



BASHNEFT
JOINT STOCK OIL COMPANY

Management's analysis of financial position and operating results of Bashneft Group for the three months ended 30 September and 30 June 2012, and for the nine months ended 30 September 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 nine months ended 30 September 2012. The terms “Bashneft”, “the Company”, “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 9 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 totaled 337.5 million tonnes. Overall reserves of Bashneft Group (including possible reserves) amounted to 419.2 million tonnes. For the nine months ended 30 September 2012, production at the developed licence areas totaled 11.5 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 nine months ended 30 September 2012, the Group's refineries processed 15.4 million tonnes of hydrocarbons. The average refining depth amounted to 85.2%, 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. In July 2012, the Group's own retail network completed the full transition to the sales of high-octane gasoline and diesel fuel complying with Euro 5 standard.

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

For the nine months ended 30 September 2012, Bashneft Group sold 8.0 million tonnes of petroleum products and petrochemicals on the domestic market and exported 6.4 million tonnes of petroleum products and petrochemicals. The Group also sold 3.7 million tonnes of crude oil, including 3.3 million tonnes of exported crude oil.

As of 30 September 2012, Bashneft Group owned 485 petrol stations.

KEY FINANCIAL AND OPERATING RESULTS

| | 3Q | | Change | 9 months | | Change |
|---|-------|-------|--------|----------|--------|--------|
| | 2012 | 2012 | | 2012 | 2011 | |
| Sales revenue (US\$ million) | 4,622 | 4,082 | 13.2% | 12,627 | 12,466 | 1.3% |
| EBITDA (US\$ million) | 962 | 763 | 26.1% | 2,549 | 2,368 | 7.6% |
| Operating profit (US\$ million) | 813 | 601 | 35.3% | 2,092 | 1,905 | 9.8% |
| Profit for the period attributable to the owners of the parent company (US\$ million) | 547 | 337 | 62.3% | 1,328 | 1,309 | 1.5% |
| Net debt (US\$ million) | 2,285 | 2,103 | 8.7% | 2,285 | 2,327 | -1.8% |
| Oil production (thousand tonnes) | 3,878 | 3,811 | 1.8% | 11,529 | 11,257 | 2.4% |
| Oil refining (thousand tonnes) | 5,323 | 4,954 | 7.4% | 15,397 | 15,729 | -2.1% |

Major events during the nine 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 acquired a 100% stake in LLC Uraloil owning a network of 12 petrol stations in the Kurgan region operating under the brand name TRANSOIL;
- in April 2012, Moody's Investors Service, an international rating agency, assigned a Ba2 Corporate Family and Probability of Default ratings to the Company, in May 2012 Fitch Ratings assigned the Company a 'BB' Long-term foreign and local currency Issuer Default Ratings;
- 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 reorganization involved the exchange of shares of the subsidiaries for the shares of Bashneft. On 27 April 2012, the Extraordinary General Meeting of Shareholders of JSOC Bashneft approved the plan 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 Ufaneftekhim, OJSC Novoil, OJSC Ufimsky refinery plant, 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 totaled US\$ 576 million;
- in August 2012, the Iraqi Ministry of Oil and the Consortium comprising Bashneft (70%) and Premier Oil (30%) initialed the contract for geological exploration, development and production at Block 12 in Baghdad. Block 12 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;
- in August 2012, the Group acquired 50% of LLC Financial Alliance (a professional rolling stock operator) by contributing the Group's fixed assets to the share capital.

MAIN FACTORS INFLUENCING OPERATING RESULTS

Operating results of Bashneft Group can be significantly influenced by 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

Prices 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, and lead to a reduction of oil production profitability of the Group. This will result in a decline in the volume of Bashneft's economically viable hydrocarbon reserves for development and impact the economic efficiency of its geological exploration programmes and geological and engineering operations.

| | 3Q | 2Q | | 9 months | 9 months | |
|---|-------|-------|--------|----------|----------|--------|
| | 2012 | 2012 | Change | 2012 | 2011 | Change |
| Prices for crude oil and petroleum products¹ | | | | | | |
| Brent crude oil (US\$ per barrel) | 109.5 | 108.3 | 1.1% | 112.2 | 111.8 | 0.4% |
| Urals crude oil (US\$ per barrel) | 109.1 | 106.8 | 2.2% | 111.1 | 109.2 | 1.7% |
| Fuel oil (average FOB Rotterdam/CIF NWE) (US\$ per tonne) | 621.3 | 625.8 | -0.7% | 644.8 | 603.9 | 6.8% |
| Diesel fuel (average FOB Rotterdam/CIF NWE) (US\$ per tonne) | 944.5 | 926.7 | 1.9% | 955.5 | 928.7 | 2.9% |
| Naphtha (average FOB Rotterdam/CIF NWE) (US\$ per tonne) | 905.1 | 876.6 | 3.3% | 933.2 | 946.7 | -1.4% |
| Vacuum gas oil (FOB NWE) (US\$ per tonne) | 788.2 | 772.2 | 2.1% | 798.6 | 773.0 | 3.3% |
| Russian market (US\$ per tonne, with excises, not including VAT)² | | | | | | |
| Crude oil | 322.9 | 306.4 | 5.4% | 327.0 | 306.0 | 6.9% |
| Fuel oil | 302.0 | 295.2 | 2.3% | 297.7 | 297.1 | 0.2% |
| Diesel fuel (summer gasoil) | 721.4 | 722.7 | -0.2% | 716.9 | 660.3 | 8.6% |
| Diesel fuel (winter gasoil) | 785.1 | 780.0 | 0.7% | 791.8 | 721.4 | 9.8% |
| High-octane gasoline | 803.0 | 788.2 | 1.9% | 786.2 | 828.6 | -5.1% |
| Low-octane gasoline | 753.1 | 742.0 | 1.5% | 747.6 | 757.5 | -1.3% |

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.

