

BASHNEFT

KEYS TO BUSINESS EFFICIENCY

ANNUAL REPORT · 2011

BASHNEFT

ANNUAL REPORT

2011

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ADDRESS BY THE CHAIRMAN OF THE BOARD OF DIRECTORS OF BASHNEFT



ALEXANDER GONCHARUK

- CHAIRMAN OF JSOC BASHNEFT'S BOARD OF DIRECTORS
- CHAIRMAN OF THE NOMINATING AND COMPENSATION COMMITTEE
- MEMBER OF THE STRATEGY COMMITTEE

DEAR SHAREHOLDERS!

I'm proud to present you the Annual Report for 2011. This year not only saw the final steps of Bashneft's progress towards becoming a vertically integrated company, but was also one of the Group's most successful periods in terms of financial and operating performance.

In 2011, the Group became the Russian leader in terms of oil production growth, having produced 15.1 million tonnes, the highest volume in 14 years. Refining volumes exceeded 21 million tonnes. Bashneft Group significantly strengthened its presence in the retail market and began the implementation of the large-scale Trebs and Titov oilfield development project. But the most important achievement of the last year was that the Group considerably increased its operational efficiency in all key businesses.

Bashneft Group's strong operating results directly influenced its financial performance. In 2011, net income under International Financial Reporting Standards amounted to almost US\$1.7 billion, which is 18.7% more than in 2010. Understanding that it is crucial to ensure the participation of the shareholders in the Group's profit, the Board of Directors recommended that the Annual General Meeting of Shareholders approve for 2011 a dividend of 99 roubles per ordinary share and per preferred share.

I am fully convinced that the intellectual, organizational and financial potential of Bashneft Group will enable it to achieve even more ambitious goals. They are set forth in the Group's Development Strat-

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egy until 2016, approved by the Board of Directors in December 2011, which is aimed at increasing Bashneft Group's value through increasing production and building up reserves, upgrading oil refineries and developing the retail network.

Consolidation of the Group's subsidiaries scheduled to be completed in 2012 will significantly contribute to Bashneft Group's investment attractiveness. The integration of subsidiaries is aimed at increasing the liquidity of the shares of JSOC Bashneft and will improve the Group's structure in order to increase the transparency of its operations and the efficiency of investments.

The reorganization provided tens of thousands of the subsidiaries' minority shareholders with an opportunity to acquire more liquid shares of JSOC Bashneft and to benefit from the financial performance of the entire Group. But the most important aspect of the reorganization is that it is based on maximum transparency and absolute respect for the rights of all shareholders.

A responsible approach to all operational aspects without exception is a distinctive feature of our Group. JSOC Bashneft's Board of Directors prioritizes issues related to improving corporate governance and implementing the principles of sustainable development in the Group's operations. In 2011, the Board of Directors approved the Anti-corruption Policy, the Code of Ethics and the Code of Corporate Conduct.

Considering life and health of employees to be the top priority, in 2011, the Board

of Directors approved a Health, Safety and Environment Strategy and carefully monitors its implementation. In the next five years, Bashneft Group will invest over 16 billion roubles in HSE.

As a responsible corporate citizen, Bashneft Group, together with its main shareholder, JSFC Sistema, continues the implementation of charity programmes aimed at improving social infrastructure and developing culture, education and sports in all operating regions. For example, in 2011, our social investments in our key operating region, the Republic of Bashkortostan, amounted to 1.5 billion roubles.

Our excellent team, comprising the best industry professionals, is a guarantee of the Group's current and future success. I am convinced that this is Bashneft Group's main competitive advantage that will enable us to achieve a leading position in the Russian oil and gas industry.

CHAIRMAN OF JSOC BASHNEFT'S
BOARD OF DIRECTORS
A.Y. GONCHARUK

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ADDRESS BY THE PRESIDENT OF BASHNEFT



ALEXANDER KORSIK

· PRESIDENT OF JSOC BASHNEFT

· CHAIRMAN OF JSOC
BASHNEFT'S MANAGEMENT
BOARD

DEAR SHAREHOLDERS!

EFFICIENT GROWTH, READINESS FOR TRANSFORMATION AND A COMPETENT TEAM: these are keys to business efficiency. Looking back at 2011, we can proudly say that this formula proved to be the basis of Bashneft's successful operations in this year.

In 2011, we not only set new production and financial records, but reached an entirely new level of development that significantly increased the efficiency of all our businesses.

We reached the optimum **PRODUCTION VOLUME** of 15 million tonnes per year at our oil and gas fields under development ahead of schedule. In 2011, oil production increased by 7%. Using state-of-the-art technologies, we continued to expand our resource base. As of the end of the year, the Group's proved reserves under PRMS amounted to 1,983.5 million barrels, the reserve replacement ratio was 165% and the reserves-to-production ratio was 18 years. These ratios and the analysis of geological data demonstrate that the Republic of Bashkortostan, our main operating region, has a high resource potential.

However, we consistently and continuously expand our geographic footprint. At the beginning of 2011, we obtained licences for the Trebs and Titov oilfields in the Nenets Autonomous District. Production at these fields is scheduled to begin as early as 2013. Bashneft also acquired promising subsoil areas in the Timan-Pechora province, where consid-

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COMPETENCE

erable hydrocarbon reserves are likely to be discovered.

AS FOR OIL REFINING, the Group reached an optimum level in terms of quality and value of its petroleum products portfolio. The Group's refineries processed 21.1 million tonnes of oil and manufactured 19.2 million tonnes of petroleum products. We successfully continued our large-scale refinery upgrade programme aimed at increasing the quality of petroleum products and maintained Bashneft's leading position among Russian companies in terms of refinery equipment. For example, the Nelson Index of the Ufa refinery group remained at 8.3 in 2011.

IN SALES of petroleum products, our priority was to maximize the access to consumers. The number of the Group's own filling stations grew by a factor of 1.5, from 318 to 485. Retail sales volume almost doubled. Bashneft gained a secure footing in new, promising retail markets and significantly increased its geographical reach of high-quality fuel wholesale.

IN 2011, BASHNEFT'S FINANCIAL PERFORMANCE SET NEW RECORDS. Our revenue increased 1.4 times, to US\$ 16.5 billion. EBITDA increased by almost 17% and amounted to US\$ 3.2 billion. Net income growth in 2011 was almost 19%, from US\$ 1.4 billion to US\$ 1.7 billion. Operating cash flow increased by 59%, from US\$ 1.4 billion to over US\$ 2.2 billion. Our dividend policy is based on the principle of reasonable profit distribution, considering both the interests of shareholders and the Group's growth needs. In spite of an increase in capital investment by 73% to US\$ 0.85 bil-

lion, we had a positive free cash flow of US\$ 1.4 billion for 2011.

In 2011, **ACTIVE DEBT MANAGEMENT** enabled to optimize 90% of the Group's debt portfolio. We managed to reduce the weighted average interest rate by more than 2.2 p.p. to 8.7% and increase the average debt maturity.

We intend to further strengthen our positions in the debt finance market. In spring 2012, **WE WERE RATED BY LEADING INTERNATIONAL AGENCIES.** Moody's rating agency assigned a Ba2 credit rating to Bashneft, Fitch rated Bashneft at BB (with a stable outlook for both ratings).

IN 2011, WE LAID THE FOUNDATION FOR EFFICIENT GROWTH in accordance with the five-year Development Strategy approved by the Board of Directors. Our strategy serves the interests of all shareholders and is aimed at further increasing the Group's efficiency along the entire value chain.

I am convinced that Bashneft's **TEAM OF PROFESSIONALS** will succeed in achieving this ambitious goal.

PRESIDENT OF JSOC BASHNEFT
A.L.KORSIK

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COMPETENCE

SOME DEFINITIONS AND FORWARD-LOOKING STATEMENTS



In this Annual Report the terms "Bashneft", "Bashneft Group" and "the Group" in various forms refer to JSOC Bashneft and its subsidiaries and special purpose vehicles. The terms "JSOC Bashneft" and "the Company" refer to JSOC Bashneft. Unless otherwise stated, financial results presented in the Annual Report are presented and calculated on the basis of consolidated financial statements under IFRS; the operating results presented in this document are consolidated data on Bashneft Group.

Financial and operating results, as well as indices calculated on their basis, as of and for the 12 months ended December 31, 2009, include data on OJSC Bashkirenergo as a consolidated subsidiary. In May 2011, Bashneft Group relinquished control over OJSC Bashkirenergo. Financial and operating results, as well as indices calculated on their basis, as of and for the 12 months ended December 31, 2011 and 2010 do not include data on OJSC Bashkirenergo as a consolidated subsidiary; the stake of Bashneft Group in OJSC Bashkirenergo is reflected as part of investments available for sale.



Some statements in this Annual Report may contain assumptions and forecasts concerning future events within Bashneft Group. These statements may contain as the words "is expected", "is estimated", "intends", "will", "could", negations of these expressions or other similar expressions. These statements are only assumptions. Actual events and results can differ substantially from those stated. The actual performance of Bashneft Group can differ substantially from what is stated 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 related to 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. Data on reserves is based on the audit of reserves conducted by Miller and Lents, Ltd. in accordance with the international PRMS classification and using the average barrel-tonne conversion factor of 7.12.

KEY EVENTS IN 2011

FEBRUARY 2011

The Federal Subsoil Resources Management Agency (Rosnedra) grants JSOC Bashneft a licence for a subsoil area of federal significance including the R.Trebs and A.Titov oilfields. Total recoverable C1+C2 reserves of these fields recorded in the State Register of Reserves amount to 140.1 million tonnes.

An Extraordinary General Meeting of Shareholders (EGM) of JSOC Bashneft is held. A new version of the Charter of JSOC Bashneft is approved.

MARCH 2011

JSOC Bashneft publishes the results of an independent audit of oil reserves. The audit was conducted by Miller and Lents, Ltd. according to the international PRMS classification as of December 31, 2010.

JSOC Bashneft and the Government of Bashkortostan make a decision to sign an Agreement on reducing or maintaining the prices of certain types of fuels and lubricants sold to agricultural producers of the Republic of Bashkortostan in 2011. In accordance

with Government Decree No. 66 of February 11, 2011, JSOC Bashneft reduces the price of diesel fuel for agricultural consumers by 30% of its market price. Preferential prices are set for 163 agricultural producers.

Since March 2011, plastic cards for purchasing petroleum products of OJSC Bashkirnefteprodukt, a subsidiary of JSOC Bashneft, have been accepted at 1,176 filling stations in 40 regions of the Russian Federation.

APRIL 2011

JSOC Bashneft and OJSC Lukoil sign an agreement on setting up a joint venture and on the terms of the implementation of the R.Trebs and A.Titov oilfields development project.

As part of the strategy for expanding its retail and small wholesale operations, JSOC Bashneft acquires over 94% of the authorized capital of OJSC Orenburgnefteprodukt from OJSC Rusneft. OJSC Orenburgnefteprodukt is the largest regional retail company which owns 16 oil storage facilities and 95 filling stations in the Orenburg region.

The Board of Directors of JSOC Bashneft approves the restructuring and appoints Alexander Korsik, who previously was the Vice-President of OJSC JSFC Sistema and the head of the Fuel and Energy business unit, to the post of the President of the Group.

JSOC Bashneft wins the annual national competition, 'The Best Russian Companies: Development, Efficiency, Responsibility - 2010', in the category 'Social Responsibility'.

JSOC Bashneft wins the IX Annual national IT Leader award, the only Russian professional IT award. The Group was awarded for an outstanding contribution to IT development in Russia in the category 'Oil and Gas Companies'.

Bashneft Group presents its audited consolidated financial results for 2010, prepared in accordance with International Financial Reporting Standards (IFRS).

MAY 2011

In May 2011, OJSC Sistema-invest issued 28,488 additional shares, accounting for 28.49% of its own shares,

and exchanged them for 48.22% of OJSC Bashkirenergo's shares owned by JSOC Bashneft, OJSC Ufaneft-ekhim, OJSC Novoil and OJSC Ufimsky refinery plant. As a result of this operation, Bashneft Group's stake in OJSC Sistema-invest increased from 27.78% to 49.41%, and the effective stake in OJSC Bashkirenergo decreased to 23.62%. Thus, Bashneft relinquished control over OJSC Bashkirenergo's operations and reflected this investment in the investments available for sale.

The 'Big Chemistry' forum is held in Ufa. At this forum, JSOC Bashneft, a general partner of the event, presents a programme for the development of oil refining and petrochemicals.

JSOC Bashneft, the SAP CIS Company and JSC SITRONICS complete the introduction of the SAP ERP enterprise resource planning system at OJSC Ufaneft-ekhim, to be followed by the roll-out of the system at other oil refining enterprises of the holding company.

JSOC Bashneft is ranked number 9 in the Social Responsibility Rating of Russian companies by the newspaper Trud.

JANUARY

FEBRUARY

MARCH

APRIL

MAY

2011

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GROWTH

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GROWTH

KEY EVENTS IN 2011

JUNE 2011

Bashneft Group delivers the first presentation Annual Report for investors, shareholders, partners and the investment community.

JSOC Bashneft holds the Annual General Meeting of Shareholders. The Meeting makes decisions on the election of new members of the Board of Directors, profit distribution and on approval of the Regulations on Rewards and Compensation to the Members of the Board of Directors of JSOC Bashneft.

The Board of Directors of JSOC Bashneft approves the membership of the Company's Management Board.

JSOC Bashneft launches a programme for the rehabilitation of springs in the Republic of Bashkortostan.

JULY 2011

JSOC Bashneft gains control over the petroleum products business of LLC Aspec, which includes LLC Bashneft-Udmurtia and CJSC Bashneft-Region. LLC Bashneft-Udmurtia operates two oil storage facilities

and 44 modern filling station complexes that provide about 30% of the market of Udmurtia with engine fuel. CJSC Bashneft-Region specializes in small wholesale.

The Board of Directors approves the Regulations on Dividend Policy of JSOC Bashneft. The document establishes the basic approaches to developing recommendations on the amount of dividends on the Group's shares, as well as the procedure and form for dividends payments.

AUGUST 2011

JSOC Bashneft holds public consultations on preliminary results of environmental impact assessment (EIA) during the implementation of the construction project at the R.Trebs and A.Titov oilfields in the Nenets Autonomous District.

The Board of Directors of JSOC Bashneft approves the new membership of the Company's Management Board.

JSOC Bashneft completes dividend payments to shareholders for 2010. The amount of dividends for Q4 2010 per ordinary and preferred share was 131.27

roubles, in addition to 104.50 roubles per ordinary and preferred share for the nine months of 2010 paid before March 31, 2011. Thus, the total amount of dividends for 2010 paid before August 28, 2011 was 235.77 roubles per ordinary and preferred share.

Series BO-01, BO-02, BO-03, BO-04 exchange-traded bonds of JSOC Bashneft with a total par value of 30 billion roubles are included in the MICEX Stock Exchange list of securities and are admitted to trading.

JSOC Bashneft successfully closes the first transaction on raising pre-export financing in the form of a syndicated international loan amounting to US\$ 300 million secured by oil supplies.

SEPTEMBER 2011

Series 04 and 05 bonds of JSOC Bashneft with a total par value of 20 billion roubles are registered by the Federal Financial Markets Service (FFMS).

