



BASHNEFT
JOINT STOCK OIL COMPANY

**Management's analysis of financial condition and
operating results of Bashneft Group for three months
ended 31 December and 30 September 2011 and over the
12 months ended 31 December 2011 and 2010**



This report contains a review of financial condition and operating results of JSOC Bashneft and should be read in conjunction with the consolidated financial statements of Bashneft Group for the year ended 31 December 2011 (hereinafter referred to as the Consolidated financial statements). The terms "Bashneft", "the Company", "the Group" and "Bashneft Group" in various forms mean JSOC Bashneft and its subsidiaries and special purpose entities. The financial condition 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 years ended 31 December 2011 and 2010 have been adjusted for the financial results of OJSC Bashkirenergo, which was deconsolidated in May 2011.

OVERVIEW

Bashneft Group is one of Russia's leading vertically integrated oil companies involved in crude oil production and refining and selling oil and petroleum products.

The Company was established as an open joint stock company on 13 January 1995, following the privatisation of Bashkir Petrochemical Enterprise ("Bashneftekombinat").

The Company holds licenses for the development of 190 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, including licenses for oil and gas fields developed by the Joint Venture "Bashneft-Polyus". 166 of the Company's fields are in commercial production.

According to the results of an audit conducted by Miller & Lents Ltd. using PRMS (SPE) criteria, the Company's proved 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. In 2011, production at the developed fields increased to 15.1 million tonnes.

Bashneft Group includes three refineries, OJSC Ufaneftekhim, OJSC Ufimsky Refinery, OJSC Novoil, as well as a petrochemical plant, OJSC Ufaorgsintez. The Company has one of the most technologically advanced refineries in Russia that are leaders in terms of refining depth and quality of petroleum and petrochemical products. The refineries' installed capacity totals 24.1 million tonnes of hydrocarbon resources per year.

In 2011, Bashneft Group refined 21.1 million tonnes of hydrocarbon resources at its refineries. Average refining depth during the year amounted to 85.9%, which is one of the best results among Russian VICs. The Group's refineries have the Nelson index of 8.3.

Bashneft Group accounts for about 13% of Russian production of gasoline. The Company's engine fuels meet the standards of the Technical Regulations for fuels (equivalent to Euro 3); the Company also produces gasoline and diesel fuel to Euro 4 and Euro 5 standards.

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

In 2011, Bashneft Group sold 10.2 million tonnes of petroleum products on the domestic market and exported almost 9.2 million tonnes. The Company also exported 3.6 million tonnes of crude oil and supplied 1.0 million tonnes of crude oil to the domestic market.

In 2011, Bashneft Group increased retail sales volumes by acquiring OJSC Orenburgnefteprodukt and BN-Nefteprodukt Group (former ASPEC Group) owning 145 filling stations and 20 oil storage facilities. In December 2011, Bashneft Group acquired SKON Group of Companies owning an oil storage facility and a network of 25 filling stations in Yekaterinburg and the Sverdlovsk region. In the future the Company plans to significantly expand the geographical reach of its retail and small wholesale fuel marketing in priority regions.

KEY FINANCIAL AND OPERATING RESULTS

	4Q		Change	12 months		Change
	2011	3Q 2011		2011	2010	
Sales revenue (US\$ million)	4,083	4,458	-8.4%	16,549	11,707	41.4%
EBITDA (US\$ million)	824	720	14.4%	3,192	2,732	16.8%
Operating income (US\$ million)	671	574	16.9%	2,576	2,135	20.7%
Income for the period attributable to the shareholders of the parent company (US\$ million)	387	407	-4.9%	1,696	1,429	18.7%
Net debt (US\$ million)	1,902	2 327	-18.3%	1,902	2,289	-16.9%
ROACE ¹	n/a	n/a	-	20%	17%	3 p.p.
Oil production (thousand tonnes)	3,849	3,839	0.3%	15,106	14,145	6.8%
Oil refining (thousand tonnes)	5,333	5,299	0.6%	21,062	21,193	-0.6%

Major events in 2011 that had an impact on the performance of Bashneft Group:

- Acquiring a license for the development of the R. Trebs and A. Titov fields in February 2011 and transfer of license to a subsidiary company LLC “Bashneft-Polyus” in December 2011;
- At the end of December 2011, Bashneft Group and OJSC Lukoil signed an agreement concerning the Trebs and Titov oilfields. Under the agreement, Bashneft Group sold to OJSC Lukoil a 25.1% stake in LLC Bashneft-Polyus and signed a JV agreement;
- In December 2011, Bashneft won an auction for the right to geological exploration, prospecting, surveying, and production of hydrocarbons at the Elanskoe and Znamenskoe-1 subsoil blocks;
- In October 2011, Bashneft Group won an auction for the right to geological exploration, prospecting, surveying, and production of hydrocarbons at three subsoil blocks situated in the Nenets Autonomous District;
- Acquiring 94% of the shares of OJSC Orenburgnefteprodukt, which sells petroleum products in the Orenburg Region via a network of filling stations and oil storage facilities, in April 2011;
- Obtaining a 100% stake in BN-Nefteprodukt, which has united the operations of the ASPEC Group in wholesale and retail sales of petroleum products, in July 2011;
- Closing the deal on a pre-export loan in August 2011; early redemption of series 01, 02 and 03 bonds in October 2011, and placement of series BO-01 bonds in December 2011;

¹ The ROACE metric for 2010 was calculated taking into account the data on Bashkirenergo. ROACE is the ratio of adjusted net income, calculated as net income adjusted for interest expense and income tax expense, to average capital employed for the period. Average capital employed is calculated as average total debt plus total equity balances of beginning and end of the period.

