



BASHNEFT
JOINT STOCK OIL COMPANY

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



This report contains a review of financial position and operating results of JSOC Bashneft and includes operating results of Bashneft Group for the three months ended 31 March 2012. The terms “Bashneft”, “the Company”, “Bashneft Group” and “the Group” in various forms mean JSOC Bashneft and its subsidiaries and special purpose entities. The financial position and operating results analysed in this document are consolidated data on Bashneft Group.

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

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

The financial results of Bashneft Group for the 1st quarter of 2011 have been adjusted for the financial results of OJSC Bashkirenergo, which was deconsolidated in May 2011.



OVERVIEW

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

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

The Company holds licences for the development of 190 oil and gas fields in the Republic of Bashkortostan, the Khanty-Mansi Autonomous District, the Nenets Autonomous District, the Orenburg region and the Republic of Tatarstan, including licences for oil and gas fields developed by the Joint Venture "Bashneft-Polyus". 166 of the Company's fields are in commercial production.

According to the results of an audit conducted by Miller & Lents Ltd. using international PRMS (SPE) criteria, the Company's proved reserves as of 31 December 2011 amounted to 278.5 million tonnes. Bashneft Group has a reserves-to-production ratio of 18.5 years. Proved and probable (2P) reserves totalled 337.5 million tonnes. Overall reserves of Bashneft Group (including possible reserves) amounted to 419.2 million tonnes. For three months ended 31 March 2012, production at the developed licence areas totalled 3.8 million tonnes.

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

In three months ended 31 March 2012, Group's refineries processed 5.1 million tonnes of hydrocarbons. Average refining depth amounted to 84.3%, which is one of the best results among Russian vertically integrated oil companies.

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

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

In three months ended 31 March 2012, Bashneft Group sold 2.5 million tonnes of petroleum products on the domestic market and exported 1.8 million tonnes of petroleum products. The Company also sold 1.2 million tonnes of crude oil, including 1.1 million tonnes of exported crude oil.

As of 31 March 2012, Bashneft Group owned 482 filling stations.

KEY FINANCIAL AND OPERATING RESULTS

	1Q	4Q		1Q	1Q	
	2012	2011	Change	2012	2011	Change
Sales revenue (US\$ million)	3,923	4,083	-3.9%	3,923	3,486	12.5%
EBITDA (US\$ million)	824	824	0.0%	824	706	16.7%
Operating profit (US\$ million)	678	671	1.0%	678	549	23.5%
Profit for the period attributable to the owners of the Company (US\$ million)	444	387	14.7%	444	370	20.0%
Net debt (US\$ million)	2,346	1,902	23.3%	2,346	2,699	-13.1%
Oil production (thousand tonnes)	3,840	3,849	-0.2%	3,840	3,680	4.3%
Oil refining (thousand tonnes)	5,120	5,333	-4.0%	5,120	4,993	2.5%

Major events in the 1st quarter of 2012 that had an impact on the performance of Bashneft Group:

- in January 2012, Bashneft Group won an auction for the right to geological exploration, prospecting, surveying and production of hydrocarbons of the Priikskiy subsoil block;
- In February 2012, Bashneft Group won an auction for the right to geological exploration, prospecting, surveying and production of hydrocarbons of the Yangareyskiy and Sabriyaginskiy subsoil blocks;
- In February 2012, Bashneft Group placed the series 04 corporate bonds.

MAIN FACTORS INFLUENCING OPERATING RESULTS

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

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

Prices for crude oil and petroleum products

Prices for crude oil and petroleum products are the main factor determining financial and, indirectly, operating results of Bashneft Group's business. The Company's ability to control prices for its products is limited, as they depend mostly on the world market conditions and on the balance of supply and demand in particular regions of Russia. A fall in prices for crude oil or petroleum products may have a negative impact on the operating results and financial position of Bashneft Group and may lead to a decrease in oil production profitability of the Group. This will result in a decline in the volume of economically effective hydrocarbon reserves of Bashneft Group and decrease of economic efficiency of geological exploration programs and geological and engineering operations.

	1Q	4Q		1Q	1Q	
	2012	2011	Change	2012	2011	Change
Prices for crude oil and petroleum products¹						
Brent crude, US\$ per barrel	118.6	109.4	8.4%	118.6	105.4	12.5%
Urals crude, US\$ per barrel	117.0	108.6	7.7%	117.0	102.2	14.5%
Fuel oil (average FOB Rotterdam/CIF NWE), US\$ per tonne	686.3	624.3	9.9%	686.3	558.4	22.9%
Diesel fuel (average FOB Rotterdam/CIF NWE), US\$ per tonne	993.6	947.3	4.9%	993.6	885.7	12.2%
Naphtha (average FOB Rotterdam/CIF NWE), US\$ per tonne	1 014.3	872.4	16.3%	1,014.3	907.5	11.8%
Vacuum gasoil (FOB NWE) (US\$ per tonne)	833.7	757.2	10.1%	833.7	726.4	14.8%
Russian market (US\$ per tonne, with excises, not including VAT)²						
Crude oil	352.6	300.1	17.5%	352.6	301.1	17.1%
Fuel oil	295.9	298.0	-0.7%	295.9	268.0	10.4%
Diesel fuel (summer gasoil)	706.3	695.8	1.5%	706.3	606.4	16.5%
Diesel fuel (winter gasoil)	811.7	821.0	-1.1%	811.7	758.7	7.0%
High-octane gasoline	766.4	787.3	-2.7%	766.4	767.1	-0.1%
Low-octane gasoline	747.7	741.4	0.8%	747.7	708.0	5.6%

