of petroleum products</b>						
Gasolines (including SNG*)	1,036	1,201	-13.7%	2,237	2,356	-5.1%
Diesel fuel	1,734	1,777	-2.4%	3,511	3,726	-5.8%
Fuel oil	592	765	-22.6%	1,357	1,184	14.6%
Vacuum gas oil	464	320	45.0%	784	1,015	-22.8%
Other	648	506	28.1%	1,154	1,144	0.9%
<b>Total production of petroleum products</b>	<b>4,474</b>	<b>4,569</b>	<b>-2.1%</b>	<b>9,043</b>	<b>9,425</b>	<b>-4.1%</b>
Refining depth (%)	85.8%	84.3%	1.5 p.p.	85.1%	86.6%	-1.5 p.p.
Share of light products (%)	57.9%	59.9%	-2.0 p.p.	58.9%	59.5%	-0.6 p.p.

\*Stable natural gasoline

In the 2nd quarter of 2012, crude oil refining volume amounted to 4,954 thousand tonnes, having decreased by 3.2%, which was above all due to the stoppage of the Ufimsky refinery plant for scheduled major overhaul and repair works at Novoil.

Due to repairs conducted at the Ufimsky refinery plant, the basket of petroleum products was reshaped, the emphasis being shifted towards production of vacuum gas oil, which also affected the share of light products. At the same time, refining depth increased by 1.5 p.p. and reached 85.8%, which was due to a decrease in fuel oil production.

For the six months of 2012, the refining volume totalled 10,074 thousand tonnes, having decreased by 3.4% compared to the same period in 2011, which was also due to scheduled maintenance in 2012.



## FINANCIAL RESULTS

### CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME FOR THE SIX MONTHS ENDED 30 JUNE 2012

(US\$ million)	2Q 2012	1Q 2012	Change	1H 2012	1H 2011	Change
<b>Revenue</b>						
Crude oil sales	885	926	-4.4%	1,811	1,553	16.6%
Petroleum products and petrochemicals sales	3,085	2,869	7.5%	5,954	6,245	-4.7%
Other sales	112	128	-12.5%	240	210	14.3%
<b>Total revenue</b>	<b>4,082</b>	<b>3,923</b>	<b>4.1%</b>	<b>8,005</b>	<b>8,008</b>	<b>0.0%</b>
<b>Operating expenses</b>						
Export duties and excises	(1,189)	(1,000)	18.9%	(2,189)	(1,981)	10.5%
Cost of purchased crude oil, gas and petroleum products	(855)	(974)	-12.2%	(1,829)	(1,953)	-6.3%
Taxes other than income tax	(555)	(538)	3.2%	(1,093)	(1,022)	6.9%
Production and operating expenses	(447)	(373)	19.8%	(820)	(792)	3.5%
Transportation expenses	(207)	(179)	15.6%	(386)	(369)	4.6%
Depletion and depreciation	(162)	(146)	11.0%	(308)	(317)	-2.8%
Selling, general and administrative expenses	(121)	(101)	19.8%	(222)	(223)	-0.4%
Other operating income/(expenses), net	55	66	-16.7%	121	(20)	-705.0%
<b>Total costs and expenses</b>	<b>(3,481)</b>	<b>(3,245)</b>	<b>7.3%</b>	<b>(6,726)</b>	<b>(6,677)</b>	<b>0.7%</b>
<b>Operating profit</b>	<b>601</b>	<b>678</b>	<b>-11.4%</b>	<b>1,279</b>	<b>1,331</b>	<b>-3.9%</b>
<b>Other (expenses)/income</b>						
Financial costs	(97)	(94)	3.2%	(191)	(238)	-19.7%
Financial income	43	36	19.4%	79	36	119.4%
Foreign exchange gains/(losses), net	29	1	n/a	30	(45)	-166.7%
Share in the (losses)/profit of associates and joint ventures	(54)	12	-550.0%	(42)	47	-189.4%
<b>Total other expenses</b>	<b>(79)</b>	<b>(45)</b>	<b>75.6%</b>	<b>(124)</b>	<b>(200)</b>	<b>-38.0%</b>
<b>Profit before tax</b>	<b>522</b>	<b>633</b>	<b>-17.5%</b>	<b>1,155</b>	<b>1,131</b>	<b>2.1%</b>
Income tax	(142)	(136)	4.4%	(278)	(239)	16.3%
Profit for the period from continuing operations	380	497	-23.5%	877	892	-1.7%
Profit for the period from discontinued operations	-	-	-	-	124	-100.0%
<b>Profit for the period</b>	<b>380</b>	<b>497</b>	<b>-23.5%</b>	<b>877</b>	<b>1,016</b>	<b>-13.7%</b>
Profit for the period attributable to non-controlling interests	43	53	-18.9%	96	114	-15.8%
<b>Profit for the period attributable to owners of the parent company</b>	<b>337</b>	<b>444</b>	<b>-24.1%</b>	<b>781</b>	<b>902</b>	<b>-13.4%</b>