MAIN FACTORS WITH IMPACT ON 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;
- Ruble/dollar exchange rate and inflation;
- Taxation and government regulation of tariffs of natural monopolies

Prices for crude oil and petroleum products

Prices for crude oil and petroleum products are the main factor determining financial and, indirectly, operating results of Bashneft Group's business. The Company's ability to control prices for its products is limited, as they depend mostly on the world market conditions and on the balance of supply and demand in specific regions of Russia. A fall in prices for crude oil or petroleum products may have a negative impact on the operating results and financial position of Bashneft Group. A drop in price may lead to decline in volumes of crude oil and gas which the Group can produce profitably, and this in turn will lead to reduction in the volume of Bashneft Group's economically recoverable hydrocarbon reserves which can be efficiently developed, and to lower economic efficiency of exploration programs and geological and engineering operations.

	4Q	3Q		12	12	
	2011	2011	Change	months	months	Change
	2011	2010		2011	2010	
Prices for crude oil and petroleum products²						
Brent crude, US\$/barrel	109.3	113.5	-3.7%	111.3	79.5	40.0%
Urals crude, US\$/ barrel	108.6	111.5	-2.6%	109.1	78.3	39.3%
Fuel oil (average FOB Rotterdam/CIF NWE), US\$/tonne	622.1	628.8	-1.1%	607.2	440.8	37.7%
Diesel fuel (average FOB Rotterdam/CIF NWE), US\$/tonne	946.5	944.0	0.3%	933.8	671.8	39.0%
Naphtha (average FOB Rotterdam/CIF NWE), US\$/tonne	872.6	951.3	-8.3%	929.2	710.9	30.7%
Vacuum gasoil (FOB NWE) (US\$/tonne)	757.2	783.6	-3.4%	769.0	546.3	40.8%
Russian market (US\$/tonne, with excises, not including VAT)³						
Crude oil	299.9	291.5	2.9%	304.4	222.2	37.0%
Fuel oil	294.3	331.0	-11.1%	299.5	252.1	18.8%
Diesel fuel (summer gasoil)	694.0	678.4	2.3%	670.0	469.5	42.7%
Diesel fuel (winter gasoil)	811.1	697.9	16.2%	741.6	544.1	36.3%
Jet fuel	777.1	694.3	11.9%	701.8	490.4	43.1%
High-octane gasoline	790.9	873.0	-9.4%	821.5	685.1	19.9%
Low-octane gasoline	736.5	773.3	-4.8%	753.0	569.0	32.3%

² Source: Platts

³ Source: Kortess/Argus

Ruble/dollar exchange rate and inflation

More than 50% of Bashneft Group's gross revenue is generated from export of crude oil and petroleum products. Consequently, fluctuations in exchange rates of currencies against the ruble have an impact on the Company's operating results.

Moreover, the Company's financial condition is influenced by changes in the consumer price index. Inflation rate influences both capital and current expenses of the Group.

	<u>4Q</u>		<u>3Q</u>	<u>12 months</u>		<u>12 months</u>	
	2011	2011	Change	2011	2010	Change	
Ruble inflation (CPI) during the period*	1.4%	-0.3%	1.7 p.p.	6.1%	8.8%	-2.7 p.p.	
Ruble/dollar exchange rate, end of period	32.2	31.9	0.9%	32.2	30.5	5.6%	
Ruble/dollar exchange rate, period average	31.2	29.1	7.2%	29.4	30.4	-3.3%	
Real appreciation/(depreciation) of the ruble to the dollar compared with previous period	-6.3%	3.5%	-2.8 p.p.	12.1%	11.6%	0,5 p.p.	

* Source: Federal State Statistics Service

Taxation

	<u>4Q</u>		<u>3Q</u>	<u>12 months</u>		<u>12 months</u>	
	2011	2011	Change	2011	2010	Change	
Mineral extraction tax (rubles per tonne)							
Crude oil	4,718	4,547	3.8%	4,455	3,074	44.9%	
Export duty (US\$ per tonne)							
Crude oil	404	443	-8.8%	409	274	49.3%	
Light and medium distillates	266	296	-10.1%	274	197	39.1%	
Fuel oil	266	207	28.5%	208	106	96.2%	
Excises (rubles per tonne)							
High-octane gasoline	-	-	-	-	3,992	-	
Low-octane gasoline	-	-	-	-	2,923	-	
Naphtha	-	-	-	-	4,290	-	
Diesel fuel	-	-	-	-	1,188	-	
Lubricants	-	-	-	-	3,246	-	

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

(rubles per tonne)	2011	1 January – 30 June, 2012	1 July – 31 December, 2012	2013	2014
Gasoline					
not corresponding to class 3, 4, 5	5,995	7,725	8,225	10,100	11,110
corresponding to class 3	5,672	7,382	7,882	9,750	10,725
corresponding to class 4	5,143	6,822	6,822	8,560	9,416
corresponding to 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					
not corresponding to class 3, 4, 5	2,753	4,098	4,300	5,860	6,446
corresponding to class 3	2,485	3,814	4,300	5,860	6,446
corresponding to class 4	2,247	3,562	3,562	4,934	5,427
corresponding to 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 every month in Russian rubles at the rate of 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 are characterized by the level of depletion exceeding 80%; as a result, on average, actual mineral extraction tax expenses are 22% lower than the current mineral extraction tax rate.