¹ Source: Platts

² Source: Kortes

Rouble/dollar exchange rate and inflation

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

Moreover, the Company's financial position is influenced by changes in the consumer price index. Inflation rates influence both capital and operating expenses of the Group.

	<u>1Q</u>	<u>4Q</u>		<u>1Q</u>	<u>1Q</u>	
	2012	2011	Change	2012	2011	Change
Rouble inflation (consumer price index) during the period ³	1.5%	1.4%	0.1 p.p.	1.5%	3.8%	-2.3 p.p.
Rouble/dollar exchange rate, at the end of the period	29.3	32.2	-9.0%	29.3	28.4	3.2%
Rouble/dollar exchange rate, period average	30.3	31.2	-2.9%	30.3	29.3	3.4%

Taxation

	<u>1Q</u>	<u>4Q</u>		<u>1Q</u>	<u>1Q</u>	
	2012	2011	Change	2012	2011	Change
Mineral extraction tax (roubles per tonne)						
Crude oil	5,284	4,718	12.0%	5,284	4,090	29.2%
Export duty (US\$ per tonne)						
Crude oil	401	404	-0.7%	401	343	16.9%
Light and medium distillates	265	266	-0.4%	265	234	13.2%
Fuel oil	265	266	-0.4%	265	151	75.5%

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

³ Source: Rosstat



(roubles per tonne)	2011	1 January- 30 June, 2012	1 July - 31 December, 2012	2013	2014
Gasoline					
not corresponding to class 3, 4, 5	5,995	7,725	8,225	10,100	11,110
corresponding to class 3	5,672	7,382	7,882	9,750	10,725
corresponding to class 4	5,143	6,822	6,822	8,560	9,416
corresponding to class 5	5,143	6,822	5,143	5,143	5,657
Naphtha	6,089	7,824	7,824	9,617	10,579
Diesel fuel					
not corresponding to class 3, 4, 5	2,753	4,098	4,300	5,860	6,446
corresponding to class 3	2,485	3,814	4,300	5,860	6,446
corresponding to class 4	2,247	3,562	3,562	4,934	5,427
corresponding to class 5	2,247	3,562	2,962	4,334	4,767
Lubricants	4,681	6,072	6,072	7,509	8,260

Mineral extraction tax

Mineral extraction tax rate is calculated based on Urals world prices in dollars per barrel of crude oil and is set every month in Russian 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 are characterized by the level of depletion exceeding 80%; as a result, actual mineral extraction tax expenses for three months ended 31 March 2012 are 28% lower than the current mineral extraction tax rate.

	1Q 2012	4Q 2011	Change	1Q 2012	1Q 2011	Change
Mineral extraction tax						
Current mineral extraction tax rates (US\$ per barrel)	23.9	20.7	15.5%	23.9	19.1	25.1%
Actual mineral extraction tax expenses (US\$ per barrel)	17.1	16.1	6.2%	17.1	14.1	21.3%

OPERATING RESULTS

Production

	1Q	4Q		1Q	1Q	
	2012	2011	Change	2012	2011	Change
Crude oil production(thousand tonnes)	3,840	3,849	-0.2%	3,840	3,680	4.3%
Daily average production of crude oil (thousand barrels per day)	308.0	305.4	0.9%	308.0	298.5	3.2%

An increase in crude oil production in the 1st quarter of 2012 as compared to the 1st quarter of 2011 is due to improved efficiency of production drilling and the use of enhanced oil recovery techniques in 2011.

In the 4th quarter of 2011, crude oil production reached a plateau and remained at the level of 3.8 million tonnes in the 1st quarter of 2012.

Refining

	1Q	4Q		1Q	1Q	
(thousand tonnes)	2012	2011	Change	2012	2011	Change
Crude oil refining	5,120	5,333	-4.0%	5,120	4,993	2.5%
Production of petroleum products						
Gasolines (including SNG)*	1,201	1,320	-9.0%	1,201	1,196	0.4%
Diesel fuel	1,777	1,853	-4.1%	1,777	1,823	-2.5%
Fuel oil	765	804	-4.9%	765	554	38.1%
Vacuum gas oil	320	408	-21.6%	320	323	-0.9%
Other	506	553	-8.5%	506	527	-4.0%
Total production of petroleum products	4,569	4,938	-7.5%	4,569	4,423	3.3%
Refining depth (%)	84.3%	83.2%	1.1 p.p.	84.3%	86.8%	-2.5 p.p.
Share of light products (%)	59.9%	61.4%	-1.5 p.p.	59.9%	61.6%	-1.7 p.p.