¹ Source: Platts

² 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.

| | 3Q | 2Q | | 9 months | 9 months | |
|--|------|------|----------|----------|----------|----------|
| | 2012 | 2012 | Change | 2012 | 2011 | Change |
| Rouble inflation (Consumer Price Index) during the stated periods ³ | 2.0% | 1.7% | 0.3 p.p. | 5.2% | 4.7% | 0.5 p.p. |
| Rouble/dollar exchange rate at the end of the period | 30.9 | 32.8 | -5.8% | 30.9 | 31.9 | -3.1% |
| Rouble/dollar exchange rate, period average | 32.0 | 31.0 | 3.2% | 31.1 | 28.8 | 8.0% |

Taxation

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

| | 3Q | 2Q | | 9 months | 9 months | |
|---|-------|-------|--------|----------|----------|--------|
| | 2012 | 2012 | Change | 2012 | 2011 | Change |
| Mineral extraction tax (roubles per tonne) | | | | | | |
| Crude oil | 5,147 | 4,826 | 6.7% | 5,086 | 4,368 | 16.4% |
| Export duty (US\$ per tonne) | | | | | | |
| Crude oil | 367 | 443 | -17.2% | 403 | 411 | -1.9% |
| Gasoline | 330 | 399 | -17.3% | 363 | 334 | 8.7% |
| Light and medium distillates | 242 | 292 | -17.1% | 266 | 277 | -4.0% |
| Fuel oil | 242 | 292 | -17.1% | 266 | 189 | 40.7% |

³ Source: Rosstat



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:

| (roubles per tonne) | 2011 | 1 January – 30 June 2012 | 1 July – 31 December 2012 | 2013 | 2014 |
|------------------------------------|-------|--------------------------------|---------------------------------|--------|--------|
| Gasoline | | | | | |
| non-compliant with classes 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 |
| Naphtha | 6,089 | 7,824 | 7,824 | 9,617 | 10,579 |
| Diesel fuel | | | | | |
| non-compliant with classes 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 |
| Lubricants | 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 nine months ended 30 September 2012 are 27% lower than the current mineral extraction tax rate.

| | 3Q | 2Q | | 9 | 9 | |
|--|------|------|--------|--------|--------|--------|
| | 2012 | 2012 | Change | months | months | Change |
| | | | | 2012 | 2011 | |
| Mineral extraction tax | | | | | | |
| Current mineral extraction tax rates (US\$ per barrel) | 22.0 | 21.3 | 3.3% | 22.4 | 20.8 | 7.7% |
| Actual mineral extraction tax expenses (US\$ per barrel) | 16.1 | 16.0 | 0.6% | 16.4 | 15.9 | 3.1% |

OPERATING RESULTS

Production

| | 3Q | 2Q | | 9 | 9 | |
|---|-------|-------|--------|--------|--------|--------|
| | 2012 | 2012 | Change | months | months | Change |
| | | | | 2012 | 2011 | |
| Crude oil production (thousand tonnes) | 3,878 | 3,811 | 1.8% | 11,529 | 11,257 | 2.4% |
| Daily average production of crude oil (thousand barrels per day) | 307.7 | 305.7 | 0.7% | 307.2 | 301.0 | 2.1% |

An increase in crude oil production for the nine 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.

In the 4th quarter of 2011, crude oil production become stable and remained at the level of 3.8 million tonnes.

Refining

| (thousand tonnes) | 3Q | 2Q | Change | 9 | 9 | Change |
|---|--------------|--------------|--------------|---------------|---------------|--------------|
| | 2012 | 2012 | | months | months | |
| | | | | 2012 | 2011 | |
| Crude oil refining | 5,323 | 4,954 | 7.4% | 15,397 | 15,729 | -2.1% |
| Production of petroleum products | | | | | | |
| Gasolines (including SNG*) | 1,268 | 1,036 | 22.4% | 3,505 | 3,599 | -2.6% |
| Diesel fuel | 1,889 | 1,734 | 8.9% | 5,400 | 5,560 | -2.9% |
| Fuel oil | 741 | 592 | 25.2% | 2,098 | 1,806 | 16.2% |
| Vacuum gas oil | 411 | 464 | -11.4% | 1,195 | 1,483 | -19.4% |
| Other | 717 | 648 | 10.6% | 1,871 | 1,798 | 4.1% |
| Total production of petroleum products | 5,026 | 4,474 | 12.3% | 14,069 | 14,246 | -1.2% |
| Refining depth (%) | 85.5% | 85.8% | | 85.2% | 86.8% | |
| Share of light products (%) | 61.4% | 57.9% | | 59.8% | 59.3% | |

*Stable natural gasoline

In the 3rd quarter of 2012, crude oil refining volume amounted to 5,323 thousand tonnes, having increased by 7.4%, which was above all due to the stoppage of the Ufimsky refinery plant for scheduled major overhaul in the 2nd quarter of 2012.

Following the repairs carried out at the refinery plant in the 2nd quarter of 2012, the mix of petroleum products was revised, the emphasis being shifted towards production of gasoline and diesel fuel, which also affected the share of light products.

For the nine months of 2012, the refining volume totaled 15,397 thousand tonnes, having decreased by 2.1% 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 NINE MONTHS ENDED 30 SEPTEMBER 2012

