



**8 September 2011. Moscow, Russia.** JSOC Bashneft and its subsidiaries and affiliates (hereinafter 'Bashneft Group' or 'the Group'), one of Russia's leading vertically integrated oil companies, today publishes unaudited consolidated financial results prepared to International Financial Reporting Standards (IFRS) for the half year ended on 30 June 2011. Comparative data for the half year, which ended on 30 June 2010, are also unaudited consolidated results prepared to IFRS.

### **MAIN FINANCIAL RESULTS IN THE SECOND QUARTER AND FIRST HALF OF 2011**

- Revenue increased by 29.7% q-o-q in the second quarter of 2011 to US\$ 4,522 million from US\$ 3,486 million in the first quarter. Revenue in the first half of 2011 increased by 47.6% y-o-y to US\$ 8,008 million from US\$ 5,425 million in the same period of 2010;
- EBITDA in the second quarter of 2011 rose by 33.4% q-o-q to US\$ 942 million from US\$ 706 million in the first quarter. In the first half of 2011 EBITDA increased by 43.3% y-o-y to US\$ 1,648 million from US\$ 1,150 million in the same period of 2010;
- Net income attributable to shareholders of the parent company rose by 43.8% q-o-q to US\$ 532 million in the second quarter of 2011 from US\$ 370 million in the first quarter of 2011. Net income in the first half of 2011 rose by 55.8% y-o-y to US\$ 902 million compared with US\$ 579 million in the first half of 2010.

### **MAIN OPERATING RESULTS IN THE SECOND QUARTER AND FIRST HALF OF 2011**

- JSOC Bashneft showed sustained increase of crude oil production in April-June 2011 for the ninth successive quarter. Production in the second quarter rose by 1.6% q-o-q to 3.738 million tonnes. Crude oil production in the first half of 2011 rose by 8.1% y-o-y to 7.418 million tonnes compared with 6.864 million tonnes in the first half of 2010;
- Crude oil refining volumes were 8.9% higher q-o-q in the second quarter of 2011, reaching a level of 5.437 million tonnes. Oil refining in the first half of 2011 was 10.430 million tonnes, compared with 10.381 million tonnes in the first half of 2010.

### **MAIN FINANCIAL AND OPERATING RESULTS\***

	2Q	1Q		1H	1H	
	2011	2011	Change	2011	2010	Change
Revenue from sales (US\$ million)	4,522	3,486	29.7%	8,008	5,425	47.6%
EBITDA (US\$ million)	942	706	33.4%	1,648	1,150	43.3%
Operating income (US\$ million)	782	549	42.4%	1,331	850	56.6%
Net income not including minority interest (US\$ million)	532	370	43.8%	902	579	55.8%
Crude oil production (million tonnes)	3.738	3.680	1.6%	7.418	6.864	8.1%
Oil refining (million tonnes)	5.437	4.993	8.9%	10.430	10.381	0.5%

\*Financial results of JSOC Bashneft for the second quarter of 2011, first quarter of 2011, first half of 2011 and first half of 2010 are adjusted for financial results of JSOC Bashkirenergo, which was deconsolidated in May 2011

## **MAIN FACTORS WITH IMPACT ON OPERATING RESULTS**

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

	2Q	1Q		1H	1H	
	2011	2011	Change	2011	2010	Change
<b>Prices for crude oil and petroleum products</b>						
Brent crude, US\$/barrel	117.4	105.0	11.8%	111.2	77.3	43.9%
Urals crude, US\$/ barrel	114.0	102.2	11.5%	108.1	76.1	42.0%
Fuel oil (average FOB Rotterdam/CIF NWE), US\$/tonne	623.5	554.3	12.5%	588.9	437.1	34.7%
Diesel fuel (average FOB Rotterdam/CIF NWE), US\$/tonne	963.0	881.5	9.2%	922.3	651.7	41.5%
Naphtha (average FOB Rotterdam/CIF NWE), US\$/tonne	988.8	903.9	9.4%	946.4	698.6	35.5%
Vacuum gasoil (FOB NEW) US\$/tonne	810.5	726.4	11.6%	768.5	535.0	43.6%
<b>Russian market (US\$/tonne, with excises, not including VAT)</b>						
Crude oil	324.9	301.4	7.8%	313.1	210.7	48.6%
Fuel oil	304.2	268.5	13.3%	286.3	246.1	16.3%
Diesel fuel (summer gasoil)	689.2	618.4	11.4%	653.8	453.7	44.1%
Jet fuel	670.4	665.3	0.8%	667.8	475.4	40.5%
High-octane gasoline	861.3	760.7	13.2%	811.0	665.0	22.0%
Low-octane gasoline	782.0	720.4	8.6%	751.2	557.2	34.8%

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

	2Q	1Q		1H	1H	
	2011	2011	Change	2011	2010	Change
Ruble inflation (CPI)	1.2%	3.8%	-2.6%	5.0%	4.4%	0.6%
Ruble/dollar exchange rate, end of period	28.1	28.4	-1.2%	28.1	31.2	-10.0%
Ruble/dollar exchange rate, period average	28.0	29.3	-4.4%	28.6	30.1	-4.8%
Real appreciation or depreciation of the ruble to the dollar compared with previous period	6.2%	9.3%	-3.1%	15.1%	17.2%	-2.1%

## Taxation

	2Q	1Q		1H	1H	
	2011	2011	Change	2011	2010	Change
<b>Mineral extraction tax (rubles per tonne)</b>						
Crude oil	4,466	4,090	9.2%	4,278	2,928	46.1%
<b>Export duty (US\$ per tonne)</b>						
Crude oil	447	343	30.3%	395	273	44.7%
Light and medium distillates	299	234	27.8%	267	196	36.2%
Fuel oil	209	151	38.4%	180	106	69.8%
<b>Excises (rubles per tonne)</b>						
High-octane gasoline	-	-	-	-	3,992	-
Low-octane gasoline	-	-	-	-	2,923	-
Naphtha	-	-	-	-	4,290	-
Diesel fuel	-	-	-	-	1,188	-
Lubricants	-	-	-	-	3,246	-