## CONSOLIDATED STATEMENT OF FINANCIAL POSITION AT 30 JUNE 2012

(US\$ million)	30 June 2012	31 March 2012	Change	30 June 2012	31 December 2011	Change
<b>ASSETS</b>						
<b><i>Non-current assets</i></b>						
Property, plant and equipment	8,393	8,622	-2.7%	8,393	7,882	6.5%
Advances paid for acquisition of property, plant and equipment	43	51	-15.7%	43	51	-15.7%
Intangible assets	44	50	-12.0%	44	47	-6.4%
Financial assets	107	120	-10.8%	107	155	-31.0%
Investments in associates and joint ventures	804	1,223	-34.3%	804	1,104	-27.2%
Long-term inventories	56	66	-15.2%	56	62	-9.7%
Other non-current assets	1	4	-75.0%	1	3	-66.7%
<b>Total non-current assets</b>	<b>9,448</b>	<b>10,136</b>	<b>-6.8%</b>	<b>9,448</b>	<b>9,304</b>	<b>1.5%</b>
<b><i>Current assets</i></b>						
Inventories	809	1,020	-20.7%	809	748	8.2%
Financial assets	2,171	2,494	-13.0%	2,171	1,073	102.3%
Trade and other receivables	610	786	-22.4%	610	509	19.8%
Advances to suppliers and prepaid expenses	153	198	-22.7%	153	158	-3.2%
Income tax prepaid	29	33	-12.1%	29	13	123.1%
Other refundable taxes	592	1,024	-42.2%	592	886	-33.2%
Cash and cash equivalents	476	466	2.1%	476	881	-46.0%
Other current assets	-	-	-	-	1	-100.0%
<b>Total current assets</b>	<b>4,840</b>	<b>6,021</b>	<b>-19.6%</b>	<b>4,840</b>	<b>4,269</b>	<b>13.4%</b>
<b>TOTAL ASSETS</b>	<b>14,288</b>	<b>16,157</b>	<b>-11.6%</b>	<b>14,288</b>	<b>13,573</b>	<b>5.3%</b>
<b><i>Capital and reserves</i></b>						
Share capital	77	77	0.0%	77	77	0.0%
Treasury shares	(794)	(464)	71.1%	(794)	(464)	71.1%
Additional paid-in capital	1,291	1,160	11.3%	1,291	1,160	11.3%
Foreign currency translation reserve	(743)	(16)	n/a	(743)	(575)	29.2%
Retained earnings	5,642	5,856	-3.7%	5,642	5,412	4.2%
<b>Equity attributable to owners of the parent company</b>	<b>5,473</b>	<b>6,613</b>	<b>-17.2%</b>	<b>5,473</b>	<b>5,610</b>	<b>-2.4%</b>
Non-controlling interests	1,126	1,632	-31.0%	1,126	1,438	-21.7%
<b>Total capital and reserves</b>	<b>6,599</b>	<b>8,245</b>	<b>-20.0%</b>	<b>6,599</b>	<b>7,048</b>	<b>-6.4%</b>



(US\$ million)	30 June 2012	31 March 2012	Change	30 June 2012	31 December 2011	Change
<b><i>Non-current liabilities</i></b>						
Borrowings	3,444	3,869	-11.0%	3,444	2,965	16.2%
Decommissioning provision	303	332	-8.7%	303	295	2.7%
Deferred taxes payable	1,112	1,078	3.2%	1,112	947	17.4%
Other non-current liabilities	160	28	471.4%	160	24	566.7%
<b>Total non-current liabilities</b>	<b>5,019</b>	<b>5,307</b>	<b>-5.4%</b>	<b>5,019</b>	<b>4,231</b>	<b>18.6%</b>
<b><i>Current liabilities</i></b>						
Borrowings	486	575	-15.5%	486	420	15.7%
Trade and other payables	699	943	-25.9%	699	726	-3.7%
Dividends payable	561	8	n/a	561	8	n/a
Advances received	457	409	11.7%	457	531	-13.9%
Provisions	1	32	-96.9%	1	101	-99.0%
Income taxes payable	38	44	-13.6%	38	42	-9.5%
Other taxes payable	428	594	-27.9%	428	466	-8.2%
<b>Total current liabilities</b>	<b>2,670</b>	<b>2,605</b>	<b>2.5%</b>	<b>2,670</b>	<b>2,294</b>	<b>16.4%</b>
<b>TOTAL LIABILITIES</b>	<b>7,689</b>	<b>7,912</b>	<b>-2.8%</b>	<b>7,689</b>	<b>6,525</b>	<b>17.8%</b>
<b>TOTAL EQUITY AND LIABILITIES</b>	<b>14,288</b>	<b>16,157</b>	<b>-11.6%</b>	<b>14,288</b>	<b>13,573</b>	<b>5.3%</b>