* Stable natural gasoline

In the 1st quarter of 2012, crude oil refining amounted to 5,120 thousand tonnes, having decreased by 4.0% as compared to the crude oil refining in the 4th quarter of 2011; this was caused by a seasonal decline in domestic demand for petroleum products.



FINANCIAL RESULTS

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME FOR THE THREE MONTHS ENDED 31 MARCH 2012

(US\$ million)	Q1 2012	Q4 2011	Change	Q1 2012	Q1 2011	Change
Revenue						
Crude oil sales	926	778	19.0%	926	737	25.6%
Petroleum products and petrochemicals sales	2,869	3,211	-10.7%	2,869	2,653	8.1%
Other sales	128	94	36.2%	128	96	33.3%
Total revenue	3,923	4,083	-3.9%	3,923	3,486	12.5%
Operating expenses						
Export duties and excises	1,000	1,013	-1.3%	1,000	833	20.0%
Cost of purchased crude oil, gas and petroleum products	974	969	0.5%	974	850	14.6%
Taxes other than income tax	538	509	5.7%	538	466	15.5%
Production and operating expenses	367	462	-20.6%	367	338	8.6%
Transportation expenses	179	187	-4.3%	179	164	9.1%
Depletion and depreciation	146	153	-4.6%	146	157	-7.0%
Selling, general and administrative expenses	101	90	12.2%	101	128	-21.1%
Exploration expenses	6	12	-50.0%	6	-	n/a
Other operating expenses (income), net	-66	17	n/a	-66	1	n/a
Total costs and expenses	3,245	3,412	-4.9%	3,245	2,937	10.5%
Operating profit	678	671	1.0%	678	549	23.5%
Other (expenses)/ income						
Financial costs	-94	-154	-39.0%	-94	-118	-20.3%
Financial income	36	24	50.0%	36	14	157.1%
Foreign exchange gains/losses, net	1	-11	-109.1%	1	-58	-101.7%
Share of profit of associates	12	12	0.0%	12	22	-45.5%
Total other expenses	-45	-129	-65.1%	-45	-140	-67.9%
Income before tax	633	542	16.8%	633	409	54.8%
Income tax	-136	-167	-18.6%	-136	-69	97.1%
Profit for the period from continuing operations	497	375	32.5%	497	340	46.2%
Profit for the period from discontinued operations	-	-	-	-	94	n/a
Profit for the period	497	375	32.5%	497	434	14.5%
(Profit)/loss for the period attributable to non-controlling interests	-53	12	n/a	-53	-64	-17.2%
Profit for the period attributable to owners of the parent company	444	387	14.7%	444	370	20.0%

CONSOLIDATED STATEMENT OF FINANCIAL POSITION AT 31 MARCH 2012

(US\$ million)	31 March 2012	31 December 2011	Change
ASSETS			
<i>Non-current assets</i>			
Property, plant and equipment	8,622	7,882	9.4%
Advances paid for acquisition of property, plant and equipment	51	51	0.0%
Intangible assets	50	47	6.4%
Financial assets	302	321	-5.9%
Investments in associates and joint ventures	1,041	938	11.0%
Long-term inventories	66	62	6.5%
Other non-current assets	4	3	33.3%
Total non-current assets	10,136	9,304	8.9%
<i>Current assets</i>			
Inventories	1,020	748	36.4%
Financial assets	2,494	1,073	132.4%
Trade and other receivables	786	509	54.4%
Advances to suppliers and prepaid expenses	198	158	25.3%
Income tax prepaid	33	13	153.8%
Other refundable taxes	1,024	886	15.6%
Cash and cash equivalents	466	881	-47.1%
Other current assets	-	1	n/a
Total current assets	6,021	4,269	41.0%
TOTAL ASSETS	16,157	13,573	19.0%
<i>Capital and reserves</i>			
Share capital	77	77	0.0%
Treasury shares	-464	-464	0.0%
Additional paid-in capital	1,160	1,160	0.0%
Foreign currency translation reserve	-16	-575	-97.2%
Retained earnings	5,856	5,412	8.2%
Equity attributable to owners of the Company	6,613	5,610	17.9%
Non-controlling interests	1,632	1,438	13.5%
Total capital and reserves	8,245	7,048	17.0%
<i>Non-current liabilities</i>			
Borrowings	3,869	2,965	30.5%
Decommissioning provision	332	295	12.5%
Deferred taxes payable	1,078	947	13.8%
Other non-current liabilities	28	24	16.7%
Total non-current liabilities	5,307	4,231	25.4%



Current liabilities

Borrowings	575	420	36.9%
Trade and other accounts payable	943	726	29.9%
Dividends payable	8	8	0.0%
Advances received	409	531	-23.0%
Provisions	32	101	-68.3%
Income taxes payable	44	42	4.8%
Other taxes payable	594	466	27.5%
Total current liabilities	2,605	2,294	13.6%
TOTAL LIABILITIES	7,912	6,525	21.3%
TOTAL EQUITY AND LIABILITIES	16,157	13,573	19.0%