Amendments to legislation that came into force in December 2010 increased excise rates and differentiated them depending on fuel quality:

(Rubles/tonne)	2011	2012	2013
<b>High octane gasoline</b>			
High-octane gasoline not in classes 3, 4, 5	5,995	7,725	9,511
High-octane gasoline, class 3	5,672	7,382	9,151
High-octane gasoline, classes 4, 5	5,143	6,822	8,560
<b>Naphtha</b>	6,089	7,824	9,617
<b>Diesel fuel</b>			
Diesel fuel not in classes 3, 4, 5	2,753	4,098	5,500
Diesel fuel, class 3	2,485	3,814	5,199
Diesel fuel, classes 4, 5	2,247	3,562	4,934
<b>Lubricants</b>	4,681	6,072	7,509

## OPERATING RESULTS

### Production

Bashneft Group of companies carries out exploration & production of crude oil in Russia in the Republic of Bashkortostan, Khanty-Mansi Autonomous District, Orenburg Region and the Republic of Tatarstan.

	2Q		Change	1H		Change
	2011	1Q 2011		2011	2010	
Crude oil production (million tonnes)	3.738	3.680	1.6%	7.418	6.864	8.1%
Average daily production of crude oil (thds. barrels per day)*	292	291	0.5%	292	270	8.1%

\*7.12 barrels = 1 tonne of crude oil

Crude oil production rose by 1.6% q-o-q in the second quarter of 2011 to 3.738 million tonnes from 3.680 million tonnes in the first quarter of 2011. Average daily production in the second quarter rose by 0.5% q-o-q to 292,000 barrels per day.

Oil production in the first half of 2011 was 7.418 million tonnes compared with 6.864 million tonnes in the first half of 2010. Average daily output of oil in the first half of 2011 rose by 8.1% y-o-y to 292,000 barrels per day.

Growth of output was achieved through geological and technical measures (secondary and tertiary recovery techniques) aimed at increasing average flow rate per well.

### Refining

Bashneft Group includes three oil refineries (JSOC Ufaneftekhim, JSOC Ufa Oil Refinery, JSOC Novoil), and also the petrochemicals producer JSOC Ufaorgsintez. Crude oil refining capacity of these facilities is 24.1 million tonnes.

(million tonnes)	2Q		Change	1H		Change
	2011	1Q 2011		2011	2010	
<b>Crude oil refining</b>	<b>5.437</b>	<b>4.993</b>	<b>8.9%</b>	<b>10.430</b>	<b>10.381</b>	<b>0.5%</b>
<b>Petroleum product outputs</b>						
Gasoline (including stable natural gasoline)	1.155	1.232	-6.3%	2.388	2.589	-7.8%
Diesel	1.904	1.823	4.5%	3.726	3.834	-2.8%
Fuel oil	0.630	0.554	13.7%	1.184	1.311	-9.7%
Vacuum gasoil	0.691	0.323	113.9%	1.015	0.771	31.6%
Other	0.618	0.490	26.1%	1.108	1.078	2.8%
<b>Total petroleum products</b>	<b>4.998</b>	<b>4.422</b>	<b>13.0%</b>	<b>9.421</b>	<b>9.584</b>	<b>-1.7%</b>
Refining depth (%)	86.5%	86.8%	-0.3 p.p.	86.6%	86.2%	0.5 p.p.
Share of light products (%)	57.6%	61.6%	-4.0 p.p.	59.5%	63.2%	-3.7 p.p.

Crude oil refining rose by 8.9% q-o-q in the second quarter of 2011 to 5.437 million tonnes from 4.993 million tonnes in the first quarter. Petroleum product output in the second quarter of 2011 rose by 13.0% q-o-q to 4.998 million tonnes.

Crude oil refining in the first half of 2011 was 10.430 million tonnes, representing an increase of 0.5% y-o-y compared with 10.381 million tonnes in the first half of 2010. However, petroleum product output in the first half of 2011 declined by 1.7% y-o-y to 9.421 million tonnes.

Refining depth in the second quarter of 2011 was 86.5%, which is 0.3 p.p. lower than in the first quarter of the year. Light product yield in the second quarter of 2011 declined by 4.0 p.p. compared with the first quarter to 57.6%. Lowering of refining depth and light product yield q-o-q in the second quarter was due to increase of refining volumes in the favorable macroeconomic and price environment, and was also due to repair work on the catalytic cracking unit at Ufaneftekhim.

Refining depth in the first half of 2011 was 86.6%, which is 0.5 p.p. higher than in the same period of 2010.

Light product yield in the first half of 2011 declined to 59.5%, which is 3.7 p.p. less than 63.2% in the first half of 2010. The decline of light product yield y-o-y was due to increase in the share of Bashkir crude in refining volumes from 46.7% in the first half of 2010 to 47.7% in the first half of 2011, and was also due to repair work on the catalytic cracking unit at Ufaneftekhim.

## **FINANCIAL RESULTS**

Financial accounts of JSOC Bashneft for the first half of 2011 and first half of 2010, and also for the second quarter of 2011 and first quarter of 2011 have been adjusted for the financial results of JSOC Bashkirenergo, which was deconsolidated in May 2011.