	4Q 2011	3Q 2011	Change	12 months 2011	12 months 2010	Change
Mineral extraction tax						
Current mineral extraction tax rates (US\$/barrel)	20.7	21.4	-3.5%	20.8	13.9	49.8%
Actual mineral extraction tax expenses (US\$/ barrel)	16.1	16.3	-1.3%	16.1	10.7	50.3%



OPERATING RESULTS

Oil and gas reserves

In accordance with the valuation of reserves performed by an independent reserves appraiser Miller and Lents, Ltd. under the Petroleum Resources Management System (PRMS) of the Society of petroleum engineers (SPE), changes in the amount of oil and gas reserves in 2011 are reflected in the table below:

(million tonnes)	12 months	12 months	Change
	2011	2010	
Proved reserves	278.5	268.8	3.6%
Probable reserves	59.0	57.7	2.3%
Total proved and probable reserves of Bashneft Group	337.5	326.5	3.4%
Total possible reserves of Bashneft Group	81.7	88.1	-7.3%
Total reserves	419.2	414.6	1.1%

The company Miller and Lents, Ltd. evaluated prospective and contingent oil resources of JSOC Bashneft at the R. Trebs and A. Titov oilfields. Within the Group's share in joint operations, the 3C contingent oil resources totalled 54.7 million tonnes, while perspective resources totalled 4.5 million tonnes.

Exploratory drilling and discovery of oilfields

	12 months	12 months	Change
	2011	2010	
Exploratory drilling (thousand metres) ⁴	30.9	6.8	355.2%
Number of exploratory wells drilled	18	2	800.0%
Number of oilfields discovered	-	2	-100.0%
Number of oil and gas deposits discovered	2	-	n/a

Over the 12 months of 2011, exploration drilling increased due to reviewing and adjusting the 2009 and 2010 plans on exploration of the existing oilfields, which significantly reduced exploration drilling in 2009 and 2010 and exploratory drillings conducted at the R. Trebs and A. Titov oilfields.

⁴ Considering deepening for additional exploration

Production drilling

	12 months	12 months	Changes
	2011	2010	
Production drilling (thousand metres)	129.6	233.9	-44.6%
Number of wells drilled	73	139	-47.5%
Average output of existing wells (tonnes/day)	2.76	2.49	10.8%
Water cut, %	90.40	90.84	-0.5%

The decline in production drilling and in the number of wells drilled in 2011 was due to improvement of 3D geological modelling of the existing fields in 2011. The average output of existing wells increased due to the use of enhanced oil recovery techniques at the existing wells.

The main oilfields developed by the Group are the Arlanskoye, Tuimazinskoye, Yugomashevskoye and Chetyrmanskoye fields. The development of these oilfields began between 1939 and 1966. Peak production at these oilfields was achieved in 1967. As the oilfields have been exploited for a long time, the water cut is rather high.

Production

	4Q	3Q	Change	12 months	12 months	Change
	2011	2011		2011	2010	
Crude oil production (thousand tonnes)	3,849	3,839	0.3%	15,106	14,145	6.8%
Average daily production of crude oil (thousand barrels/day)	305.4	304.6	0.3%	302.1	282.9	6.8%

An increase in crude oil production in 2011 as compared to the level of 2010 is due to improved efficiency of exploratory drilling and the use of enhanced oil recovery techniques.

In Q4, crude oil production stabilized and remained at the level of 3.8 million tonnes.

Refining

(thousand tonnes)	4Q	3Q	Change	12 months	12 months	Change
	2011	2011		2011	2010	
Crude oil refining	5,333	5,299	0.6%	21,062	21,193	-0.6%
Petroleum product outputs						
Gasolines (including SNG)*	1,320	1,243	-6.2%	4,919	4,742	3.7%
Diesel fuel	1,853	1,834	1.0%	7,413	7,665	-3.3%
Fuel oil	804	622	29.3%	2,610	2,646	-1.4%
Vacuum gas oil	408	468	-12.8%	1,891	1,699	11.3%
Other	553	654	-15.4%	2,351	2,676	-12.1%
Total petroleum products	4,938	4,821	2.4%	19,184	19,428	-1.3%
Refining depth (%)	83.2%	87.1%	-3.9 p.p.	85.9%	86.3%	-0.4 p.p.
Share of light products (%)	61.4%	58.9%	2.5 p.p.	59.9%	61.8%	-1.9 p.p.

* *Stable natural gasoline*

In the 4 quarter of 2011, crude oil refining amounted to 5.333 million tonnes, having increased insignificantly as compared to the oil refining volumes in the 3 quarter of 2011.

Changes in the basket of petroleum products in the 4 quarter of 2011 as compared to the 3 quarter of 2011 and in 2011 as compared to 2010 are due to repair works at the Company's oil refining complex. This included repairs carried out in 2011 to the catalytic cracking unit, the Aromatika complex and the delayed coking unit at OJSC Ufaneftekhim.

