



BASHNEFT
JOINT STOCK OIL COMPANY

**Management's analysis of the financial position and
operating results of Bashneft Group for the three months
ended 31 December and 30 September 2012, and for the
twelve months ended 31 December
2012, 2011 and 2010**



This report contains a review of the financial position and operating results of JSOC Bashneft and includes operating results of Bashneft Group for the twelve months ended 31 December 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. The 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 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 twelve months of 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 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 192 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. 171 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 2012 amounted to 282.1 million tonnes. Bashneft Group has a reserves-to-production ratio of 18.3 years. Proved and probable (2P) reserves totalled 356.4 million tonnes. Overall reserves of Bashneft Group (including possible reserves) amounted to 448.8 million tonnes. In 2012, production at the developed licence areas totalled 15.4 million tonnes.

Bashneft Group includes three refineries and one petrochemical plant which have 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.

In 2012, the Group's refineries processed 20.8 million tonnes of hydrocarbons. The average refining depth amounted to 84.9%, which is one of the best results among Russian vertically integrated oil companies.

In 2012, Bashneft Group produced about 12% 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 Euro 4 and Euro 5 gasoline and diesel fuel. In July 2012, the Group's own retail network completed full transition to sales of high-octane gasoline and diesel fuel complying with the Euro 5 standard.

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

In 2012, Bashneft Group sold 10.7 million tonnes of petroleum products and petrochemicals on the domestic market and exported 8.6 million tonnes of petroleum products and petrochemicals. The Group also sold 4.9 million tonnes of crude oil, including 4.5 million tonnes of exported crude oil.

As of 31 December 2012, Bashneft Group owned 488 petrol stations.

KEY FINANCIAL AND OPERATING RESULTS

	4Q		3Q	12 months			Change 2012 vs. 2011	Change 2011 vs. 2010
	2012	2012		Change	2012	2011		
Sales revenue (million roubles)	139,814	147,427	-5.2%	532,502	486,328	355,523	9.5%	36.8%
EBITDA (million roubles)	19,427	30,680	-36.7%	98,690	93,845	82,491	5.2%	13.8%
Adjusted EBITDA (million roubles) ¹	23,620	30,680	-23.0%	n/a	n/a	n/a	n/a	n/a
Operating profit (million roubles)	15,256	25,899	-41.1%	80,313	75,748	64,367	6.0%	17.7%
Profit for the period attributable to the owners of the parent company (million roubles)	10,756	17,423	-38.3%	52,088	49,846	42,960	4.5%	16.0%
Net debt (million roubles)	78,018	70,651	10.4%	78,018	61,248	69,753	27.4%	-12.2%
ROACE ²	n/a	n/a	n/a	20%	19%	16%	1 p.p.	3 p.p.
Oil production (thousand tonnes)	3,908	3,878	0.8%	15,437	15,106	14,145	2.2%	6.8%
Oil refining (thousand tonnes)	5,376	5,323	1.0%	20,773	21,062	21,193	-1.4%	-0.6%

Major events during 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 blocks;
- 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, which owns 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 for the 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, an 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 shareholders who had submitted buy-back requests. The amount of funds allocated by the companies mentioned above for the buyout of shares totalled 19,034 million roubles. On 1 October 2012, JSOC Bashneft completed all stages of reorganization through consolidation of its subsidiaries; as a result, the number of

¹ Adjusted EBITDA excludes the impact of one-off transactions on property, plant and equipment impairment accruals.

² The ROACE metric for 2010 was calculated taking into account the data on Bashkirenergy. The ROACE metric measures the ratio between adjusted net income (calculated as net income for the period plus financial expenses) and the average capital employed. The average capital employed is calculated as the average sum of debt and equity for the period.

ordinary and preferred shares of JSOC Bashneft increased to 188,710,587 registered ordinary shares and 38,673,878 registered preferred shares;

- in August 2012, the Iraqi Ministry of Oil and the Consortium comprising Bashneft (70%) and Premier Oil (30%) initialled a contract for geological exploration, development and production at Block 12 in Baghdad. In November 2012, the Consortium comprising Bashneft (70%) and Premier Oil (30%) and South Oil Company, acting on behalf of the Republic of Iraq, signed an exploration, development and production service contract (EDPSC) for Block 12 in Baghdad. Block 12 is a part of the Western Desert, which is an unexplored region with 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. In December 2012, Bashneft sold its 50% stake in the authorized share capital of LLC Financial Alliance to JSFC Sistema;
- in December 2012, the Group exercised mandatory buy-back of 1,502,074 series 01 Bonds, 1,842,651 series 02 Bonds and 2,876,040 series 03 Bonds with a total par value of 6,221 million roubles after a new coupon rate was set at 8.35%; the rate will be applicable until the Bonds are redeemed in December 2016;
- in December 2012, Bashneft completed the acquisition of LLC Garsar and LLC Mobil-Neft holding licences for oilfields and promising subsoil areas in the Ermekeyevsky District in the west of the Republic of Bashkortostan.

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 are 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.