OCTOBER 2011

The Central Development Commission (CDC) of the Federal Subsoil Resources Management Agency

(Rosnedra) approves JSOC Bashneft's test production project at the R.Trebs and A.Titov oilfields prepared by BashNIPIneft Institute. The approved project outlines the basic principles of developing the oilfields at the initial stage, for the three year period from the beginning of oil extraction from production wells.

JSOC Bashneft wins the licence auction and gains the right for geological exploration, prospecting, surveying and production of hydrocarbons at three subsoil blocks in the Nenets Autonomous District: the Vostochno-Padimeyskiy, Savatinskiy and Nyarioyakhskiy blocks.

According to the tender announced on October 19, 2011, JSOC Bashneft completes the acquisition of series 01, 02 and 03 non-convertible interest-bearing certificated bonds with a par value of 1,000 roubles per bond. As a result, the Company acquired the total of 38,496,305 bonds at the price amounting to 105% of the par value. The total value of bonds amounted to 40.4 billion roubles. The Company also paid out the accumulated coupon yield amounting to 1.7 billion roubles.

JUNE

JULY

AUGUST

SEPTEMBER

OCTOBER

2011 →

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GROWTH

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GROWTH

KEY EVENTS IN 2011

NOVEMBER 2011

Gasoline of the 'Premium Euro-95' grade produced by OJSC Novoil, "summer" Euro 4 diesel fuel manufactured by OJSC Ufaneftekhim and "winter" Euro 4 diesel fuel produced by OJSC Ufimsky refinery plant are declared winners in the Technical Basic Assets Production category of the 14th All-Russian competition, '100 Best Goods of Russia'.

Shares of JSOC Bashneft are included in the list of non-listed securities admitted to trading on the MICEX Stock Exchange. Ordinary shares trade under the ticker symbol BANE and preferred shares trade under the ticker symbol BANEP.

The opening ceremony of the second stage of the Ufa Arena sports complex takes place. JSOC Bashneft is the main sponsor of its construction.

JSOC Bashneft is listed for the first time in the Platts Top 250 Global Energy Company Rankings as one of the most rapidly growing oil companies of 2011. The Group is ranked number 62 in the general rankings, number 31 among energy companies of the EMEA

region (Europe, Middle East and Africa), number 6 in the rankings of companies in the Exploration & Production sector, and number 6 in the list of the most rapidly growing energy companies in the world.

JSOC Bashneft holds an EGM. A new version of the Charter of JSOC Bashneft is approved.

DECEMBER 2011

The Board of Directors of JSOC Bashneft approves the Group's Development Strategy until 2016. It is aimed at increasing the value of JSOC Bashneft by boosting hydrocarbon production and building up oil and gas reserves, by diversifying assets, implementing an oil refinery upgrade programme, developing the Group's own filling stations network in various regions of Russia, as well as increasing the efficiency of the entire value chain.

JSOC Bashneft and OJSC Lukoil sign an agreement on the acquisition of a 25.1% stake in LLC Bashneft-Polyus (the holder of the development licence for the subsoil area that includes the R.Trebs and A.Titov oilfields) by OJSC Lukoil, as well as an agreement

on participation in a joint venture. The transaction amount totals 4.8 billion roubles. LLC Bashneft-Polyus signs an agreement on the acquisition of 29 prospecting and exploration wells at the mentioned oilfields from LLC Lukoil-Komi for US\$ 60 million.

The Federal Subsoil Resources Management Agency (Rosnedra) transfers JSOC Bashneft's development licence for the subsoil area that includes the Roman Trebs and Anatoly Titov oilfields to LLC Bashneft-Polyus.

JSOC Bashneft participates in auctions for licences for geological exploration, surveying and production of hydrocarbons in the Republic of Bashkortostan, and wins the rights for the Yelanskiy and Znamenskiy-1 subsoil blocks in the Republic of Bashkortostan.

Bashneft Group produces the 15 millionth tonne of oil since the beginning of 2011, thus exceeding the target set in the Business plan for 2011 (14.7 million tonnes), and achieves the optimal production level at the existing oilfields ahead of schedule. The Group intends to maintain such a level in the medium term.

According to CDU TEK, the Central Dispatching Department of Fuel and Energy Complex, JSOC Bashneft remains the Russian leader in terms of oil production growth in 2011 with a production growth rate of 6.8%.

JSOC Bashneft acquires a 100% stake in the LLC SKON Group of Companies which owns an oil storage facility and a network of 25 filling stations in Yekaterinburg and the Sverdlovsk Region operated under the ERGO brand name.

JSOC Bashneft places series BO-1 exchange-traded bonds with the total par value of 10 billion roubles with a put option in 2 years on the MICEX Stock Exchange. The series BO-1 exchange-traded bonds have a maturity period of 3 years from the beginning of placement.

Bashneft Group commissions the corporate Data Processing Center (DPC) which will consolidate information resources in all of the Group's operating regions and will become the centre of its IT infrastructure.

NOVEMBER

DECEMBER

2011 →

→ 2012

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GROWTH

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GROWTH

KEY EVENTS IN 2012

IMPORTANT CORPORATE EVENTS AFTER THE REPORTING DATE

JANUARY 2012

The Board of Directors approves the Standard on Credit Policy of JSOC Bashneft in order to improve corporate governance and increase the transparency of decision-making process on the issues of debt and cash management.

FEBRUARY 2012

JSOC Bashneft publishes the results of the independent audit of oil reserves. The audit was conducted by Miller and Lents, Ltd. according to the international PRMS classification as of December 31, 2011. The Group's proved reserves increased by 3.8% to 1,983.5 million barrels. The Group's reserves-to-production ratio amounts to 18 years.

Bashneft wins the auction for the licences for geological surveying, exploration and production of hydrocarbons at the Yangareyskiy and Sibiryaginsky subsoil blocks in the north-eastern part of the Nenets Autonomous District. The auctions were held by the Department of Subsoil Use of the Nenets Autonomous District (NAOnedra).

As part of the programme of retail network development and the introduction of a new corporate style of JSOC Bashneft, the Board of Directors approves the concept of exterior design of filling stations and the schedule for the rebranding of Bashneft's filling stations. In 2012-2015, the Group's investments in the filling station rebranding programme are expected to total about 3.7 billion roubles.

JSOC Bashneft places series 04 certificated interest-bearing non-convertible bearer bonds with the total par value of 10 billion roubles. The series 04 bonds have a maturity period of 10 years and a put option in 3 years.

MARCH 2012

JSOC Bashneft announces the beginning of the programme for reorganization through legal merger of its subsidiaries, OJSC Ufimsky refinery plant, OJSC Novoil (JSC Novo-Ufimsky Refinery), OJSC Ufaneftekhim, OJSC Bashkirnefteprodukt and OJSC Orenburgnefteprodukt, with the Company.

LLC Bashneft-Polyus, the joint venture of JSOC Bashneft and OJSC Lukoil, which held the development licence for the subsoil area of federal significance including the R.Trebs and A.Titov oilfields, and the Administration of the Nenets Autonomous District sign a Cooperation agreement. The agreement stipulates that Bashneft shall invest in the development of social and economic infrastructure, job creation programmes and charity projects in the Nenets Autonomous District.

APRIL 2012

The Federal Antimonopoly Service (FAS) of the Russian Federation approves the application of JSOC Bashneft for the legal merger of the Company's subsidiaries, OJSC Ufimsky refinery plant, OJSC Novoil,

OJSC Ufaneftekhim, OJSC Bashkirnefteprodukt and OJSC Orenburgnefteprodukt, with the Company.

Bashneft acquires a 100% stake in LLC Uraloil which owns a network of 12 filling stations in the Kurgan region operating under the TRANSOIL brand name. LLC Uraloil is the third largest operator in the engine fuel retail market of the Kurgan region; it operates about 7% of filling stations in the region. All filling stations of the acquired network are situated in the city of Kurgan, the administrative centre of the region.

Moody's Investors Service international rating agency assigns JSOC Bashneft a Ba2 corporate family rating and probability of default rating. The outlook for all ratings is "stable". Moody's Interfax rating agency also assigns JSOC Bashneft an Aa2.ru national scale rating with a "stable" rating outlook. It is the first time that JSOC Bashneft is assigned ratings by Moody's agency.

While considering the issues related to holding the Annual General Meeting of Shareholders, the Board of Directors decides to call the AMGS of JSOC Bashneft on June 29, 2012 in Ufa in the form of joint presence. The list of persons entitled to participate in the General Meeting of Shareholders is compiled on May 15, 2012. The Board of Directors decides to recommend that the AGMS approve the dividends payments for 2011 in the amount of 99 roubles per ordinary

registered share and per preferred registered share of JSOC Bashneft, and to pay the dividends no later than August 28, 2012.

On April 27, 2012, the Extraordinary General Meeting of Shareholders of JSOC Bashneft makes a decision on reorganization through legal merger of subsidiaries, OJSC Bashkirnefteprodukt, OJSC Ufaneftekhim, OJSC Orenburgnefteprodukt, OJSC Ufimsky refinery plant and OJSC Novoil, with the Company and approved the Agreement on legal merger.

MAY 2012

The Moscow Commercial Court investigates a claim against JSOC Bashneft filed by minority shareholders demanding that transfer of the development licence for the Trebs and Titov oilfields to LLC Bashneft-Polyus should be declared illegal. In the course of investigation a representative of the Federal Subsoil Resources Management Agency announces that the order to transfer the licence to LLC Bashneft-Polyus had been cancelled. As a result of this decision, the licence shall be returned to JSOC Bashneft. The Moscow Commercial Court makes a decision to discontinue the proceedings.

The Fitch Ratings international rating agency assigns JSOC Bashneft a "BB" long-term foreign and local currency issuer default rating, an "AA-(rus)" long-term national rating and a "B" short-term foreign and local currency issuer default rating. The agency also assigns the internal issues of the Company's rouble-denominated bonds a "BB" foreign and local currency senior unsecured ratings and an "AA-(rus)" national senior unsecured rating. The long-term rating outlook is "stable". ■ ■ ■ ■



2012 →

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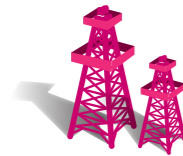
GROWTH

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GROWTH

KEY PERFORMANCE INDICATORS

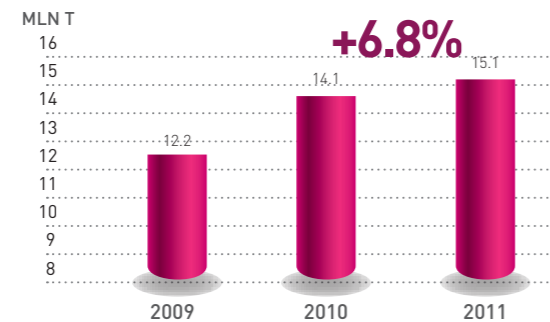
KEY OPERATING RESULTS



RESERVES AND PRODUCTION

BASHNEFT IS THE RUSSIAN LEADER IN TERMS OF OIL PRODUCTION GROWTH

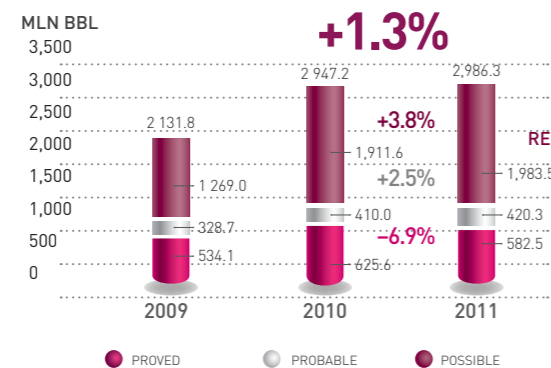
OIL PRODUCTION



OIL PRODUCTION GROWTH ENSURED THROUGH GEOLOGICAL AND ENGINEERING OPERATIONS

AVERAGE PRODUCTION RATE OF NEW WELLS DRILLED IN 2011 **+13.9%**

OIL RESERVES UNDER PRMS



INCREASE IN PROVED RESERVES **+3.8%**

MAINTAINING A HIGH RESERVES-TO-PRODUCTION RATIO OF **18 years**

PROVED RESERVES REPLENISHMENT RATE HIGHER THAN PRODUCTION RATE: **165%**
A RESERVE REPLACEMENT RATIO OF

16

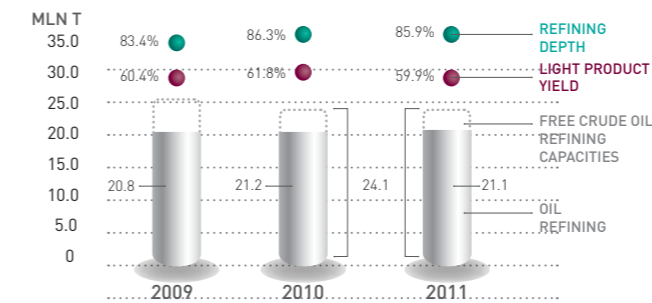
GROWTH



REFINING

BASHNEFT HAS RUSSIA'S MOST TECHNOLOGICALLY ADVANCED REFINERIES AND IS THE RUSSIAN LEADER IN TERMS OF OIL REFINING DEPTH

OIL REFINING

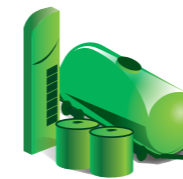


TOTAL PRIMARY REFINING CAPACITIES **24.1 MLN T**

NELSON INDEX **8.3**

LIGHT PRODUCT YIELD **59.9%**

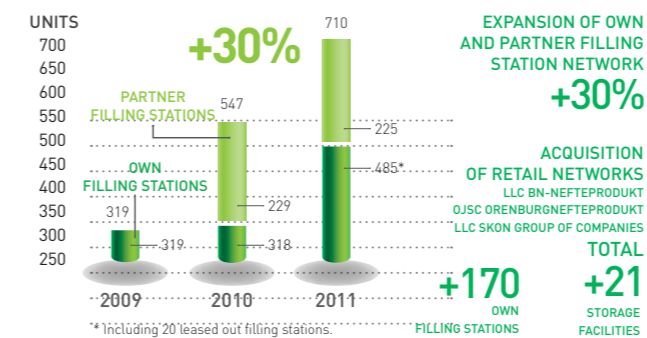
REFINING DEPTH **85.9%**



MARKETING

BASHNEFT: CONSOLIDATION OF RETAIL ASSETS

NUMBER OF FILLING STATIONS

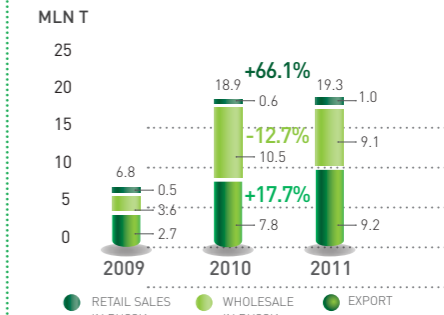


EXPANSION OF OWN AND PARTNER FILLING STATION NETWORK **+30%**

ACQUISITION OF RETAIL NETWORKS LLC BN-NEFTEPRODUKT OJSC ORENBURGNEFTEPRODUKT LLC SKON GROUP OF COMPANIES

TOTAL **+170** OWN FILLING STATIONS **+21** STORAGE FACILITIES

SALES OF PETROLEUM PRODUCTS AND PETROCHEMICALS



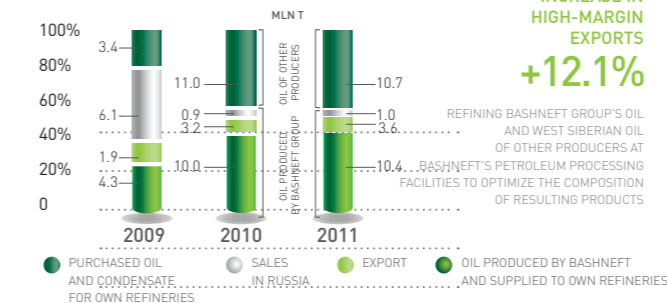
DEVELOPMENT OF EXPORT LOGISTICS AND INCREASE IN SALES VIA OUR OWN RETAIL NETWORKS THROUGH DECREASED WHOLESALE TRADE IN RUSSIA