FINANCIAL RESULTS

(US\$ million)	Q4	Q3	Change	12 months	12 months	Change
	2011	2011		2011	2010	
Revenue						
Crude oil sales	778	811	-4.1%	3,142	1,995	57.5%
Petroleum product and petrochemical sales	3,211	3,550	-9.5%	13,006	9,363	38.9%
Other sales	94	97	-3.1%	401	349	14.9%
Total revenue	4,083	4,458	-8.4%	16,549	11,707	41.4%
Operating expenses						
Excises and export duties	1,013	1,237	-18.1%	4,231	2,753	53.7%
Cost of purchased crude oil, gas and petroleum products	969	1,072	-9.6%	3,994	2,882	38.6%
Taxes other than income tax	509	521	-2.3%	2,052	1,347	52.3%
Production and operating expenses	462	433	6.7%	1,684	1,436	17.3%
Transport costs	187	232	-19.4%	788	538	46.5%
Depreciation and amortization	153	146	4.8%	616	597	3.2%
Sales, general and administrative expenses	90	182	-50.5%	495	374	32.4%
Expenses on geological exploration	12	1	1100.0%	16	9	77.8%
Other operating expenses (income), net	17	60	-71.7%	97	-364	n/a
Total costs and expenses	3,412	3,884	-12.2%	13,973	9,572	46.0%
Operating income	671	574	16.9%	2,576	2,135	20.7%
Other (expenses)/ income						
Financial expenses	-154	-116	32.8%	-508	-356	42.7%
Financial income	24	14	71.4%	74	67	10.4%
Exchange rate differences, net	-11	43	-125.6%	-13	-2	550.0%
Share in income of affiliates	12	16	-25.0%	75	36	108.3%
Total other (expenses)/income	-129	-43	200.0%	-372	-255	45.9%
Income before tax	542	531	2.1%	2,204	1,880	17.2%
Income tax expenses	-167	-107	56.1%	-513	-426	20.4%
Income for the period from continuing operations	375	424	-11.6%	1,691	1,454	16.3%
Income for the period from discontinued operations	-	-	-	124	92	34.8%
Income for the period	375	424	-11.6%	1,815	1,546	17.4%
Loss for the period (income for the period) attributable to minorities	12	-17	-170.6%	-119	-117	1.7%
Income for the period attributable to shareholders of the parent company	387	407	-4.9%	1,696	1,429	18.7%

REVENUE

Revenue of Bashneft Group in the 4 quarter of 2011 was US\$ 4,083 million, which is 8.4% less than in the 3 quarter. Lower revenue was mainly due to a decrease in exports of petroleum products.

For 12 months of 2011 revenue increased by 41.4% y-o-y to US\$ 16,549 million.

(US\$ million)	4Q	3Q	Change	12 months	12 months	Change
	2011	2011		2011	2010	
Revenue						
Export sales of crude oil	698	732	-4.6%	2,814	1,783	57.8%
Domestic sales of crude oil	80	79	1.3%	328	212	54.7%
Total sales of crude oil	778	811	-4.1%	3,142	1,995	57.5%
Exports of petroleum products and petrochemicals outside the CIS	899	1,516	-40.7%	5,333	3,526	51.2%
Exports of petroleum products and petrochemicals to the CIS countries	491	242	102.9%	1,334	726	83.7%
Domestic sales of petroleum products and petrochemicals	1,821	1,792	1.6%	6,339	5,111	24.0%
<i>wholesale</i>	1,521	1,467	3.7%	5,369	4,620	16.2%
<i>retail</i>	300	325	-7.7%	970	491	97.6%
Total sales of petroleum products and petrochemicals	3,211	3,550	-9.5%	13,006	9,363	38.9%
Other sales	94	97	-3.1%	401	349	14.9%
Total revenue	4,083	4,458	-8.4%	16,549	11,707	41.4%

(thousand tonnes)	4Q	3Q	Change	12 months	12 months	Change
	2011	2011		2011	2010	
Sales volumes						
Export sales of crude oil	900	900	0%	3,599	3,210	12.1%
Domestic sales of crude oil	255	257	-0.8%	1,026	908	13.0%
Total sales of crude oil	1,155	1,157	-0.2%	4,625	4,118	12.3%
Exports of petroleum products and petrochemicals outside the CIS	1,292	1,936	-33.3%	6,956	6,515	6.8%
Exports of petroleum products and petrochemicals to the CIS countries	744	474	57.0%	2,222	1,282	73.3%
Domestic sales of petroleum products and petrochemicals	2,764	2,664	3.8%	10,171	11,099	-8.4%
<i>wholesale</i>	2,450	2,329	5.2%	9,148	10,483	-12.7%
<i>retail</i>	314	335	-6.3%	1,023	616	66.1%
Total sales of petroleum products and petrochemicals	4,800	5,074	-5.4%	19,349	18,896	2.4%
Total sales of crude oil, petroleum products and petrochemicals	5,955	6,231	-4.4%	23,974	23,014	4.2%

Export and domestic sales of crude oil

Revenue from export sales of crude oil in the 4 quarter of 2011 was US\$ 698 million, which is 4,6% less than in the 3 quarter. The main reason for the decrease was lower prices for crude oil in the 4 quarter of 2011 compared to the 3 quarter.

Revenue from export sales of crude oil for the 12 months of 2011 was US\$ 2,814 million, increasing by 57,8% y-o-y. The growth of revenue was due to higher crude oil prices than in 2010, as well as growth of export sales volumes of crude oil from 3.210 million tonnes for the 12 months of 2010 to 3.599 million tonnes for the 12 months of 2011. The increase in export sales was mainly due to a growth in oil production in 2011.

In the 4 quarter of 2011 revenue from sales of crude oil on the domestic market was US\$ 80 million compared with US\$ 79 million in the 3 quarter of the year.

For the 12 months of 2011 revenue from sales of crude oil on the domestic market was US\$ 328 million compared with US\$ 212 million for the 12 months of 2010.