	4Q		Change	12 months			Change 2012 vs. 2011	Change 2011 vs. 2010
	2012	3Q 2012		2012	2011	2010		
Prices for crude oil and petroleum products³								
Brent crude oil (US\$ per barrel)	110.1	109.5	0.5%	111.7	111.1	79.5	0.5%	39.7%
Brent crude oil (roubles per barrel)	3,421	3,505	-2.4%	3,472	3,264	2,414	6.4%	35.2%
Urals crude oil (US\$ per barrel)	109.0	109.1	-0.1%	110.5	109.1	78.3	1.3%	39.3%
Urals crude oil (roubles per barrel)	3,386	3,493	-3.1%	3,437	3,206	2,378	7.2%	34.8%
Fuel oil (average FOB Rotterdam/CIF NWE) (US\$ per tonne)	590.0	621.3	-5.0%	630.9	608.4	442.4	3.7%	37.5%
Fuel oil (average FOB Rotterdam/CIF NWE) (roubles per tonne)	18,336	19,885	-7.8%	19,617	17,880	13,434	9.7%	33.1%
Diesel fuel (average FOB Rotterdam/CIF NWE) (US\$ per tonne)	953.4	944.5	0.9%	955.0	932.5	672.2	2.4%	38.7%
Diesel fuel (average FOB Rotterdam/CIF NWE) (roubles per tonne)	29,627	30,232	-2.0%	29,693	27,405	20,415	8.3%	34.2%
Naphtha (average FOB Rotterdam/CIF NWE) (US\$ per tonne)	939.7	905.1	3.8%	934.8	927.6	710.9	0.8%	30.5%
Naphtha (average FOB Rotterdam/CIF NWE) (roubles per tonne)	29,203	28,970	0.8%	29,067	27,259	21,589	6.6%	26.3%
Vacuum gas oil (FOB NWE) (US\$ per tonne)	737.7	788.2	-6.4%	783.1	769.0	546.3	1.8%	40.8%
Vacuum gas oil (FOB NWE) (roubles per tonne)	22,926	25,227	-9.1%	24,350	22,600	16,591	7.7%	36.2%
Russian market (roubles per tonne, with excises, net of VAT)⁴								
Crude oil	10,246	10,336	-0.9%	10,189	8,945	6,753	13.9%	32.5%
Fuel oil	9,375	9,667	-3.0%	9,288	8,736	7,731	6.3%	13.0%
Diesel fuel (summer gasoil)	24,061	23,090	4.2%	22,735	19,679	14,963	15.5%	31.5%
Diesel fuel (winter gasoil)	27,971	25,127	11.3%	25,460	21,786	16,834	16.9%	29.4%
High-octane gasoline	26,993	25,703	5.0%	25,084	24,025	20,802	4.4%	15.5%
Low-octane gasoline	23,969	24,105	-0.6%	23,429	22,131	17,132	5.9%	29.2%

³ Source: Platts.

⁴ Source: Kortes.



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.

In addition, 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.

	4Q		Change	12 months			Change 2012 vs. 2011	Change 2011 vs. 2010
	2012	2012		2012	2011	2010		
Rouble inflation (Consumer Price Index) during the stated periods ⁵	1.4%	2.0%	-0.6 p.p.	6.6%	6.1%	8.8%	0.5 p.p.	-2.7 p.p.
Rouble/dollar exchange rate at the end of the period	30.4	30.9	-1.6%	30.4	32.2	30.5	-5.6%	5.6%
Rouble/dollar exchange rate, period average	31.1	32.0	-2.8%	31.1	29.4	30.4	5.8%	-3.3%

Taxation

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

	4Q		Change	12 months			Change 2012 vs. 2011	Change 2011 vs. 2010
	2012	2012		2012	2011	2010		
Mineral extraction tax (roubles per tonne)								
Crude oil	5,007	5,147	-2.7%	5,066	4,455	3,074	13.7%	44.9%
Export duty (roubles per tonne)								
Crude oil	12,637	11,733	7.7%	12,570	12,017	8,309	4.6%	44.6%
Gasoline	11,373	10,559	7.7%	11,312	10,029	5,972	12.8%	67.9%
Light and medium distillates	8,340	7,743	7.7%	8,295	8,054	5,972	3.0%	34.9%
Fuel oil	8,340	7,743	7.7%	8,295	6,119	3,217	35.6%	90.2%

In accordance with the amendments to 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	1 January – 30 June 2013	1 July – 31 December 2013	2014	2015
Gasoline							
non-compliant with classes 3, 4, 5	5,995	7,725	8,225	10,100	10,100	11,110	13,332
compliant with class 3	5,672	7,382	7,882	9,750	9,750	10,725	12,879
compliant with class 4	5,143	6,822	6,822	8,560	8,960	9,416	10,358
compliant with class 5	5,143	6,822	5,143	5,143	5,750	5,750	6,223
Naphtha							
	6,089	7,824	7,824	10,229	10,229	11,252	13,502
Diesel fuel							
non-compliant with classes 3, 4, 5	2,753	4,098	4,300	5,860	5,860	6,446	7,735
compliant with class 3	2,485	3,814	4,300	5,860	5,860	6,446	7,735
compliant with class 4	2,247	3,562	3,562	4,934	5,100	5,427	5,970
compliant with class 5	2,247	3,562	2,962	4,334	4,500	4,767	5,244
Lubricants							
	4,681	6,072	6,072	7,509	7,509	8,260	9,086

⁵ Source: Federal State Statistics Service (Rosstat).

Mineral extraction tax

The 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 in 2012 are 27% lower than the current mineral extraction tax rate.

	<u>4Q</u>	<u>3Q</u>		<u>12 months</u>			Change	Change
	2012	2012	Change	2012	2011	2010	2012 vs. 2011	2011 vs. 2010
Mineral extraction tax								
Current mineral extraction tax rates (roubles per barrel)	685.9	705.1	-2.7%	694.0	610.3	421.1	13.7%	44.9%
Actual mineral extraction tax expenses (roubles per barrel)	502.2	516.2	-2.7%	508.1	474.2	325.7	7.1%	45.6%



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 2012 are presented in the table below:

(million tonnes)	31 December			Change 2012 vs. 2011	Change 2011 vs. 2010
	2012	2011	2010		
Proved reserves	282.1	278.5	268.8	1.3%	3.6%
Probable reserves	74.3	59.0	57.7	25.9%	2.3%
Total proved and probable reserves	356.4	337.5	326.5	5.6%	3.4%
Possible reserves	92.4	81.7	88.1	13.1%	-7.3%
Total reserves	448.8	419.2	414.6	7.1%	1.1%

Miller and Lents, Ltd. evaluated prospective and contingent technically recoverable oil resources at the R. Trebs and A. Titov oilfields. 3C contingent technically recoverable oil resources totalled 99.8 million tonnes, while prospective technically recoverable resources totalled 8.0 million tonnes.