RETAIL SALES **+66.1%**

EXPORT **+17.7%**

INCREASE IN TOTAL VOLUME OF SALES OF PETROLEUM PRODUCTS **+2.4%**

OIL DISTRIBUTION



INCREASE IN HIGH-MARGIN EXPORTS **+12.1%**

REFINING BASHNEFT GROUP'S OIL AND WEST SIBERIAN OIL OF OTHER PRODUCERS AT BASHNEFT'S PETROLEUM PROCESSING FACILITIES TO OPTIMIZE THE COMPOSITION OF RESULTING PRODUCTS

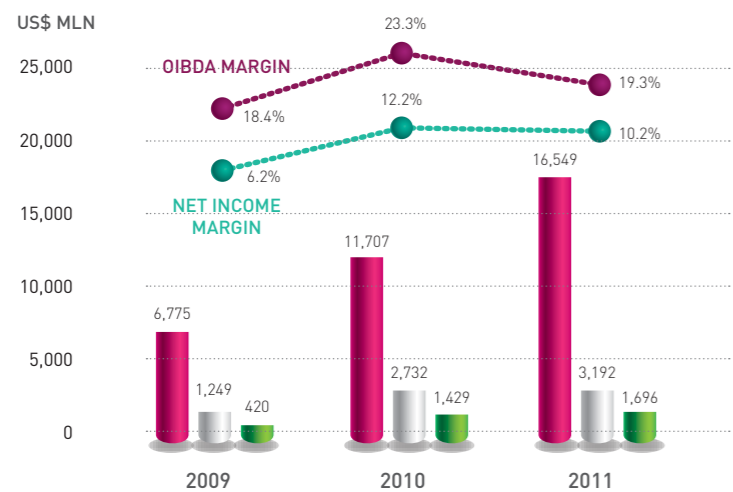
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GROWTH

KEY PERFORMANCE INDICATORS

KEY FINANCIAL RESULTS

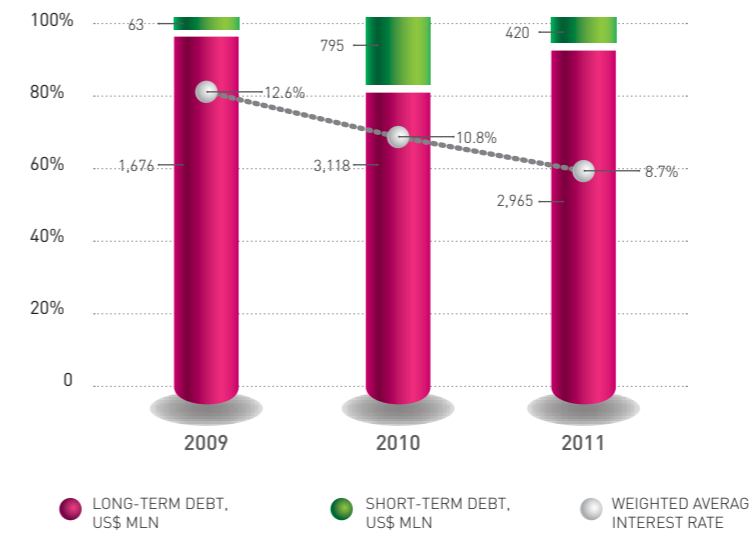
FINANCIAL RESULTS



HIGHER PROFITABILITY IN 2010 WAS MAINLY CAUSED BY THE RECOGNITION OF INCOME FROM REVALUATION OF THE STAKE IN OJSC BELKAMNEFT

- REVENUE: **+41.4%**
 - OIBDA: **+16.8%**
 - NET INCOME*: **+18.7%**
- *Net income attributable to JSOC Bashneft's shareholders

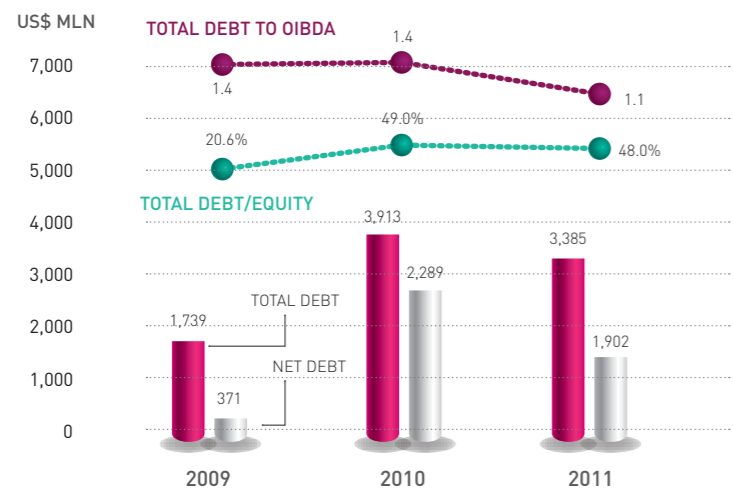
CHANGES IN DEBT STRUCTURE AND COST OF DEBT



ACTIVE DEBT PORTFOLIO MANAGEMENT AIMED AT REDUCING COST OF DEBT AND EXTENDING DEBT MATURITY

- WEIGHTED AVERAGE INTEREST RATE REDUCED FROM **10.8%** TO **8.7%**
- AVERAGE DEBT MATURITY INCREASED FROM **3.41** TO **3.60** YEARS
- SHARE OF SHORT-TERM DEBT REDUCED FROM **20%** TO **12%**

LEVERAGE AND FINANCIAL STRENGTH

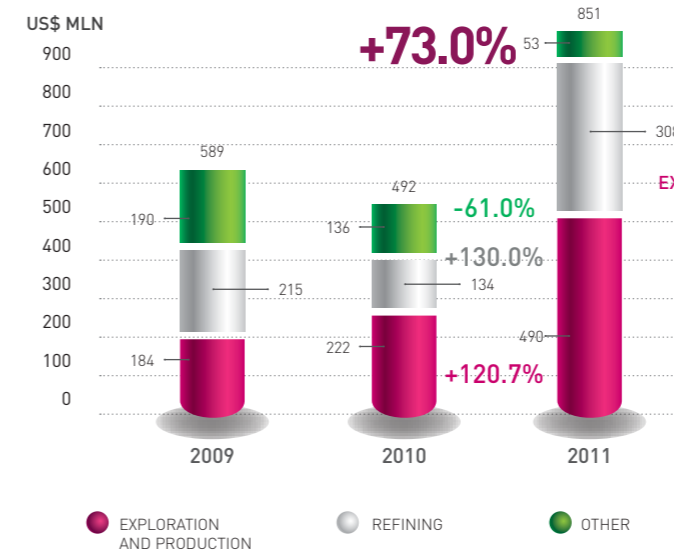


- CREDITS AND LOANS REPAYED **US\$ 4.2 BILLION**
- CREDITS AND LOANS OBTAINED **US\$ 3.8 BILLION**

LEVERAGE, MEASURED AS THE DEBT TO EQUITY RATIO, STABILIZED AT **48%**

DECREASE IN THE TOTAL DEBT FROM **1.4** TO **1.1**

CAPITAL EXPENDITURE



TOTAL CAPITAL EXPENDITURE*: **+73.0%**

EXPLORATION AND PRODUCTION: **+120.7%**

EXPLORATION DRILLING AT THE TREBS AND TITOV OILFIELDS

REFINING: **+129.9%**

RECONSTRUCTION AND UPGRADE OF REFINERIES, IMPROVEMENT OF ENGINE FUEL QUALITY

*Not including acquisitions of companies

KEY PERFORMANCE INDICATORS

● ANNUAL RESULTS AS COMPARED WITH THE TARGETS

IN 2011, JSOC BASHNEFT ACHIEVED AND EXCEEDED THE MAIN BUSINESS PLAN TARGETS

15,106 THOUSAND TONNES

OIL PRODUCTION

EXCEEDED THE 2010 VOLUME AND THE PRODUCTION TARGET SET IN THE BUSINESS PLAN BY 2.8% (OR 406 THOUSAND TONNES). THE TARGET WAS SET AT 14,700 THOUSAND TONNES.



The Group's operations are regulated by the provisions of the Business Plan, which is annually approved by JSOC Bashneft's Board of Directors at the end of the reporting year.

Throughout the year, the Company's Business Plan may be adjusted based on current performance. Traditionally, the Company's Management Board reviews annual results as compared with the Business Plan in the second quarter of the year after the reporting year.

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GROWTH

21,062 THOUSAND TONNES

HYDROCARBON REFINING VOLUMES

AMOUNTED TO 21,062 THOUSAND TONNES, WHICH IS 0.6% (OR 131 THOUSAND TONNES) LESS THAN IN 2010 AND EXCEEDS THE PLANNED VOLUME BY 10.8% (OR 2,058 THOUSAND TONNES).



US\$ 16,549 MILLION

AS HYDROCARBON REFINING VOLUMES WERE HIGHER THAN EXPECTED, PETROLEUM PRODUCTS SALES VOLUMES INCREASED, EXCEEDING THE TARGET. THIS HAD A POSITIVE IMPACT ON THE GROUP'S REVENUE AND NET INCOME IN 2011, WHICH WERE SIGNIFICANTLY HIGHER THAN INITIALLY PLANNED.



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GROWTH



● ABOUT THE COMPANY

RESTRUCTURING:

IN MARCH 2012, THE COMPANY ANNOUNCED PLANS FOR REORGANIZATION THROUGH THE LEGAL MERGER OF FIVE SUBSIDIARIES, OJSC UFIMSKY REFINERY PLANT, OJSC NOVOIL (OJSC NOVO-UFIMSKY REFINERY PLANT), OJSC UFANEFTKHM, OJSC BASHKIRNEFTEPRODUKT AND OJSC ORENBURGNEFTEPRODUKT, WITH JSOC BASHNEFT. CHANGES IN THE CORPORATE STRUCTURE OF BASHNEFT GROUP ARE AIMED AT ENHANCING THE GROUP'S OPERATIONAL EFFICIENCY IN ALL BUSINESS AREAS. REORGANIZATION WILL BE COMPLETED BY THE END OF 2012. AFTER THE REORGANIZATION, THE SUBSIDIARIES TO BE MERGED WITH BASHNEFT WILL CEASE TO EXIST AS LEGAL ENTITIES.

POSITION IN THE INDUSTRY:

JSOC BASHNEFT RANKS EIGHTH IN TERMS OF OIL PRODUCTION VOLUME AND HAD THE HIGHEST PRODUCTION GROWTH RATE AMONG THE RUSSIAN OIL COMPANIES. THE NELSON INDEX (WHICH MEASURES THE COMPLEXITY OF A REFINERY'S PRODUCTION PROCESSES) ASSIGNS A RATING OF 8.3 FOR BASHNEFT GROUP'S REFINERY COMPLEX. THIS IS THE HIGHEST VALUE AMONG THE RUSSIAN OIL AND GAS COMPANIES.

DEVELOPMENT PROSPECTS:

BASHNEFT'S STRATEGY IS AIMED AT INCREASING THE GROUP'S VALUE BY BOOSTING HYDROCARBON PRODUCTION AND BUILDING UP OIL AND GAS RESERVES, DIVERSIFYING PRODUCTION ASSETS AND IMPLEMENTING THE PROGRAMME FOR REFINERY UPGRADES, DEVELOPING THE GROUP'S OWN RETAIL NETWORK IN VARIOUS REGIONS OF RUSSIA AND ENHANCING THE EFFICIENCY OF THE ENTIRE VALUE CHAIN.

ABOUT THE COMPANY

HISTORY

THE FIRST RECORDED OIL SEEPS IN BASHKORTOSTAN DATE FROM THE BEGINNING OF THE EIGHTEENTH CENTURY. IN 1911-1914, A.I. SROSLOV, AN INDUSTRIALIST, STARTED OIL EXPLORATION IN THE VICINITY OF ISHIMBAYEVO AND KUSYAPKULOVO. IN 1929, A GROUP OF GEOLOGISTS HEADED BY ALEKSEY BLOKHIN WAS DISPATCHED TO THE ISHIMBAYEVO DISTRICT IN BASHKIRIA ON THE INITIATIVE OF A FAMOUS RUSSIAN GEOLOGIST AND SCIENTIST IVAN GUBKIN. THE RESEARCH CONDUCTED BY THE GROUP PROVED THAT DETAILED EXPLORATION IN THE AREA HAD BEEN JUSTIFIED.

The development of the Ishimbayskoye oilfield began **IN 1932**, marking the start of commercial production of crude oil in the Republic of Bashkortostan. Construction of the Ishimbay oil refinery began in 1935. The same year, Bashneft was set up as an independent trust comprising the Ishimbayskoye oilfield and

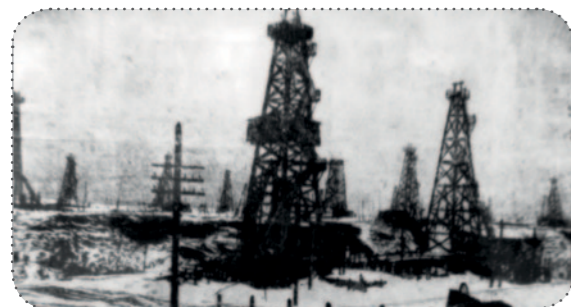
construction office, the Sterlitamak oil exploration unit, a geology and field development office, and a number of other departments.

After the Tuimazinskoye field was discovered **IN 1937**, the Tuimazinsky field development unit was created. In 1938, the Ufa Oil Refinery (now OJSC Ufimsky refinery plant) was commissioned.

BY 1939, Bashkortostan accounted for about 90% of all oil production in the Urals and Volga region.

IN 1944, Devonian oil pools were discovered at the Tuimazinskoye field signalling new prospects for oil production in the Urals and Volga region. In 1946, Bashneft Production Union was created, comprising the Ishimbayneft, Tuimazaneft, Bashnefterazvedka trusts, and Bashneftestroy, the Krasny Proletary and Ishimbay Machine-building factories, as well as Bashnefteprojekt and Bashtekhsnabneft.

IN 1950-1953, the Konstantinovskoye and Leonidovskoye Devonian oilfields and the Shkapovskoye multi-zone oilfield were discovered at the eastern extension of the Seraphimovskaya structure. The Chekmagush-evskoye terrigenous Devonian oilfield was discovered and exploration drilling started in the Birskaaya saddle.