### **CONSOLIDATED PROFIT & LOSS ACCOUNT FOR THE SECOND QUARTER AND FIRST HALF ENDED ON 30 JUNE 2011**

(US\$ million)	2Q	1Q	Change	1H	1H	Change
	2011	2011		2011	2010	
<b>Revenue</b>						
Crude oil sales	816	737	10.7%	1,553	903	72.0%
Petroleum product and petrochemical sales	3,592	2,653	35.4%	6,245	4,356	43.4%
Other sales	114	96	18.8%	210	166	26.5%
<b>Total revenue</b>	<b>4,522</b>	<b>3,486</b>	<b>29.7%</b>	<b>8,008</b>	<b>5,425</b>	<b>47.6%</b>
<b>Operating expenses</b>						
Production and operating expenses	454	338	34.3%	792	626	26.5%
Cost of purchased crude oil, gas and petroleum products	1,103	850	29.8%	1,953	1,311	49.0%
Sales, general and administrative expenses	95	128	-25.8%	223	138	61.6%
Transport expenses	205	164	25.0%	369	290	27.2%
Depreciation, depletion and amortization	160	157	1.9%	317	300	5.7%
Taxes other than income tax	556	466	19.3%	1,022	651	57.0%
Excises and export duties	1,148	833	37.8%	1,981	1,263	56.8%
Other operating expenses (income), net	19	1	-	20	-4	-
<b>Total costs and expenses</b>	<b>3,740</b>	<b>2,937</b>	<b>27.3%</b>	<b>6,677</b>	<b>4,575</b>	<b>45.9%</b>
<b>Income from operations</b>	<b>782</b>	<b>549</b>	<b>42.4%</b>	<b>1,331</b>	<b>850</b>	<b>56.6%</b>
<b>Other expenses/income</b>						
Interest expenses	-120	-118	1.7%	-238	-122	95.1%
Interest income	22	14	57.1%	36	26	38.5%
Exchange rate differences, net	13	-58	-	-45	20	-
Share in income of affiliates	25	22	13.6%	47	14	-
<b>Total other expenses/income</b>	<b>-60</b>	<b>-140</b>	<b>-57.1%</b>	<b>-200</b>	<b>-62</b>	<b>-</b>
<b>Income before tax</b>	<b>722</b>	<b>409</b>	<b>76.5%</b>	<b>1,131</b>	<b>788</b>	<b>43.5%</b>
Income tax expenses	-170	-69	146.4%	-239	-192	24.5%
Net income from continuing operations	552	340	62.4%	892	596	49.7%
Net income from discontinued operations	30	94	-68.1%	124	75	65.3%
<b>Net income</b>	<b>582</b>	<b>434</b>	<b>34.1%</b>	<b>1,016</b>	<b>671</b>	<b>51.4%</b>
Net income attributable to minorities	-50	-64	-21.9%	-114	-92	23.9%
<b>Net income attributable to shareholders of the parent company</b>	<b>532</b>	<b>370</b>	<b>43.8%</b>	<b>902</b>	<b>579</b>	<b>55.8%</b>

**CONSOLIDATED STATEMENT OF FINANCIAL POSITION ON 30 JUNE 2011**

(US\$ million)	30 June 2011	31 December 2010
<b>ASSETS</b>		
<b>Non-current assets</b>		
Property, plant and equipment	9,383	9,552
Advances paid for acquisition of property, plant and equipment	49	120
Advance paid for acquisition of license for Trebs and Titov field	-	597
Intangible assets	37	33
Financial assets	610	217
Investments in affiliates	772	667
Long-term inventories	57	50
Other non-current assets	3	3
<b>Total non-current assets</b>	<b>10,911</b>	<b>11,239</b>
<b>Current assets</b>		
Inventories	778	625
Trade and other receivables	810	523
Advances to suppliers and prepaid expenses	139	157
Financial assets	784	676
Income tax prepaid	8	11
Other refundable tax	979	685
Cash and equivalents	999	1,067
Other current assets	5	8
<b>Total current assets</b>	<b>4,502</b>	<b>3,752</b>
<b>TOTAL ASSETS</b>	<b>15,413</b>	<b>14,991</b>
<b>EQUITY AND LIABILITIES</b>		
<b>Capital and reserves</b>		
Share capital	77	77
Treasury shares	-464	-252
Additional paid-in capital	1,160	1,160
Foreign currency translation reserve	175	-155
Retained earnings	4,676	4,445
<b>Equity attributable to shareholders</b>	<b>5,624</b>	<b>5,275</b>
Non-controlling interests	1,544	2,717
<b>Total capital and reserves</b>	<b>7,168</b>	<b>7,992</b>
<b>Non-current liabilities</b>		
Loans and credits	3,378	3,118
Deferred tax liabilities	1,155	1,099

**CONSOLIDATED STATEMENT OF FINANCIAL POSITION ON 30 JUNE 2011  
(CONTINUED)**

(US\$ million)	30 June 2011	31 December 2010
Environmental liabilities	250	217
Other non-current liabilities	26	49
<b>Total non-current liabilities</b>	<b>4,809</b>	<b>4,483</b>
<b>Current liabilities</b>		
Loans and credits	842	795
Trade and other payables	717	659
Dividends payable	907	73
Advances received	314	553
Provisions	101	97
Income tax payable	48	21
Other taxes payable	507	318
<b>Total current liabilities</b>	<b>3,436</b>	<b>2,516</b>
<b>TOTAL LIABILITIES</b>	<b>8,245</b>	<b>6,999</b>
<b>TOTAL EQUITY AND LIABILITIES</b>	<b>15,413</b>	<b>14,991</b>



**UNAUDITED CONSOLIDATED CASH FLOW STATEMENT FOR THE SIX MONTHS ENDED ON 30 JUNE 2011**

(US\$ million)	6 months ended on June 30 2011	6 months ended on 30 June 2010
<b>Profit before income tax</b>	<b>1,279</b>	<b>888</b>
<b>Adjustments* for:</b>		
Depletion and depreciation	358	359
Loss on disposal of property, plant and equipment	10	13
Finance income	-42	-26
Finance costs	239	122
Share of income of affiliates	-47	-14
Foreign exchange loss/gain, net	45	20
Change in provisions	-	-18
Other	-11	10
<b>Changes in working capital:</b>		
Inventories	-138	-182
Trade and other receivables	-455	-324
Advances to suppliers and prepaid expenses	23	-27
Other taxes refundable	-305	-403
Trade and other payables	119	39
Advances received	-238	-46
Other	230	6
<b>Cash generated from operations</b>	<b>1,067</b>	<b>417</b>
Interest paid	-232	-103
Income tax paid	-221	-186
<b>Net cash from operating activities</b>	<b>614</b>	<b>128</b>
Property, plant and equipment acquired	-374	-115
Other	-266	-943
<b>Cash used for investment activities, net</b>	<b>-640</b>	<b>-1,058</b>
Proceeds from borrowing	655	536
Repayment of borrowing	-665	-36
Dividends paid	-74	-1
Other	-32	-138
<b>Cash used for financing activities, net</b>	<b>-116</b>	<b>361</b>
Change of cash and equivalents, net	-142	-569
Cash and equivalents at start of period	1,067	1,166
Effect of translating reporting currency to presentation currency and exchange rate changes on the balance of cash and cash equivalents held in foreign currencies	74	-38
<b>Cash and cash equivalents at end of period</b>	<b>999</b>	<b>559</b>