| (US\$ million) | 3Q | 2Q | Change | 9 months | 9 months | Change |
|---|----------------|----------------|--------------|-----------------|-----------------|---------------|
| | 2012 | 2012 | | 2012 | 2011 | |
| Revenue | | | | | | |
| Crude oil sales | 909 | 885 | 2.7% | 2,720 | 2,364 | 15.1% |
| Petroleum products and petrochemicals sales | 3,617 | 3,085 | 17.2% | 9,571 | 9,795 | -2.3% |
| Other sales | 96 | 112 | -14.3% | 336 | 307 | 9.4% |
| Total revenue | 4,622 | 4,082 | 13.2% | 12,627 | 12,466 | 1.3% |
| Operating expenses | | | | | | |
| Export duties and excises | (1,171) | (1,189) | -1.5% | (3,360) | (3,218) | 4.4% |
| Cost of purchased crude oil, gas and petroleum products | (1,118) | (855) | 30.8% | (2,947) | (3,025) | -2.6% |
| Taxes other than income tax | (532) | (555) | -4.1% | (1,625) | (1,543) | 5.3% |
| Production and operating expenses | (426) | (447) | -4.7% | (1,246) | (1,226) | 1.6% |
| Transportation expenses | (252) | (207) | 21.7% | (638) | (601) | 6.2% |
| Depletion and depreciation | (149) | (162) | -8.0% | (457) | (463) | -1.3% |
| Selling, general and administrative expenses | (141) | (121) | 16.5% | (363) | (405) | -10.4% |
| Other operating (expenses)/income, net | (20) | 55 | -136.4% | 101 | (80) | -226.3% |
| Total costs and expenses | (3,809) | (3,481) | 9.4% | (10,535) | (10,561) | -0.2% |
| Operating profit | 813 | 601 | 35.3% | 2,092 | 1,905 | 9.8% |
| Other (expenses)/income | | | | | | |
| Financial costs | (95) | (97) | -2.1% | (286) | (354) | -19.2% |
| Financial income | 38 | 43 | -11.6% | 117 | 50 | 134.0% |
| Foreign exchange (losses)/gains, net | (26) | 29 | -189.7% | 4 | (2) | -300.0% |
| Share in the profit/(losses) of associates and joint ventures | 1 | (54) | -101.9% | (41) | 63 | -165.1% |
| Total other expenses | (82) | (79) | 3.8% | (206) | (243) | -15.2% |
| Profit before tax | 731 | 522 | 40.0% | 1,886 | 1,662 | 13.5% |
| Income tax | (145) | (142) | 2.1% | (423) | (346) | 22.3% |
| Profit for the period from continuing operations | 586 | 380 | 54.2% | 1 463 | 1 316 | 11.2% |
| Profit for the period from discontinued operations | - | - | - | - | 124 | -100.0% |
| Profit for the period | 586 | 380 | 54.2% | 1,463 | 1,440 | 1.6% |
| Profit for the period attributable to non-controlling interests | 39 | 43 | -9.3% | 135 | 131 | 3.1% |
| Profit for the period attributable to owners of the parent company | 547 | 337 | 62.3% | 1,328 | 1,309 | 1.5% |



CONSOLIDATED STATEMENT OF FINANCIAL POSITION AT 30 SEPTEMBER 2012

| (US\$ million) | 30 September 2012 | 30 June 2012 | Change | 30 September 2012 | 31 December 2011 | Change |
|--|-------------------------|-----------------|--------------|-------------------------|------------------------|--------------|
| ASSETS | | | | | | |
| <i>Non-current assets</i> | | | | | | |
| Property, plant and equipment | 8,912 | 8,393 | 6.2% | 8,912 | 7,882 | 13.1% |
| Advances paid for acquisition of property, plant and equipment | 19 | 43 | -55.8% | 19 | 51 | -62.7% |
| Intangible assets | 57 | 44 | 29.5% | 57 | 47 | 21.3% |
| Financial assets | 113 | 107 | 5.6% | 113 | 155 | -27.1% |
| Investments in associates and joint ventures | 918 | 804 | 14.2% | 918 | 1,104 | -16.8% |
| Long-term inventories | 66 | 56 | 17.9% | 66 | 62 | 6.5% |
| Other non-current assets | 1 | 1 | 0.0% | 1 | 3 | -66.7% |
| Total non-current assets | 10,086 | 9,448 | 6.8% | 10,086 | 9,304 | 8.4% |
| <i>Current assets</i> | | | | | | |
| Inventories | 776 | 809 | -4.1% | 776 | 748 | 3.7% |
| Financial assets | 1,924 | 2,171 | -11.4% | 1,924 | 1,073 | 79.3% |
| Trade and other receivables | 978 | 610 | 60.3% | 978 | 509 | 92.1% |
| Advances to suppliers and prepaid expenses | 153 | 153 | 0.0% | 153 | 158 | -3.2% |
| Income tax prepaid | 21 | 29 | -27.6% | 21 | 13 | 61.5% |
| Other refundable taxes | 569 | 592 | -3.9% | 569 | 886 | -35.8% |
| Cash and cash equivalents | 745 | 476 | 56.5% | 745 | 881 | -15.4% |
| Other current assets | - | - | - | - | 1 | -100.0% |
| Total current assets | 5,166 | 4,840 | 6.7% | 5,166 | 4,269 | 21.0% |
| TOTAL ASSETS | 15,252 | 14,288 | 6.7% | 15,252 | 13,573 | 12.4% |
| <i>Capital and reserves</i> | | | | | | |
| Share capital | 77 | 77 | 0.0% | 77 | 77 | 0.0% |
| Treasury shares | (794) | (794) | 0.0% | (794) | (464) | 71.1% |
| Additional paid-in capital | 1,241 | 1,291 | -3.9% | 1,241 | 1,160 | 7.0% |
| Foreign currency translation reserve | (394) | (743) | -47.0% | (394) | (575) | -31.5% |
| Retained earnings | 6,189 | 5,642 | 9.7% | 6,189 | 5,412 | 14.4% |
| Equity attributable to owners of the parent company | 6,319 | 5,473 | 15.5% | 6,319 | 5,610 | 12.6% |
| Non-controlling interests | 1,348 | 1,126 | 19.7% | 1,348 | 1,438 | -6.3% |
| Total capital and reserves | 7,667 | 6,599 | 16.2% | 7,667 | 7,048 | 8.8% |
| <i>Non-current liabilities</i> | | | | | | |
| Borrowings | 3,044 | 3,444 | -11.6% | 3,044 | 2,965 | 2.7% |
| Decommissioning provision | 328 | 303 | 8.3% | 328 | 295 | 11.2% |
| Deferred taxes payable | 1,159 | 1,112 | 4.2% | 1,159 | 947 | 22.4% |
| Other non-current liabilities | 177 | 160 | 10.6% | 177 | 24 | 637.5% |
| Total non-current liabilities | 4,708 | 5,019 | -6.2% | 4,708 | 4,231 | 11.3% |