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GROWTH

BASHNEFT IS THE LEADER AMONG RUSSIAN OIL COMPANIES IN TERMS OF CRUDE OIL REFINING DEPTH, REFINERY EQUIPMENT (THE NELSON INDEX) AND PRODUCTION GROWTH RATE

IN 1951, the Novo-Ufimsky Refinery (now OJSC Novoil) was commissioned in preparation for a rapid increase in oil production in Bashkortostan.

IN 1954, the Mancharovskoye oilfield was discovered. This was followed a year later by the discovery of the Arlanskoye oilfield, the largest oilfield in the region. Bashkortostan became the biggest oil-producing region of the USSR, producing more than 15 million tonnes.

IN 1956, construction of the Ufa Synthetic Spirit Plant (now Ufaorgsintez) was completed. The Plant became the first petrochemical facility in Bashkortostan and one of the biggest facilities in the Soviet Union manufacturing organic synthesis products. In 1957, the third refinery in the Ufa group, Ufaneftekhim, was commissioned. In 1962, the first Soviet diesel fuel hydrotreater was constructed at the Ufimsky refinery plant.

IN 1967, Bashneft reached peak production of about 48 million tonnes.

ON JANUARY 13, 1995, Joint-Stock Oil Company (JSOC) Bashneft was established.

IN 1998, Bashneft started oil production in the Khanty-Mansi Autonomous District.

IN 2005, JSFC Sistema bought the first blocking stake in JSOC Bashneft, as well as in four oil refineries and Bashkirnefteprodukt. In March 2009, JSFC Sistema became the main shareholder of six Bashkortostan's fuel and energy enterprises.

IN JANUARY 2010, JSOC Bashneft bought a controlling stake in OJSC Ufaneftekhim, OJSC Novoil, OJSC Ufimsky refinery plant, OJSC Ufaorgsintez and OJSC Bashkirnefteprodukt from JSFC Sistema and became the managing company for the new oil holding.

IN 2010, Bashneft completed its transformation into a federal-scale vertically integrated oil company. Bashneft entered the Timan-Pechora oil province, obtaining a licence for the development of a subsoil area of federal significance including the Trebs and Titov fields in the Nenets Autonomous District. In April 2011, an agreement was signed with OJSC Lukoil on a joint project in Timan-Pechora.



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GROWTH

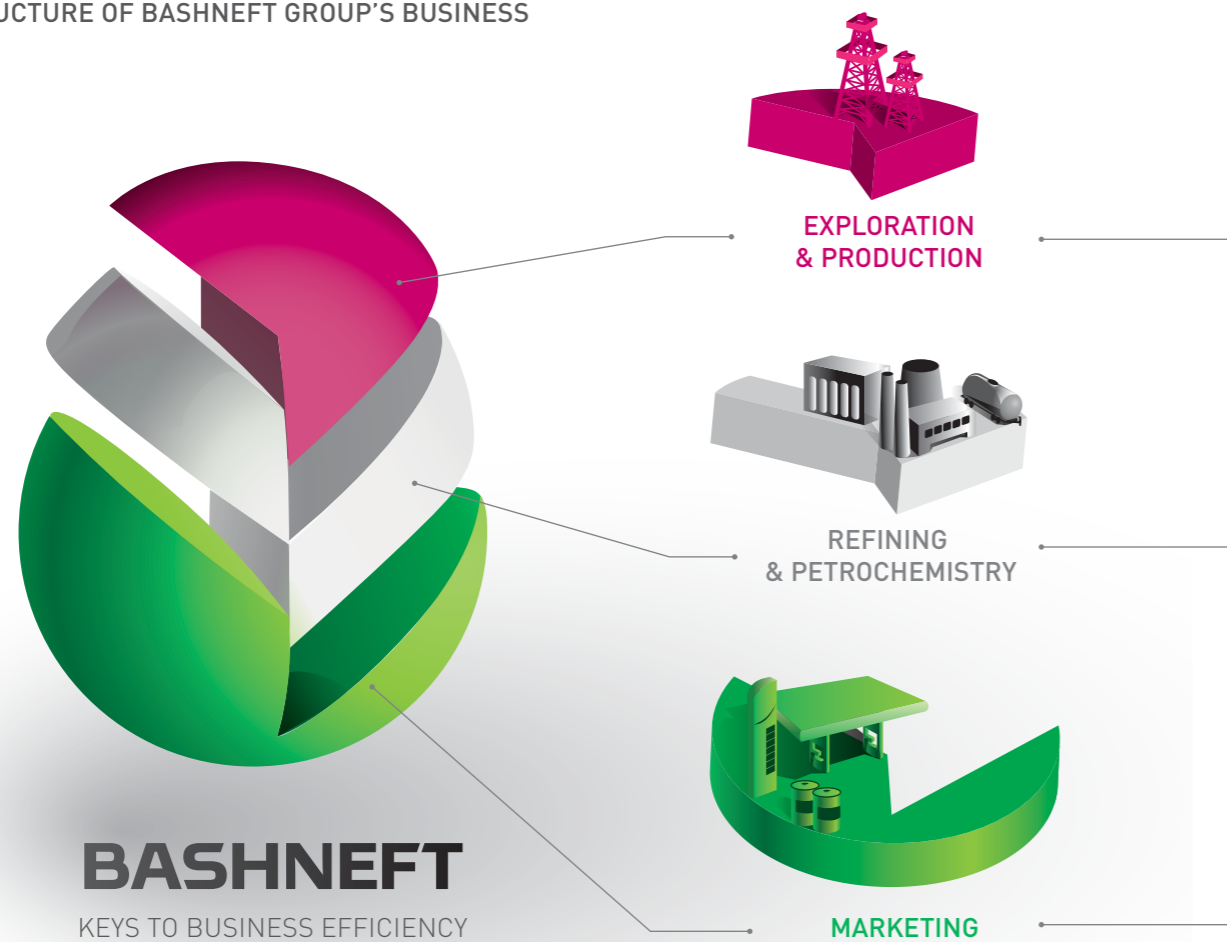
ABOUT THE COMPANY

● STRUCTURE

STRUCTURE OF BASHNEFT GROUP'S BUSINESS

JSOC Bashneft, together with its subsidiaries, is one of Russia's ten largest oil-producing companies. The main activities of JSOC Bashneft are oil and gas exploration and production, the production of petroleum products and petrochemicals, as well as marketing of the products. The organizational structure of the Group is determined by its main activities and comprises three large segments: oil and gas production, refining and marketing of petroleum products.

STRUCTURE OF BASHNEFT GROUP'S BUSINESS



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GROWTH

EXPLORATION AND PRODUCTION is represented by six subsidiaries that specialize in geological exploration, drilling, hydrocarbon production and research and development. LLC Bashneft-Dobycha, accounting for approximately 99% of Bashneft Group's production, comprises six oil and gas production departments (Ishimbayneft, Krasnokholmskneft, Ufaneft, Chekmagushneft, Arlanneft, Tuimazaneft) operating at the Group's largest oilfields in the Republic of Bashkortostan (Arlanskoye, Yugomashevskoye, Tuimazinskoye, Chetyrmanskoye, Tatyshlinskoye and others). LLC Bashmineral and LLC Zirgan also produce hydrocarbons in this crucial region. LLC Geoneft produces oil in the Orenburg region. The shares of

these companies in the Group's annual production and residual commercial reserves amount to 1.1% and 1.4%, respectively. LLC BashNIPneft is an R&D institute supporting Bashneft Group's main businesses related to oil production. LLC BashNIPneft conducts research in geology, exploration and development of oilfields, drilling, production and gathering of oil and gas, as well as environmental protection.

- BASHNEFT-DOBYCHA
- BASHMINERAL
- ZIRGAN
- GEONEFT
- BASHNIPINEFT
- BASHNEFT-POLYUS

- UFANEFTEKHIM
- UFIMSKY REFINERY PLANT
- NOVOIL
- UFAORGSINTEZ

- BASHKIRNEFTEPRODUKT
- ORENBURGNEFTEPRODUKT
- BASHNEFT-REGION
- BASHNEFT-UDMURTIA
- BASHNEFT-TRANS
- LLC SKON GROUP OF COMPANIES

BASHNEFT GROUP'S REFINING CAPACITIES include three refineries, OJSC Ufaneftekhimi, OJSC Ufimsky refinery plant and OJSC Novoil, as well as OJSC Ufaorgsintez, a petrochemical plant. The major part of the produced petroleum products is sold on the domestic market. More than 90% of total sales is represented by wholesale deliveries.

As of the end of 2011, **BASHNEFT GROUP'S RETAIL NETWORK** comprises OJSC Bashkirnefteprodukt, OJSC Orenburgnefteprodukt, the LLC SKON Group of Companies and OJSC BN-Nefteprodukt (which owns CJSC Bashneft-Region and LLC Bashneft-Udmurtia).

JSOC Bashneft and its subsidiaries have their own transportation infrastructure. In November 2010, LLC Bashneft-Trans, a wholly owned subsidiary, was established to consolidate the transportation assets of the Group's main enterprises.

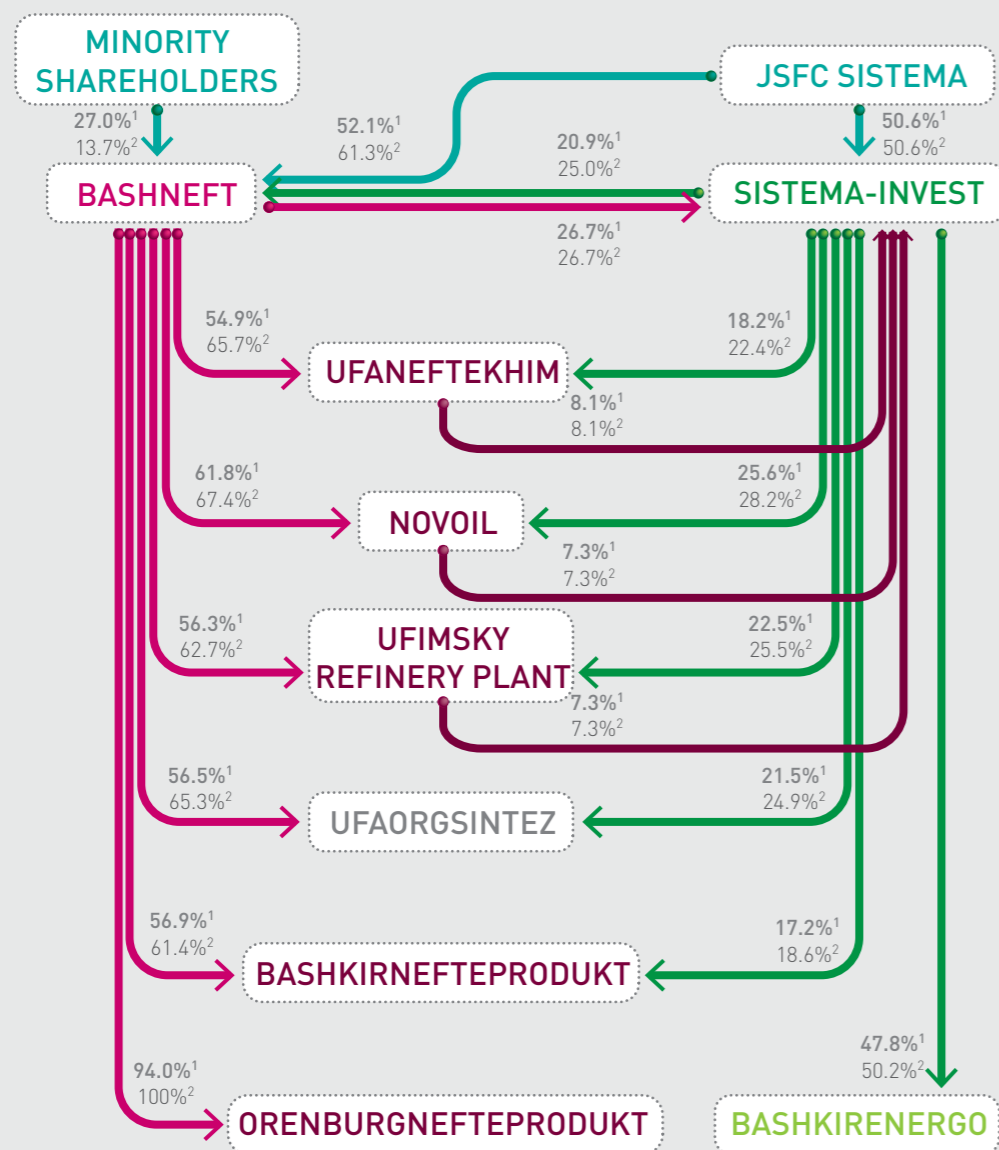
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GROWTH

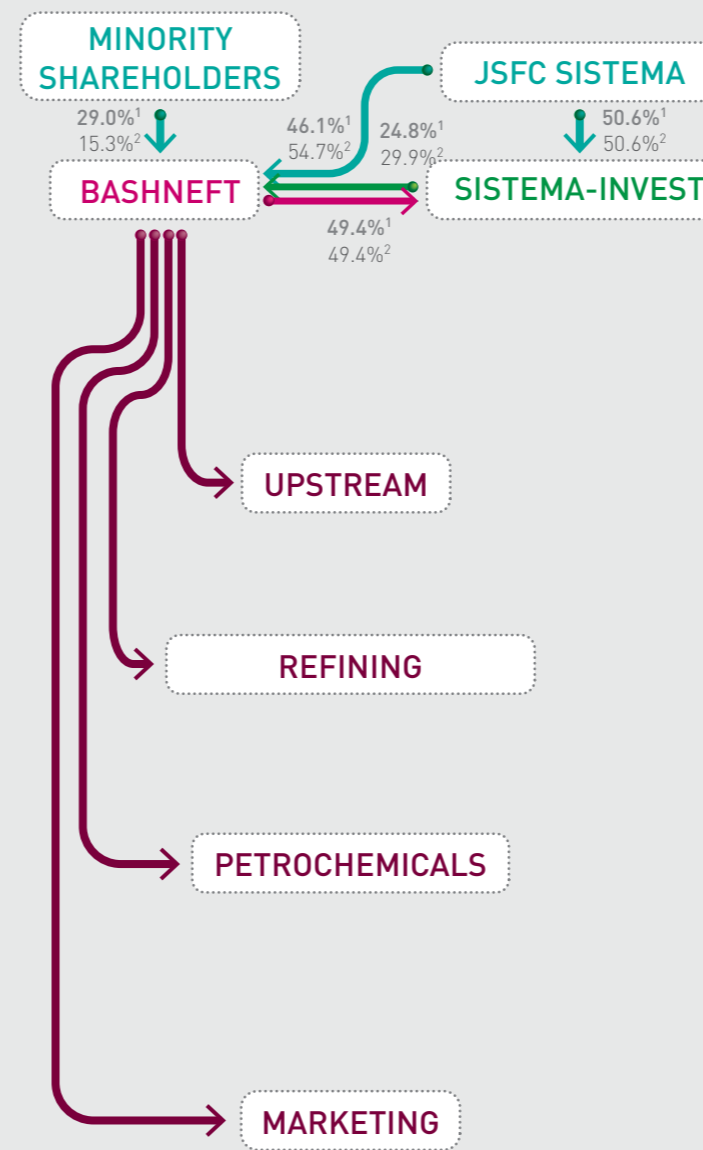
BASHNEFT GROUP REORGANIZATION PROJECT

One of the main tasks of the Group's management since acquisition of Bashneft by JSFC Sistema has been to increase the operational efficiency of all businesses of the Group. The historical complexity of the corporate structure had prevented the Group from fully achieving strategic corporate governance targets.