\*Adjustments are shown for both continuing and discontinued operations

## REVENUE

Revenue of Bashneft Group in the second quarter of 2011 was US\$ 4,522 million, which is 29.7% more than in the first quarter of 2011. Revenue in the first half of 2011 increased by 47.6% y-o-y to US\$ 8,008 million. Growth of revenue was due to increase of crude oil and petroleum product sales volumes and increase of selling prices.

(US\$ million)	2Q		Change	1H		Change
	2011	1Q 2011		2011	2010	
<b>Revenue</b>						
Export sales of crude oil	731	653	11.9%	1,384	831	66.5%
Domestic sales of crude oil	85	84	1.2%	169	72	134.7%
<b>Total crude oil sales</b>	<b>816</b>	<b>737</b>	<b>10.7%</b>	<b>1,553</b>	<b>903</b>	<b>72.0%</b>
Petroleum product exports outside the CIS	1,661	1,257	32.1%	2,918	1,800	62.1%
Petroleum product exports to CIS countries	332	269	23.4%	601	190	-
Domestic sales of petroleum products	1,599	1,127	41.9%	2,726	2,366	15.2%
<i>wholesale</i>	1,375	1,006	36.7%	2,381	2,135	11.5%
<i>retail</i>	224	121	85.1%	345	231	49.4%
<b>Total petroleum product sales</b>	<b>3,592</b>	<b>2,653</b>	<b>35.4%</b>	<b>6,245</b>	<b>4,356</b>	<b>43.4%</b>
Other sales	114	96	18.8%	210	166	26.5%
<b>Total revenue</b>	<b>4,522</b>	<b>3,486</b>	<b>29.7%</b>	<b>8,008</b>	<b>5,425</b>	<b>47.6%</b>

(million tonnes)	2Q		Change	1H		Change
	2011	1Q 2011		2011	2010	
<b>Sales volumes</b>						
Export sales of crude oil	0.899	0.900	-0.1%	1.799	1.550	16.1%
Domestic sales of crude oil	0.259	0.255	1.6%	0.514	0.353	45.4%
<b>Total crude oil sales</b>	<b>1.158</b>	<b>1.155</b>	<b>0.3%</b>	<b>2.313</b>	<b>1.903</b>	<b>21.5%</b>
Petroleum product exports outside the CIS	2.084	1.644	26.8%	3.728	3.347	11.4%
Petroleum product exports to CIS countries	0.530	0.474	11.8%	1.004	0.361	178.1%
Domestic sales of petroleum products	2.594	2.149	20.7%	4.743	5.439	-12.8%
<i>wholesale</i>	2.357	2.012	17.1%	4.369	5.142	-15.0%
<i>retail</i>	0.237	0.137	73.0%	0.374	0.297	25.9%
<b>Total petroleum product sales</b>	<b>5.208</b>	<b>4.267</b>	<b>22.1%</b>	<b>9.475</b>	<b>9.147</b>	<b>3.6%</b>
<b>Total sales of crude oil and petroleum products</b>	<b>6.366</b>	<b>5.422</b>	<b>17.4%</b>	<b>11.788</b>	<b>11.050</b>	<b>6.7%</b>

### **Export sales of crude oil**

Export sales of crude oil in the second quarter of 2011 were US\$ 731 million, which is 11.9% more than in the first quarter of the year. The increase was due to rise of selling prices. The volume of crude oil sold on external markets in the second quarter of 2011 was 899,000 tonnes, compared with 900,000 tonnes in the first quarter of 2011.

Revenue from crude oil exports in the first half of 2011 was US\$ 1,384 million, which is 66.5% more than in the first half of 2010. Higher revenue was due both to increase of sales volumes and rise of selling prices. The volume of crude oil sold on external markets in the first half of 2011 was 1.799 million tonnes, which is 16.1% more than in the first half of 2010.

### **Domestic sales of crude oil**

Revenue from sales of crude oil on the domestic market was US\$ 85 million in the second quarter of 2011 compared with US\$ 84 million in the first quarter of 2011. The volume of domestic sales in the second quarter was 259,000 tonnes compared with 255,000 tonnes in the first quarter of 2011.

Revenue from domestic sales of crude oil in the first half of 2011 was US\$ 169 million compared with US\$ 72 million in the same period of 2010. The revenue increase was due to growth of sales volumes and higher selling prices. Bashneft sold 514,000 tonnes of crude oil on the domestic market in the first half of 2011 compared with 353,000 tonnes in the first half of 2010.

### **Petroleum product exports**

Revenue from export of petroleum products outside the CIS was US\$ 1,661 million in the second quarter of 2011, which is 32.1% more than in the first quarter of the year. Revenue from export of petroleum products to CIS countries was US\$ 332 million in the second quarter of 2011 compared with US\$ 269 million in the first quarter. Higher revenues were due to increase of volumes and of prices.