Export of petroleum products and petrochemicals

(thousand tonnes)	4Q	3Q	Change	12	12	Change
	2011	2011		months	months	
Diesel fuel	1,228	1,465	-16.2%	5,327	4,308	23.7%
Vacuum gasoil	408	467	-12.6%	1,896	1,686	12.5%
Fuel oil	300	283	6.0%	961	732	31.3%
Naphtha	55	102	-46.1%	370	403	-8.2%
High-octane gasoline	-	29	-100%	425	526	-19.2%
Other	25	43	-41.9%	115	84	36.9%
Total sales of petroleum products	2,016	2,389	-15.6%	9,094	7,739	17.5%
Petrochemical sales	20	21	-4.8%	84	58	44.8%
Total sales of petroleum products and petrochemicals	2,036	2,410	-15.5%	9,178	7,797	17.7%

Revenue from export of petroleum products and petrochemicals outside the CIS in the 4 quarter of 2011 was US\$ 899 million, which is 40.7% less than in the 3 quarter. The volume of petroleum product exports outside the CIS declined by 33.3% (1.292 million tonnes in the 4 quarter of 2011 compared with 1.936 million tonnes in the 3 quarter), which is primarily due to the shift of focus from export outside the CIS to exports to CIS countries.

Revenue from export of petroleum products and petrochemicals outside the CIS for the 12 months of 2011 was US\$ 5,333 million, growing by 51.2% y-o-y. The growth was due to higher petroleum product prices and 6.8% increase in volume of petroleum product and petrochemical deliveries outside the CIS for the 12 months of 2011.

Export of petroleum products and petrochemicals to CIS markets

Revenue from export sales of petroleum products and petrochemicals to the CIS countries in the 4 quarter of 2011 was US\$ 491 million, having grown by 102.9% q-o-q. Higher revenue resulted from an increase by 57.0% of petroleum product and petrochemical export to the CIS countries in the 4

quarter, due to the shift of focus from export outside the CIS to exports to CIS countries, as well as from a growth of prices.

Revenue from export of petroleum products and petrochemicals to the CIS countries for the 12 months of 2011 was US\$ 1,334 million, which rose by 83.7% y-o-y. The growth of the revenue was due to 73.3% increase in volume of petroleum product and petrochemical export to the CIS countries for the 12 months of 2011, and also to growth in sales prices during 2011.

Petroleum product sales on the domestic market

(thousand tonnes)	4Q		3Q	Change	12 months		12 months	Change
	2011	2011			2011	2010		
High-octane gasoline	1,049	1,060	-1.0%	3,824	3,941	-3.0%		
Diesel fuel	575	603	-4.6%	2,201	3,006	-26.8%		
Fuel oil	549	317	73.2%	1,687	1,893	-10.9%		
Low-octane gasoline	115	80	43.8%	312	245	27.3%		
Vacuum gasoil	-	-	-	-	10	-100.0%		
Other	369	493	-25.2%	1,719	1,590	8.1%		
Total sales of petroleum products	2,657	2,553	4.1%	9,743	10,685	-8.8%		
Petrochemical sales	107	111	-3.6%	428	414	3.4%		
Total sales of petroleum products and petrochemicals	2,764	2,664	3.8%	10,171	11,099	-8.4%		

Revenue from sales of petroleum products and petrochemicals on the domestic market in the 4 quarter of 2011 amounted to US \$ 1,821 million, rising by 1.6% q-o-q.

In the 4 quarter of 2011 the Group sold 2.764 million tonnes of petroleum and chemical products on the domestic market. The wholesale market accounted for 2.450 million tonnes, which is 5.2% more than in the 3 quarter of 2011.

Revenue from wholesale of petroleum products and petrochemicals was US\$ 1,521 million in the 4 quarter of 2011, which is 3.7% more than in the 3 quarter. The growth of wholesale resulted from increase in volume of petroleum products sales by 5.2% from 2.329 million tonnes in the 3 quarter of 2011 to 2.450 million tonnes due to an increase in wholesale to independent retail market players.

Revenue from retail sales of petroleum products was US\$ 300 million in the 4 quarter of 2011, which is 7.7% less than in the 3 quarter. Retail sales of petroleum products in the 4 quarter amounted to 0.314 million tonnes, which is 6.3% less than in the 3 quarter. This drop in sales volumes results from a seasonal decline in demand for petroleum products in the retail market.

Revenue from retail sales of petroleum products and petrochemicals on the domestic market was US\$ 6,339 million for the 12 months of 2011, increasing by 24.0% y-o-y. Increase of revenue from retail sales of petroleum products and petrochemicals on the domestic market is due to higher sales prices.

For the 12 months of 2011 the Group sold 10.171 million tonnes of petroleum and petrochemical products on the domestic market. The wholesale market accounted for 9.148 million tonnes. Revenue from wholesale of petroleum products and petrochemicals on the domestic market was US\$ 5,369 million for the 12 months of 2011, growing by 16.2% y-o-y. The increase of revenue is first and foremost

due to the growth of wholesale prices for petroleum products in the domestic market. This increase was partly offset by a decrease in sales volumes and a corresponding increase in retail sales due to the acquisition of OJSC Orenburgnefteprodukt and consolidation of the BN-Nefteprodukt Group in 2011.

Revenue from retail sales of petroleum products was US\$ 970 million for the 12 months of 2011, rising by 97.6% y-o-y. Increase of revenue from retail sales of petroleum products for the 12 months of 2011 comparing to the 12 months of 2010 is due to higher prices and growth of engine fuel sales, including through the acquisition of OJSC Orenburgnefteprodukt and the consolidation of the BN-Nefteprodukt Group. Retail sales of petroleum products and petrochemicals for the 12 months of 2011 amounted to 1.023 million tonnes, increasing by 66.1% y-o-y.