THE SIMPLIFIED CORPORATE STRUCTURE OF BASHNEFT GROUP



TARGET CORPORATE STRUCTURE OF BASHNEFT GROUP³



NOTES:
 1. [1] Share in authorized capital.
 2. [2] Ordinary shares owned.
 3. [3] Estimated under the assumption that 100% of shares of subsidiaries currently not owned by JSOC Bashneft can be converted into JSOC Bashneft shares.

IN MARCH 2012, the Group announced plans for reorganization through the legal merger of five subsidiaries, OJSC Ufimsky refinery plant, OJSC Novoil (OJSC Novo-Ufimsky refinery plant), OJSC Ufaneftekhim, OJSC Bashkirnefteprodukt and OJSC Orenburgnefteprodukt, with JSOC Bashneft. In March 2012, the Boards of Directors of JSOC Bashneft and the subsidiaries to be merged with it preliminarily approved the Agreement on legal merger, the conversion ratios and the buyback prices for the subsidiaries' shares.

IN APRIL 2012, the reorganization was approved by extraordinary general meetings of shareholders of JSOC Bashneft and the subsidiaries to be merged. Before the end of 2012, JSOC Bashneft is expected to issue additional ordinary and preferred shares to be exchanged for the subsidiaries' shares. After the merger, minority shareholders of the subsidiaries will receive JSOC Bashneft's shares, which are currently more liquid than those of the subsidiaries. The reorganization will enable these shareholders to benefit from the financial performance of the whole Group, not just an individual subsidiary.

Those shareholders of JSOC Bashneft and its subsidiaries who did not vote or voted against the reorganization were offered the possibility of selling their shares, in compliance with legislation, at the buyback price determined by an independent appraiser, LLC Stremeniye, confirmed by Ernst & Young, an international appraiser, and approved by the boards of directors of JSOC Bashneft and of the subsidiaries to be merged.

IN APRIL 2012, the Federal Antimonopoly Service of the Russian Federation approved the legal merger of the Group's subsidiaries, OJSC Ufimsky refinery plant, OJSC Novoil, OJSC Ufaneftekhim, OJSC Bashkirnefteprodukt and OJSC Orenburgnefteprodukt, with Bashneft.

Changes in the corporate structure of Bashneft Group are expected to be completed by the end of 2012. After the reorganization, the subsidiaries to be merged with Bashneft will cease to exist as legal entities.

BASHNEFT GROUP REORGANIZATION PLAN: THE MERGER

GOALS OF REORGANIZATION:

- Establish Bashneft as a fully-fledged vertically integrated company;
- Optimize corporate structure to improve efficiency;
- Protect the rights of minority shareholders;
- Unify all operational decision-making processes, taking into consideration the peculiarities of each of the Group's business segments: upstream, refining and marketing;
- Centralize investment decisions to maximize the return on invested capital and the cash flows of the integrated Group, thereby increasing the Company's overall value;
- Improve the transparency of the Group's operations and corporate governance;
- Increase the liquidity of Bashneft Group's shares;
- Consolidate all cash flows into a single business centre.

1 PRELIMINARY DECISION MARCH, 2012

On March 11, 2012, the Boards of Directors of JSOC Bashneft and all five subsidiaries to be merged provisionally approved the Agreement on legal merger, conversion ratios for the merger and the prices of shares to be repurchased from shareholders who will not vote or will vote against the reorganization. On March 14, 2012, the register of the shareholders of participating companies who will take part in the Extraordinary Meeting of Shareholders was closed.

2 APPROVAL BY SHAREHOLDERS APRIL, 2012

Reorganization, conversion ratios and buyback prices are subject to approval by shareholders of JSOC Bashneft and subsidiaries to be merged. To make the decision, it is necessary that at least 75% of ordinary and preferred share owners vote for conducting the transaction (the quorum is 50% of outstanding voting share owners). In April 2012, the reorganization was approved at extraordinary general meetings of shareholders of JSOC Bashneft and the subsidiaries to be merged with it.

3 SHARE BUYOUT MAY-JULY, 2012

Shareholders who did not vote or voted against reorganization should submit buyback requests no later than 45 days after the date when the General Meeting of Shareholders made the decision. Shareholders have a right to require either partial or full buyout of their shares at the price that had been set by an independent appraiser. Shares shall be bought back from shareholders within 30 days after the end of submission of buyback requests

4 MERGER TILL THE END OF 2012

Before the end of 2012, JSOC Bashneft has planned to complete the conversion of ordinary and preferred shares of its subsidiaries according to conversion ratios determined by an independent appraiser. On May 28, the Board of Directors of the Group approved the decision on additional issue of securities and the prospectus. After the conversion, minority shareholders of subsidiaries will become owners of JSOC Bashneft's shares.

2012

MARCH

MARCH 11, 2012

Approval of Reorganization by the Board of Directors of JSOC Bashneft and Boards of Directors of companies to be merged with Bashneft (OJSC Ufimsky refinery plant, OJSC Novoil, OJSC Ufaneftekhim, OJSC Bashkirnefteprodukt and OJSC Orenburgnefteprodukt), namely of the procedure for conducting the reorganization, conversion ratios and buyback prices.

APRIL

MARCH 14, 2012

Date of closing the shareholder register of the Companies participating in the reorganization

MAY

APRIL 26, 2012

Extraordinary Meetings of Shareholders of the five Subsidiaries to be merged with Bashneft (OJSC Ufimsky refinery plant, OJSC Novoil, OJSC Ufaneftekhim, OJSC Bashkirnefteprodukt and OJSC Orenburgnefteprodukt) approved the merger, the agreement on legal merger and transfer certificates.

JUNE

APRIL 27, 2012

Extraordinary Meetings of Shareholders of JSOC Bashneft approved the merger and the agreement on legal merger

JULY

MAY—JUNE, 2012

Shareholders of JSOC Bashneft and the five subsidiaries submit requests for share buyback

AUGUST—DECEMBER

JUNE—JULY, 2012

Buyout of shares from shareholders who have submitted buyback requests

TILL THE END OF 2012

Conversion of shares of the five subsidiaries to be merged into the shares of JSOC Bashneft

ABOUT THE COMPANY

THE GROUP'S POSITION IN THE INDUSTRY

PRIORITY LINES OF BUSINESS

PRODUCTION

Bashneft Group is one of Russia's leading vertically integrated oil companies that produces and refines oil as well as sells its oil and petroleum products. In 2011, Bashneft Group's revenue from oil sales represented approximately 19% of the Group's total revenue, revenue from petroleum products sales accounted for 79% (as compared with 17% and 80%, respectively, in 2010).

As of the end of 2011, JSOC Bashneft ranks eighth in terms of oil production volume and had the highest production growth rate among the Russian oil companies.

Most of the oil and gas fields for which the Group holds licences are located in the Republic of Bashkortostan. Bashneft also holds licences for oilfields in

JSOC BASHNEFT RANKS EIGHTH IN TERMS OF OIL PRODUCTION VOLUME AND HAD THE HIGHEST PRODUCTION GROWTH RATE AMONG THE RUSSIAN OIL COMPANIES

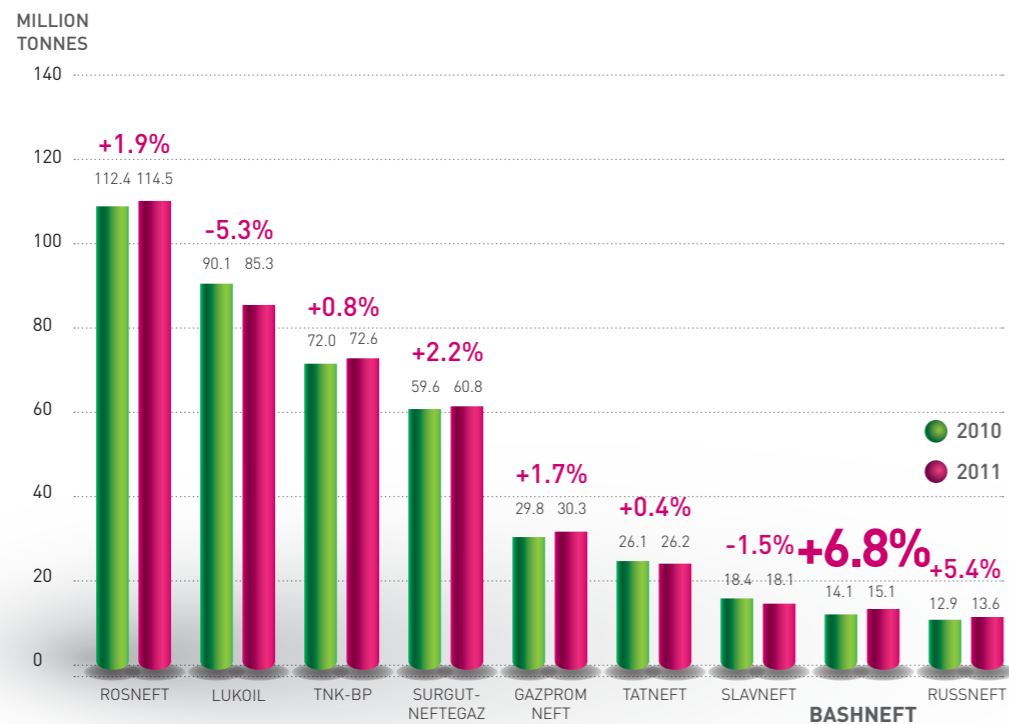
the Khanty-Mansi Autonomous District (Yugra), the Nenets Autonomous District, the Orenburg region and the Republic of Tatarstan. About 90% of the Group's fields are in commercial production. The majority of these fields are in the late (final) production stage. To enhance the competitiveness of oil from Bashkortostan and to reduce the production decline rate, the Group:

- uses modern well construction technologies and enhanced oil recovery methods at its fields;
- optimizes the production management system;
- improves performance at all production stages;
- takes measures to increase energy efficiency.

In the last few years, the Group has conducted surveys and exploration searching for new oilfields both in the Republic of Bashkortostan and in other regions of Russia in order to expand its resource base.



OIL PRODUCTION BY RUSSIA'S LARGEST OIL COMPANIES



SOURCE: Bashneft's production: Company data, production of other companies: CDU TEK data, including only production in Russia

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GROWTH

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GROWTH

ABOUT THE COMPANY

THE GROUP'S POSITION IN THE INDUSTRY

PRIORITY LINES OF BUSINESS

REFINING

Bashneft Group includes three oil refineries, OJSC Ufaneftekhim, the OJSC Ufimsky refinery plant and OJSC Novoil, as well as the OJSC Ufaorgsintez petrochemical plant. These are the most technologically advanced refining facilities in Russia and leaders in terms of refining depth and quality of petroleum products and petrochemicals.

Bashneft Group's refineries have a complexity of 8.3, using the Nelson Index (which measures the complexity of a refinery's production processes). This is the highest value among the Russian oil and gas companies. In 2011, the average refining depth and light products out-

put were 85.9% and 59.9% respectively, being one of the best results among the Russian VICs.

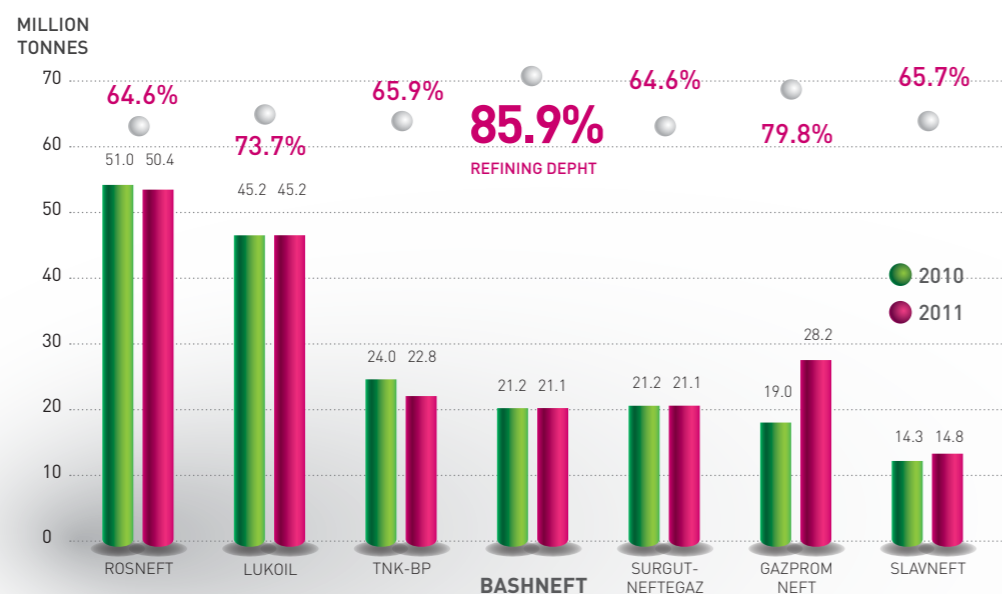
The Group's total crude oil refining capacity amounts to 24.1 million tonnes per year. Currently, purchased oil accounts for about one half of the crude oil supplied to the Group's refineries. By adding light West-Siberian oil (mainly purchased from Lukoil, TNK-BP, Shell, Surgutneftegaz and other companies) to its own oil from Bashkortostan, Bashneft ensures the best composition of crude oil to be processed by its refineries and improves the composition of the resulting products. After the start of

production at the Trebs and Titov oil fields, the Group will be able to produce high-quality oil. Increased oil production will help to satisfy the demand of the Company's refining facilities.

petrochemical facilities process raw materials supplied by the refineries and produce a broad range of petrochemicals, including benzene, paraxylene, orthoxylene, toluene, polypropylene and copolymers of polypropylene, high-

BASHNEFT GROUP'S REFINERIES HAVE A COMPLEXITY OF 8.3, USING THE NELSON INDEX (WHICH MEASURES THE COMPLEXITY OF A REFINERY'S PRODUCTION PROCESSES). THIS IS THE HIGHEST VALUE AMONG THE RUSSIAN OIL AND GAS COMPANIES

CRUDE OIL REFINING BY THE LARGEST RUSSIAN OIL COMPANIES



SOURCE: Bashneft's refining volume and depth: Company data, refining volume and depth of other companies: CDU TEK data, including only production in Russia

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GROWTH

In 2011, 19.2 million tonnes of commercial petroleum products were manufactured, as compared with 19.4 million tonnes in 2010. The main products included gasoline, diesel fuel, vacuum gas oil and fuel oil. Bashneft Group accounts for about 12.5% of gasoline produced in Russia. The Group's engine fuels fully comply with the Technical Regulations (Euro 3 standards). The Group also produces Euro 4 and Euro 5 gasoline and diesel fuel. The Group's

density polyethylene, acetone, phenol, alpha-methylstyrene, isopropyl, diphenylolpropane (bisphenol-A) and synthetic rubber. Bashneft is presently considering a plan to start manufacturing consumer products from polymeric materials and to construct facilities for ethyl tert-butyl ether and polycarbonate production. One of the refining segment's top priorities is to upgrade the oil refineries and improve the quality of the Group's petroleum products.