Exploration drilling and discovery of oilfields

	12 months			Change 2012 vs. 2011	Change 2011 vs. 2010
	2012	2011	2010		
Exploration drilling (thousand metres) ⁶	20.3	30.9	6.8	-34.3%	354.4%
Number of exploration wells drilled	18	18	2	0.0%	800.0%
Number of oilfields discovered	1	-	2	n/a	-100.0%
Number of oil and gas deposits discovered	11	2	-	450.0%	n/a

In 2012, exploration drilling decreased due to the separation of LLC Bashneft-Polyus to joint ventures.

In 2011, exploration drilling increased due to reviewing and adjusting the 2009 and 2010 plans for exploration of existing oilfields, which significantly reduced exploration drilling in 2009 and 2010, and exploration drilling conducted at the R. Trebs and A. Titov oilfields.

Production drilling

	12 months			Change 2012 vs. 2011	Change 2011 vs. 2010
	2012	2011	2010		
Production drilling (thousand metres)	54.8	129.6	233.9	-57.7%	-44.6%
Number of wells drilled	32	73	139	-56.2%	-47.5%
Average output of existing wells (tonnes/day)	2.9	2.76	2.49	5.1%	10.8%
Including average output of new wells (tonnes/day)	40.6	14.5	13.4	180.0%	8.2%
Water cut, %	90.37%	90.40%	90.84%	-0.03 p.p.	-0.44 p.p.

The decline in production drilling and in the number of wells drilled in 2012 related to increase in drilling efficiency by choosing wells with higher potential.

⁶ Including deepening for additional exploration.



The decline in production drilling and in the number of wells drilled in 2011 was due to an improvement in 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.

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	12 months			Change 2012 vs. 2011	Change 2011 vs. 2010
	2012	2012		Change	2012	2011		
Crude oil production (thousand tonnes)	3,908	3,878	0.8%	15,437	15,106	14,145	2.2%	6.8%
Daily average production of crude oil (thousand barrels per day)	310.1	307.7	0.8%	307.9	302.1	282.9	1.9%	6.8%

An increase in crude oil production in 2012 and 2011 was due to a higher efficiency of production drilling and the use of enhanced oil recovery techniques in 2011.

In the 4th quarter of 2011, crude oil production reached a plateau of 3.8 million tonnes.

Refining

(thousand tonnes)	4Q		3Q	12 months			Change 2012 vs. 2011	Change 2011 vs. 2010
	2012	2012		Change	2012	2011		
Crude oil refining	5,376	5,323	1.0%	20,773	21,062	21,193	-1.4%	-0.6%
Production of petroleum products								
Gasolines (including SNG ⁷)	1,275	1,268	0.6%	4,780	4,919	4,742	-2.8%	3.7%
Diesel fuel	1,833	1,889	-3.0%	7,233	7,413	7,665	-2.4%	-3.3%
Fuel oil	763	741	3.0%	2,861	2,610	2,646	9.6%	-1.4%
Vacuum gas oil	429	411	4.4%	1,624	1,891	1,699	-14.1%	11.3%
Other	537	717	-25.1%	2,408	2,351	2,676	2.4%	-12.1%
Total production of petroleum products	4,837	5,026	-3.8%	18,906	19,184	19,428	-1.4%	-1.3%
Refining depth (%)	84.0%	85.5%	-1.5 p.p.	84.9%	85.9%	86.3%	-1.0 p.p.	-0.4 p.p.
Share of light products (%)	59.5%	61.4%	-1.9 p.p.	59.7%	59.9%	61.8%	-0.2 p.p.	-1.9 p.p.

In the 4th quarter of 2012, crude oil refining volume approximately remained at the same level as in the 3rd quarter of 2012.

In 2012, the refining volume totalled 20,773 thousand tonnes, having decreased by 1.4% compared to the same period in 2011, which related to scheduled repairs carried out at the Ufimsky refinery plant and Novoil in 2012.

In 2011, the refining volume totalled 21,062 thousand tonnes, having decreased by 0.6% compared to the same period in 2010, which related to repairs carried out at Bashneft's refining complex. This included repairs of the catalytic cracking unit, the Aromatika complex and the delayed coker at OJSC Ufaneftekhim carried out in 2011.

⁷ Stable natural gasoline



FINANCIAL RESULTS

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME FOR THE TWELVE MONTHS ENDED 31 DECEMBER 2012

(million roubles)	4Q		Change	12 months			Change 2012 vs. 2011	Change 2011 vs. 2010
	2012	3Q 2012		2012	2011	2010		
Revenue								
Crude oil sales	28,451	29,101	-2.2%	113,043	92,348	60,581	22.4%	52.4%
Petroleum products and petrochemicals sales	108,824	115,200	-5.5%	406,428	382,199	284,346	6.3%	34.4%
Other sales	2,539	3,126	-18.8%	13,031	11,781	10,596	10.6%	11.2%
Total revenue	139,814	147,427	-5.2%	532,502	486,328	355,523	9.5%	36.8%
Operating expenses								
Export duties and excises	(39,803)	(37,435)	6.3%	(144,307)	(124,329)	(83,597)	16.1%	48.7%
Cost of purchased crude oil, gas and petroleum products	(33,206)	(35,601)	-6.7%	(124,857)	(117,363)	(87,523)	6.4%	34.1%
Taxes other than income tax	(16,183)	(17,029)	-5.0%	(66,709)	(60,302)	(40,918)	10.6%	47.4%
Production and operating expenses	(14,886)	(13,626)	9.2%	(53,640)	(49,941)	(43,895)	7.4%	13.8%
Transportation expenses	(6,939)	(8,010)	-13.4%	(26,784)	(23,152)	(16,349)	15.7%	41.6%
Depletion and depreciation	(4,171)	(4,781)	-12.8%	(18,377)	(18,097)	(18,124)	1.5%	-0.1%
Selling, general and administrative expenses	(4,795)	(4,481)	7.0%	(16,085)	(14,549)	(11,347)	10.6%	28.2%
Other operating (expenses)/income, net	(4,575)	(565)	709.7%	(1,430)	(2,847)	10,597	-49.8%	-126.9%
Total costs and expenses	(124,558)	(121,528)	2.5%	(452,189)	(410,580)	(291,156)	10.1%	41.0%
Operating profit	15,256	25,899	-41.1%	80,313	75,748	64,367	6.0%	17.7%
Financial income	1,154	1,228	-6.0%	4,808	2,179	2,041	120.7%	6.8%
Financial costs	(2,986)	(3,050)	-2.1%	(11,883)	(14,926)	(10,806)	-20.4%	38.1%
Foreign exchange (losses)/gains, net	(5)	(814)	-99.4%	107	(379)	(50)	-128.2%	658.0%
Share in the profit/(losses) of associates and joint ventures	900	33	n/a	(361)	2,211	1,096	-116.3%	101.7%
Total other expenses	(937)	(2,603)	-64.0%	(7,329)	(10,915)	(7,719)	-32.9%	41.4%
Profit before tax	14,319	23,296	-38.5%	72,984	64,833	56,648	12.6%	14.4%
Income tax	(3,271)	(4,638)	-29.5%	(16,414)	(15,087)	(12,927)	8.8%	16.7%
Profit for the period from continuing operations	11,048	18,658	-40.8%	56,570	49,746	43,721	13.7%	13.8%
Profit for the period from discontinued operations	-	-	-	-	3,546	2,791	-100.0%	27.1%
Profit for the period	11,048	18,658	-40.8%	56,570	53,292	46,512	6.2%	14.6%
Profit for the period attributable to non-controlling interests	292	1,235	-76.4%	4,482	3,446	3,552	30.1%	-3.0%
Profit for the period attributable to owners of the parent company	10,756	17,423	-38.3%	52,088	49,846	42,960	4.5%	16.0%