Other sales

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

In the 4 quarter of 2011, other revenue decreased by 3.1% to US\$ 94 million, primarily due to the devaluation of the ruble against the dollar.

For the 12 months of 2011 other revenue grew by 14.9% y-o-y to US\$ 401 million.

EXPENSES AND COSTS

Production and operating expenses

Structure of production and operating expenses of JSOC Bashneft by business segments is shown in the table below.

(US\$ million)	4Q		Change	12 months		Change
	2011	3Q 2011		2011	2010	
Production and operating expenses						
Production	183	197	-7.1%	759	624	21.6%
Refining	243	224	8.5%	859	698	23.1%
Other	36	12	200.0%	66	114	-42.1%
Total production and operating expenses	462	433	6.7%	1,684	1,436	17.3%

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

	4Q		Change	12 months		Change
	2011	3Q 2011		2011	2010	
Crude oil production expenses (US\$ million)	183	197	-7.1%	759	624	21.6%
Unit lifting costs for crude oil (US\$/barrel)	6.5	7.0	-7.1%	6.9	6.0	15.0%

Crude oil production expenses declined by 7.1% q-o-q in the 4 quarter of 2011 to a level of US\$ 183 million, which was mainly due to the weakening of the ruble against the US dollar.

In the 12 months of 2011, crude oil production expenses increased by 21.6% compared with the 12 months of 2010 to a level of US\$ 759 million due to the growth of crude oil production by 6.8%, strengthening of the rouble against the US dollar, an increase in prices for electricity and auxiliary materials in the 12 months of 2011 in comparison with the 12 months of 2010.

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

	4Q		Change	12 months		Change
	2011	3Q 2011		2011	2010	
Refining expenses (US\$ million)	243	224	8.5%	859	698	23.1%
Unit refining costs (US\$/barrel)	6.2	5.8	6.9%	5.6	4.5	24.4%

Refining expenses increased by 8.6% q-o-q in the 4 quarter of 2011 to US\$ 243 million. The reason for the increase was the repair works in the 4 quarter of 2011, the growth of refining volumes, the effect of which was partially offset by the weakening of the rouble against the US dollar in the 4 quarter of 2011 in comparison with the 3 quarter of 2011.

Refining expenses increased by 23.1% in the 12 months of 2011 in comparison with the 12 months of 2010 to a level of US\$ 859 million. The reason for the increase was repair works at OJSC Ufaneftekhim, OJSC Novoil and OJSC Ufimsky Refinery, an increase in prices for electricity and auxiliary materials, and strengthening of the rouble against the US dollar.

Expenses for purchase of crude oil, gas and petroleum products

In addition to extracting its own crude oil, JSOC Bashneft purchases West-Siberian oil and gas (including gas condensate) for delivery to its refineries.

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

(thousand tonnes)	4Q		Change	12 months		Change
	2011	3Q 2011		2011	12 months 2010	
Purchased crude oil and gas	2,573	2,685	-4.2%	10,665	10,965	-2.7%
Purchased petroleum products	118	209	-43.5%	378	-	n/a
Total	2,691	2,894	-7.0%	11,043	10,965	0.7%

The cost of purchased crude oil, gas and petroleum products declined by 9.6% in the 4 quarter of 2011 to US\$ 969 million. The reason for this was a reduction in purchased volumes of crude oil and gas by 4.2% and a reduction in volumes of petroleum products purchased by OJSC Orenburgnefteprodukt and BN-Nefteprodukt Group from third-party suppliers. This effect was partly offset by a rise in oil prices in the domestic market.

In the 12 months of 2011 the cost of purchased crude oil, gas and petroleum products increased by 38.6% to US\$ 3,994 million due to a rise in domestic prices for crude oil. This effect was partially offset by a reduction in volumes of purchased crude oil and gas due to the growth of share of own crude oil used for refining.

In 2011, Bashneft Group gained control over OJSC Orenburgnefteprodukt and BN-Nefteprodukt Group that purchased petroleum products from the Group and third-party suppliers to meet the demand in the regions where these companies operate; this resulted in significant petroleum products purchases from third-party suppliers (0.378 million tonnes in 2011).

Transport costs

Transport costs of Bashneft Group declined by 19.4% in the 4 quarter of 2011 to US\$ 187 million compared with US\$ 232 million in the 3 quarter of 2011. The main reasons for the decline were a reduction in export petroleum products sales by 15.5% from 2,410 thousand tonnes in the 3 quarter of 2011 to 2,036 thousand tonnes in the 4 quarter of 2011 as well as the weakening of the rouble against the US dollar.

Transport costs increased by 46.5% in the 12 months of 2011 to US\$ 788 million compared with US\$ 538 million in the 12 months of 2010. The reasons for the increase were a growth in export sales volume of crude oil and petroleum products by 16.1%, a rise in transport tariffs and the strengthening of the rouble against the US dollar.

Depreciation and amortization

(US\$ million)	4Q	3Q	Change	12	12	Change
	2011	2011		months	months	
Depreciation and amortization						
Exploration and production	71	58	22.4%	241	181	33.1%
Refining	75	80	-6.3%	349	398	-12.3%
Other	7	8	-12.5%	26	18	44.4%
Total depreciation and amortization	153	146	4.8%	616	597	3.2%

Depreciation costs in the 4 quarter of 2011 totalled US\$ 153 million in comparison with US\$ 146 million in the 3 quarter of 2011.