| (US\$ million) | 30 September 2012 | 30 June 2012 | Change | 30 September 2012 | 31 December 2011 | Change |
|-------------------------------------|-------------------------|-----------------|--------------|-------------------------|------------------------|--------------|
| <i>Current liabilities</i> | | | | | | |
| Borrowings | 1,086 | 486 | 123.5% | 1,086 | 420 | 158.6% |
| Trade and other payables | 933 | 699 | 33.5% | 933 | 726 | 28.5% |
| Dividends payable | 7 | 561 | -98.8% | 7 | 8 | -12.5% |
| Advances received | 309 | 457 | -32.4% | 309 | 531 | -41.8% |
| Provisions | 4 | 1 | 300.0% | 4 | 101 | -96.0% |
| Income tax payable | 48 | 38 | 26.3% | 48 | 42 | 14.3% |
| Other taxes payable | 490 | 428 | 14.5% | 490 | 466 | 5.2% |
| Total current liabilities | 2,877 | 2,670 | 7.8% | 2,877 | 2,294 | 25.4% |
| TOTAL LIABILITIES | 7,585 | 7,689 | -1.4% | 7,585 | 6,525 | 16.2% |
| TOTAL EQUITY AND LIABILITIES | 15,252 | 14,288 | 6.7% | 15,252 | 13,573 | 12.4% |



**CONSOLIDATED STATEMENT OF CASH FLOWS FOR THE NINE MONTHS ENDED
30 SEPTEMBER 2012**

| (US\$ million) | 3Q 2012 | 2Q 2012 | Change | 9 months 2012 | 9 months 2011 | Change |
|---|------------|--------------|----------------|------------------|------------------|--------------|
| OPERATING ACTIVITIES | | | | | | |
| Profit before tax from continuing and discontinued operations | 731 | 522 | 40.0% | 1,886 | 1,810 | 4.2% |
| Adjustments ⁴ : | | | | | | |
| Depletion and depreciation | 149 | 162 | -8.0% | 457 | 504 | -9.3% |
| Loss on disposal and impairment of property, plant and equipment | 21 | 14 | 50.0% | 45 | 13 | 246.2% |
| Gain on disposal of subsidiaries | - | - | - | - | (8) | -100.0% |
| Financial income | (38) | (43) | -11.6% | (117) | (51) | 129.4% |
| Financial costs | 95 | 97 | -2.1% | 286 | 355 | -19.4% |
| Share in the (profit)/losses of associates and joint ventures | (1) | 54 | -101.9% | 41 | (63) | -165.1% |
| Foreign exchange losses/(gains), net | 14 | (4) | -450.0% | 1 | 17 | -94.1% |
| Change in provisions | 8 | (27) | -129.6% | (96) | 53 | -281.1% |
| Other | 1 | (10) | -110.0% | (3) | (9) | -66.7% |
| Operating cash flow before working capital changes | 980 | 765 | 28.1% | 2,500 | 2,621 | -4.6% |
| Movements in working capital: | | | | | | |
| Inventories | 77 | 107 | -28.0% | 4 | (156) | -102.6% |
| Trade and other receivables | (277) | 137 | -302.2% | (341) | (307) | 11.1% |
| Advances to suppliers and prepaid expenses | 9 | 26 | -65.4% | 11 | 14 | -21.4% |
| Other taxes refundable | 55 | 346 | -84.1% | 350 | (167) | -309.6% |
| Trade and other payables | 153 | (159) | -196.2% | 144 | 131 | 9.9% |
| Advances received | (174) | 100 | -274.0% | (242) | (153) | 58.2% |
| Other taxes payable | 34 | (111) | -130.6% | 8 | 236 | -96.6% |
| Cash generated from operations | 857 | 1,211 | -29.2% | 2,434 | 2,219 | 9.7% |
| Interest paid | (75) | (101) | -25.7% | (238) | (277) | -14.1% |
| Income tax paid | (151) | (110) | 37.3% | (379) | (395) | -4.1% |
| Net cash flow generated from operating activities | 631 | 1,000 | -36.9% | 1,817 | 1,547 | 17.5% |
| INVESTING ACTIVITIES | | | | | | |
| Purchase of property, plant and equipment | (194) | (274) | -29.2% | (630) | (595) | 5.9% |
| Proceeds from disposal of financial assets, net/payments for acquisition of financial assets, net | 374 | 94 | 297.9% | (777) | (108) | 619.4% |
| Other | 36 | (47) | -176.6% | (4) | (58) | -93.1% |
| Net cash generated from/(used in) investing activities | 216 | (227) | -195.2% | (1,411) | (761) | 85.4% |

⁴ Both for continuing and discontinued operations.



| (US\$ million) | 3Q 2012 | 2Q 2012 | Change | 9 months 2012 | 9 months 2011 | Change |
|--|--------------|--------------|---------------|------------------|------------------|---------------|
| FINANCING ACTIVITIES | | | | | | |
| Proceeds from borrowings | 15 | 92 | -83.7% | 844 | 1,680 | -49.8% |
| Repayments of borrowings | (32) | (180) | -82.2% | (216) | (2,127) | -89.8% |
| Dividends paid by the Company | (571) | - | n/a | (572) | (948) | -39.7% |
| Treasury shares | - | (330) | -100.0% | (330) | - | n/a |
| Increase in the interest in subsidiaries | - | (246) | -100.0% | (246) | - | n/a |
| Other | (2) | (1) | 100.0% | (3) | (34) | -91.2% |
| Net cash used in financing activities | (590) | (665) | -11.3% | (523) | (1,429) | -63.4% |
| Net increase/(decrease) in cash and cash equivalents | 257 | 108 | 138.0% | (117) | (643) | -81.8% |
| Cash and cash equivalents at the beginning of the period | 476 | 466 | 2.1% | 881 | 1,067 | -17.4% |
| Effect of translating to presentation currency and exchange rate effect on the balance of cash and cash equivalents held in foreign currencies | 12 | (98) | -112.2% | (19) | 15 | -226.7% |
| Cash and cash equivalents at the end of the period | 745 | 476 | 56.5% | 745 | 439 | 69.7% |



REVENUE

In the 3rd quarter of 2012, the revenue of Bashneft Group totaled US\$ 4,622 million, which is 13.2% higher than in the 2nd quarter of 2012. The increase in revenue was caused mainly by growing domestic sales of petroleum products.