**CONSOLIDATED STATEMENT OF CASH FLOW FOR THE THREE MONTHS ENDED
31 MARCH 2012**

(US\$ million)	3 months ended		Change
	31 March 2012	31 March 2011	
OPERATING ACTIVITIES			
Profit before tax from continuing and discontinued operations	633	528	19.9%
Adjustments ⁴ :			
Depletion and depreciation	146	188	-22.3%
Loss on disposal and impairment of property, plant and equipment	10	3	233.3%
Financial income	-36	-14	157.1%
Financial costs	94	118	-20.3%
Share of profit of associates	-12	-22	-45.5%
Foreign exchange gains/losses, net	-9	58	-115.5%
Change in provisions	-77	-6	1,183.3%
Other	6	-	n/a
Operating cash flow before working capital changes	755	853	-11.5%
Movements in working capital:			
Inventories	-180	-186	-3.2%
Trade and other receivables	-201	-355	-43.4%
Advances to suppliers and prepaid expenses	-24	-5	380.0%
Other taxes refundable	-51	-119	-57.1%
Trade and other payables	150	180	-16.7%
Advances received	-168	-215	-21.9%
Other taxes payable	85	198	-57.1%
Cash generated from operations	366	351	4.3%
Interest paid	-62	-65	-4.6%
Income tax paid	-118	-105	12.4%
Net cash flow generated from operating activities	186	181	2.8%
INVESTING ACTIVITIES			
Purchase of property, plant and equipment	-162	-174	-6.9%
Payments for acquisition of financial assets less proceeds from disposal	-1,245	-153	713.7%
Other	7	-6	-216.7%
Net cash used in investing activities	-1,400	-333	320.4%

⁴ Both for continuing and discontinued operations.



FINANCING ACTIVITIES

Proceeds from borrowings	737	608	21.2%
Repayments of borrowings	-4	-617	-99.4%
Dividends paid by the Company	-1	-74	-98.6%
Net cash generated from/(used in) financing activities	732	-83	-981.9%
Net decrease in cash and cash equivalents	-482	-235	105.1%
Cash and cash equivalents at beginning of period	881	1,067	-17.4%
Effect of translating reporting currency to presentation currency and exchange rate changes on the balance of cash and cash equivalents held in foreign currencies	67	41	63.4%
Cash and cash equivalents at end of period	466	873	-46.6%



REVENUE

Revenue of Bashneft Group in the 1st quarter of 2012 totalled US\$ 3,923 million, which is 3.9% less than in the 4th quarter of 2011. The decrease in revenue was mainly caused by a decrease in sales of petroleum products.

Revenue increased by 12.5% as compared to the 1st quarter of 2011.

(US\$ million)	4Q			1Q		
	2012	2011	Change	2012	2011	Change
Revenue						
Export sales of crude oil	872	698	24.9%	872	653	33.5%
Domestic sales of crude oil	54	80	-32.5%	54	84	-35.7%
Total sales of crude oil	926	778	19.0%	926	737	25.6%
Export sales of petroleum products and petrochemicals outside the CIS	860	899	-4.3%	860	1,257	-31.6%
Export sales of petroleum products and petrochemicals to CIS countries	484	491	-1.4%	484	269	79.9%
Domestic sales of petroleum products and petrochemicals	1,525	1,821	-16.3%	1,525	1,127	35.3%
<i>wholesale</i>	1,247	1,521	-18.0%	1,247	1,006	24.0%
<i>retail</i>	278	300	-7.3%	278	121	129.8%
Total sales of petroleum products and petrochemicals	2,869	3,211	-10.7%	2,869	2,653	8.1%
Other sales	128	94	36.2%	128	96	33.3%
Total revenue	3,923	4,083	-3.9%	3,923	3,486	12.5%

(thousand tonnes)	4Q			1Q		
	2012	2011	Change	2012	2011	Change
Sales volumes						
Export sales of crude oil	1,060	900	17.8%	1,060	900	17.8%
Domestic sales of crude oil	146	255	-42.7%	146	255	-42.7%
Total sales of crude oil	1,206	1,155	4.4%	1,206	1,155	4.4%
Export sales of petroleum products and petrochemicals outside the CIS	1,063	1,292	-17.7%	1,063	1,644	-35.3%
Export sales of petroleum products and petrochemicals to CIS countries	741	744	-0.4%	741	474	56.3%
Domestic sales of petroleum products and petrochemicals	2,533	2,764	-8.4%	2,533	2,149	17.9%
<i>wholesale</i>	2,242	2,450	-8.5%	2,242	2,012	11.4%
<i>retail</i>	291	314	-7.3%	291	137	112.4%
Total sales of petroleum products and petrochemicals	4,337	4,800	-9.6%	4,337	4,267	1.6%
Total sales of crude oil, petroleum products and petrochemicals	5,543	5,955	-6.9%	5,543	5,422	2.2%



Export and domestic sales of crude oil

Revenue from export sales of crude oil in the 1st quarter of 2012 totalled US\$ 872 million, which is 24.9% higher than in the 4th quarter of 2011 and 33.5% higher than in the 1st quarter of 2011. The growth of revenue was mainly due to the growth of export sales volumes of crude oil by 17.8% and 17.8% in the 1st quarter of 2012 as compared to the 4th and the 1st quarters of 2011 respectively. The growth of revenue was also caused by an increase in crude oil prices in the 1st quarter of 2012 as compared to the 4th and the 1st quarters of 2011.