An increase in depreciation and amortization in the exploration and production segment was due to the review of the evaluation of the Group's reserves as of 31 December, 2011 in the 4 quarter. The increase was partially offset by a reduction in depreciation and amortization in the refining segment mainly due to the weakening of the rouble against the US dollar.

Depreciation costs in the 12 months of 2011 amounted to US\$ 616 million compared with US\$ 597 million in the 12 months of 2010. The increase in depreciation and amortization was mainly due to a growth in depreciation costs in the exploration and production segment because of production growth and the review of the evaluation of the Group's reserves as of 31 December, 2011 in the 4 quarter.

An increase in depreciation and amortization in the "Other" segment in the 12 months of 2011 was due to the acquisition of subsidiaries of OJSC Orenburgnefteprodukt and BN-Nefteprodukt distributing petroleum products wholesale and retail.

Taxes other than income tax

(US\$ million)	4Q		Change	12 months		Change
	2011	2011		2011	2010	
Taxes other than income tax						
Mineral extraction tax	451	456	-1.1%	1,754	1,108	58.3%
Social taxes	39	44	-11.4%	213	156	36.5%
Property tax	13	15	-13.3%	57	58	-1.7%
Other	6	6	0.0%	28	25	12.0%
Taxes other than income tax	509	521	-2.3%	2,052	1,347	52.3%

Tax expenses other than income tax declined by 2.3% q-o-q in the 4 quarter of 2011 to a level of US\$ 509 million mainly due to a reduction in social taxes contributions and the weakening of the rouble against the US dollar.

Tax expenses other than income tax increased by 52.3% in the 12 months of 2011 compared with the 12 months of 2010 to US\$ 2 052 million. The main reasons for the increase were a growth of mineral extraction tax due to an increase in mineral extraction tax rate by 49.8% and a growth of production by 6.8%.

A growth of social taxes contributions was mainly due to the growth of social taxes contributions rate in 2011 in comparison with 2010.

Export duties and excises

(US\$ million)	4Q		Change	12 months		Change
	2011	2011		2011	2010	
Export duties on crude oil	365	394	-7.4%	1,466	876	67.4%
Export duties on petroleum products	397	582	-31.8%	1,791	1,205	48.6%
Excises	251	261	-3.8%	974	672	44.9%
Total export duties and excises	1,013	1,237	-18.1%	4,231	2,753	53.7%

The sum of export duties on crude oil and petroleum products declined by 21.9% q-o-q in the 4 quarter to a level of US\$ 762 million due to reduction of export sales volume of crude oil and petroleum products in the 4 quarter of 2011 by 15.5% and decline in export duties rate on crude oil and light and middle distillate.

The sum of export duties on crude oil and petroleum products increased by 56.5% in the 12 months of 2011 compared with the 12 months of 2010 to US\$ 3,257 million. In 2011, the increase was mainly influenced by a growth of export duties on petroleum products and an increase in export sales volumes.

The sum of excises on petroleum products increased by 44.9% in the 12 months of 2011 compared with the 12 months of 2010 to a level of US\$ 974 million. The main reason for the increase was a growth of excises in 2011.

CASH FLOW

The table below shows the main items on the cash flow statement for the relevant periods:

(US\$ million)	4Q	3Q	Change	12	12	Change
	2011	2011		months	months	
Cash flow				2011	2010	
Cash flow generated from operating activities	681	933	-27.0%	2,228	1,400	59.1%
Cash used in investing activities	-247	-121	104.1%	-1,008	-1,995	-49.5%
Cash (used in)/generated from financing activities	46	-1,313	-103.5%	-1,383	488	-383.4%

Net cash flow generated from operating activities:

(US\$ million)	4Q	3Q	Change	12	12	Change
	2011	2011		months	months	
Operating cash flow before working capital changes	837	790	5.9%	3,458	2,647	30.6%
Changes in working capital less cash and cash equivalents	138	362	-61.9%	-264	-531	-50.3%
Interest paid	-195	-45	333.3%	-472	-312	51.3%
Income tax paid	-99	-174	-43.1%	-494	-404	22.3%
Total net cash flow generated from operating activities	681	933	-27.0%	2,228	1,400	59.1%

In the 4 quarter of 2011, net cash flow from operating activities decreased by 27.0% totalling US\$ 681 million. The reduction in the net cash flow from operating activities in the 4th quarter is due to the following factors:

- repayment of accrued interest on bonds in the amount of US\$ 58 million and payment of the call premium in the amount of US\$ 65 million;
- increase in advance payments of customs duties in the amount of US\$ 217 million made mainly in December 2011 for the deliveries in January 2012.

Over the 12 months of 2011, net cash flow from operating activities increased by 59.1% totalling US\$ 2,228 million. The increase in the net cash flow from operating activities over the 12 months of 2011 was due to the following factors:

- growth of operating income during the 12 months of 2011 as compared to the 12 months of 2010 (including adjustments for non-cash adjustments) totalled US\$ 811 million;
- taxes payable increased by US\$ 261 million in 2011 including an increase in the excise duties by US\$ 106 million and an increase in mineral extraction tax by US\$ 50 million, whereas 2010 saw a decrease in taxes payable by US\$ 80 million.