REVENUE

In the 4th quarter of 2012, the revenue of Bashneft Group totalled 139,814 million roubles, which is 5.2% lower than in the 3rd quarter of 2012. The reduction in revenue was mainly caused by a decline in domestic sales of petroleum products and petrochemicals.

In 2012, the revenue increased by 9.5% as compared to the same period in 2011; in 2011, the revenue rose by 36.8% as compared to the same period in 2010.

(million roubles)	4Q		3Q	Change	12 months			Change 2012 vs. 2011	Change 2011 vs. 2010
	2012	2012			2012	2011	2010		
Revenue									
Export sales of crude oil	27,513	28,095	-2.1%	108,534	82,695	54,137	31.2%	52.8%	
Domestic sales of crude oil	938	1,006	-6.8%	4,509	9,653	6,444	-53.3%	49.8%	
Total sales of crude oil	28,451	29,101	-2.2%	113,043	92,348	60,581	22.4%	52.4%	
Export sales of petroleum products and petrochemicals outside the CIS	46,592	41,685	11.8%	145,813	156,720	107,098	-7.0%	46.3%	
Export sales of petroleum products and petrochemicals to CIS countries	6,655	11,298	-41.1%	48,721	39,193	22,060	24.3%	77.7%	
Domestic sales of petroleum products and petrochemicals	55,577	62,217	-10.7%	211,894	186,286	155,188	13.7%	20.0%	
<i>wholesale</i>	44,983	50,321	-10.6%	170,929	157,776	140,232	8.3%	12.5%	
<i>retail</i>	10,594	11,896	-10.9%	40,965	28,510	14,956	43.7%	90.6%	
Total sales of petroleum products and petrochemicals	108,824	115,200	-5.5%	406,428	382,199	284,346	6.3%	34.4%	
Other sales	2,539	3,126	-18.8%	13,031	11,781	10,596	10.6%	11.2%	
Total revenue	139,814	147,427	-5.2%	532,502	486,328	355,523	9.5%	36.8%	

(thousand tonnes)	4Q		3Q	Change	12 months			Change 2012 vs. 2011	Change 2011 vs. 2010
	2012	2012			2012	2011	2010		
Sales volumes									
Export sales of crude oil	1,139	1,140	-0.1%	4,479	3,599	3,210	24.5%	12.1%	
Domestic sales of crude oil	85	90	-5.6%	409	1,026	908	-60.1%	13.0%	
Total sales of crude oil	1,224	1,230	-0.5%	4,888	4,625	4,118	5.7%	12.3%	
Export sales of petroleum products and petrochemicals outside the CIS	1,924	1,686	14.1%	6,099	6,956	6,515	-12.3%	6.8%	
Export sales of petroleum products and petrochemicals to CIS countries	272	575	-52.7%	2,453	2,222	1,282	10.4%	73.3%	
Domestic sales of petroleum products and petrochemicals	2,675	3,045	-12.2%	10,699	10,171	11,099	5.2%	-8.4%	
<i>wholesale</i>	2,327	2,648	-12.1%	9,335	9,148	10,483	2.0%	-12.7%	
<i>retail</i>	348	397	-12.3%	1,364	1,023	616	33.3%	66.1%	
Total sales of petroleum products and petrochemicals	4,871	5,306	-8.2%	19,251	19,349	18,896	-0.5%	2.4%	
Total sales of crude oil, petroleum products and petrochemicals	6,095	6,536	-6.7%	24,139	23,974	23,014	0.7%	4.2%	

Export and domestic sales of crude oil

In the 4th quarter of 2012, the revenue from export sales of crude oil totalled 27,513 million roubles, which is 2.1% lower than in the 3rd quarter of 2012. The decrease in the revenue was due to a fall in world oil prices.

In 2012, the revenue from export sales of crude oil grew by 31.2% as compared to 2011 and totalled 108,534 million roubles, mainly due to a 24.5% increase in volumes of exported crude oil.

In 2011, the revenue from export sales of crude oil totalled 82,695 million roubles, which is 52.8% higher than in the same period in 2010. The increase in the revenue was caused by a rise in oil prices in 2011 as compared to 2010, as well as an increase in volumes of exported crude oil.