In the 1st quarter of 2012, revenue from domestic sales of crude oil amounted to US\$ 54 million compared with US\$ 80 million in the 4th quarter of 2011 and US\$ 84 million in the 1st quarter of 2011.

Export sales of petroleum products and petrochemicals

(thousand tonnes)	4Q			1Q		
	2012	2011	Change	2012	2011	Change
Diesel fuel	1,069	1,228	-12.9%	1,069	1,296	-17.5%
Vacuum gas oil	320	408	-21.6%	320	328	-2.4%
Fuel oil	168	300	-44.0%	168	131	28.2%
Naphtha	46	55	-16.4%	46	93	-50.5%
High-octane gasoline	149	-	n/a	149	233	-36.1%
Other	10	25	-60.0%	10	18	-44.4%
Total sales of petroleum products	1,762	2,016	-12.6%	1,762	2,099	-16.1%
Petrochemicals sales	42	20	110.0%	42	19	121.1%
Total sales of petroleum products and petrochemicals	1,804	2,036	-11.4%	1,804	2,118	-14.8%

Export sales of petroleum products and petrochemicals outside the CIS

Revenue from export sales of petroleum products and petrochemicals outside the CIS in the 1st quarter of 2012 totalled US\$ 860 million, which is 4.3% less than in the 4th quarter of 2011.

The decrease in the volume of petroleum product and petrochemicals exports amounted to 17.7% (1,063 thousand tonnes in the 1st quarter of 2012 compared to 1,292 thousand tonnes in the 4th quarter of 2011), which is primarily due to a seasonal decline in demand for petroleum products, as well as to limited sea traffic. The decrease in sales volume was partially offset by an increase in world prices.

In the 1st quarter of 2012, revenue from sales of petroleum products and petrochemicals decreased by 31.6% compared to the 1st quarter of 2011. The decrease is primarily due to a decrease in the volume of petroleum products and petrochemicals exports by 35.3%, which was caused by the shift of focus from export outside the CIS to sales to the CIS countries and domestic sales.

Export sales of petroleum products and petrochemicals to CIS markets

Revenue from export sales of petroleum products and petrochemicals to CIS countries in the 1st quarter of 2012 amounted to US\$ 484 million, which is 1.4% less than in the 4th quarter of 2011.



Revenue from export sales of petroleum products and petrochemicals to CIS countries increased by 79.9% compared to the 1st quarter of 2011. The growth of revenue was primarily caused by a 56.3% increase in sales volume in the 1st quarter of 2012 due to the shift of focus from export outside the CIS to sales in the CIS countries and an increase in prices of petroleum products.

Domestic sales of petroleum products and petrochemicals

(thousand tonnes)	1Q			1Q		
	2012	2011	Change	2012	2011	Change
High-octane gasoline	950	1,049	-9.4%	950	779	22.0%
Diesel fuel	527	575	-8.3%	527	385	36.9%
Fuel oil	538	549	-2.0%	538	447	20.4%
Low-octane gasoline	43	115	-62.6%	43	45	-4.4%
Other	397	369	7.6%	397	412	-3.6%
Total sales of petroleum products	2,455	2,657	-7.6%	2,455	2,068	18.7%
Petrochemicals sales	78	107	-27.1%	78	81	-3.7%
Total sales of petroleum products and petrochemicals	2,533	2,764	-8.4%	2,533	2,149	17.9%

Revenue from domestic sales of petroleum products and petrochemicals in the 1st quarter of 2012 amounted to US \$ 1,525 million, which was 16.3% less than in the 4 quarter of 2011.

In the 1st quarter of 2012, the Group sold 2,533 thousand tonnes of petroleum products and petrochemicals on the domestic market. The wholesale market accounted for 2,242 thousand tonnes, which is 8.5% less than in the 4 quarter of 2011.

Revenue from wholesale of petroleum products and petrochemicals on the domestic market totalled US\$ 1,247 million in the 1st quarter of 2012, which is 18.0% less than in the 4th quarter of 2011. The decrease in wholesales was related to a seasonal decline in demand for petroleum products, as well as to a fall in wholesale prices.

Revenue from retail sales of petroleum products totalled US\$ 278 million in the 1st quarter of 2012, which is 7.3% less than in the 4 quarter of 2011. Retail sales of petroleum products in the 1st quarter of 2012 amounted to 291 thousand tonnes, which is 7.3% less than in the 4th quarter of 2011. This drop in sales volumes resulted from a seasonal decline in demand.