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GROWTH

ABOUT THE COMPANY

● THE GROUP'S POSITION IN THE INDUSTRY

PRIORITY LINES OF BUSINESS

MARKETING

Bashneft Group sells petroleum products on the domestic and foreign markets.

Bashneft supplies about two-thirds of crude oil it produces to the Group's refineries. The Group sells the remaining third, and it exports approximately 77% of this amount. In 2011, over 47% of Bashneft's petroleum products were sold abroad. In 2011, Bashneft Group achieved a significant increase in sales through a considerable expansion of its retail network, which now comprises 7101 filling stations (owned by the Group or by

partners). The main acquisitions in 2011 were OJSC Orenburgnefteprodukt and LLC BN-Nefteprodukt Group (former Aspec Group), retail networks owning 145 filling stations and 20 oil storage facilities. In December 2011, Bashneft Group purchased LLC SKON Group of Companies which has an oil storage facility and 25 filling stations in Yekaterinburg and the Sverdlovsk region. The Group plans to continue expanding the geographical reach of its retail and small wholesale fuel sales in high-priority operating regions.

IN 2011, BASHNEFT GROUP ACHIEVED A SIGNIFICANT INCREASE IN SALES THROUGH A CONSIDERABLE EXPANSION OF RETAIL NETWORK, WHICH NOW COMPRISES 710 FILLING STATIONS



¹ Including 20 filling stations leased to other companies

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GROWTH



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GROWTH

ABOUT THE COMPANY

THE GROUP'S POSITION IN THE INDUSTRY

MAIN MACROECONOMIC FACTORS INFLUENCING THE GROUP'S OPERATIONS

The main macroeconomic factors influencing the Group's sales revenue and, therefore, the operating income, include:

1

1) INTERNATIONAL AND DOMESTIC MARKET PRICES OF OIL AND PETROLEUM PRODUCTS;

OIL PRICES

The prices of oil and petroleum products stand as the main factor determining the financial and, indirectly, the operational performance of Bashneft Group. The Group's ability to control the prices of its products is limited, as these prices mostly depend on the global market and on the supply and demand balance in various regions of Russia. The economic situation of the Russian oil industry in 2011 was influenced by highly volatile global oil prices. With the average Urals oil price of US\$ 109.1 per barrel, in January, the oil price dropped to US\$ 91.3 per barrel, whereas in April, it reached the maximum of US\$ 122.9 per barrel.

ROUBLE EXCHANGE RATE AND INFLATION RATE

Over 50% of the Group's revenue results from exports of oil and petroleum products. Therefore, fluctuating rouble exchange rates have a direct impact on the financial and operational performance of Bashneft Group. Besides, the Consumer Price Index also affects the financial situation of Bashneft Group; the inflation rate affects both the capital and operational

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2) THE ROUBLE TO US DOLLAR EXCHANGE RATE AND INFLATION RATES;

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3) THE RUSSIAN FEDERATION'S TAXATION AND TARIFF POLICY CONCERNING NATURAL MONOPOLIES (COMPANIES WITH WHOM BASHNEFT COOPERATES IN THE COURSE OF ITS OPERATIONS).

expenditures of the Group. According to the Central Bank of the Russian Federation, in 2011, the rouble to dollar exchange rate varied from a minimum of 27.26 roubles per dollar in May to a maximum of 32.68 roubles per dollar in October, the annual average being 29.39 roubles per dollar. In 2011, consumer price inflation in Russia amounted to 6.1% (in 2010, 8.8%).

TAXES AND EXPORT DUTIES

The changing prices of the foreign markets affect export duties and mineral extraction tax. In 2011, mineral extraction tax accounted for over 85% of all tax costs (other than income tax) or about 11% of Bashneft Group's revenue (as compared with 82% and 9%, respectively, in 2010). In 2011, oil export duties amounted to 52% of the revenue from oil export sales (49% in 2010). Export duties on petroleum products amounted to 27% of the revenue from petroleum products export sales (28% in 2010).

In 2011, the average oil export duty was US\$ 409 per tonne, as compared with US\$ 274 per tonne in 2010. In January, the export duty equalled US\$ 318 per tonne,

and in June it soared to US\$ 462 dollars per tonne. The export duty on light petroleum products varied from US\$ 226 per tonne in January to US\$ 310 per tonne in June 2011 and was US\$ 274 per tonne on average in 2011 (in 2010, the average was US\$ 197 per tonne). The export duty on heavy petroleum products grew from US\$ 122 per tonne in January to US\$ 268 per tonne in December and averaged out at US\$ 208 per tonne, as compared with the 2010 average of US\$ 106 per tonne.

Since May 2011, a decision of the Government of the Russian Federation has restricted gasoline exports with protective tariffs on commercial and straight-run gasoline amounting to 90% of the oil customs duty. Decree No.716 of the Government of the Russian Federation dated August 26, 2011 introduced a new system for calculating export duties on oil and petroleum products (the 60-66-90 System), which has been in effect since October 2011. Under this new scheme, the oil export duty was lowered by reducing the interest rate on the margin between the oil monitoring price and the oil cutoff price from 65% to 60%. Duties on light and heavy petroleum products, which had amounted to 66% and 46.7% of the crude oil duty, respectively, were unified at 66% of the crude oil duty. The gasoline export duty remained at 90% of the crude oil duty. The Decree also stipulates an increase in duties on heavy petroleum products up to the crude duty starting from 2015. The new export duty system benefits oil companies exporting mainly crude oil and does not benefit those oil companies, like Bashneft, which have a significant share of petroleum products in their export portfolio. Adopting this new scheme means a lighter tax burden

on the Group's production activities and a heavier one on its refining business. Given that Bashneft Group's refining sector volumes are higher than production volumes, the 60-66-90 scheme is unfavourable for the Group. The amount of losses mainly depends on oil prices and, according to Bashneft's estimates, will total about US\$ 150 million per year. In November 2011, the Government of the Russian Federation introduced several tax exemptions for Bashneft that could partially make up for the losses resulting from the 60-66-90 system. For instance, amendments were made to the Russian Tax Code allowing tax deductions for the mineral extraction tax on oil.

The mineral extraction tax rate is calculated on the basis of the international Urals oil price (in dollars per barrel) and is set monthly in roubles at the given month's exchange rate. The mineral extraction tax rate for oil increased from 3,822 roubles per tonne in January to a maximum of 4,778 roubles per tonne in September 2011. In 2011, the mineral extraction tax averaged 4,455 roubles per tonne as compared with 3,074 roubles per tonne in 2010. The Russian Tax Code stipulates reduced or zero mineral extraction tax rates for certain oilfields, including a reduced tax rate for oilfields with a degree of depletion exceeding 80%. As several of Bashneft's oilfields are characterized by a degree of depletion exceeding 80%, the Company's actual mineral extraction tax expenses are thus on average 22% below the current tax rate. For instance, in 2011, Bashneft could reduce its mineral extraction tax rate for the reporting period to 3,412 roubles per tonne of oil.

ABOUT THE COMPANY

THE GROUP'S POSITION IN THE INDUSTRY

COMPETITORS

OJSC Tatneft, LLC Lukoil-Perm, OJSC Udmurtneft and OJSC Belkamneft represent JSOC Bashneft's main competitors in the Urals and Volga region in the oil production and marketing segments.

The key factors that make Bashneft a competitive oil producing and marketing company include:

GROWING OIL PRODUCTION VOLUMES

DECREASING OIL PRODUCTION COSTS

INTRODUCTION OF ESSENTIALLY NEW, HIGHLY EFFICIENT TECHNOLOGIES

IMPROVED PERFORMANCE

OIL PRICES

JSOC Bashneft's main actual and potential competitors in the petroleum products market are vertically integrated oil companies, such as OJSC Lukoil, OJSC OC Rosneft, OJSC TNK-BP Holding, etc.

The main factors contributing to the competitiveness of JSOC Bashneft in the petroleum products market include:

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GROWTH



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GROWTH

ABOUT THE COMPANY

DEVELOPMENT PROSPECTS AND STRATEGY

BASHNEFT'S STRATEGY IS AIMED AT INCREASING ITS BUSINESS VALUE BY INCREASING HYDROCARBON PRODUCTION AND BUILDING UP OIL AND GAS RESERVES, DIVERSIFYING ITS ASSETS, IMPLEMENTING ITS REFINERY UPGRADE PROGRAMME, DEVELOPING THE COMPANY'S NETWORK OF FILLING STATIONS IN DIFFERENT REGIONS OF RUSSIA AND ENHANCING THE EFFICIENCY OF THE WHOLE VALUE CHAIN

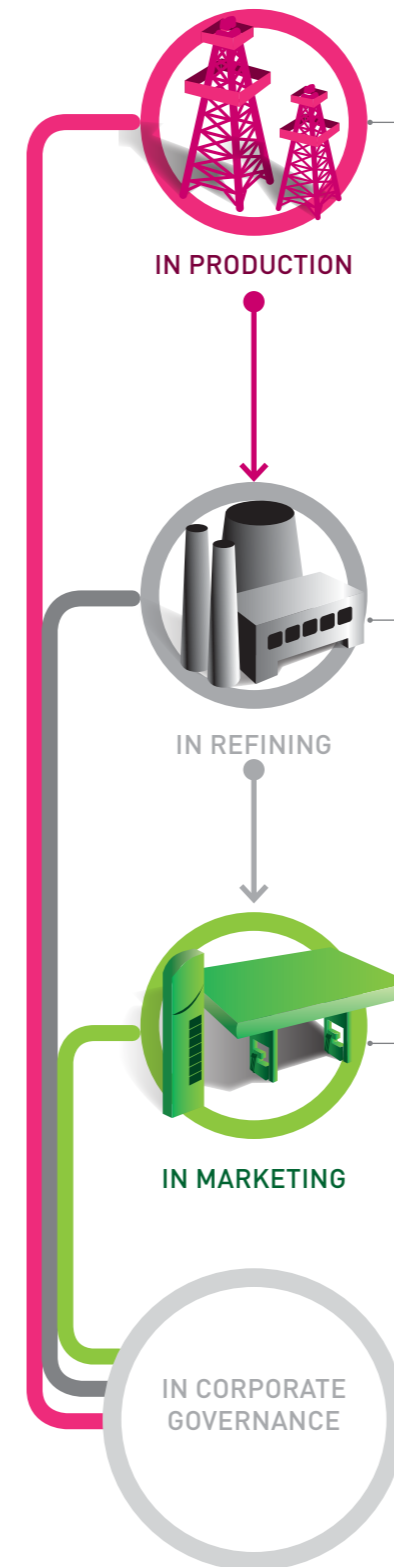
The Board of Directors approved the five-year Development Strategy of JSOC Bashneft at the meeting on December 26, 2011. Within the framework of the Development Strategy until 2016, the Group's 2012 business plan assumes oil

production to be at a level of 15.2 million tonnes and oil refining at 20 million tonnes. The Group will increase the number of its own filling stations and sell more petroleum products via its own and partner filling stations.



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GROWTH



Bashneft's development strategy includes maintaining oil production at its existing oilfields at about 15 million tonnes per year, and beginning production at the Trebs and Titov oilfields.

To ensure stable oil production, the Group plans to increase the number of geological and engineering operations, such as drilling new wells, optimizing fluid withdrawal, transferring wells to new geological targets, hydraulic fracturing, waterflooding in new strata zones, reducing the number of idle wells and increasing the use of successful highly efficient enhanced oil recovery methods.

At the same time, the Group plans to implement a large-scale geological exploration programme in its key operating region, the Republic of Bashkortostan, and plans to obtain licences for several oilfields in other regions. The Group expects that this will allow a substantial growth of oil and natural gas reserves after 2016, partly thanks to the exploration of unconventional oil reserves in the Republic of Bashkortostan.

The strategy involves an upgrade of oil refineries to increase the competitiveness and value of the Group's petroleum products. The Group will expand its retail network and improve the efficiency of all distribution channels. While maintaining an oil refining volume of about 20 million tonnes per year, Bashneft's key investment projects are expected to enable an increase in refining depth from 86% to 94.4%, an increase in light products output from 59.9% to 73.4%, and a timely and full transition to the production of Euro 4 and Euro 5 engine fuels, as required by the Technical Regulations.

The strategy also provides for the development of export logistics and for an expansion of the Group's own retail network from 485 to nearly 1,200 filling stations, thus increasing sales profitability and enabling up to 80% of gasoline to be sold retail.

Developing distribution channels also means increasing operational efficiency. The Group will continue brand promotion, which is a high priority task.

The Group plans to continue improving its corporate governance system and its legal, organisational and ownership structures. The Group attaches great importance to information disclosure and wishes to improve market perception of the Group's operations. Bashneft considers the safeguarding of assets to be an important obligation to its shareholders and a strategic task.

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ABOUT THE COMPANY

● MAIN RISK FACTORS

The risks detailed below do not include all risks faced by Bashneft. This section describes only risks the Company considers to be substantial. At the same time, additional risk factors currently not regarded as substantial may be present or new risks currently unknown to the Company may arise. Any of these risks may have a negative impact on Bashneft Group's operations, performance and financial situation.