**CONSOLIDATED STATEMENT OF CASH FLOWS FOR THE SIX MONTHS ENDED 30 JUNE  
2012**

(US\$ million)	2Q 2012	1Q 2012	Change	1H 2012	1H 2011	Change
<b>OPERATING ACTIVITIES</b>						
<b>Profit before tax from continuing and discontinued operations</b>	<b>522</b>	<b>633</b>	<b>-17.5%</b>	<b>1,155</b>	<b>1,279</b>	<b>-9.7%</b>
Adjustments <sup>4</sup> :						
Depletion and depreciation	162	146	11.0%	308	358	-14.0%
Loss on disposal and impairment of property, plant and equipment	14	10	40.0%	24	10	140.0%
Financial income	(43)	(36)	19.4%	(79)	(42)	88.1%
Financial costs	97	94	3.2%	191	239	-20.1%
Share in the losses/ (profits) of associates and joint ventures	54	(12)	-550.0%	42	(47)	-189.4%
Foreign exchange (gains)/losses, net	(4)	(9)	-55.6%	(13)	45	-128.9%
Change in provisions	(27)	(77)	-64.9%	(104)	-	n/a
Other	(10)	6	-266.7%	(4)	(11)	-63.6%
<b>Operating cash flow before working capital changes</b>	<b>765</b>	<b>755</b>	<b>1.3%</b>	<b>1,520</b>	<b>1,831</b>	<b>-17.0%</b>
Movements in working capital:						
Inventories	107	(180)	-159.4%	(73)	(138)	-47.1%
Trade and other receivables	137	(201)	-168.2%	(64)	(455)	-85.9%
Advances to suppliers and prepaid expenses	26	(24)	-208.3%	2	23	-91.3%
Other taxes refundable	346	(51)	-778.4%	295	(305)	-196.7%
Trade and other payables	(159)	150	-206.0%	(9)	119	-107.6%
Advances received	100	(168)	-159.5%	(68)	(238)	-71.4%
Other taxes payable	(111)	85	-230.6%	(26)	230	-111.3%
<b>Cash generated from operations</b>	<b>1,211</b>	<b>366</b>	<b>230.9%</b>	<b>1,577</b>	<b>1,067</b>	<b>47.8%</b>
Interest paid	(101)	(62)	62.9%	(163)	(232)	-29.7%
Income tax paid	(110)	(118)	-6.8%	(228)	(221)	3.2%
<b>Net cash flow generated from operating activities</b>	<b>1,000</b>	<b>186</b>	<b>437.6%</b>	<b>1,186</b>	<b>614</b>	<b>93.2%</b>
<b>INVESTING ACTIVITIES</b>						
Purchase of property, plant and equipment	(274)	(162)	69.1%	(436)	(374)	16.6%
Payments for acquisition of financial assets less proceeds from disposal	94	(1,245)	-107.6%	(1,151)	(152)	657.2%
Other	(47)	7	-771.4%	(40)	(114)	-64.9%
<b>Net cash used in investing activities</b>	<b>(227)</b>	<b>(1,400)</b>	<b>-83.8%</b>	<b>(1,627)</b>	<b>(640)</b>	<b>154.2%</b>

<sup>4</sup> Both for continuing and discontinued operations.



(US\$ million)	2Q 2012	1Q 2012	Change	1H 2012	1H 2011	Change
<b>FINANCING ACTIVITIES</b>						
Proceeds from borrowings	92	737	-87.5%	829	655	26.6%
Repayments of borrowings	(180)	(4)	n/a	(184)	(665)	-72.3%
Dividends paid	(1)	(1)	0.0%	(2)	(74)	-97.3%
Treasury shares	(330)	-	n/a	(330)	-	n/a
Increase in the interest in subsidiaries	(246)	-	n/a	(246)	-	n/a
Other	-	-	n/a	-	(32)	-100.0%
<b>Net cash (used in)/generated from financing activities</b>	<b>(665)</b>	<b>732</b>	<b>-190.8%</b>	<b>67</b>	<b>(116)</b>	<b>-157.8%</b>
<b>Net increase/(decrease) in cash and cash equivalents</b>	<b>108</b>	<b>(482)</b>	<b>-122.4%</b>	<b>(374)</b>	<b>(142)</b>	<b>163.4%</b>
<b>Cash and cash equivalents at the beginning of the period</b>	<b>466</b>	<b>881</b>	<b>-47.1%</b>	<b>881</b>	<b>1,067</b>	<b>-17.4%</b>
Effect of translating to presentation currency and exchange rate effect on the balance of cash and cash equivalents held in foreign currencies	(98)	67	-246.3%	(31)	74	-141.9%
<b>Cash and cash equivalents at the end of the period</b>	<b>476</b>	<b>466</b>	<b>2.1%</b>	<b>476</b>	<b>999</b>	<b>-52.4%</b>



## REVENUE

In the 2nd quarter of 2012, the revenue of Bashneft Group totalled US\$ 4,082 million, which is 4.1% higher than in the 1st quarter of 2012. The increase in revenue was caused mainly by growing export sales of petroleum products.

For the six months of 2012, the revenue remained practically unchanged as compared to the same period in 2011.