Export deliveries of petroleum products outside the CIS were 2.084 million tonnes in the second quarter of 2011, which is 26.8% more than in the first quarter. Petroleum product deliveries to CIS countries were 530,000 tonnes in the second quarter of 2011 compared with 474,000 tonnes in the first quarter. Petroleum product exports by Bashneft to CIS and non-CIS countries in the second quarter of 2011 consisted mainly of diesel fuel (57%), gasoline (11%) and vacuum gasoil (21%). Exports of petroleum products in the first quarter of 2011 were also dominated by diesel fuel, gasoline and vacuum gasoil, when their shares in total exports were 61%, 15% and 15%, respectively.

Revenue from exports of petroleum products outside the CIS in the first half of 2011 was US\$ 2,918 million, which is 62.1% more than in the first half of 2010. Revenue from exports of petroleum products to CIS countries in the first half of 2011 was US\$ 601 million compared with US\$ 190 million in the first half of 2010. Revenue increase was due to higher volumes and selling prices.

Export deliveries of petroleum products outside the CIS were 3,728 million tonnes in the first half of 2011, which is 11.4% more than in the first half of 2010. Deliveries to CIS countries in the first half of 2011 were 1.004 million tonnes in comparison with 361,000 tonnes in the same period of 2010. Product exports to CIS and non-CIS countries in the first half of 2011 were dominated by diesel fuel (59%), gasoline (14%) and vacuum gasoil (17%). Shares of these products in exports during the first half of 2010 were 53%, 17% and 21%, respectively.

### **Domestic sales of petroleum products**

Revenue from sales of petroleum products inside Russia during the second quarter of 2011 were US\$ 1,599 million, which is 41.9% more than in the first quarter of 2011. The revenue increase was due to growth of volumes and prices.

The Group sold 2.594 million tonnes of petroleum products on the domestic market in the second quarter of 2011, of which 2.357 million tonnes via wholesale. Revenue from wholesale petroleum product business in the second quarter of 2011 was US\$ 1,375 million, which is 36.7% more than in the first quarter of the year.

Revenue from retail sales of petroleum products in the second quarter of 2011 was US\$ 224 million, which is 85.1% more than in the first quarter of the year. The increase was due to growth of engine fuel prices and sales volumes. Volume of petroleum products sold via retail in the second quarter of 2011 was 237,000 tonnes, which is 73.0% more than in the first quarter.

Revenue from sales of petroleum products on the domestic market in the first half of 2011 was US\$ 2,726 million, which is 15.2% more than in the first half of 2010. The revenue increase was due to growth of prices.

The Group sold 4.743 million tonnes of petroleum products on the domestic market in the first half of 2011, of which 4.369 million tonnes via wholesale. Revenue from wholesale petroleum product business on the domestic market in the first half of 2011 was US\$ 2,381 million, which is 11.5% more than in the first half of 2010.

Revenue from retail sales of petroleum products were US\$ 345 million in the first half of 2011, which is 49.4% more than in the same period of 2010. The increase was due to higher prices and volumes in sales of engine fuel. Retail sales of petroleum products in the first half of 2011 were 374,000 tonnes, which is 25.9% more than in the first half of 2010.

### **Other sales**

Other sales revenue is from sale of goods and services that are not connected with core business. Other sales revenue increased by 18.8% q-o-q in the second quarter of 2011 to US\$ 114 million, and the increase in the first half of 2011 was 26.5% y-o-y to US\$ 210 million. Growth of other sales revenue was driven mainly by transport and other services, as well as drilling work carried out for third parties.

## EXPENSES AND COSTS

### Production and operating expenses

Structure of production and operating expenses of JSOC Bashneft by business segments is presented below. Production and operating expenses rose by 34.3% q-o-q in the second quarter of 2011 to US\$ 454 million, mainly due to seasonal factors, repair work to the catalytic cracking unit at Ufaneftekhim and strengthening of the ruble against the US dollar. Production and operating expenses rose by 26.5% y-o-y in the first half of 2011 to US\$ 792 million, mainly due to growth of electricity tariffs and cost of materials and services provided by third parties, strengthening of the ruble against the US dollar, and repair work to the catalytic cracking unit at Ufaneftekhim.

(US\$ million)	2Q		Change	1H		Change
	2011	1Q 2011		2011	2010	
<b>Production and operating costs</b>						
Exploration & production	204	175	16.6%	379	298	27.2%
Refining	209	183	14.2%	392	353	11.0%
Other	41	-20	-	21	-25	-
<b>Total production and operating expenses</b>	<b>454</b>	<b>338</b>	<b>34.3%</b>	<b>792</b>	<b>626</b>	<b>26.5%</b>

Crude oil production expenses increased by 16.6% q-o-q in the second quarter of 2011 to US\$ 204 million. Unit lifting costs rose by 14.8% to US\$ 7.7 per barrel, due mainly to impact of seasonal factors (maintenance work on surface equipment and infrastructure), as well as strengthening of the ruble against the US dollar.

Production costs rose by 27.2% y-o-y in the first half of 2011 to US\$ 379 million. Unit lifting costs were 17.7% higher at US\$ 7.2 per barrel due to stimulation of oil production by use of secondary and tertiary recovery techniques, growth of electricity tariffs and strengthening of the ruble.

	2Q		Change	1H		Change
	2011	1Q 2011		2011	2010	
Crude oil production expenses (US\$ million)	204	175	16.6%	379	298	27.2%
Unit lifting costs (US\$ per barrel)*	7.7	6.7	14.8%	7.2	6.1	17.7%

\* 7.12 barrels = one tonne of oil

Oil refining costs at the Group's own refineries rose by 14.2% q-o-q in the second quarter of 2011 to US\$ 209 million. Unit refining costs in the second quarter of 2011 rose by 4.9% to US\$ 5.4 per barrel compared with US\$ 5.1 per barrel in the first quarter of the year.

Refining costs at the Group's own refineries increased by 11.0% y-o-y in the first half of 2011 to US\$ 392 million. Unit refining costs were 10.5% higher at US\$ 5.3 per barrel compared with US\$ 4.8 per barrel in the first half of 2010.

Growth of unit refining costs were mainly due to repair work on the catalytic cracking unit at Ufaneftekhim and to strengthening of the ruble against the US dollar.