For the nine months of 2012, the revenue increased by 1.3% as compared to the same period in 2011.

| (US\$ million) | 3Q | 2Q | Change | 9 months | 9 months | Change |
|--|--------------|--------------|--------------|---------------|---------------|--------------|
| | 2012 | 2012 | | 2012 | 2011 | |
| Revenue | | | | | | |
| Export sales of crude oil | 878 | 855 | 2.7% | 2,605 | 2,116 | 23.1% |
| Domestic sales of crude oil | 31 | 30 | 3.3% | 115 | 248 | -53.6% |
| Total sales of crude oil | 909 | 885 | 2.7% | 2,720 | 2,364 | 15.1% |
| Export sales of petroleum products and petrochemicals outside the CIS | 1,313 | 1,018 | 29.0% | 3,191 | 4,434 | -28.0% |
| Export sales of petroleum products and petrochemicals to the CIS countries | 349 | 520 | -32.9% | 1,353 | 843 | 60.5% |
| Domestic sales of petroleum products and petrochemicals | 1,955 | 1,547 | 26.4% | 5,027 | 4,518 | 11.3% |
| <i>wholesale</i> | 1,581 | 1,222 | 29.4% | 4,050 | 3,848 | 5.2% |
| <i>retail</i> | 374 | 325 | 15.1% | 977 | 670 | 45.8% |
| Total sales of petroleum products and petrochemicals | 3,617 | 3,085 | 17.2% | 9,571 | 9,795 | -2.3% |
| Other sales | 96 | 112 | -14.3% | 336 | 307 | 9.4% |
| Total revenue | 4,622 | 4,082 | 13.2% | 12,627 | 12,466 | 1.3% |

| (thousand tonnes) | 3Q | 2Q | Change | 9 months | 9 months | Change |
|--|--------------|--------------|--------------|---------------|---------------|--------------|
| | 2012 | 2012 | | 2012 | 2011 | |
| Sales volumes | | | | | | |
| Export sales of crude oil | 1,140 | 1,140 | 0.0% | 3,340 | 2,699 | 23.7% |
| Domestic sales of crude oil | 90 | 88 | 2.3% | 324 | 771 | -58.0% |
| Total sales of crude oil | 1,230 | 1,228 | 0.2% | 3,664 | 3,470 | 5.6% |
| Export sales of petroleum products and petrochemicals outside the CIS | 1,686 | 1,426 | 18.2% | 4,175 | 5,664 | -26.3% |
| Export sales of petroleum products and petrochemicals to the CIS countries | 575 | 865 | -33.5% | 2,181 | 1,478 | 47.6% |
| Domestic sales of petroleum products and petrochemicals | 3,045 | 2,446 | 24.5% | 8,024 | 7,407 | 8.3% |
| <i>wholesale</i> | 2,648 | 2,118 | 25.0% | 7,008 | 6,698 | 4.6% |
| <i>retail</i> | 397 | 328 | 21.0% | 1,016 | 709 | 43.3% |
| Total sales of petroleum products and petrochemicals | 5,306 | 4,737 | 12.0% | 14,380 | 14,549 | -1.2% |
| Total sales of crude oil, petroleum products and petrochemicals | 6,536 | 5,965 | 9.6% | 18,044 | 18,019 | 0.1% |

Export and domestic sales of crude oil

In the 3rd quarter of 2012, revenue from export sales of crude oil totaled US\$ 878 million, which is 2.7% more than in the 2nd quarter of 2012. The increase in revenue was due to a growth in world oil prices in the 3rd quarter of 2012 as compared to the 2nd quarter of 2012.

For the nine months of 2012, revenue from export sales of crude oil grew by 23.1% as compared to the same period in 2011 and totaled US\$ 2,605 million, mainly due to an increase in volumes of exported crude oil by 23.7%.

In the 3rd quarter of 2012, revenue from domestic sales of crude oil totaled US\$ 31 million versus US\$ 30 million in the 2nd quarter of 2012. For the nine months of 2012, revenue from domestic sales of crude oil totaled US\$ 115 million versus US\$ 248 million in the same period in 2011.

Export sales of petroleum products and petrochemicals

| (thousand tonnes) | 3Q | 2Q | Change | 9 | 9 | Change |
|---|--------------|--------------|--------------|--------------|--------------|---------------|
| | 2012 | 2012 | | months | months | |
| Diesel fuel | 1,273 | 1,345 | -5.4% | 3,687 | 4,099 | -10.1% |
| Vacuum gas oil | 418 | 459 | -8.9% | 1,197 | 1,488 | -19.6% |
| Fuel oil | 325 | 260 | 25.0% | 753 | 661 | 13.9% |
| High-octane gasoline | 127 | 120 | 5.8% | 396 | 425 | -6.8% |
| Naphtha | 20 | 26 | -23.1% | 92 | 315 | -70.8% |
| Other | 72 | 59 | 22.0% | 141 | 90 | 56.7% |
| Total sales of petroleum products | 2,235 | 2,269 | -1.5% | 6,266 | 7,078 | -11.5% |
| Petrochemicals sales | 26 | 22 | 18.2% | 90 | 64 | 40.6% |
| Total sales of petroleum products and petrochemicals | 2,261 | 2,291 | -1.3% | 6,356 | 7,142 | -11.0% |

Export sales of petroleum products and petrochemicals outside the CIS

In the 3rd quarter of 2012, revenue from export sales of petroleum products and petrochemicals outside the CIS totaled US\$ 1,313 million, which is 29.0% higher than in the 2nd quarter of 2012. Export sales of petroleum products and petrochemicals outside the CIS increased by 18.2% (1,686 thousand tonnes in the 3rd quarter of 2012 versus 1,426 thousand tonnes in the 2nd quarter of 2012). This was primarily due to a shift of focus from sales to the CIS to export to countries outside the CIS. The increase in revenue from petroleum products sales was also caused by a rise in prices in the global market.