Export sales of petroleum products and petrochemicals

(thousand tonnes)	4Q		3Q	12 months			Change 2012 vs. 2011	Change 2011 vs. 2010
	2012	2012		Change	2012	2011		
Diesel fuel	1,336	1,273	4.9%	5,023	5,327	4,308	-5.7%	23.7%
Vacuum gas oil	428	418	2.4%	1,625	1,896	1,686	-14.3%	12.5%
Fuel oil	219	325	-32.6%	972	961	732	1.1%	31.3%
High-octane gasoline	107	127	-15.7%	503	425	526	18.4%	-19.2%
Naphtha	28	20	40.0%	120	370	403	-67.6%	-8.2%
Low-octane gasoline	3	-	n/a	3	-	-	n/a	n/a
Other	45	72	-37.5%	186	115	84	61.7%	36.9%
Total sales of petroleum products	2,166	2,235	-3.1%	8,432	9,094	7,739	-7.3%	17.5%
Petrochemicals sales	30	26	15.4%	120	84	58	42.9%	44.8%
Total sales of petroleum products and petrochemicals	2,196	2,261	-2.9%	8,552	9,178	7,797	-6.8%	17.7%

Export sales of petroleum products and petrochemicals outside the CIS

In the 4th quarter of 2012, revenue from export sales of petroleum products and petrochemicals outside the CIS totalled 46,592 million roubles, which is 11.8% higher than in the 3rd quarter of 2012. This was mainly caused by a 14.1% increase in exports of petroleum products and petrochemicals outside the CIS (1,924 thousand tonnes in the 4th quarter of 2012 versus 1,686 thousand tonnes in the 3rd quarter of 2012) due to a shift of focus from sales to the CIS to export to countries outside the CIS. This increase was partially offset by a fall in prices in the global market.

In 2012, revenue from sales of petroleum products and petrochemicals outside the CIS decreased by 7.0% as compared to the same period in 2011. This decrease was mainly caused by a 12.3% reduction in exports of petroleum products and petrochemicals outside the CIS.

In 2011, revenue from sales of petroleum products and petrochemicals outside the CIS totalled 156,720 million roubles, which is 46.3% higher than in the same period in 2010. This increase was caused by a rise in prices of petroleum products and a 6.8% increase in exports of petroleum products and petrochemicals outside the CIS in 2011.

Export sales of petroleum products and petrochemicals to CIS countries

In the 4th quarter of 2012, revenue from export sales of petroleum products and petrochemicals to CIS countries amounted to 6,655 million roubles, which is 41.1% lower than in the 3rd quarter of 2012. The decline in 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.

In 2012, revenue from sales of petroleum products and petrochemicals to CIS countries increased by 24.3% as compared to the same period in 2011. The growth of revenue was primarily due to a 10.4% increase in sales volume.

In 2011, revenue from export sales of petroleum products and petrochemicals to CIS countries amounted to 39,193 million roubles, which is 77.7% higher than in the same period in 2010. The increase in revenue was caused by a 73.3% increase in exports of petroleum products and petrochemicals to CIS countries in 2011, as well as a rise in sale prices in 2011.



Domestic sales of petroleum products and petrochemicals

(thousand tonnes)	4Q		3Q	12 months			Change 2012 vs. 2011	Change 2011 vs. 2010
	2012	2012		Change	2012	2011		
High-octane gasoline	1,006	1,144	-12.1%	3,993	3,824	3,941	4.4%	-3.0%
Diesel fuel	595	781	-23.8%	2,459	2,201	3,006	11.7%	-26.8%
Fuel oil	554	408	35.8%	1,872	1,687	1,893	11.0%	-10.9%
Low-octane gasoline	39	67	-41.8%	196	312	245	-37.2%	27.3%
Vacuum gas oil	2	-	n/a	2	-	10	n/a	-100.0%
Other	384	562	-31.7%	1,833	1,719	1,590	6.6%	8.1%
Total sales of petroleum products	2,580	2,962	-12.9%	10,355	9,743	10,685	6.3%	-8.8%
Petrochemicals sales	95	83	14.5%	344	428	414	-19.6%	3.4%
Total sales of petroleum products and petrochemicals	2,675	3,045	-12.2%	10,699	10,171	11,099	5.2%	-8.4%

In the 4th quarter of 2012, revenue from wholesale of petroleum products and petrochemicals on the domestic market declined by 10.6% and totalled 44,983 million roubles, which is due to a 12.1% reduction in sales volumes caused by a seasonal decline in demand.

In the 4th quarter of 2012, revenue from retail sales of petroleum products and petrochemicals fell by 10.9% and totalled 10,594 million roubles, which is due to a 12.3% decrease in retail sales on the domestic market caused by a seasonal decline in demand.

In 2012, revenue from wholesale of petroleum products and petrochemicals on the domestic market grew by 8.3% as compared to 2011 and totalled 170,929 million roubles. The increase in revenue was caused by higher wholesale volumes and a rise in prices.

In 2011, revenue from wholesale of petroleum products and petrochemicals on the domestic market totalled 157,776 million roubles, which is 12.5% higher than in the same period in 2010. The increase in revenue was mainly caused by a rise in wholesale prices for petroleum products in the domestic market.

In 2012, revenue from retail sales of petroleum products rose by 43.7% as compared to 2011 and totalled 40,965 million roubles. The growth of revenue from retail sales in 2012 was related primarily to the acquisition of OJSC Orenburgnefteprodukt (in April 2011) and the consolidation of BN-Nefteprodukt Group (in July 2011). This factor also resulted in an increase in revenue from retail sales of petroleum products in 2011 as compared to the same period in 2010 (from 14,956 million roubles to 28,510 million roubles).

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 4th quarter of 2012, other revenue decreased by 18.8% as compared to the 3rd quarter of 2012. This happened mainly because Bashneft discontinued non-core operations related to transportation services and transferred the wagons and cisterns to a joint venture, LLC Financial Alliance.

In 2012, other revenue increased by 10.6% to 13,031 million roubles, primarily due to capital construction services provided to LLC Bashneft-Polyus in 2012.

In 2011, other revenue increased by 11.2% to 11,781 million roubles as compared to the same period in 2010.