	2Q	1Q		1H	1H	
	2011	2011	Change	2011	2010	Change
Refining expenses (US\$ million)	209	183	14.2%	392	353	11.0%
Unit refining costs (US\$ per barrel)*	5.4	5.1	4.9%	5.3	4.8	10.5%

\*7.12 barrels = one tonne of oil

### **Crude oil purchases**

In addition to production of its own oil, JSOC Bashneft also makes purchases of West-Siberian oil and gas condensate for delivery to its own refineries. In the second quarter of 2011 the Company bought 2.903 million tonnes of oil and gas condensate, representing 53.4% of total refining by the Group during the period. That compares with purchases of 2.529 million tonnes of oil and gas condensate in the first quarter of 2011, which represented 50.7% of refining in the respective period.

Spending in the second quarter of 2011 on purchases of oil and gas condensate attributable to sales of production were US\$ 1,103 million, representing 29.5% of Group operating costs in the same period. For comparison, spending in the first quarter of 2011 on the same item was US\$ 850 million, representing 28.9% of Company operating costs in the period.

The Company bought 5.432 million tonnes of oil and gas condensate in the first half of 2011, representing 52.1% of total refining in the same period. Purchases of oil and gas condensate in the first half of 2010 were 5.495 million tonnes, equal to 52.9% of refining in the respective period.

Spending on purchases of oil and gas condensate attributable to sales of production in the first half of 2011 were US\$ 1,953 million, representing 29.2% of operating expenses in the period. Spending on the same item in the first half of 2010 was US\$ 1,311 million, equal to 28.7% of operating expenses in the respective period. The spending increase in the first half of 2011 was due to growth of domestic prices for these commodities.

### **Transport costs**

Transport costs of Bashneft Group grew by 25.0% q-o-q in the second quarter of 2011 to US\$ 205 million from US\$ 164 million in the first quarter of the year. Growth of transport costs in the first half of 2011 was 27.2% y-o-y to US\$ 369 million from US\$ 290 million in the same period of 2010. Rise of transport costs reflects increase in export deliveries of crude oil and petroleum products.

Bashneft exported 2.084 million tonnes of petroleum products outside the CIS in the second quarter 2011, which is 26.8% more than in the first quarter. Deliveries to CIS countries were 530,000 tonnes in the second quarter of 2011 compared with 474,000 tonnes in the first quarter.

Exports of petroleum products outside the CIS in the first half of 2011 rose by 11.4% y-o-y to 3.728 million tonnes. Deliveries to CIS countries in the first half of the year were 1.004 million tonnes compared with 361,000 tonnes in the first half of 2010.

Volumes of crude oil sales on external markets in the first half of 2011 were 1.799 million tonnes, which is 16.1% more than in the first half of 2010.

### Depreciation, depletion and amortization

Depreciation in the second quarter of 2011 was US\$ 160 million compared with US\$ 157 million in the first quarter of the year. The increase was concentrated in the production segment, where depreciation and depletion rose by 15.4% in comparison with the first quarter to a level of US\$ 60 million.

Depreciation in the first half of 2011 was US\$ 317 million in comparison with US\$ 300 million in the first half of 2010. There was an increase of 25.8% y-o-y in the production segment to a level of US\$ 112 million in the first half of 2011.

(US\$ million)	2Q	1Q	Change	1H	1H	Change
	2011	2011		2011	2010	
<b>Depreciation, depletion and amortization</b>						
Exploration & production	60	52	15.4%	112	89	25.8%
Refining	93	101	-7.9%	194	202	-4.0%
Other	7	4	75.0%	11	9	22.2%
<b>Total depreciation, depletion and amortization</b>	<b>160</b>	<b>157</b>	<b>1.9%</b>	<b>317</b>	<b>300</b>	<b>5.7%</b>

## Taxes other than income tax

Tax expenses other than income tax rose by 19.3% q-o-q in the second quarter of 2011 to US\$ 556 million. Mineral extraction tax payments rose by 23.5% q-o-q in the second quarter of 2011 due to growth in crude oil prices and levels of crude oil production, and totaled US\$ 468 million compared with US\$ 379 million in the first quarter of the year.

Tax expenses other than income tax increased by 57.0% y-o-y in the first half of 2011 to US\$ 1,022 million. Mineral extraction tax payments rose by 66.7% y-o-y in the first half due to growth of oil prices and increase of oil production levels. Payments of mineral extraction tax were US\$ 847 million in the first half of 2011 compared with US\$ 508 million in the first half of 2010.

(US\$ million)	2Q	1Q	Change	1H	1H	Change
	2011	2011		2011	2010	
<b>Taxes other than income tax</b>						
Mineral extraction tax	468	379	23.5%	847	508	66.7%
Social insurance contributions	63	67	-6.0%	130	96	35.4%
Property tax	15	14	7.1%	29	30	-3.3%
Other	10	6	66.7%	16	17	-5.9%
<b>Taxes other than income tax</b>	<b>556</b>	<b>466</b>	<b>19.3%</b>	<b>1 022</b>	<b>651</b>	<b>57.0%</b>

	2Q	1Q	Change	1H	1H	Change
	2011	2011		2011	2010	
<b>Mineral extraction tax</b>						
Current mineral extraction tax rates, (US\$ per barrel)	22.4	19.6	14.2%	21.0	13.7	53.5%
Factual mineral extraction tax expenses, (US\$ per barrel)	17.6	14.5	21.6%	16.0	10.4	54.3%

\*7.12 barrels = one tonne of oil

## Export duties and excises

Export duties on crude oil and petroleum products rose by 39.6% q-o-q in the second quarter of 2011 to US\$ 885 million. The increase in the first half of the year was 60.6% y-o-y to a level of US\$ 1,519 million. Breakdown of export duties and excises in the period is shown below.