(US\$ million)	2Q	1Q	Change	1H	1H	Change
	2012	2012		2012	2011	
<b>Revenue</b>						
Export sales of crude oil	855	872	-1.9%	1,727	1,384	24.8%
Domestic sales of crude oil	30	54	-44.4%	84	169	-50.3%
<b>Total sales of crude oil</b>	<b>885</b>	<b>926</b>	<b>-4.4%</b>	<b>1,811</b>	<b>1,553</b>	<b>16.6%</b>
Export sales of petroleum products and petrochemicals outside the CIS	1,018	860	18.4%	1,878	2,918	-35.6%
Export sales of petroleum products and petrochemicals to the CIS countries	520	484	7.4%	1,004	601	67.1%
Domestic sales of petroleum products and petrochemicals	<b>1,547</b>	<b>1,525</b>	<b>1.4%</b>	<b>3,072</b>	<b>2,726</b>	<b>12.7%</b>
<i>wholesale</i>	1,222	1,247	-2.0%	2,469	2,381	3.7%
<i>retail</i>	325	278	16.9%	603	345	74.8%
<b>Total sales of petroleum products and petrochemicals</b>	<b>3,085</b>	<b>2,869</b>	<b>7.5%</b>	<b>5,954</b>	<b>6,245</b>	<b>-4.7%</b>
Other sales	112	128	-12.5%	240	210	14.3%
<b>Total revenue</b>	<b>4,082</b>	<b>3,923</b>	<b>4.1%</b>	<b>8,005</b>	<b>8,008</b>	<b>0.0%</b>

(thousand tonnes)	2Q	1Q	Change	1H	1H	Change
	2012	2012		2012	2011	
<b>Sales volumes</b>						
Export sales of crude oil	1,140	1,060	7.5%	2,200	1,799	22.3%
Domestic sales of crude oil	88	146	-39.7%	234	514	-54.5%
<b>Total sales of crude oil</b>	<b>1,228</b>	<b>1,206</b>	<b>1.8%</b>	<b>2,434</b>	<b>2,313</b>	<b>5.2%</b>
Export sales of petroleum products and petrochemicals outside the CIS	1,426	1,063	34.1%	2,489	3,728	-33.2%
Export sales of petroleum products and petrochemicals to the CIS countries	865	741	16.7%	1,606	1,004	60.0%
Domestic sales of petroleum products and petrochemicals	<b>2,446</b>	<b>2,533</b>	<b>-3.4%</b>	<b>4,979</b>	<b>4,743</b>	<b>5.0%</b>
<i>wholesale</i>	2,118	2,242	-5.5%	4,360	4,369	-0.2%
<i>retail</i>	328	291	12.7%	619	374	65.5%
<b>Total sales of petroleum products and petrochemicals</b>	<b>4,737</b>	<b>4,337</b>	<b>9.2%</b>	<b>9,074</b>	<b>9,475</b>	<b>-4.2%</b>
<b>Total sales of crude oil, petroleum products and petrochemicals</b>	<b>5,965</b>	<b>5,543</b>	<b>7.6%</b>	<b>11,508</b>	<b>11,788</b>	<b>-2.4%</b>



## **Export and domestic sales of crude oil**

In the 2nd quarter of 2012, revenue from export sales of crude oil totalled US\$ 855 million, which is 1.9% less than in the 1st quarter of 2012. The decrease in revenue was due to a drop in world oil prices in the 2nd quarter of 2012 as compared to the 1st quarter of 2012. This was partially offset by an increase in the volumes of crude oil exports.

For the six months of 2012, revenue from export sales of crude oil grew by 24.8% as compared to the same period in 2011 and totalled US\$ 1,727 million, mainly due to an increase in volumes of exported crude oil by 22.3%.

In the 2nd quarter of 2012, revenue from domestic sales of crude oil totalled US\$ 30 million versus US\$ 54 million in the 1st quarter of 2012. For the six months of 2012, revenue from domestic sales of crude oil totalled US\$ 84 million versus US\$ 169 million in the same period in 2011.

## **Export sales of petroleum products and petrochemicals**

(thousand tonnes)	2Q		1Q	1H		Change
	2012	2012	2012	2012	2011	
Diesel fuel	1,345	1,069	25.8%	2,414	2,634	-8.4%
Vacuum gas oil	459	320	43.4%	779	1,021	-23.7%
Fuel oil	260	168	54.8%	428	378	13.2%
Naphtha	26	46	-43.5%	72	213	-66.2%
High-octane gasoline	120	149	-19.5%	269	396	-32.1%
Other	59	10	490.0%	69	47	46.8%
<b>Total sales of petroleum products</b>	<b>2,269</b>	<b>1,762</b>	<b>28.8%</b>	<b>4,031</b>	<b>4,689</b>	<b>-14.0%</b>
Petrochemicals sales	22	42	-47.6%	64	43	48.8%
<b>Total sales of petroleum products and petrochemicals</b>	<b>2,291</b>	<b>1,804</b>	<b>27.0%</b>	<b>4,095</b>	<b>4,732</b>	<b>-13.5%</b>

## **Export sales of petroleum products and petrochemicals outside the CIS**

In the 2nd quarter of 2012, revenue from export sales of petroleum products and petrochemicals outside the CIS totalled US\$ 1,018 million, which is 18.4% higher than in the 1st quarter of 2012. Export sales of petroleum products and petrochemicals outside the CIS increased by 34.1% (1,426 thousand tonnes in the 2nd quarter of 2012 versus 1,063 thousand tonnes in the 1st quarter of 2012). This was primarily due to limited sea traffic in March 2012 resulting in an increase in the stock of petroleum products at the end of the 1st quarter of 2012. The increase in sales volume was partially offset by a fall in prices for petroleum products in the global market.