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.

(million roubles)	4Q	3Q	Change	12 months			Change	Change
	2012	2012		2012	2011	2010	2012 vs. 2011	2011 vs. 2010
Production and operating expenses								
Production	6,850	6,051	13.2%	23,118	22,313	18,943	3.6%	17.8%
Refining	6,466	6,106	5.9%	23,859	25,250	21,193	-5.5%	19.1%
Other (including change in WIP and finished goods)	1,570	1,469	6.9%	6,663	2,378	3,759	180.2%	-36.7%
Total production and operating expenses	14,886	13,626	9.2%	53,640	49,941	43,895	7.4%	13.8%

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

	4Q	3Q	Change	12 months			Change	Change
	2012	2012		2012	2011	2010	2012 vs. 2011	2011 vs. 2010
Crude oil production expenses (million roubles)	6,850	6,051	13.2%	23,118	22,313	18,943	3.6%	17.8%
Unit costs for production of crude oil (roubles per barrel)	240.1	213.7	12.4%	205.1	202.3	183.5	1.4%	10.2%

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

In the 4th quarter of 2012, unit costs for production of crude oil increased by 12.4% as compared to the 3rd quarter of 2012 and amounted to 240.1 roubles per barrel. This is mainly due to an increase in the amount of geological and technical activities and an increase in heat and electricity consumption during winter period.

In 2012, unit costs for production of crude oil remained at the level reached in 2011 and amounted to 205.1 roubles per barrel.

In turn, the 10.2% increase in unit costs for production of crude oil in 2011 compared to 2010 was caused by an increase in electricity prices and the price of auxiliary materials as compared to 2010.

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

	4Q	3Q	Change	12 months			Change	Change
	2012	2012		2012	2011	2010	2012 vs. 2011	2011 vs. 2010
Refining expenses (million roubles)	6,466	6,106	5.9%	23,859	25,250	21,193	-5.5%	19.1%
Unit refining costs (roubles per barrel)	164.8	157.1	4.9%	157.3	164.2	137.0	-4.2%	19.9%

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, repairs and maintenance of oil refining assets.

In the 4th quarter of 2012, unit refining costs increased by 4.9% as compared to the 3rd quarter of 2012 and amounted to 164.8 roubles per barrel. This was caused by an increase in heat and electricity consumption during winter period.



In 2012, unit refining costs declined by 4.2% compared to the same period in 2011 and totalled 157.3 roubles per barrel.

In 2011, unit refining costs increased by 19.9% compared to the same period in 2010 and totalled 164.2 roubles per barrel. This increase in costs was due to repair works, an increase in electricity prices and the price of auxiliary materials.

Cost of purchased crude oil, gas and petroleum products

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

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

(thousand tonnes)	4Q		3Q	12 months			Change 2012 vs. 2011	Change 2011 vs. 2010
	2012	2012	Change	2012	2011	2010		
Purchased crude oil, gas, and gas condensate	2,890	2,806	3.0%	10,543	10,665	10,965	-1.1%	-2.7%
Purchased petroleum products	59	85	-30.6%	248	378	-	-34.4%	n/a
Total	2,949	2,891	2.0%	10,791	11,043	10,965	-2.3%	0.7%

In the 4th quarter of 2012, the cost of purchased crude oil, gas and petroleum products fell by 6.7% and totalled 33,206 million roubles. This change was mainly caused by a fall in oil prices.

In 2012, the cost of purchased crude oil, gas and petroleum products increased by 6.4% compared to 2011 and totalled 124,857 million roubles. This change was due to a rise in oil prices, which was partially offset by a decrease in the volume of purchased crude oil, gas and petroleum products.

In 2011, the cost of purchased crude oil, gas and petroleum products increased by 34.1% compared to 2010 for the same reason and amounted to 117,363 million roubles.

In 2011, the Group gained control over OJSC Orenburgnefteprodukt and BN-Nefteprodukt Group, which had purchased petroleum products from the Group and from external suppliers to satisfy demand in the companies' operating regions.

Transportation costs

In the 4th quarter of 2012, transportation costs of Bashneft Group went down by 13.4% to 6,939 million roubles compared to 8,010 million roubles in the 3rd quarter of 2012. This was caused by an overall decrease in the sales of petroleum products, as well as the fact that Bashneft separated operations related to transportation services into a joint venture, LLC Financial Alliance.

In 2012, transportation costs of Bashneft Group increased by 15.7% to 26,784 million roubles compared to 2011. The increase in transportation costs was mainly caused by higher transportation tariffs.

In 2011, transportation costs went up by 41.6% to 23,152 million roubles compared to 2010. This increase was caused by a 16.1% rise in the volume of exported oil and petroleum products and higher transportation tariffs.



Depletion and depreciation

(million roubles)	4Q		3Q	12 months			Change 2012 vs. 2011	Change 2011 vs. 2010
	2012	2012		Change	2012	2011		
Depletion and depreciation								
Exploration and production	1,591	1,973	-19.4%	7,626	7,069	5,497	7.9%	28.6%
Refining	2,261	2,494	-9.3%	9,478	10,262	12,087	-7.6%	-15.1%
Other	319	314	1.6%	1,273	766	540	66.2%	41.9%
Total depletion and depreciation	4,171	4,781	-12.8%	18,377	18,097	18,124	1.5%	-0.1%

In the 4th quarter of 2012, depletion and depreciation totalled 4,171 million roubles versus 4,781 million roubles in the 3rd quarter of 2012. This was mainly due to the revaluation of the Group's hydrocarbon reserves as of 31 December 2012 conducted in the 4th quarter of 2012.

In 2012, depletion and depreciation costs increased by 1.5% compared to the same period in 2011 and amounted to 18,377 million roubles due to an increase in production volumes and the acquisition of subsidiaries, OJSC Orenburgnefteprodukt (in April 2011) and OJSC BN-Nefteprodukt (in July 2011), which specialize in wholesale and retail sales of petroleum products.

In 2011, depletion and depreciation costs totalled 18,097 million roubles versus 18,124 million roubles in the same period in 2010.