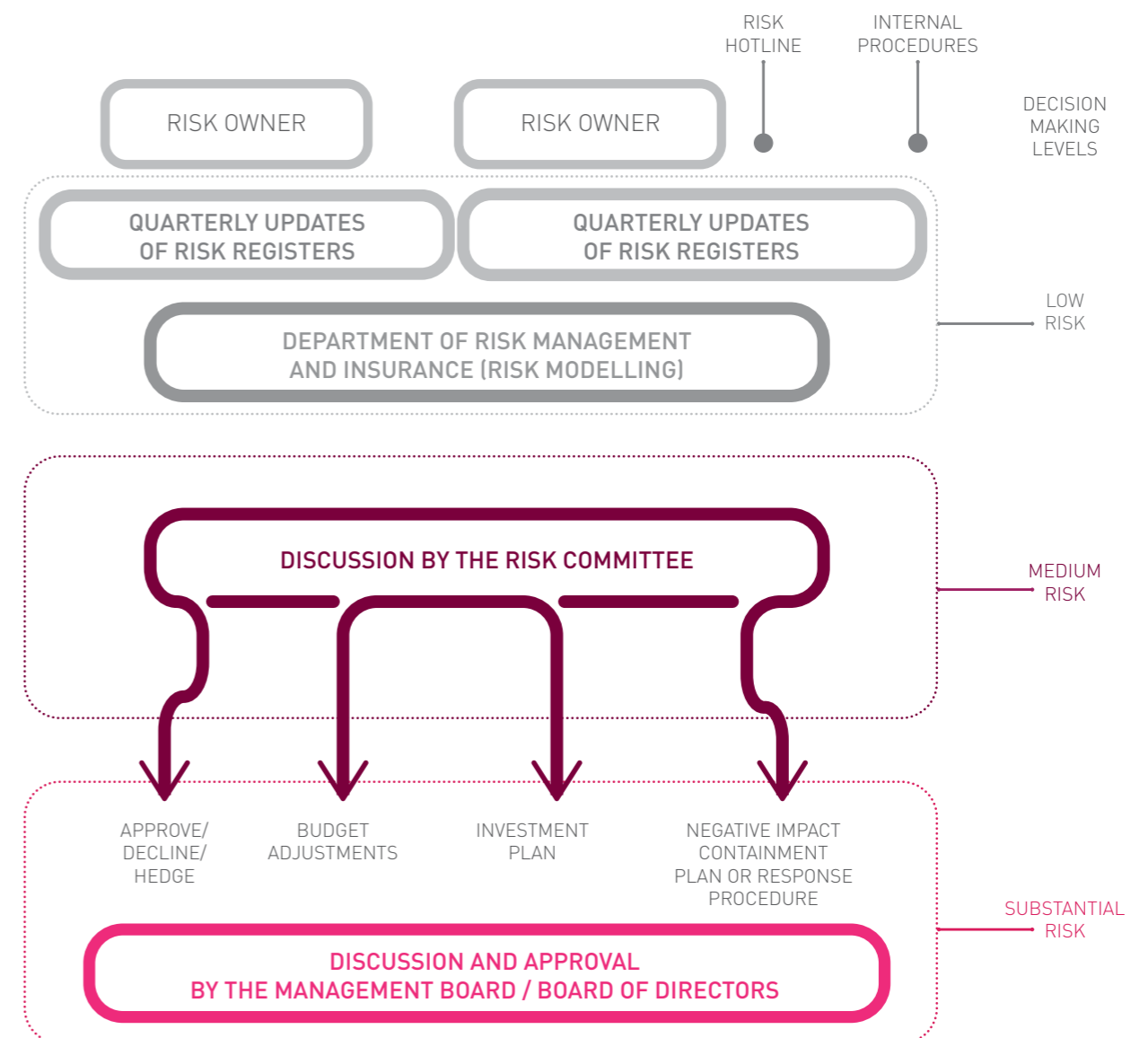
Given that risks are of probabilistic nature and external to the Group, Bashneft cannot fully ensure that its risk management measures will reduce their impact to zero. Therefore, the Group understands that there are factors inherent to its operations, as described below, which can possibly have a negative impact on the Group's performance. Bashneft will do its best to monitor and prevent such events. Should such events occur, the Group will take the necessary measures to repair any resulting damage.

In 2010, Bashneft Group introduced an integrated risk management system (ERM). This involved creating the Risk

Management Committee, introducing regulatory and procedural guidelines on risk management prepared in compliance with COSO ERM – Integrated Framework (Enterprise Risk Management – Integrated Framework, a document developed by the Committee of Sponsoring Organizations of the Treadway Commission) and developing a corporate risk management culture.

Bashneft continually monitors possible risk events related to current operations and investment projects and uses different methods to manage the identified risks:

- RISK AVOIDANCE**, i.e. withdrawing from a risky project;
- RISK REDUCTION**, i.e. taking preventive measures to either prevent the risk altogether or to reduce the severity or the likelihood of losses;
- RISK RETENTION**, when losses are covered by Group's own funds;
- RISK TRANSFER**, when the risk is reduced by transferring it to a third party (insurance programmes etc.).



ABOUT THE COMPANY

● MAIN RISK FACTORS

INDUSTRY RISKS

Bashneft's main businesses are oil and gas production, oil refining and oil and petroleum products sales.

THE RISK OF SIGNIFICANT CHANGES IN FUEL PRICES

The main factors determining Bashneft's financial and operational performance are prices for crude oil, gas, other fuels and petroleum products. The Group's ability to control the price of its products is limited, since the price mainly depends on the international market, as well as demand in Russia and abroad. Oil and petroleum product prices are prone to significant fluctuations and are influenced by a wide variety of factors beyond the Group's control. These factors include the following:

- supply and demand in international and regional oil and petroleum products markets as well as future supply and demand forecasts;
- the global and regional social, economic and political situation in the world and in individual regions, notably the Middle East and other oil-supplying regions;
- the influence of large oil-supplying countries and of OPEC on the total oil supply in the global market;
- weather, natural and anthropogenic disasters.

Falling oil, gas or petroleum products prices may adversely affect Bashneft's performance and financial situation. A significant decline in prices may reduce the Group's economically feasible oil and gas production volumes thus decreasing Bashneft's economically recoverable hydrocarbon reserves and economic efficiency of its exploration, geological and engineering programmes, which would cause a revision of investment projects and changes in the marketing policy.

The Group has reasonable opportunity to redistribute its commodity flows, should a significant pricing difference between domestic and international markets arise. Bashneft is also able to quickly reduce its capital and operational expenditure to fulfil its liabilities if prices for

oil and petroleum products significantly decrease.

A potential decrease in revenues from oil sales due to declining hydrocarbon prices is partially hedged by cheaper purchased oil.

Approximately one half of all raw materials supplied to Bashneft's refineries consist of oil and gas condensate purchased by the Group from other Russian oil producing companies. In 2011, such purchases amounted to 10.7 million tonnes as compared with 11.0 million tonnes in 2010. If crude oil prices grow faster than petroleum products prices, the refining margin could shrink, adversely affecting the Group's performance and financial situation.

RISKS RELATED TO THE DEPENDENCE ON MONOPOLISTIC OIL AND PETROLEUM PRODUCTS TRANSPORTERS AS WELL AS ELECTRICITY SUPPLIERS AND THEIR PRICES

Bashneft depends on monopolistic service providers and controls neither the infrastructure operated by such providers nor the fees charged by them.

The oil pipeline system is owned by state monopoly OJSC Transneft (hereinafter Transneft).

In 2011, 91.3% of oil supplied to the Group's own refineries and 100% of oil exported by Bashneft Group was delivered via Transneft's pipelines. 8.7% of oil supplied to the refineries was transported by train. So far, there have been no serious transportation delays and Bashneft has not suffered any significant losses due to technical failures or leaks in Transneft's pipelines. However, the major part of pipelines operated by Transneft is outdated and operates under harsh climatic conditions. A major failure of Transneft's pipeline system, a delay due to repairs or limitation of the pipelines' capacity could disrupt oil supplies and have a negative impact on the Group's performance and financial situation.

Bashneft, like other Russian oil producers, pays transportation fees to Transneft. The amount of the

fees charged by Transneft is regulated by the Federal Tariff Service, and in recent years the fees have increased. These pipeline transportation fees may continue to grow. At the same time, failure to pay may lead to reduced or suspended pipeline network access and negatively affect the Group's performance and financial situation. Apart from that, increasing fees will result in higher costs.

Similar risks arise when using the pipeline system of OJSC Transnefteprodukt (hereinafter Transneft-eprodukt). In 2011, 1% of Bashneft's fuel oil, 77% of its diesel fuel and 18% of its gasoline were supplied to the domestic market via Transnefteprodukt's pipeline system, while 99%, 23% and 82%, respectively, were transported by train. Furthermore, in 2011, the Group exported 100% of its fuel oil, 1.4% of its diesel fuel and 62% of its gasoline by train and used Transnefteprodukt's pipeline for 98.6% of its diesel fuel and 38% of its gasoline deliveries. Any major failures of Transnefteprodukt's pipeline system or reduced pipeline access due to non-payment and periodical transportation fee increases may negatively affect Bashneft's performance and financial situation.

The Company also depends on railroad transportation of its products. OJSC Russian Railways (RZhD) is a state monopoly providing railroad transportation services. Due to the use of railroad services, Bashneft faces various kinds of risks, including potential transportation delays due to the deteriorating condition of the Russian railway infrastructure or possible accidents during transportation. Although RZhD's fees are regulated by anti-monopoly laws, in recent years, railroad transportation costs have tended to increase. Further growth of transportation fees would mean growing oil and petroleum products transportation costs and may have a negative impact on Bashneft Group's performance and financial situation. Transportation delays due to disruptions to RZhD's operations or transportation accidents may also affect the Group's performance and financial situation.

The Group also depends on electricity supplies. Electricity prices are regulated by the Federal Tariff Service of Russia. Bashneft Group's electricity costs for the calendar year ended December 31, 2011 and December 31, 2010 amounted to 10.7 billion roubles and 9.1 billion roubles, respectively. In 2011, the average price of purchased electric energy for production and refining, the two major power-consuming segments, increased by 15.8% and 17.9%, respectively. Growing electricity prices and potential power supply problems may impact the Group's operations, interrupt the production process and, therefore, affect its financial performance.

RISKS RELATED TO COMPETITION IN THE INDUSTRY

RISKS RELATED TO ACCESS TO NEW SOURCES OF RAW MATERIAL

Due to competition from large international and Russian companies for new hydrocarbon resources, the Group may be unable to gain access to the most promising new oil and gas fields in the future. The Company conducts geological exploration and participates in auctions to acquire licences for hydrocarbon exploration and production in order to maintain long-term production volumes, replenish its resource base and to expand its business. During the twelve months ended December 31, 2011, Bashneft Group's companies participated in eight auctions and won five of them. Licences for three areas in the Nenets Autonomous District acquired at these auctions were granted to the Group in November 2011, licences for two areas in the Republic of Bashkortostan were obtained in February 2012.

At the same time, potential administrative, regulatory, economic or other obstacles hampering the acquisition of new licences, rights etc., may cause a decline in the Group's proved reserves, production volumes and, ultimately, may have a negative impact on the Group's financial situation and performance and result in a decrease in its market capitalization.

ABOUT THE COMPANY

● MAIN RISK FACTORS

INDUSTRY RISKS

MARKET RISKS IN OIL REFINING AND MARKETING

In 2011, Bashneft Group produced 19.2 million tonnes of petroleum products compared with 19.4 million tonnes in 2010.

The Group faces at least two market risks concerning oil refining and marketing:

- as this is a highly competitive market, the Group has to compete against a whole set of companies, including the largest vertically integrated oil companies whose scale of operations is larger than Bashneft's;
- regulatory authorities may introduce new requirements that will have negative consequences for the Group. The transition to the new Technical Regulations on petroleum products serves as an example of this.

The Group cannot rule out the possibility that risks such as increasing competition or new regulatory initiatives may have a negative impact on Bashneft Group's situation. These risks could reduce revenues from the business and thus affect cash flows, Bashneft's performance and financial situation.

To minimize these risks, the Group is constructing new refining facilities and upgrading the existing ones, in order to increase its refining depth and manufacture high-quality competitive products complying with Euro 4 and Euro 5 standards.

COMPETITION AGAINST ALTERNATIVE FUELS AND ENERGY SOURCES

In all of its oil and petroleum products markets, the Group faces competition from alternative fuels, first and foremost, from natural gas and coal. There is no guarantee that in the future Bashneft will compete against alternative fuel suppliers as successfully as it does now. Strong competition may lead to a decline in prices for oil and petroleum products, adversely affecting Bashneft's performance and financial situation. Besides, given the international trend towards governmental support for alternative energy producers, there is a possibility of rapid development of

alternative sources of power leading to a reduced demand for the Group's main products. This may have a negative impact on Bashneft's performance and financial situation.

RISKS RELATED TO GEOLOGICAL EXPLORATION

Bashneft Group's key strategic target is to increase the quantity and quality of available hydrocarbon resources in order to ensure the necessary production volume. This, in turn, depends greatly on successful geological exploration.

The main risk factors of Bashneft's geological exploration are geological risks related to the fact that the quantity and quality of oil reserves, the form and properties of oil and gas deposits and the hydrocarbon production outlook are uncertain and hard to estimate. Drilling in general or drilling operations within the framework of a specific project may prove unsuccessful as exploratory boreholes may find that strata do not possess producing capacity. Geological exploration, however, is a capital intensive activity. If it is fruitless, all costs have to be written off as loss, affecting the Group's performance and financial strength.

An important factor is the fact that geological exploration is conducted in various geographic regions, including those with harsh climatic conditions, which often increases the costs.

As Bashneft has extensive experience in geological exploration, uses state-of-the-art geophysical methods of hydrocarbon surveys and exploration, and possesses advanced drilling and oilfield facilities construction technologies it minimizes many of the risks related to geological exploration..

THE RISK OF SHORTAGES OF HIGHLY-QUALIFIED PERSONNEL

The increasing international shortage of specialist technicians and the increase in average age of oil and

gas workers forces foreign companies to consider the Russian labour market as a source of expertise. This causes the risk that the demand for such specialists in Russia will increase and that their salaries will increase. Possible consequences include increasing labour costs and the need for a rapid modernization of production processes to reduce the number of staff required, which may have a negative impact on Bashneft's performance and financial situation. To

mitigate this risk, Bashneft collaborates with leading institutions of higher education in the region and in the industry in order to provide training, retraining and professional development of the Company's specialists. This collaboration also seeks to provide hands-on experience to students and postgraduates at Bashneft's enterprises, encouraging the best of them with personal scholarships.

IN 2010, BASHNEFT GROUP INTRODUCED AN INTEGRATED RISK MANAGEMENT SYSTEM (ERM).

ABOUT THE COMPANY

● MAIN RISK FACTORS

COUNTRY AND REGIONAL RISKS

COUNTRY RISKS

Bashneft Group operates in the Russian Federation. The Russian market is usually categorised as a developing market, and such markets are riskier than developed ones. Moody's agency assigned a Baa1 credit rating to the Russian Federation, with a stable outlook.

Russia received the highest financial strength rating, as Moody's assesses Russia's financial strength based on its government's considerable assets which could act as a buffer in the event of a fall in oil prices, exchange-rate depreciation and capital outflow. Moreover, Russia's national debt remains very low, the debt-to-GDP ratio in 2011 being the lowest (around 10%) among all investment-grade countries.

However, Bashneft Group does not rule out the possibility of a crisis in the Russian market. Such an event would have negative consequences for the Group's operations. During a crisis, companies operating in developing markets could face a significant lack of liquidity due to foreign capital outflow. This is what happened in Russia in 2008-2009, during the global economic crisis.

In spite of maintaining the continuity of Russian state power in recent years, Russia's political system is prone to risks due to the population's dissatisfaction. This includes discontent with the results of the privatisation in the 1990s and claims for autonomy of certain ethnic and regional groups. Political, economic and social reforms of recent years have been often inconsistent.

Russia's economic instability may have a negative impact on Bashneft's business. The economy is still export-oriented and has not been diversified in recent years. If the international economic situation gets worse and if there is a fiscal deficit in Russia, there is no guarantee that Russia will be able to fulfil its social obligations and settle economic liabilities without taking measures that would have a negative impact on the situation and business conditions

of Russia's tax residents, including all Bashneft Group's companies.

A large part of Russia's infrastructure was created in the Soviet era and is still in operation. Often, funds for repairs have not been provided in a timely manner, leaving most assets in bad condition. Sectors posing the largest threat to the Group in terms of unfavourable business conditions include roads and railways, pipelines, power plants and power lines, communications infrastructure and the physical condition of buildings and constructions.

REGIONAL RISKS

Bashneft's main production operations and business activities are conducted in the Republic of Bashkortostan. Bashneft's subsidiaries and affiliates are located in Ural Federal District, Volga Federal District and Central Federal District.

The Republic of Bashkortostan is an industrial and agrarian republic rich in mineral resources. The region's credit rating assigned by Standard & Poor's is BB+, positive outlook.