For the six months of 2012, revenue from sales of petroleum products and petrochemicals decreased by 35.6% as compared to the same period in 2011. This decrease was caused mainly by a 33.2% decrease in exports of petroleum products and petrochemicals outside the CIS due to a shift of focus from export outside the CIS to sales to the CIS countries and domestic market.

## **Export sales of petroleum products and petrochemicals to the CIS countries**

In the 2nd quarter of 2012, revenue from export sales of petroleum products and petrochemicals to the CIS countries amounted to US\$ 520 million, which is 7.4% higher than in the 1st quarter of



2012. The growth of revenue was caused by a seasonal increase in demand for petroleum products.

For the six months of 2012, revenue from sales of petroleum products and petrochemicals to the CIS countries increased by 67.1% as compared to the same period in 2011. The growth of revenue was primarily due to a 60.0% increase in sales volume for the six months of 2012 caused by a shift of focus from export outside the CIS to sales to the CIS countries combined with an increase in prices for petroleum products.

### **Domestic sales of petroleum products and petrochemicals**

(thousand tonnes)	2Q		Change	1H		Change
	2012	1Q 2012		2012	2011	
High-octane gasoline	893	950	-6.0%	1,843	1,715	7.5%
Diesel fuel	556	527	5.5%	1,083	1,023	5.9%
Fuel oil	372	538	-30.9%	910	821	10.8%
Low-octane gasoline	47	43	9.3%	90	117	-23.1%
Other	490	397	23.4%	887	857	3.5%
<b>Total sales of petroleum products</b>	<b>2,358</b>	<b>2,455</b>	<b>-4.0%</b>	<b>4,813</b>	<b>4,533</b>	<b>6.2%</b>
Petrochemicals sales	88	78	12.8%	166	210	-21.0%
<b>Total sales of petroleum products and petrochemicals</b>	<b>2,446</b>	<b>2,533</b>	<b>-3.4%</b>	<b>4,979</b>	<b>4,743</b>	<b>5.0%</b>

In the 2nd quarter of 2012, revenue from domestic sales of petroleum products and petrochemicals totalled US\$ 1,547 million, which is 1.4% higher than in the 1st quarter of 2012.

In the 2nd quarter of 2012, the Group sold 2,446 thousand tonnes of petroleum products and petrochemicals on the domestic market, which is 3.4% less than in the 1st quarter of 2012.

In the 2nd quarter of 2012, revenue from wholesale of petroleum products and petrochemicals on the domestic market totalled US\$ 1,222 million, which is 2.0% lower than in the 1st quarter of 2012.

In the 2nd quarter of 2012, revenue from retail sales of petroleum products totalled US\$ 325 million, which is 16.9% higher than in the 1st quarter of 2012. In the 2nd quarter of 2012, retail sales of petroleum products amounted to 328 thousand tonnes, which is 12.7% more than in the 1st quarter of 2012. The growth of sales volume was caused by a seasonal increase in demand.

For the six months of 2012, revenue from domestic sales of petroleum products and petrochemicals grew by 12.7% as compared to the same period in 2011. The increase in revenue from domestic sales of petroleum products and petrochemicals was due to a 5.0% increase in domestic sales volume combined with a rise in prices.

For the six months of 2012, revenue from wholesale of petroleum products and petrochemicals on the domestic market grew by 3.7% as compared to the same period in 2011. This was due to an increase in prices.

For the six months of 2012, revenue from retail sales of petroleum products increased by 74.8% as compared to the same period in 2011. The growth of revenue from retail sales was primarily due to a 65.5% increase in sales volume due to the acquisition of OJSC Orenburgnefteprodukt and consolidation of the BN-Nefteprodukt Group in 2011.





## **Other sales**

Revenue from sales of other products includes revenue from sales of goods and services that are not related to the Group's core business, such as transportation services, maintenance and drilling services provided to external customers.

In the 2nd quarter of 2012, other revenue decreased by 12.5% compared to the 1st quarter of 2012.

For the six months of 2012, other revenue increased by 14.3% to US\$ 240 million, primarily due to capital services provided by LLC Bashneft-Polyus during six months of 2012.



## **COSTS AND EXPENSES**

### **Production and operating expenses**

The structure of production and operating expenses of Bashneft Group by business segments is shown in the table below.

(US\$ million)	2Q		Change	1H		Change
	2012	1Q 2012		2012	1H 2011	
<b>Production and operating expenses</b>						
Production	156	177	-11.9%	333	379	-12.1%
Refining	199	169	17.8%	368	392	-6.1%
Other (including change in WIP and finished products)	92	27	240.7%	119	21	466.7%
<b>Total production and operating expenses</b>	<b>447</b>	<b>373</b>	<b>19.8%</b>	<b>820</b>	<b>792</b>	<b>3.5%</b>

Unit production and operating expenses for crude oil extraction are shown in the table below.