(US\$ million)	2Q	1Q	Change	1H	1H	Change
	2011	2011		2011	2010	
Export duties on crude oil	398	309	28.8%	707	420	68.3%
Export duties on petroleum products	487	325	49.8%	812	526	54.4%
Excises	263	199	32.2%	462	317	45.7%
<b>Total export duties and excises</b>	<b>1,148</b>	<b>833</b>	<b>37.8%</b>	<b>1,981</b>	<b>1,263</b>	<b>56.8%</b>



## **EBITDA, OPERATING INCOME AND NET INCOME**

Operating income rose by 42.4% q-o-q in the second quarter of 2011 to US\$ 782 million from US\$ 549 million in the first quarter. In the first half of 2011 operating income rose by 56.6% y-o-y to US\$ 1,331 million compared with US\$ 850 million in the first half of 2010.

EBITDA rose by 33.4% q-o-q in the second quarter of 2011 to US\$ 942 million compared with US\$ 706 million in the first quarter. In the first half of 2011 EBITDA rose by 43.3% y-o-y to US\$ 1,648 million compared with US\$ 1,150 million in the first half of 2010.

Net income after minorities increased by 43.8% q-o-q in the second quarter of 2011 to US\$ 532 million from US\$ 370 million in the first quarter. In the first half of 2011 net income rose by 55.8% y-o-y to US\$ 902 million in comparison with US\$ 579 million in the first half of 2010.

	2Q	1Q		1H	1H	
	2011	2011	Change	2011	2010	Change
<b>Key financial indicators</b>						
EBITDA, US\$ million	942	706	33.4%	1 648	1 150	43.3%
EBITDA margin	20.8%	20.3%	0.6 p.p.	20.6%	21.2%	-0.6 p.p.
Net income margin	11.8%	10.6%	1.2 p.p.	11.3%	10.7%	0.6 p.p.
Ratio of net debt to EBITDA, annualized	0.7	1.0	-0.3	0.8	0.6	0.2
EBITDA per barrel, US\$	35.4	26.9	31.4%	31.2	23.5	32.6%
E&P capital expenditures per barrel, US\$	3.8	3.6	5.7%	3.7	0.7	-
Unit lifting costs per barrel, US\$	7.7	6.7	14.8%	7.2	6.1	17.7%

## CASH FLOW

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

(US\$ million)	2Q	1Q	Change	1H	1H	Change
	2011	2011		2011	2010	
<b>Cash flow</b>						
Cash flow from operations	433	181	139.2%	614	128	-
Investment cash flow	-307	-333	-7.8%	-640	-1,058	-39.5%
Financing cash flow	-33	-83	-60.2%	-116	361	-132.1%

Net cash from operations:

(US\$ million)	2Q	1Q	Change	1H	1H	Change
	2011	2011		2011	2010	
Cash from operations before changes in working capital	978	853	14.7%	1,831	1,354	35.2%
Changes in working capital, not including cash and equivalents	-262	-502	-47.8%	-764	-937	-18.5%
Interest paid	-167	-65	156.9%	-232	-103	125.2%
Income tax paid	-116	-105	10.5%	-221	-186	18.8%
<b>Total net cash from operations</b>	<b>433</b>	<b>181</b>	<b>139.2%</b>	<b>614</b>	<b>128</b>	<b>-</b>

Net cash used for investment:

(US\$ million)	2Q	1Q	Change	1H	1H	Change
	2011	2011		2011	2010	
Capital expenditures	-200	-174	14.9%	-374	-115	-
Other	-107	-159	-32.7%	-266	-943	-71.8%
<b>Total cash used for investment</b>	<b>-307</b>	<b>-333</b>	<b>-7.8%</b>	<b>-640</b>	<b>-1,058</b>	<b>-39.5%</b>

Net cash from/used for financing

(US\$ million)	2Q		Change	1H		Change
	2011	1Q 2011		2011	1H 2010	
New debt issue	47	608	-92.3%	655	536	22.2%
Debt repayment	-48	-617	-92.2%	-665	-36	-
<b>Total issue and repayment of debt:</b>	<b>-1</b>	<b>-9</b>	<b>-88.9%</b>	<b>-10</b>	<b>500</b>	<b>-102.0%</b>
Dividends paid	0	-74	-100.0%	-74	-1	-
Other	-32	0	-	-32	-138	-76.8%
<b>Total net cash received from/(used in) financing</b>	<b>-33</b>	<b>-83</b>	<b>-60.2%</b>	<b>-116</b>	<b>361</b>	<b>-132.1%</b>

Calculation of adjusted free cash flow:

(US\$ million)	2Q		Change	1H		Change
	2011	1Q 2011		2011	1H 2010	
<b>Calculation of adjusted free cash flow</b>						
Net cash from operations	433	181	139.2%	614	128	-
Capital expenditures	-200	-174	14.9%	-374	-115	-
<b>Free cash flow</b>	<b>233</b>	<b>7</b>	<b>-</b>	<b>240</b>	<b>13</b>	<b>-</b>
Other	-8	0	-	-8	-7	14.3%
<b>Adjusted free cash flow</b>	<b>225</b>	<b>7</b>	<b>-</b>	<b>232</b>	<b>6</b>	<b>-</b>

## FINANCING AND DEBT

Total debt of the Group (short- and long-term loans and credits) at the end of the second quarter of 2011 was US\$ 4,220 million in comparison with US\$ 4,174 million at the end of the first quarter of 2011. A large part of the debt portfolio consists of interest-bearing non-convertible ruble bonds to the value of 50 billion rubles issued in December 2009 for a period of 7 years with a 3-year option. The interest rate on the first six coupons of all 3 series of bonds is 12.5% annualized.