Revenue from domestic sales of petroleum products and petrochemicals increased by 35.3% compared to the 1st quarter of 2011. The growth of revenue from domestic sales of petroleum products and petrochemicals is related to both a 17.9% increase in domestic sales volume and an increase in prices.

Revenue from wholesales of petroleum products and petrochemicals on the domestic market increased by 24.0% compared to the 1st quarter of 2011.

Revenue growth is primarily related to both a 11.4% increase in domestic sales volume due to the shift of focus from export outside the CIS to sales in the CIS countries, and an increase in prices.

Revenue from retail sales of petroleum products increased by 129.8% compared to the 1st quarter of 2011. The growth of revenue from retail sales in the 1st quarter of 2012 was mainly



related to 112.4% increase in sales volume due to the acquisition of OJSC Orenburgnefteprodukt and consolidation of the BN-Nefteproduct Group in 2011.

Other sales

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

In the 1st quarter of 2012, other revenue increased by 36.2% and 33.3% respectively, in comparison to the 4th and 1st quarters of 2011, and reached US\$ 128 million, primarily due to capital services provided by LLC Bashneft-Polyus in the 1st quarter of 2012.



COSTS AND EXPENSES

Production and operating expenses

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

(US\$ million)	1Q		Change	1Q		Change
	2012	2011		2012	2011	
Production and operating expenses						
Production	177	183	-3.3%	177	175	1.1%
Refining	169	243	-30.5%	169	183	-7.7%
Other	21	36	-41.7%	21	-20	n/a
Total production and operating expenses	367	462	-20.6%	367	338	8.6%

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

	1Q		Change	1Q		Change
	2012	2011		2012	2011	
Crude oil production expenses (US\$ million)	177	183	-3.3%	177	175	1.1%
Unit costs for production of crude oil (US\$ per barrel)	6.3	6.5	-3.1%	6.3	6.5	-3.1%

In the 1st quarter of 2012, unit costs for production of crude oil declined by 3.1% compared to the 4th quarter of 2011 and amounted to US\$ 6.3 per barrel. This is mainly related to a decrease in electricity costs after the Group established its own power supply company and switched over to direct wholesale purchases of electric power, as well as to a seasonal decline in well service costs.

Unit costs for production of crude oil declined by 3.1% compared to the 1st quarter of 2011, which was due to the weakening of the rouble against the US dollar.

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

	1Q		Change	1Q		Change
	2012	2011		2012	2011	
Refining expenses (US\$ million)	169	243	-30.5%	169	183	-7.7%
Unit refining costs (US\$ per barrel)	4.5	6.2	-27.4%	4.5	5.0	-10.0%

Unit refining costs declined by 27.4% and amounted to US\$ 4.5 per barrel in the 1st quarter of 2012 compared to the 4th quarter of 2011.



This decline was due to a decline in repair work in the 1st quarter of 2012 compared to the 4th quarter of 2011, as well as to decrease in electricity costs after the Group established its own power supply company and switched over to direct wholesale purchases of electric power.

Unit refining costs declined by 10.0% compared to the 1st quarter of 2011 and amounted to US\$ 4.5 per barrel. This decline was related to the weakening of the rouble against the US dollar, as well as to a decrease in electricity costs after the Group established its own power supply company and switched over to direct wholesale purchases of electric power.

Cost of purchased crude oil, gas and petroleum products

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

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

(Thousand tonnes)	1Q	4Q	Change	1Q	1Q	Change
	2012	2011		2012	2011	
Purchased crude oil, gas, and gas condensate	2,307	2,573	-10.3%	2,307	2,362	-2.3%
Purchased petroleum products	45	118	-61.9%	45	-	n/a
Total	2,352	2,691	-12.6%	2,352	2,362	-0.4%

In the 1st quarter of 2012, the cost of purchased crude oil, gas and petroleum products increased by 0.5% to US\$ 974 million. This was caused by an increase in purchase prices of crude oil. This growth was partially offset by a reduction of volume of purchased crude oil, gas, and gas condensate in the 1st quarter of 2012 due to a decline in refining volume and a decrease in the volumes of petroleum products purchased by OJSC Orenburgnefteprodukt and BN-Nefteprodukt Group from third-party suppliers due to seasonal decline in demand for petroleum products.

The cost of purchased crude oil, gas and petroleum products increased by 14.6% compared to the 1st quarter of 2011. This resulted from an increase in purchase prices of crude oil, gas, and gas condensate in the 1st quarter of 2012, as well as from the acquisition of OJSC Orenburgnefteprodukt and the consolidation of the BN-Nefteprodukt Group in 2011. This growth was partially offset by a decrease in purchased crude oil volume in the 1st quarter of 2012.