	2Q		Change	1H		Change
	2012	1Q 2012		2012	1H 2011	
Crude oil production expenses (US\$ million)	156	177	-11.9%	333	379	-12.1%
Unit costs for production of crude oil (US\$ per barrel)	5.6	6.3	-11.1%	6.0	7.0	-14.3%

Crude oil production expenses include labour costs, expenditure on raw and other materials, as well as the acquisition of heat and electricity, maintaining oil and gas producing assets, the use of enhanced oil recovery techniques.

In the 2nd quarter of 2012, unit costs for production of crude oil declined by 11.1% compared to the 1st quarter of 2012 and amounted to US\$ 5.6 per barrel. This is mainly due to a seasonal decrease in the amount of well workovers, as well as to the weakening of the rouble against the US dollar.

For the six months of 2012, unit costs for production of crude oil declined by 14.3% compared to the same period in 2011, which is mainly due to the weakening of the rouble against the US dollar and more efficient geological and engineering operations.

Unit production and operating expenses for oil refining are shown in the table below.

	2Q		Change	1H		Change
	2012	1Q 2012		2012	1H 2011	
Refining expenses (US\$ million)	199	169	17.8%	368	392	-6.1%
Unit refining costs (US\$ per barrel)	5.5	4.5	22.2%	5.0	5.1	-2.0%



Refining expenses include labour costs, expenditure on raw and other materials (excluding crude oil, gas and petroleum products), as well as the acquisition of heat and electricity, maintaining oil and gas refining assets.

In the 2nd quarter of 2012, unit refining costs increased by 22.2% as compared to the 1st quarter of 2012 and amounted to US\$ 5.5 per barrel. This growth was due to an increase in the amount of maintenance works in the 2nd quarter of 2012, as well as the expenses related to the scheduled maintenance at Ufimsky refinery plant and the maintenance works at Novoil.

For the six months of 2012, unit refining costs decreased by 2.0% compared to the same period in 2011 and amounted to US\$ 5.0 per barrel. This is due to the weakening of the rouble against the US dollar.

### **Cost of purchased crude oil, gas and petroleum products**

In addition to production of its own crude oil, JSOC Bashneft purchases West-Siberian oil and gas (including gas condensate) for further supplies to its refineries.

Volumes of purchased crude oil, gas and petroleum products which formed the cost of goods sold are shown below.

(thousand tonnes)	2Q	1Q	Change	1H	1H	Change
	2012	2012		2012	2011	
Purchased crude oil, gas, and gas condensate	2,540	2,307	10.1%	4,847	5,407	-10.4%
Purchased petroleum products	59	45	31.1%	104	51	103.9%
<b>Total</b>	<b>2,599</b>	<b>2,352</b>	<b>10.5%</b>	<b>4,951</b>	<b>5,458</b>	<b>-9.3%</b>

In the 2nd quarter of 2012, the cost of purchased crude oil, gas and petroleum products decreased by 12.2% and totalled US\$ 855 million. This was caused by a decrease in purchase prices of crude oil in the 2nd quarter of 2012. This decrease was partially offset by an increase in the volume of purchased crude oil in the 2nd quarter of 2012, as well as an increase in the volumes of petroleum products purchased by OJSC Orenburgnefteprodukt and BN-Nefteprodukt Group from third-party suppliers due to a seasonal growth in demand for petroleum products.

For the six months of 2012, the cost of purchased crude oil, gas and petroleum products decreased by 6.3% compared to the same period in 2011. This was mainly due to the weakening of the rouble against the US dollar and a decrease in refining volumes. The decrease was partially offset by the acquisition of OJSC Orenburgnefteprodukt and the consolidation of BN-Nefteprodukt Group in 2011.

### **Transportation costs**

In the 2nd quarter of 2012, transportation costs of Bashneft Group increased by 15.6% to US\$ 207 million compared to US\$ 179 million in the 1st quarter of 2012 mainly due to a growth in export of petroleum products outside the CIS. This was partially offset by the weakening of the rouble against the US dollar.

For the six months of 2012, transportation costs of Bashneft Group increased by 4.6% to US\$ 386 million compared to US\$ 369 million in the same period in 2011 due to a rise in transportation tariffs. This was partially offset by the weakening of the rouble against the US dollar.

### Depletion and depreciation

(US\$ million)	2Q	1Q	Change	1H	1H	Change
	2012	2012		2012	2011	
<b>Depletion and depreciation</b>						
Exploration and production	69	64	7.8%	133	112	18.8%
Refining	81	73	11.0%	154	194	-20.6%
Other	12	9	33.3%	21	11	90.9%
<b>Total depletion and depreciation</b>	<b>162</b>	<b>146</b>	<b>11.0%</b>	<b>308</b>	<b>317</b>	<b>-2.8%</b>

Depletion and depreciation costs in the 2nd quarter of 2012 totalled US\$ 162 million compared to US\$ 146 million in the 1st quarter of 2012. This was mainly due to an increase in petroleum product sales.

For the six months of 2012, depletion and depreciation costs decreased by 2.8% compared to the same period in 2011.