Net cash used in investing activities:

(US\$ million)	4Q		Change	12 months		Change
	2011	3Q 2011		2011	2010	
Capital expenditures	-256	-221	15.8%	-851	-492	73.0%
Other	9	100	-91.0%	-157	-1,503	-89.6%
Total net cash used in investing activities	-247	-121	104.1%	-1,008	-1,995	-49.5%

In the 4 quarter of 2011, net cash used in investing activities increased by 104.1% and totalled US\$ 247 million. The growth of cash used in investing activities in the 4 quarter was due to the increase in capital expenditures resulting from construction at the refineries of the Group.

Over the 12 months of 2011, net cash used in investing activities decreased by 49.5% and totalled US\$ 1,008 million. The decrease in the net cash flow was due to the payment of US\$ 597 million for the acquisition of the license for the development of the R. Trebs and A. Titov fields, which occurred in 2010, and payment of US\$ 123 million for the acquisition of 49.99% stake in the ASPEC Group.

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

(US\$ million)	4Q		Change	12 months		Change
	2011	3Q 2011		2011	2010	
New debt issue	2,099	1,025	104.8%	3,779	3,044	24.1%
Debt repayment	-2,053	-1,462	40.4%	-4,180	-899	365.0%
Total issue and repayment of debt:	46	-437	-110.5%	-401	2,145	-118.7%
Dividends paid	-	-876	-100.0%	-950	-1,314	-27.7%
Other	-	-	-	-32	-343	-90.7%
Total net (used in)/generated from financing activities	46	-1,313	-103.5%	-1,383	488	-383.4%

In 2011, net cash used for financing activities was used primarily for the optimization of the Group's debt portfolio and for dividend payments.

FINANCING AND DEBT

(US\$ million)	31 December 2011	30 September 2011	Change	31 December 2011	31 December 2010	Change
Net debt						
Short-term credits	420	17	2370.6%	420	795	-47.2%
Long-term credits	2,965	3,360	-11.8%	2,965	3,118	-4.9%
Total debt	3,385	3,377	0.2%	3,385	3,913	-13.5%
Cash and equivalents	-881	-439	100.7%	-881	-1,067	-17.4%
Short-term financial investments	-602	-611	-1.5%	-602	-557	8.1%
Adjusted net debt	1,902	2,327	-18.3%	1,902	2,289	-16.9%

As of 31 December 2011 the Group's total debt in the form of short-term and long-term loans and credits totalled US\$ 3,385 million as compared to the amount of US\$ 3,377 million as of 30 September 2011.

The major part of the short-term credits is comprised of the interest-bearing non-convertible ruble bonds. In order to optimize the debt portfolio, in the 4 quarter of 2011 the Group exercised its right for early redemption of the bonds issued in 2009 with the interest rate of 12.5%, which resulted in the redemption of the bonds in the amount of US\$ 1,375 million.

In the 4 quarter of 2011, the Group issued interest-bearing non-convertible bonds with a total value of 10 billion rubles and a maturity date in 2014. From the date of issue to December 6, 2013 the annual interest rate of the bonds equals 9.35%, the coupon is paid twice a year. The next revision of the coupon will take place in December 2013, at the same time the holders of the bonds will gain the right to redeem the bonds at par value.

In 2011, the Group optimized its credit portfolio by obtaining long-term credits with a lower interest rate, which resulted in the reduction in the average weighted interest rate from 10.8% to 8.7%.

CAPITAL EXPENDITURES

(US\$ million)	4Q	3Q	Change	12	12	Change
	2011	2011		months	months	
Capital expenditures						
Exploration & Production	147	146	0.7%	490	222	120.7%
Refining	106	74	43.2%	308	134	129.9%
Other	3	1	200.0%	53	136	-61.0%
Total cash used to finance capital expenditures	256	221	15.8%	851	492	73.0%

Capital expenditures rose by 15.8% in the 4 quarter of 2011 to US\$ 256 million mainly due to increasing capital expenditures on the Company's refining complex, which include projects on improving oil and petroleum products reporting systems, constructing an alkylation unit, upgrading the equipment of the catalytic reforming unit of OJSC Ufaneftekhim and of the gas catalysis unit of OJSC Novoil.

In the 12 months of 2011, capital expenditures rose by 73.0% to US\$ 851 million in comparison to the 12 months of 2010, when CAPEX totalled US\$ 492 million. CAPEX increase in refining was incurred mainly on projects stated above. The reason for CAPEX increase in exploration was exploration drilling at the R.Trebs and A.Titov oilfields.

MAIN EVENTS SINCE THE ACCOUNTING DATE

Corporate bonds

On 17 February 2012, the Group issued 10,000,000 non-convertible RUB-denominated bonds at par value of RUB 1,000 maturing in 2022. The bonds have a coupon rate of 9.0% per annum for the 3 years period. Subsequent coupon rates are to be determined in February 2015 at which point bondholders have the right to redeem the bonds at par value.

Licences in the Nenets Autonomous District

On 21 February 2012, the Group was recognised as the winner of the auction for licences on Yangareiskiy and Sabriyaginskiy subsoil blocks in the Nenets Autonomous District. Total cost of the licences acquired amounted USD 152 million.

Group's reorganisation

On 11 March 2012, the Board of directors of the Group approved its reorganisation through legal merge of its subsidiaries "Ufaneftekhim", "Novoil", "Ufimsky refinery plant", "Ufaorgsintez", "Bashkrinefteproduct" and "Orenburgnefteproduct" with "Bashneft". The subsidiaries' shares will be converted into shares of "Bashneft". The reorganisation is subject to approval by the Group's shareholders.