Transportation costs

In the 1st quarter of 2012, transportation costs of Bashneft Group decreased by 4.3% to US\$ 179 million compared to US\$ 187 million in the 4 quarter of 2011 mainly due to a decline in export sales of petroleum products outside the CIS. This was partially offset by a rise in transportation tariffs.

In the 1st quarter of 2012, transportation costs of Bashneft Group increased by 9.1% to US\$ 179 million compared to US\$ 164 million in the 1st quarter of 2011. The increase in transportation costs was caused by a rise in transportation tariffs.



Depletion and depreciation

(US\$ million)	1Q	4Q	Change	1Q	1Q	Change
	2012	2011		2012	2011	
Depletion and depreciation						
Exploration and production	64	71	-9.9%	64	52	23.1%
Refining	73	75	-2.7%	73	101	-27.7%
Other	9	7	28.6%	9	4	125.0%
Total depletion and depreciation	146	153	-4.6%	146	157	-7.0%

Depletion and depreciation costs in the 1st quarter of 2012 amounted to US\$ 146 million compared to US\$ 153 million in the 4th quarter of 2011 and US\$ 157 million in the 1st quarter of 2011.

A decrease in depletion and depreciation in the exploration and production segment was due to the review of the estimate of the Group's hydrocarbon reserves as of 31 December 2011.

Taxes other than income tax

(US\$ million)	1Q	4Q	Change	1Q	1Q	Change
	2012	2011		2012	2011	
Taxes other than income tax						
Mineral extraction tax	458	451	1.6%	458	379	20.8%
Social taxes	59	39	51.3%	59	67	-11.9%
Property tax	15	13	15.4%	15	14	7.1%
Other	6	6	0.0%	6	6	0.0%
Taxes other than income tax	538	509	5.7%	538	466	15.5%

In the 1st quarter of 2012, tax expenses other than income tax increased by 5.7% compared to the 4th quarter of 2011 and totalled US\$ 538 million. This happened mainly due to an increase in the amount of social taxes.

Tax expenses other than income tax increased by 15.5% compared to the 1st quarter of 2011 mainly due to the growth of mineral extraction tax rate. This increase was partially offset by a decline in social tax rate from 34% in 2011 to 30% in 2012.

Export duties and excises

(US\$ million)	1Q	4Q	Change	1Q	1Q	Change
	2012	2011		2012	2011	
Export duties on crude oil	422	365	15.6%	422	309	36.6%
Export duties on petroleum products	295	397	-25.7%	295	325	-9.2%
Excises	283	251	12.7%	283	199	42.2%
Total export duties and excises	1,000	1,013	-1.3%	1,000	833	20.0%

In the 1st quarter, the total amount of export duties on crude oil and petroleum products decreased by 5.9% compared to the 4th quarter of 2011 to US\$ 717 million. This happened due to a decrease in volumes of export sales of petroleum products outside the CIS, as well as to CIS countries outside the Customs Union. The decline was partially offset by a growth in export sales volumes of crude oil.

In the 1st quarter, the total amount of excises increased by 12.7% compared to the 4th quarter of 2011 and amounted to US\$ 283 million due to the growth of excises in 2012. This growth was partially offset by a decrease in refining volumes.

The total amount of export duties on crude oil and petroleum products increased by 13.1% compared to the 1st quarter of 2011 due to the growth of export duties on crude oil and petroleum products. This increase was partially offset by decline in volumes in export sales of petroleum products.

The total amount of excises increased by 42.2% compared to the 1st quarter of 2011 due to the growth of excises in 2012.

CASH FLOW

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

(US\$ million)	1Q		Change	1Q		Change
	2012	4Q 2011		2012	1Q 2011	
Cash flow						
Cash flow generated from operating activities	186	681	-72.7%	186	181	2.8%
Cash used in investing activities	-1,400	-247	466.8%	-1,400	-333	320.4%
Cash generated from/ (used in) financing activities	732	46	n/a	732	-83	n/a

Net cash flow generated from operating activities:

(US\$ million)	1Q		Change	1Q		Change
	2012	4Q 2011		2012	1Q 2011	
Operating cash flow before working capital changes	755	837	-9.8%	755	853	-11.5%
Movements in working capital	-389	138	n/a	-389	-502	-22.5%
Interest paid	-62	-195	-68.2%	-62	-65	-4.6%
Income tax paid	-118	-99	19.2%	-118	-105	12.4%
Total net cash flow generated from operating activities	186	681	-72.7%	186	181	2.8%

Net cash flow generated from operating activities in the 1st quarter of 2012 decreased by 72.7% compared to the 4th quarter of 2011 to US\$ 186 million. The main reasons for the decrease in net cash flow from operating activities in the 1st quarter of 2012 included a decrease in advances received and an increase in accounts receivable for exports of crude oil, as well as seasonal increase in the stock of petroleum products.



Net cash flow generated from operating activities increased by 2.8% compared to the 1st quarter of 2011.