### Taxes other than income tax

(US\$ million)	2Q	1Q	Change	1H	1H	Change
	2012	2012		2012	2011	
<b>Taxes other than income tax</b>						
Mineral extraction tax	471	458	2.8%	929	847	9.7%
Social taxes	59	59	0.0%	118	130	-9.2%
Property tax	16	15	6.7%	31	29	6.9%
Other	9	6	50.0%	15	16	-6.3%
<b>Taxes other than income tax</b>	<b>555</b>	<b>538</b>	<b>3.2%</b>	<b>1,093</b>	<b>1,022</b>	<b>6.9%</b>

In the 2nd quarter of 2012, taxes other than income tax increased by 3.2% compared to the 1st quarter of 2012 and amounted to US\$ 555 million. This was due to an increase in sales volumes of petroleum products.

For the six months of 2012, taxes other than income tax increased by 6.9% compared to the same period in 2011. This was mainly due to a growth in mineral extraction tax rate. This increase was partially offset by a decline in social tax rate from 34% in 2011 to 30% in 2012.

### Export duties and excises

(US\$ million)	2Q	1Q	Change	1H	1H	Change
	2012	2012		2012	2011	
Export duties on crude oil	501	422	18.7%	923	707	30.6%
Export duties on petroleum products	416	295	41.0%	711	812	-12.4%
Excises	272	283	-3.9%	555	462	20.1%
<b>Total export duties and excises</b>	<b>1,189</b>	<b>1,000</b>	<b>18.9%</b>	<b>2,189</b>	<b>1,981</b>	<b>10.5%</b>

In the 2nd quarter, the total amount of export duties on oil and petroleum products increased by 27.9% compared to the 1st quarter of 2012 and amounted to US\$ 917 million, due to the growth in exports of petroleum products outside the CIS, as well as to the CIS countries outside the Customs Union. The increase in export duties is also due to the growth in exports of crude oil.

In the 2nd quarter of 2012, the total amount of excises decreased by 3.9% compared to the 1st quarter of 2012 and amounted to US\$ 272 million. This was due to lower sales volumes in the domestic market.

For the six months of 2012, the total amount of export duties on oil and petroleum products increased by 7.6% compared to the same period in 2011, driven by an increase in export duties on oil and petroleum products. This increase was partially offset by a decrease in export volumes of petroleum products.

For the six months of 2012, the total amount of excise taxes increased by 20.1% compared to the same period in 2011, which was primarily due to the growth of rates in 2012.

## **CASH FLOW**

The table below represents the main items of the cash flow statement for the analysed periods:

(US\$ million)	2Q	1Q	Change	1H	1H	Change
	2012	2012		2012	2011	
<b>Cash flow</b>						
Net cash generated from operating activities	1,000	186	437.6%	1,186	614	93.2%
Net cash used in investing activities	(227)	(1,400)	-83.8%	(1,627)	(640)	154.2%
Net cash (used in)/ generated from financing activities	(665)	732	-190.8%	67	(116)	-157.8%

Net cash flow generated from operating activities:

(US\$ million)	2Q	1Q	Change	1H	1H	Change
	2012	2012		2012	2011	
Operating cash flow before working capital changes	765	755	1.3%	1,520	1,831	-17.0%
Movements in working capital less cash and cash equivalents	446	(389)	-214.7%	57	(764)	-107.5%
Interest paid	(101)	(62)	62.9%	(163)	(232)	-29.7%
Income tax paid	(110)	(118)	-6.8%	(228)	(221)	3.2%
<b>Net cash generated from operating activities</b>	<b>1,000</b>	<b>186</b>	<b>437.6%</b>	<b>1,186</b>	<b>614</b>	<b>93.2%</b>

Net cash flow generated from operating activities in the 2nd quarter of 2012 increased by 437.6% compared to the 1st quarter of 2012 and amounted to US\$ 1,000 million. The main factors behind the increase in net cash flow from operating activities in the 2nd quarter of 2012 included a reduction in the overpayment of taxes and duties, as well as a decrease in the stock of petroleum products.



For the six months of 2012, net cash generated from operating activities increased by 93.2% compared to the same period in 2011, which is primarily associated with a decrease in working capital, as well as a reduction in interest paid.

Net cash used in investing activities:

(US\$ million)	2Q		Change	1H		Change
	2012	1Q 2012		2012	2011	
Capital expenditures	(274)	(162)	69.1%	(436)	(374)	16.6%
Payments for acquisition of financial assets less proceeds from disposal	94	(1,245)	-107.6%	(1,151)	(152)	657.2%
Other	(47)	7	-771.4%	(40)	(114)	-64.9%
<b>Net cash used in investing activities</b>	<b>(227)</b>	<b>(1,400)</b>	<b>-83.8%</b>	<b>(1,627)</b>	<b>(640)</b>	<b>154.2%</b>

In the 2nd quarter of 2012, net cash used in investing activities decreased by 83.8% compared to the 1st quarter of 2012, due to placement of available cash to deposit accounts in the 1st quarter of 2012. This decrease was partially offset by an increase in capital expenditures related to the acquisition of licences for subsoil blocks.

For the six months of 2012, net cash used in investing activities increased by 154.2% compared to the same period in 2011 and amounted to US\$ 1,627 million. The main factors that contributed to the increase in net cash used in investing activities include placement of available cash to deposit accounts in the 1st quarter of 2012 and the acquisition of licences in the 2nd quarter of 2012.