Taxes other than income tax

(million roubles)	4Q		3Q	12 months			Change 2012 vs. 2011	Change 2011 vs. 2010
	2012	2012		Change	2012	2011		
Taxes other than income tax								
Mineral extraction tax	13,960	14,745	-5.3%	57,183	51,508	33,636	11.0%	53.1%
Social taxes	1,617	1,708	-5.3%	6,938	6,270	4,751	10.7%	32.0%
Property tax	369	370	-0.3%	1,700	1,688	1,751	0.7%	-3.6%
Other	237	206	15.0%	888	836	780	6.2%	7.2%
Total taxes other than income tax	16,183	17,029	-5.0%	66,709	60,302	40,918	10.6%	47.4%

In the 4th quarter of 2012, taxes other than income tax decreased by 5.0% compared to the 3rd quarter of 2012 and amounted to 16,183 million roubles, mainly due to a reduction in the mineral extraction tax rate.

In 2012, taxes other than income tax increased by 10.6% compared to the same period in 2011. This was mainly due to a growth of the mineral extraction tax rate.

In 2011, taxes other than income tax increased by 47.4% compared to the same period in 2010 and totalled 60,302 million roubles. This was mainly due to an increase in mineral extraction tax as the mineral extraction tax rate raised by 44.9%, as well as a 6.8% increase in oil production. Higher social taxes were mainly due to an increase in the social tax rate in 2011 as compared to 2010.

Export duties and excises

(million roubles)	4Q		3Q	12 months			Change 2012 vs. 2011	Change 2011 vs. 2010
	2012	2012		Change	2012	2011		
Export duties on crude oil	14,376	13,374	7.5%	56,030	43,062	26,603	30.1%	61.9%
Export duties on petroleum products	17,026	13,888	22.6%	52,698	52,634	36,586	0.1%	43.9%
Excises	8,401	10,173	-17.4%	35,579	28,633	20,408	24.3%	40.3%
Total export duties and excises	39,803	37,435	6.3%	144,307	124,329	83,597	16.1%	48.7%

In the 4th quarter of 2012, the total amount of export duties on oil and petroleum products increased by 15.2% compared to the 3rd quarter of 2012 to 31,402 million roubles due to an increase in exports of petroleum products outside the CIS and higher export duty rates.

In the 4th quarter of 2012, the total amount of excises decreased by 17.4% compared to the 3rd quarter of 2012 to 8,401 million roubles due to a decline in sales in the domestic market and sales of petroleum products of higher grades.

In 2012, the total amount of export duties on oil and petroleum products increased by 13.6% compared to the same period in 2011 due to an increase in volume of oil exports.

In 2012, the total amount of excises went up by 24.3% compared to the same period in 2011, which was mainly caused by an increase in excise rates in 2012.

In 2011, the total amount of export duties and excises rose by 48.7% compared to the same period in 2010 due to an increase in export sales and higher export duties and excise rates.

CASH FLOW

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

(million roubles)	4Q		Change	12 months			Change 2012 vs. 2011	Change 2011 vs. 2010
	2012	3Q 2012		2012	2011	2010		
Cash flow								
Net cash generated from operating activities	14,737	20,600	-28.5%	71,141	65,614	42,865	8.4%	53.1%
Net cash generated from/ (used in) investing activities	4,477	6,166	-27.4%	(39,160)	(29,519)	(60,593)	32.7%	-51.3%
Net cash (used in)/ generated from financing activities	(22,101)	(18,962)	16.6%	(40,383)	(39,982)	14,951	1.0%	-367.4%

Net cash flow generated from operating activities:

(million roubles)	4Q		Change	12 months			Change 2012 vs. 2011	Change 2011 vs. 2010
	2012	3Q 2012		2012	2011	2010		
Operating cash flow before working capital changes	23,276	31,593	-26.3%	100,915	101,804	80,683	-0.9%	26.2%
Movements in working capital less cash and cash equivalents	(1,093)	(3,789)	-71.2%	(3,148)	(7,799)	(16,086)	-59.6%	-51.5%
Interest paid	(3,098)	(2,398)	29.2%	(10,500)	(13,872)	(9,465)	-24.3%	46.6%
Income tax paid	(4,348)	(4,806)	-9.5%	(16,126)	(14,519)	(12,267)	11.1%	18.4%
Net cash generated from operating activities	14,737	20,600	-28.5%	71,141	65,614	42,865	8.4%	53.1%

In the 4th quarter of 2012, net cash flow generated from operating activities decreased by 28.5% compared to the 3rd quarter of 2012 and amounted to 14,737 million roubles. The main factor behind this change consisted in a decrease in profit before tax.

In 2012, net cash flow generated from operating activities increased by 8.4% compared to the same period in 2011 and amounted to 71,141 million roubles, which was mainly related to a decrease in interest paid and to changes in working capital.

In 2011, net cash flow generated from operating activities increased by 53.1% and totalled 65,614 million roubles due to an increase in operating profit.



Net cash generated from investing activities:

(million roubles)	4Q		3Q	Change	12 months			Change 2012 vs. 2011	Change 2011 vs. 2010
	2012	2012			2012	2011	2010		
Capital expenditures	(11,197)	(6,240)		79.4%	(30,789)	(25,007)	(14,932)	23.1%	67.5%
Proceeds from disposal/(payments for acquisition) of financial assets, net	15,142	11,201		35.2%	(8,743)	(3,975)	(24,789)	119.9%	-84.0%
Other	532	1,205		-55.9%	372	(537)	(20,872)	-169.3%	-97.4%
Net cash generated from/(used in) investing activities	4,477	6,166		-27.4%	(39,160)	(29,519)	(60,593)	32.7%	-51.3%

In the 4th quarter of 2012, net cash generated from investing activities amounted to 4,477 million roubles, which was mainly related to withdrawal of funds from deposit accounts.

In 2012, net cash used in investing activities increased by 32.7% compared to the same period in 2011 and amounted to 39,160 million roubles. The main factors that contributed to this change included placement of available cash into deposit accounts in the 1st quarter of 2012 and the acquisition of licences in the 2nd quarter of 2012.