For the nine months of 2012, revenue from sales of petroleum products and petrochemicals outside the CIS decreased by 28.0% as compared to the same period in 2011. This decrease was caused mainly by a 26.3% 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 3rd quarter of 2012, revenue from export sales of petroleum products and petrochemicals to the CIS countries amounted to US\$ 349 million, which is 32.9% lower than in the 2nd quarter



of 2012. The decline of revenue from export sales of petroleum products and petrochemicals to the CIS was primarily caused by a shift of focus from sales to the CIS to export outside the CIS.

For the nine months of 2012, revenue from sales of petroleum products and petrochemicals to the CIS countries increased by 60.5% as compared to the same period in 2011. The growth of revenue was primarily due to a 47.6% increase in sales volume for the nine 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) | 3Q | | Change | 9 months | | Change |
|---|--------------|--------------|--------------|--------------|--------------|-------------|
| | 2012 | 2Q 2012 | | 2012 | 2011 | |
| High-octane gasoline | 1,144 | 893 | 28.1% | 2,987 | 2,775 | 7.6% |
| Diesel fuel | 781 | 556 | 40.5% | 1,864 | 1,626 | 14.6% |
| Fuel oil | 408 | 372 | 9.7% | 1,318 | 1,138 | 15.8% |
| Low-octane gasoline | 67 | 47 | 42.6% | 157 | 197 | -20.3% |
| Other | 562 | 490 | 14.7% | 1,449 | 1,350 | 7.3% |
| Total sales of petroleum products | 2,962 | 2,358 | 25.6% | 7,775 | 7,086 | 9.7% |
| Petrochemicals sales | 83 | 88 | -5.7% | 249 | 321 | -22.4% |
| Total sales of petroleum products and petrochemicals | 3,045 | 2,446 | 24.5% | 8,024 | 7,407 | 8.3% |

In the 3rd quarter of 2012, revenue from wholesale of petroleum products and petrochemicals on the domestic market totaled US\$ 1,581 million, which is 29.4% higher than in the 2nd quarter of 2012, which is due to a recovery in production and a rise in prices.

In the 3rd quarter of 2012, revenue from retail sales of petroleum products and petrochemicals totaled US\$ 374 million, which is 15.1% higher than in the 2nd quarter of 2012 due to the recovery of production level after completion of maintenance works at OJSC Ufimsky refinery plant.

For the nine months of 2012, revenue from domestic sales of petroleum products and petrochemicals grew by 11.3% as compared to the same period in 2011. The increase in revenue from domestic sales of petroleum products and petrochemicals was primarily due to a 8.3% increase in domestic sales volume.

For the nine months of 2012, revenue from wholesale of petroleum products and petrochemicals on the domestic market grew by 5.2% as compared to the same period in 2011. The increase in revenue was mainly due to the growth of wholesale volumes.

For the nine months of 2012, revenue from retail sales of petroleum products increased by 45.8% as compared to the same period in 2011. The growth of revenue from retail sales was primarily due to a 43.3% increase in sales volume due to the acquisition of OJSC Orenburgnefteprodukt and consolidation of the BN-Nefteprodukt group in 2011.

Other sales

Revenue from other sales 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 3rd quarter of 2012, other revenue decreased by 14.3% compared to the 2nd quarter of 2012.

For the nine months of 2012, other revenue increased by 9.4% to US\$ 336 million, primarily due to capital construction services provided by LLC Bashneft-Polyus during the nine 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) | 3Q | | Change | 9 months | | Change |
|---|------------|------------|--------------|--------------|--------------|-------------|
| | 2012 | 2012 | | 2012 | 2011 | |
| Production and operating expenses | | | | | | |
| Production | 189 | 156 | 21.2% | 522 | 576 | -9.4% |
| Refining | 191 | 199 | -4.0% | 559 | 616 | -9.3% |
| Other (including change in WIP and finished products) | 46 | 92 | -50.0% | 165 | 34 | 385.3% |
| Total production and operating expenses | 426 | 447 | -4.7% | 1,246 | 1,226 | 1.6% |

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

| | 3Q | | Change | 9 months | | Change |
|--|------|------|--------|----------|------|--------|
| | 2012 | 2012 | | 2012 | 2011 | |
| Crude oil production expenses (US\$ million) | 189 | 156 | 21.2% | 522 | 576 | -9.4% |
| Unit costs for production of crude oil (US\$ per barrel) | 6.7 | 5.6 | 19.6% | 6.2 | 7.0 | -11.4% |

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 3rd quarter of 2012, unit costs for production of crude oil increased by 19.6% compared to the 2nd quarter of 2012 and amounted to US\$ 6.7 per barrel. This is mainly due to an increase in the amount of well workovers, as well as to an increase in electricity prices since 1 July 2012.

For the nine months of 2012, unit costs for production of crude oil declined by 11.4% 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.

| | 3Q | | Change | 9 months | | Change |
|---------------------------------------|------|------|--------|----------|------|--------|
| | 2012 | 2012 | | 2012 | 2011 | |
| Refining expenses (US\$ million) | 191 | 199 | -4.0% | 559 | 616 | -9.3% |
| Unit refining costs (US\$ per barrel) | 4.9 | 5.5 | -10.9% | 5.0 | 5.4 | -7.4% |



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 3rd quarter of 2012, unit refining costs decreased by 10.9% as compared to the 2nd quarter of 2012 and amounted to US\$ 4.9 per barrel. This reduction was due to a decline in the amount of maintenance works in the 3rd quarter of 2012, as well as the expenses related to the scheduled maintenance at OJSC Ufinsky refinery plant carried out in the 2nd quarter. This was partially offset by the growth of electricity prices since 01 April 2012.