Net cash (used in)/generated from financing activities:

(US\$ million)	2Q		Change	1H		Change
	2012	1Q 2012		2012	2011	
Proceeds from borrowings	92	737	-87.5%	829	655	26.6%
Repayments of borrowings	(180)	(4)	n/a	(184)	(665)	-72.3%
<b>Total issue and repayment of debt:</b>	<b>(88)</b>	<b>733</b>	<b>-112.0%</b>	<b>645</b>	<b>(10)</b>	<b>n/a</b>
Dividends paid	(1)	(1)	0.0%	(2)	(74)	-97.3%
Purchase of treasury shares	(330)	-	n/a	(330)	-	n/a
Payments for acquisition of non-controlling interests	(246)	-	n/a	(246)	-	n/a
Other	-	-	-	-	(32)	-100.0%
<b>Net cash (used in)/generated from financing activities</b>	<b>(665)</b>	<b>732</b>	<b>-190.8%</b>	<b>67</b>	<b>(116)</b>	<b>-157.8%</b>

In the 2nd quarter, net cash used in financing activities amounted to US \$ 665 million. The main factors influenced the amount of net cash used in financing activities include the purchase of shares from the shareholders who had submitted buyback requests in accordance with Article 75 of the Federal Law on Joint-Stock Companies, as well as the repayment of short-term borrowings.



## FINANCING AND DEBT

(US\$ million)	30	31	Change	30	30	Change
	June	March		June	June	
	2012	2012		2012	2011	
<b>Net debt calculation</b>						
Short-term borrowings	486	575	-15.5%	486	842	-42.3%
Long-term borrowings	3,444	3,869	-11.0%	3,444	3,378	2.0%
<b>Total debt</b>	<b>3,930</b>	<b>4,444</b>	<b>-11.6%</b>	<b>3,930</b>	<b>4,220</b>	<b>-6.9%</b>
Cash and equivalents	(476)	(466)	2.1%	(476)	(999)	-52.4%
Short-term financial investments	(1,351)	(1,632)	-17.2%	(1,351)	(528)	155.9%
<b>Adjusted net debt</b>	<b>2,103</b>	<b>2,346</b>	<b>-10.4%</b>	<b>2,103</b>	<b>2,693</b>	<b>-21.9%</b>

As of 30 June 2012, the total debt of the Group in the form of short-term and long-term borrowings amounted to US\$ 3,930 million compared to US\$ 4,444 million as of 31 March 2012.

Interest-bearing non-convertible rouble bonds issued in December 2009 comprise a significant part of short-term debt. The annual coupon rate of the bonds equals 12.5%; the coupon is paid twice a year. The revision of the coupon rate may take place in December 2012, at which point the bondholders have the right to redeem the bonds at par value. In order to optimize the debt portfolio, in the 4th quarter of 2011, the Group exercised its right for early redemption of the bonds issued in 2009, which resulted in the redemption of the bonds in the amount of US\$ 1,375 million.

In the 1st quarter of 2012, the Group issued interest-bearing non-convertible bonds with a total value of 10 billion roubles and a maturity date in 2022. The annual coupon rate of the bonds equals 9.00%; the coupon is paid twice a year. The next revision of the coupon rate may take place in February 2015, at which point the bondholders have the right to redeem the bonds at par value. Besides, in the 1st quarter of 2012, the Group raised a number of new bank loans totalling US\$ 408 million, part of which was repaid in the 2nd quarter of 2012.

As of 30 June 2012, the annual weighted average interest rate amounted to 8.5% compared to 8.6% as of 31 March 2012.

## CAPITAL EXPENDITURES

(US\$ million)	2Q	1Q	Change	1H	1H	Change
	2012	2012		2012	2011	
<b>Capital expenditures</b>						
Exploration and production	203	84	141.7%	287	197	45.7%
Refining	67	76	-11.8%	143	128	11.7%
Other	4	2	100.0%	6	49	-87.8%
<b>Total cash used in capital expenditures</b>	<b>274</b>	<b>162</b>	<b>69.1%</b>	<b>436</b>	<b>374</b>	<b>16.6%</b>

In the 2nd quarter of 2012, capital expenditures increased by 69.1% compared to the 1st quarter of 2012 and amounted to US\$ 274 million. This was primarily due to the acquisition of mineral rights in the 2nd quarter 2012; the relevant payments totalled US\$ 151 million.



For the six months of 2012, CAPEX increased by 16.6% compared to the same period in 2011, which was primarily due to the acquisition of licences in 2012. This effect was partially offset by the deconsolidation of OJSC Bashkirenergo on 5 May 2011.

### **EVENTS SUBSEQUENT TO THE REPORTING PERIOD**

The Iraqi Ministry of Oil and the Consortium comprised of Bashneft (70%) and Premier Oil (30%) initialled the contract for geological exploration, development, and production at Block 12 today in Baghdad. Block 12 is located in the Najaf and Muthanna provinces, approximately 80 km to the southwest from the city of Samawah and 130 km to the west from the city of Nasriya. It is a part of the Western Desert, which is an unexplored region having the greatest potential in Iraq in terms of oil production. The block's approximate area is 8,000 sq. km.