(US\$ million)	2Q	1Q	Change	1H	1H	Change
	2011	2011		2011	2010	
<b>Net debt</b>						
Short-term debt	842	833	1.1%	842	41	-
Long-term debt	3,378	3,341	1.1%	3,378	2,137	58.1%
<b>Total debt</b>	<b>4,220</b>	<b>4,174</b>	<b>1.1%</b>	<b>4,220</b>	<b>2,178</b>	<b>93.8%</b>
Cash and equivalents	-999	-873	14.4%	-999	-559	78.7%
Short-term financial investments	-528	-602	-12.3%	-528	-305	73.1%
<b>Adjusted net debt</b>	<b>2,693</b>	<b>2,699</b>	<b>-0.2%</b>	<b>2,693</b>	<b>1,314</b>	<b>104.9%</b>

## CAPITAL EXPENDITURES

Capital expenditures in the second quarter of 2011 were US\$ 200 million compared with US\$ 174 million in the first quarter of the year. Capex in the exploration & production segment increased from US\$ 95 million in the first quarter of 2011 to US\$ 102 million in the second quarter. Refining capex was US\$ 78 million in the second quarter of 2011 compared with US\$ 50 million in the first quarter.

Capex in the first half of 2011 was US\$ 374 million compared with US\$ 115 million in the first half of 2010. E&P capex increased from US\$ 36 million in the first half of 2010 to US\$ 197 million in the first half of 2011. Refining capex rose to US\$ 128 million in the first half of 2011 compared with US\$ 21 million in the first half of 2010.

(US\$ million)	2Q	1Q	Change	1H	1H	Change
	2011	2011		2011	2010	
<b>Capital expenditures</b>						
E&P	102	95	7.4%	197	36	-
Refining	78	50	56.0%	128	21	-
Other	20	29	-31.0%	49	58	-15.5%
<b>Total net cash used to finance capital expenditures</b>	<b>200</b>	<b>174</b>	<b>14.9%</b>	<b>374</b>	<b>115</b>	<b>-</b>

## **MAIN EVENTS SINCE THE ACCOUNTING DATE**

### **JSOC BASHNEFT ACQUIRED THE PETROLEUM PRODUCT BUSINESS OF ASPEK**

Shareholders of ASPEK Group of companies decided on a reorganization by division into two legal entities: ASPEK LLC and JSOC BN-Nefteprodukt. These two entities were registered in the State Register of Legal Entities on 1 July 2011.

As a result of the reorganization JSOC Bashneft obtained 97.75% of BN-Nefteprodukt. At the same time, JSOC Bashneft ceased to be a shareholder of ASPEK LLC. Share capitals of the new companies were created by division of share capital of JSOC ASPEK without injection of new funds. Stakes of 100% in the companies Bashneft-Udmurtia LLC and JSCC Bashneft-Region were transferred to the balance sheet of BN-Nefteprodukt LLC.

JSOC Bashneft thus acquired direct control over the petroleum product assets of ASPEK Group. No cash was used in the transaction over and above the US\$ 123 million already paid by JSOC Bashneft in July 2010 for 49.99% of share capital of JSOC ASPEK. JSOC Bashneft plans to increase its stake in share capital of BN-Nefteprodukt to 100%.

JSOC Bashneft acquired 49.99% of JSOC ASPEK at the end of July 2010 as part of its strategy for development of retail and small wholesale business in target regions. As a result of corporate reorganization, the marketing assets of JSOC ASPEK – JSCC ASPEK and JSOC ASPEK-Nefteprodukt – came under the control of JSOC Bashneft and were subsequently renamed JSCC Bashneft-Region and Bashneft-Udmurtia LLC, respectively. Bashneft-Udmurtia LLC includes two petroleum product storage facilities and 48 up-to-date filling stations, which account for about 30% of the market for engine fuels in Udmurtia. JSCC Bashneft-Region is specialized in small wholesale business and has presence in 16 Russian regions.

### **ON JULY 22 2011 THE BOARD OF DIRECTORS OF JSOC BASHNEFT APPROVED A REGULATION ON DIVIDEND POLICY**

The Regulation on Dividend Policy of JSOC Bashneft is designed in compliance with Russian law, the Company Charter and internal corporate documents. The Regulation defines main approaches for the Board of Directors in preparing recommendations for the amount of dividends to be paid on Company shares and the procedure and form, through which dividends are paid.

The Regulation stipulates that a decision on payment of dividends for the financial year and on the amount to be paid is taken by the General Meeting of Shareholders of JSOC Bashneft based on the recommendations of the Board of Directors. The sum recommended for payment by the Board of Directors is based on financial results of Company business (assuming that a net profit was achieved) in the first quarter, the first half, nine months or the financial year, and usually represents no less than 10% of Company IFRS net income attributable to shareholders of the parent Company for the financial year. “Net income attributable to shareholders of the parent Company” is defined on the basis of the Company’s consolidated financial accounts for the respective period, prepared in accordance with IFRS.

Dividends per type-A preferred share cannot be less than 10% of par value of such a share, and dividends per preferred share cannot be less than dividends per ordinary share.

Dividends are usually paid in cash form. In accordance with current legislation and the Company Charter, dividends are paid within 60 days from the date when the General Meeting of Shareholders takes a decision on their payment and no shareholders have the right to be paid earlier than other shareholders.

#### **THE BOARD OF DIRECTORS OF JSOC BASHNEFT APPROVED A DECISION TO ISSUE SECURITIES, BOND PROSPECTUSES AND LISTED BONDS**

On 22 July 2011 the Board of Directors of JSOC Bashneft approved issue of securities and of prospectuses for bond series 04, 05 and listed (exchange) bond series BO-01, BO-02, BO-03 and BO-04:

- Bond series 04, with a total nominal value of RUB 10 billion and maximum tenor of 10 years;
- Bond series 05, with total nominal value of RUB 10 billion and maximum tenor of 7 years;
- Listed (exchange) bonds of the series BO-01 and BO-02, with nominal value of RUB 10 billion
- Listed (exchange) bonds of the series BO-03 and BO-04, with nominal value of RUB 5 billion each and maximum tenor of 3 years.

The total nominal value of the bond issues is 50,000,000,000 (fifty billion) rubles.

The approval enables the Company to proceed with registration of the bonded debt and series of listed bonds, which, in accordance with Russian law, can be placed at any time over a number of years following the date of their registration (the time limit depends on the type of securities).

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