For the nine months of 2012, unit refining costs decreased by 7.4% compared to the same period in 2011 and amounted to US\$ 5.0 per barrel. This is due to the weakening of the Russian 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) | 3Q | 2Q | Change | 9 | 9 | Change |
|--|--------------|--------------|--------------|--------------|--------------|--------------|
| | 2012 | 2012 | | months | months | |
| Purchased crude oil, gas, and gas condensate | 2,806 | 2,540 | 10.5% | 7,653 | 8,092 | -5.4% |
| Purchased petroleum products | 85 | 59 | 44.1% | 189 | 260 | -27.3% |
| Total | 2,891 | 2,599 | 11.2% | 7,842 | 8,352 | -6.1% |

In the 3rd quarter of 2012, the cost of purchased crude oil, gas and petroleum products increased by 30.8% and totaled US\$ 1,118 million. This was caused by a rise in purchase prices for crude oil and an increase in the volume of petroleum products manufactured by the Group in the 3rd quarter of 2012. In the 3rd quarter of 2012, there also was 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 nine months of 2012, the cost of purchased crude oil, gas and petroleum products decreased by 2.6% compared to the same period in 2011. This was mainly due to a decrease in refining volumes.

Transportation costs

In the 3rd quarter of 2012, transportation costs of Bashneft Group increased by 21.7% to US\$ 252 million compared to US\$ 207 million in the 2nd quarter of 2012 mainly due to a shift of focus to export to countries outside the CIS and to an overall increase in petroleum products sales.

For the nine months of 2012, transportation costs of Bashneft Group increased by 6.2% to US\$ 638 million compared to US\$ 601 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) | 3Q | 2Q | Change | 9 | 9 | Change |
|---|------------|------------|--------------|------------|------------|--------------|
| | 2012 | 2012 | | months | months | |
| Depletion and depreciation | | | | | | |
| Exploration and production | 61 | 69 | -11.6% | 194 | 170 | 14.1% |
| Refining | 78 | 81 | -3.7% | 232 | 274 | -15.3% |
| Other | 10 | 12 | -16.7% | 31 | 19 | 63.2% |
| Total depletion and depreciation | 149 | 162 | -8.0% | 457 | 463 | -1.3% |

Depletion and depreciation costs in the 3rd quarter of 2012 totaled US\$ 149 million compared to US\$ 162 million in the 2nd quarter of 2012.

For the nine months of 2012, depletion and depreciation costs decreased by 1.3% compared to the same period in 2011.

Taxes other than income tax

| (US\$ million) | 3Q | 2Q | Change | 9 | 9 | Change |
|--|------------|------------|--------------|--------------|--------------|-------------|
| | 2012 | 2012 | | months | months | |
| Taxes other than income tax | | | | | | |
| Mineral extraction tax | 461 | 471 | -2.1% | 1,390 | 1,303 | 6.7% |
| Social taxes | 51 | 59 | -13.6% | 169 | 174 | -2.9% |
| Property tax | 14 | 16 | -12.5% | 45 | 44 | 2.3% |
| Other | 6 | 9 | -33.3% | 21 | 22 | -4.5% |
| Total taxes other than income tax | 532 | 555 | -4.1% | 1,625 | 1,543 | 5.3% |

In the 3rd quarter of 2012, taxes other than income tax decreased by 4.1% compared to the 2nd quarter of 2012 and amounted to US\$ 532 million.

For the nine months of 2012, taxes other than income tax increased by 5.3% 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 and by the weakening of the rouble against the US dollar.

Export duties and excises

| (US\$ million) | 3Q | 2Q | Change | 9 | 9 | Change |
|--|--------------|--------------|--------------|--------------|--------------|-------------|
| | 2012 | 2012 | | months | months | |
| Export duties on crude oil | 416 | 501 | -17.0% | 1,339 | 1,101 | 21.6% |
| Export duties on petroleum products | 436 | 416 | 4.8% | 1,147 | 1,394 | -17.7% |
| Excises | 319 | 272 | 17.3% | 874 | 723 | 20.9% |
| Total export duties and excises | 1,171 | 1,189 | -1.5% | 3,360 | 3,218 | 4.4% |



In the 3rd quarter, the total amount of export duties on oil and petroleum products decreased by 7.1% compared to the 2nd quarter of 2012 and amounted to US\$ 852 million, as the export duty rates were reduced. This was partially offset by an increase in the exports of petroleum products outside the CIS in the 3rd quarter of 2012 compared to the 2nd quarter of 2012.

In the 3rd quarter of 2012, the total amount of excises increased by 17.3% compared to the 2nd quarter of 2012 and amounted to US\$ 319 million. This was due to higher sales volumes in the domestic market. This was partially offset by an increase in the share of produced high-octane gasoline and diesel fuel of higher environmental classes that are subject to a lower rates, due to the full transition to the sales of fuel complying with Euro 5 standard by the Group's own retail network in July 2012.

For the nine months of 2012, the total amount of export duties on crude oil and petroleum products decreased by 0.4% compared to the same period in 2011, driven by a decrease in export volumes of petroleum products. This increase was partially offset by an increase in export volumes of crude oil.

For the nine months of 2012, the total amount of excise taxes increased by 20.9% 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) | 3Q | 2Q | Change | 9 | 9 | Change |
|--|-------|-------|---------|---------|---------|--------|
| | 2012 | 2012 | | months | months | |
| Cash flow | | | | | | |
| Net cash generated from operating activities | 631 | 1 000 | -36.9% | 1 817 | 1 547 | 17,5% |
| Net cash generated from/(used in) investing activities | 216 | (227) | -195.2% | (1 411) | (761) | 85,4% |
| Net cash used in financing activities | (590) | (665) | -11.3% | (523) | (1 429) | -63,4% |

Net cash flow generated from operating activities:

| (US\$ million) | 3Q | 2Q | Change | 9 | 9 | Change |
|---|------------|--------------|---------------|--------------|--------------|--------------|
| | 2012 | 2012 | | months | months | |
| Operating cash flow before working capital changes | 980 | 765 | 28.1% | 2,500 | 2,621 | -4.6% |
| Movements in working capital less cash and cash equivalents | (123) | 446 | -127.6% | (66) | (402) | -83.6% |
| Interest paid | (75) | (101) | -25.7% | (238) | (277) | -14.1% |
| Income tax paid | (151) | (110) | 37.3% | (379) | (395) | -4.1% |
| Net cash generated from operating activities | 631 | 1,000 | -36.9% | 1,817 | 1,547 | 17.5% |

Net cash flow generated from operating activities in the 3rd quarter of 2012 decreased by 36.9% compared to the 2nd quarter of 2012 and amounted to US\$ 631 million. The main factors behind



the decrease in net cash flow from operating activities in the 3rd quarter of 2012 included an increase in trade receivables and a decrease in advance payments received for petroleum products.