Net cash used in investing activities:

(US\$ million)	1Q			1Q		
	2012	2011	Change	2012	2011	Change
Capital expenditures	-162	-256	-36.7%	-162	-174	-6.9%
Payments for acquisition of financial assets less proceeds from disposal	-1,245	5	n/a	-1,245	-153	713.7%
Other	7	4	75.0%	7	-6	-216.7%
Total net cash used in investing activities	-1,400	-247	466.8%	-1,400	-333	320.4%

Net cash used in investing activities in the 1st quarter of 2012 amounted to US\$ 1,400 million and increased by 466.8% compared to the 4th quarter of 2011 and to 320.4% compared to the 1st quarter of 2011. The amount of net cash used in investing activities in the 1st quarter of 2012 increased mainly because free cash was credited to deposit accounts.

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

(US\$ million)	1Q			1Q		
	2012	2011	Change	2012	2011	Change
Proceeds from borrowings	737	2,099	-64.9%	737	608	21.2%
Repayments of borrowings	-4	-2,053	-99.8%	-4	-617	-99.4%
Total issue and repayment of debt:	733	46	n/a	733	-9	n/a
Dividends paid by the Company	-1	-	-100.0%	-1	-74	-98.6%
Total net cash (used in)/generated from financing activities	732	46	n/a	732	-83	n/a

FINANCING AND DEBT

(US\$ million)	31		Change	31		Change
	March	December		March	March	
Net debt calculation						
Short-term borrowings	575	420	36.9%	575	833	-31.0%
Long-term borrowings	3,869	2,965	30.5%	3,869	3,341	15.8%
Total debt	4,444	3,385	31.3%	4,444	4,174	6.5%
Cash and equivalents	-466	-881	-47.1%	-466	-873	-46.6%
Short-term financial investments	-1,632	-602	171.1%	-1,632	-602	171.1%
Adjusted net debt	2,346	1,902	23.3%	2,346	2,699	-13.1%



As of 31 March 2012, the Group's total debt in the form of short-term and long-term borrowings totalled US\$ 4,444 million compared to US\$ 3,385 million as of 31 December 2011.

The major part of the short-term borrowings is comprised of the interest-bearing non-convertible rouble bonds issued in December 2009. From the date of issue to December 21, 2012, the annual coupon rate of the bonds equals 12.5%; the coupon is paid twice a year. The next revision of the coupon rate will take place in December 2012, at which point the bondholders have the right to redeem the bonds at par value. In order to optimize the debt portfolio, in the 4th quarter of 2011, the Group exercised its right for early redemption of the bonds issued in 2009, which resulted in the redemption of the bonds in the amount of US\$ 1,375 million.

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

The annual weighted average interest rate amounted to 8.6% as of 31 March 2012.

CAPITAL EXPENDITURES

(US\$ million)	1Q 2012	4Q 2011	Change	1Q 2012	1Q 2011	Change
Capital expenditures						
Exploration and production	84	147	-42.9%	84	95	-11.6%
Refining	76	106	-28.3%	76	50	52.0%
Other	2	3	-33.3%	2	29	-93.1%
Total cash used in capital expenditures	162	256	-36.7%	162	174	-6.9%

In the 1st quarter of 2012, capital expenditures decreased by 36.7% compared to the 4th quarter of 2011 to US\$ 162 million mainly due to a seasonal decline in repair work and upgrading at the Company's refineries and a decline in drilling.

In the 1st quarter of 2012, CAPEX decreased by 6.9% compared to the 1st quarter of 2011 mainly due to the deconsolidation of OJSC Bashkirenergo on May 5, 2011, as well as to a decrease in CAPEX in exploration and production. This decrease was partially offset by a growth in CAPEX in refining due to implementation of the programmes, launched in 2011.

MAIN EVENTS SINCE THE BALANCE SHEET DATE

Assigning of credit rating

In April 2012 International rating agency Moody's Investors Service assigned a Ba2 corporate family rating and probability of default rating to the Company.

In May 2012 International rating agency Fitch assigned the Company Long-term foreign and local currency Issuer Default Ratings of 'BB' and a National Long-term rating of 'AA-(rus)' and also Short-term foreign and local currency IDRs of 'B'. Also Agency assigned foreign and local currency senior unsecured ratings of 'BB', and a national senior unsecured rating of 'AA-(rus)' to its RUB-denominated domestic bonds.

Reorganization of JSOC Bashneft

On 27 April 2012 The Extraordinary General Meeting of Shareholders of JSOC Bashneft was convened where the decision was made to reorganize the Company through legal merger of its subsidiaries, OJSC Bashkirnefteprodukt, OJSC Ufaneftekhim, OJSC Orenburgnefteprodukt, OJSC Ufimsky refinery plant and OJSC Novoil, with Bashneft and the Agreement on legal merger was approved.

License on Trebs and Titov oilfields

In May 2012 the Federal Subsoil Resources Management Agency has canceled the order to transfer the development license for a subsoil area including the Trebs and Titov oilfields located the Nenets Autonomous District from JSOC Bashneft to LLC Bashneft-Polyus (joint venture of the Company and OJSC Lukoil), as a result that license was returned to JSOC Bashneft.