In 2011, net cash used in investing activities decreased by 51.3% to 29,519 million roubles due to a payment for the licence for the R. Trebs and A. Titov fields acquired in 2010 (totalling 18,490 million roubles).

Net cash used in financing activities:

(million roubles)	4Q		3Q	Change	12 months			Change 2012 vs. 2011	Change 2011 vs. 2010
	2012	2012			2012	2011	2010		
Proceeds from borrowings	-	-		-	25,388	111,051	92,442	-77.1%	20.1%
Repayments of borrowings	(17,376)	(750)		2216.8%	(23,766)	(122,833)	(27,317)	-80.7%	349.7%
Total issue and repayment of debt:	(17,376)	(750)		2216.8%	1,622	(11,782)	65,125	-113.8%	-118.1%
Dividends paid	(90)	(18,212)		-99.5%	(18,344)	(27,315)	(39,910)	-32.8%	-31.6%
Purchase of treasury shares	(4,627)	-		n/a	(15,697)	-	-	n/a	-
Payments for acquisition of non-controlling interests	-	-		-	(7,964)	-	(4,323)	n/a	-100.0%
Other	-	-		-	-	(885)	(5,941)	-100.0%	-85.1%
Net cash (used in)/generated from financing activities	(22,093)	(18,962)		16.5%	(40,383)	(39,982)	14,951	1.0%	-367.4%

In the 4th quarter of 2012, net cash used in financing activities amounted to 22,093 million roubles versus 18,962 million roubles in the 3rd quarter of 2012.

In 2012 net cash used in financing activities was allocated primarily for dividend payments, acquisition of non-controlling interest of subsidiaries and treasury shares related to the reorganization project.



FINANCING AND DEBT

(million roubles)	31		Change	31 December			Change 2012 vs. 2011	Change 2011 vs. 2010
	December	September		2012	2011	2010		
Net debt calculation								
Short-term borrowings	32,007	33,587	-4.7%	32,007	13,532	24,226	136.5%	-44.1%
Long-term borrowings	78,201	94,099	-16.9%	78,201	95,454	95,021	-18.1%	0.5%
Total debt	110,208	127,686	-13.7%	110,208	108,986	119,247	1.1%	-8.6%
Cash and cash equivalents	(20,104)	(23,027)	-12.7%	(20,104)	(28,354)	(32,516)	-29.1%	-12.8%
Short-term financial investments	(12,086)	(34,008)	-64.5%	(12,086)	(19,384)	(16,978)	-37.6%	14.2%
Adjusted net debt	78,018	70,651	10.4%	78,018	61,248	69,753	27.4%	-12.2%

As of 31 December 2012, the total debt of the Group in the form of short-term and long-term borrowings amounted to 110,208 million roubles compared to 127,686 million roubles as of 30 September 2012. The reduction in the total debt is due to the buy-back of series 01, 02 and 03 Bonds worth a total of 6,221 million roubles under the obligatory offer (December 2012) and the repayment of short-term borrowings.

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 coupon rate will be revised in February 2015, at which point the bondholders have the right to redeem the bonds at par value.

As of 31 December 2012, the annual weighted average interest rate on loans amounted to 8.4% compared to 8.6% as of 30 September 2012.

In 2011, the Group optimized its loan portfolio by raising long-term loans with a lower interest rate; as a result, the weighted average interest rate on loans decreased from 10.8% to 8.7%.

CAPITAL EXPENDITURES

(million roubles)	4Q		Change	12 months			Change 2012 vs. 2011	Change 2011 vs. 2010
	2012	2012		2012	2011	2010		
Capital expenditures								
Exploration and production	6,501	2,268	186.6%	17,540	14,414	6,742	21.7%	113.8%
Refining	4,353	3,804	14.4%	12,542	9,062	4,068	38.4%	122.8%
Other	343	168	104.2%	707	1,531	4,122	-53.8%	-62.9%
Total cash used in capital expenditures	11,197	6,240	79.4%	30,789	25,007	14,932	23.1%	67.5%

In the 4th quarter of 2012, capital expenditures increased by 79.4% compared to the 3rd quarter of 2012 and totalled 11,197 million roubles due to the purchase of office building in Moscow for 3,414 million roubles.

In 2012, capital expenditures increased by 23.1% compared to the same period in 2011, which was mainly related to the acquisition of licences in 2012, as well as an increase in CAPEX in the Refining and Upstream segments. This was partially offset by the deconsolidation of OJSC Bashkirenergo on 5 May 2011.

In 2011, capital expenditures increased by 67.5% and totalled 25,007 million roubles against 14,932 million roubles in 2010. The increase in CAPEX in the Refining segment included projects aimed at improving the systems for metering oil and petroleum products, constructing an alkylation unit and upgrading the catalytic reforming units at OJSC Ufaneftekhim and the catalytic gas production unit at OJSC Novoil. The increase in CAPEX in the Upstream segment was related to an exploration drilling at the R. Trebs and A. Titov oilfield.



EVENTS SUBSEQUENT TO THE REPORTING PERIOD

On 17 January 2013 the The Extraordinary Meeting of Shareholders of the Company approved an increase in the number of members of the Company's Board of Directors from 10 to 12, increasing the numbers of independent directors to 5.

On 12 February 2013, the Group issued 10,000,000 non-convertible RUB-denominated bonds Series 06, 10,000,000 non-convertible RUB-denominated bonds Series 07, 5,000,000 non-convertible RUB-denominated bonds Series 08 and 5,000,000 non-convertible RUB-denominated bonds Series 09 at par value of RUB 1,000 maturing in 2023. The Series 06 and 08 have a coupon rate of 8.65% per annum and subsequent coupon rates are to be determined in February 2020. The Series 07 and 09 have a coupon rate of 8.85% per annum and subsequent coupon rates are to be determined in February 2018. When new coupon rates are determined bondholders have the right to redeem the bonds at par value.