For the nine months of 2012, net cash generated from operating activities increased by 17.5% 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 generated from investing activities:

| (US\$ million) | 3Q | | Change | 9 months | | Change |
|---|------------|--------------|----------------|----------------|--------------|--------------|
| | 2012 | 2012 | | 2012 | 2011 | |
| Capital expenditures | (194) | (274) | -29.2% | (630) | (595) | 5.9% |
| Proceeds from disposal of financial assets, net/payments for acquisition of financial assets, net | 374 | 94 | 297.9% | (777) | (108) | 619.4% |
| Other | 36 | (47) | -176.6% | (4) | (58) | -93.1% |
| Net cash generated from/(used in) investing activities | 216 | (227) | -195.2% | (1,411) | (761) | 85.4% |

Net cash generated from investing activities in the 3rd quarter of 2012 amounted to US\$ 216 million. Changes in net cash generated from/(used in) investing activities is related to withdrawal of funds from deposit accounts in the 3rd quarter of 2012. The change is also due to an increase in capital expenditures in the 2nd quarter of 2012 related to the acquisition of licences for subsoil blocks.

For the nine months of 2012, net cash used in investing activities increased by 85.4% compared to the same period in 2011 and amounted to US\$ 1,411 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 financing activities:

| (US\$ million) | 3Q | | Change | 9 months | | Change |
|---|--------------|--------------|---------------|--------------|----------------|----------------|
| | 2012 | 2012 | | 2012 | 2011 | |
| Proceeds from borrowings | 15 | 92 | -83.7% | 844 | 1,680 | -49.8% |
| Repayments of borrowings | (32) | (180) | -82.2% | (216) | (2,127) | -89.8% |
| Total issue and repayment of debt: | (17) | (88) | -80.7% | 628 | (447) | -240.5% |
| Dividends paid | (573) | (1) | n/a | (575) | (948) | -39.3% |
| Purchase of treasury shares | - | (330) | -100.0% | (330) | - | n/a |
| Payments for acquisition of non-controlling interests | - | (246) | -100.0% | (246) | - | n/a |
| Other | - | - | - | - | (34) | -100.0% |
| Net cash used in financing activities | (590) | (665) | -11.3% | (523) | (1,429) | -63.4% |

In the 3rd quarter, net cash used in financing activities amounted to US\$ 590 million compared to US\$ 665 million in the 2nd quarter of 2012. The main factors that influenced the amount of net cash used in financing activities in the 3rd quarter of 2012 include the payment of dividends, while in the 2nd quarter of 2012 the company acquired treasury shares and shares of the Group's subsidiaries.



FINANCING AND DEBT

| (US\$ million) | 30 | 30 | Change | 30 | 30 | Change |
|----------------------------------|--------------|--------------|-------------|--------------|--------------|--------------|
| | September | June | | September | September | |
| | 2012 | 2012 | | 2012 | 2011 | |
| Net debt calculation | | | | | | |
| Short-term borrowings | 1,086 | 486 | 123.5% | 1,086 | 17 | 6288.2% |
| Long-term borrowings | 3,044 | 3,444 | -11.6% | 3,044 | 3,360 | -9.4% |
| Total debt | 4,130 | 3,930 | 5.1% | 4,130 | 3,377 | 22.3% |
| Cash and cash equivalents | (745) | (476) | 56.5% | (745) | (439) | 69.7% |
| Short-term financial investments | (1,100) | (1,351) | -18.6% | (1,100) | (611) | 80.0% |
| Adjusted net debt | 2,285 | 2,103 | 8.7% | 2,285 | 2,327 | -1.8% |

As of 30 September 2012, the total debt of the Group in the form of short-term and long-term borrowings amounted to US\$ 4,130 million compared to US\$ 3,930 million as of 30 June 2012. The increase of the total debt is due to the strengthening of the Russian rouble against the US dollar.

Short-term borrowings include interest-bearing non-convertible rouble bonds issued in December 2009 and the current portion of long-term borrowings to be redeemed within 12 months after the report date.

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.

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

CAPITAL EXPENDITURES

| (US\$ million) | 3Q | 2Q | Change | 9 | 9 | Change |
|--|------------|------------|---------------|------------|------------|-------------|
| | 2012 | 2012 | | months | months | |
| | 2012 | 2012 | | 2012 | 2011 | |
| Capital expenditures | | | | | | |
| Exploration and production | 68 | 203 | -66.5% | 355 | 343 | 3.5% |
| Refining | 120 | 67 | 79.1% | 263 | 202 | 30.2% |
| Other | 6 | 4 | 50.0% | 12 | 50 | -76.0% |
| Total cash used in capital expenditures | 194 | 274 | -29.2% | 630 | 595 | 5.9% |

In the 3rd quarter of 2012, capital expenditures decreased by 29.2% compared to the 2nd quarter of 2012 and amounted to US\$ 194 million. This was primarily due to the acquisition of mineral rights in the 2nd quarter 2012; the relevant payments totaled US\$ 151 million. This was partially offset by an increase in capital expenditures in refining segment due to construction of a gas fractionation unit and a sulfuric acid alkylation unit at OJSC Novoil and due to the upgrade of aromatic hydrocarbon production unit at OJSC Ufaneftekhim.

For the nine months of 2012, CAPEX increased by 5.9% compared to the same period in 2011, which was primarily due to the acquisition of licences in 2012 and to the growth of CAPEX in refining segment. This was partially offset by the deconsolidation of OJSC Bashkirenergo on 5 May 2011.

EVENTS SUBSEQUENT TO THE REPORTING PERIOD

On 1 October 2012, JSOC Bashneft has completed all stages of reorganization through consolidation of its subsidiaries (OJSC Ufimsky Refinery Plant, OJSC Novoil, OJSC Ufaneftekhim, OJSC Bashkirnefteprodukt and OJSC Orenburgnefteprodukt). As a result of the reorganization, the shares of the subsidiaries were converted into JSOC Bashneft's shares.