The most significant risk inherent in the social and economic development of the Republic of Bashkortostan is its complicated environmental situation and the high probability of anthropogenic accidents in some districts and cities caused by the high number of facilities that serve the oil, refining and petrochemical industry, and by the numerous oil and gas pipelines running through the Republic. Therefore, the Government of the Republic of Bashkortostan might take special measures to protect the region's environment. This may have a direct negative impact on Bashneft's performance and financial situation.

Besides, there is no guarantee that, in the long term, no conflict will arise between the federal and the regional authorities. Such circumstances could interfere with the Group's long-term planning and prevent Bashneft from successfully accomplishing long-term strategic tasks.

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GROWTH

To speed up decision-making concerning environmental protection, a task group including representatives of JSOC Bashneft and authorities of the Republic of Bashkortostan has been created. The Company's management continually cooperates with representatives of various authorities of the Republic. In 2010, Alexander Goncharuk, the Chairman of JSOC Bashneft's Board of Directors and a member of JSFC Sistema's Board of Directors, became a member of the Presidential Council of Bashkortostan. The Council is a permanent advisory body responsible,

among other things, for preparing proposals outlining the main trends of the Republic's government policy and aimed at increasing the operational efficiency of regulatory bodies. In March 2009, the Republic of Bashkortostan and JSFC Sistema concluded a General Agreement. The Agreement is aimed at a fruitful collaboration between the Republic and the Group in order to create favourable conditions for economic and social development of Bashkortostan.

To reduce regional risk, Bashneft Group is diversifying its business into other regions. For instance, in Feb-

THE COMPANY'S MANAGEMENT CONTINUALLY COOPERATES WITH REPRESENTATIVES OF VARIOUS AUTHORITIES OF THE REPUBLIC OF BASHKORTOSTAN

among other things, for preparing proposals outlining the main trends of the Republic's government policy and aimed at increasing the operational efficiency of regulatory bodies. In March 2009, the Republic of Bashkortostan and JSFC Sistema concluded a General Agreement. The Agreement is aimed at a fruitful collaboration between the Republic and the Group in

Trebs and Titov oilfields, and the Administration of the Nenets Autonomous District signed an Agreement on Cooperation that provides for investments in the development of the social and economic infrastructure of the Nenets Autonomous District, job creation in the district and the implementation of charity projects.

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GROWTH

ABOUT THE COMPANY

● MAIN RISK FACTORS

FINANCIAL RISKS

Bashneft raises both equity and debt capital for the purpose of actively expanding its business operations. The Group faces risks resulting from changes in interest rates, foreign exchange rates, inflation rates or the global market situation. There is no guarantee that in the future Bashneft will be able to attract debt capital on acceptable terms (or will at all be able to raise borrowed funds, if necessary, in capital markets

or as bank loans). Neither can the Group ensure that the situation in the global financial markets will be favourable enough to attract new investors through a public offering of shares or by other means, should such a decision be made. If no additional funds can be raised, the Group may be forced to suspend or cancel some or all of its planned projects.

CURRENCY RISKS

In 2011 and in 2010, approximately 57% and 52%, respectively, of Bashneft Group's gross revenue was denominated in foreign currencies. The Group faces risks related to potential unfavourable changes in exchange rates, which may have a negative impact on performance and financial situation.

Bashneft Group's currency risks are considerably reduced due to certain costs which are denominated in foreign currencies. As of December 31, 2011, about 91% of the Group's debt was denominated in roubles, about 9% was in US dollars. Current debt service liabilities are also denominated in dollars. The currency composition of revenue and liabilities serves as a natural hedge, where various factors operate in different directions and cancel each other out. A well-balanced structure of currency claims and liabilities minimizes the impact of financial risk factors on the Group's finances and performance. The Group does not use derivatives to hedge against financial risks.

Currently, the Group is monitoring currency markets in order to control potential negative consequences from changes in US dollar to Russian rouble exchange rates as this might influence financial performance.

INTEREST RATE RISK

Being a large borrower, Bashneft faces risks resulting from changes in interest rates. As of December 31, 2011, approximately 9% of the Group's debt portfolio consisted of loans denominated in US dollars, with their interest rates based on LIBOR (London Interbank Offered Rates). Growth of these interest rates may lead to an insignificant increase in the Group's cost of debt, but the impact of this increase on the Group's solvency and liquidity, as well as on its financial situation, would be immaterial. As of December 31, 2011, interest expenses related to servicing the part of the debt portfolio with floating interest rates were under 2% of the Group's total interest expenses on an annual basis. An increase in LIBOR by 1% would result in a loss of US\$ 3 million.

Bashneft has a well-balanced policy on the use of equity and debt capital. At the end of 2011, the debt-to-equity ratio was almost the same as in 2010 and amounted to 48%. Total debt to OIBDA was 1.1 at the end of 2011 and 1.4 at the end of 2010. At the end of 2011, the net debt to OIBDA ratio decreased as compared to 2010 from 0.8 to 0.6. The Group has a good credit status and a debt portfolio structure involving

different lending institutions, which ensures good interest rates. This is an important factor contributing to the reduction of borrowing cost.

INFLATION RISK

Inflation rates also influence Bashneft Group's financial situation to a certain degree. Inflation risk has the highest impact on capital expenditures and may thus affect the efficiency of investment projects. Besides, inflation causes a decrease in the value of the Group's assets denominated in roubles, including rouble deposits, domestic debt instruments and accounts receivable.

casts an inflation rate of 56%. The current and forecast inflation rate is far below the Group's and the industry's critical rates. Bashneft's key priorities include holding back cost growth and assessing inflation risks when developing investment projects and making investment decisions.

LIQUIDITY RISK

Liquidity risk is the risk that the Group might be unable to pay its liabilities when they become due. The Group is thoroughly managing and controlling liquid-

BASHNEFT CONTINUALLY MONITORS POSSIBLE RISK EVENTS RELATED TO CURRENT OPERATIONS AND INVESTMENT PROJECTS

In 2011, inflation rate amounted to 6.1% as compared with 8.8% in 2009–2010. As for 2012, the Ministry of Economic Development of the Russian Federation fore-

ity. The Group uses detailed budgeting and cash flow forecast procedures, which are necessary to pay its liabilities on time.

ABOUT THE COMPANY

● MAIN RISK FACTORS

LEGAL RISKS

Liquidity risk is the risk that the Group might be unable to pay its liabilities when they become due. The Group is thoroughly managing and controlling liquidity. The Group uses detailed budgeting and cash flow forecast procedures, which are necessary to pay its liabilities on time.

Such shortcomings include:

- discrepancies occurring between the laws, decrees of the President and the orders, decisions, decrees and other regulatory documents of the Government, the ministries or local authorities due to the rapid development of the Russian legal system. Further, several fundamental Russian laws were introduced rather recently and often lack by-laws ensuring the application of these laws;
- significant gaps in laws and regulations due to the delayed passing of laws or a lack of compliance procedures;
- the broad authority of the executive branch;
- inconsistency of courts at different levels, which fail to provide a uniform trial and appeal practice, and on some occasions, ambiguous interpretations of the Russian legislation (especially concerning trading legislation and corporate law);
- an inefficient court system.

These deficiencies may have a negative impact on the Group's ability to exercise its rights and to defend its interests against possible claims from other parties.

Bashneft continually monitors the decisions of superior courts and assesses trends in law enforcement, which are created at the level of the district commercial courts. This information is actively used not only for defending the Company's rights and legitimate interests in court, but also for resolving legal questions that arise in the course of the Group's operations.

Given the imperfect nature of Russian legislation and the instability of law application by courts of different levels, Bashneft cannot guarantee that the legal practices concerning its operations will not change. In cases of reversals of court decisions and/or retrials, the Group cannot rule out that negative consequences might arise, which may have a negative impact on the Group's performance and financial strength.

RISKS RELATED TO CHANGES IN CURRENCY REGULATION

Bashneft actively participates in foreign economic relations. As of December 31, 2011, approximately 4% of the Group's assets and 5% of its liabilities were denominated in a foreign currency. Thus, State currency regulation influences Bashneft's financial and operational performance.

Bashneft continually monitors changes in the legal framework concerning currency regulation and control, rigorously complying with applicable rules and with legitimate recommendations of supervisory bodies.

Currently the Group is not required to repatriate foreign currency revenues or sell part of foreign currency revenues in Russia. However, there is no guarantee that such legal requirements will not be introduced in the future. Bashneft has costs denominated in foreign currencies, thus there is a risk that the Group's costs may increase due to economically unjustified additional currency conversions. This may have a negative impact on the Group's performance and financial situation.

In Bashneft's export operations, no cash is credited to any current accounts in countries other than the Russian Federation. Risks relating to changes in currency legislation of the countries where the Group has accounts are therefore minimal.

TAX LEGISLATION RISKS

Bashneft is a major taxpayer whose operations are based on integrity and informational openness toward tax authorities.

The Group pays value added tax, income tax, mineral extraction tax, property tax, land value tax and other taxes payable under applicable tax legislation.

Russian tax legislation, and its application, is not sufficiently sophisticated and changes often, which may have a negative impact on the Group's performance and financial situation. There is no guarantee that no amendments will be made to the Tax Code of the Russian Federation which could make the tax system less stable and predictable.

Bashneft Group's companies pay federal, regional and local taxes. In law application, there are cases when State authorities do not give an interpretation or allow for an ambiguous interpretation. This makes local and regional tax authorities and their interpretation of certain tax regulations more important. Recently, tax authorities have tended to give a stricter interpretation of controversial points in rules and regulations, which has resulted in an increase in the number of tax claims against taxpayers. In some cases, tax authorities applied new interpretations of tax legislation retroactively. Therefore, it is possible that the Group's operations and certain financial and business operations, now fully complying with the requirements of tax authorities, may be contested in the future. There is a risk that the Group may be forced to defend its position in court if it disagrees with the decisions of local and regional tax authorities. This may cause an increase in costs.

These factors, together with a potential fiscal deficit, create the risk that additional tax payments may be imposed upon the Group. Changes in current taxes and/or introduction of new taxes might increase Bashneft's tax burden significantly, affecting its performance and financial situation.

Bashneft continually monitors changes in tax legislation and in application of existing regulations. Bashneft assesses and forecasts the possible negative impact of changes in tax legislation, trying to minimize the risks arising from such changes.

ABOUT THE COMPANY

● MAIN RISK FACTORS

LEGAL RISKS

RISKS RELATED TO CHANGES IN CUSTOMS CONTROL AND TARIFFS

Bashneft participates in foreign economic relations. For twelve months ended December 31, 2011 and December 31, 2010, revenue from export sales accounted for 57% and 52% of Bashneft Group's revenue, respectively. Therefore, the Group faces risks related to changes in foreign trade regulations of the State and in customs legislation regulating relations which concern how goods are to be cleared through customs, how the customs regime is introduced and applied and how customs duties are introduced and collected.

Customs control is performed under international agreements of the Russian Federation on customs, under the Customs Code of the Russian Federation, under the Law of the Russian Federation on Customs Tariff and other federal laws and related regulatory documents concerning regulation of foreign economic activities by the State.

Bashneft complies with the requirements of customs control, prepares all documents necessary to perform export and import operations in time and has sufficient financial and human resources to comply with customs rules and regulations. However, there is no guarantee that the rules of customs regulations will not change. The Group assumes that possible innovations implemented in this sphere could result in additional costs and difficulties for business.

Bashneft exports oil and petroleum products, which entails risk related to its dependence upon the State's regulation of customs duties on these products. In 2011 and 2010, Bashneft Group's oil exports totalled 3.6 million tonnes and 3.2 million tonnes, respectively, while exports of petroleum products and petrochemicals amounted to 9.2 million tonnes and 7.8 million tonnes. Customs duties on exports of oil, petroleum products and petrochemicals amounted to US\$ 3.3

billion in 2011 and US\$ 2.1 billion in 2010. In May 2011, according to a decision of the Government of the Russian Federation, prohibitive export tariffs on commercial and straight-run gasoline amounting to 90% of the crude oil export duty were introduced. Decree No.716 of the Government of the Russian Federation, dated August 26, 2011, introduced a new system for calculating export duties on oil and petroleum products, the 60-66-90 system. Under this new scheme, the oil export tariff was lowered by reducing the interest rate on the margin between the oil monitoring price and the oil cutoff price from 65% to 60%. Export duties on light and heavy petroleum products, which had amounted to 66% and 46.7% of the crude oil duty, respectively, were unified at 66% of the crude oil duty. The gasoline export duty remained at 90% of the crude oil tariff. Besides, the Decree stipulates an increase in the export duty on heavy petroleum products up to the crude oil duty, to take effect in 2015. The amount of Bashneft's losses caused by the new tariff scheme depends, first and foremost, on oil prices, and, according to the Group's estimates, will total about US\$ 150 million per year. There is no guarantee that export duties on oil and/or petroleum products will not grow faster than oil/petroleum products prices due to possible changes in the policy of the authorities. Such changes may have a negative impact on the Group's performance and financial strength.

RISKS RELATED TO CHANGES IN ANTIMONOPOLY LEGISLATION

According to the Group's estimates, Bashneft has market shares of 12.7%, 6.3% and 12.4% in gasoline, diesel fuel and fuel oil markets, respectively. Therefore, additional requirements aimed at protecting competition apply to the Group's operations in this sector. This creates risks related to changes in antimonopoly laws.

Presently, there is a risk that antimonopoly legislation and law enforcement might become stricter with respect to oil companies. The Government of the Russian Federation has initiated a number of amendments to legislation that make procedures for proving violations significantly easier and give additional powers to regulatory bodies.

RISKS RELATED TO LAWS ON MINERAL RIGHTS AND LICENSING

Most hydrocarbon production licences held by the Group are valid until 2014 - 2030. Licence agreements provide for a possible renewal until the commercial development of the oil and gas fields is completed, provided that the licence holder complies with the conditions of the licence agreement. The Group believes that it complies with all significant aspects of the conditions under the licence agreements and, if necessary, will be able to renew the licences for the fields under development. No licences have ever been revoked from the Group. At the same time, there is no guarantee that the Group's licences won't be suspended, changed or revoked before they expire. Suspension, limitation or revocation of licences important for the Group's operations may have a negative impact on Bashneft's performance and financial situation.

In February 2011, after an auction that took place in December 2010 and based on decree No.152-p of the Government of the Russian Federation, dated February 7, 2011, the Federal Subsoil Resources Management Agency (Rosnedra) granted JSOC Bashneft the licence for the federal subsoil area including the Trebs and Titov oilfields. JSOC Bashneft paid 18.476 billion roubles for the licence. Bashneft's licence is valid for 25 years. In April 2011, JSOC Bashneft and OJSC Lukoil signed an agreement on the creation of a joint venture to develop these oilfields. In December

2011, the licence was transferred to LLC Bashneft-Polyus, which was a wholly owned subsidiary of JSOC Bashneft as of the reissue date. Besides, in December 2011, the joint venture agreement between JSOC Bashneft and OJSC Lukoil and the purchase agreement, under which OJSC Lukoil bought a 25.1% share in LLC Bashneft-Polyus, were signed.

At the beginning of March 2012, a State Duma deputy sent a request to the Government of the Russian Federation, asking to verify the legality of the transfer of the licence for these fields to LLC Bashneft-Polyus. On March 14, 2012, a minority shareholder of JSOC Bashneft brought an action against Rosnedra in the Moscow Commercial Court, claiming that Rosnedra's order to transfer the licence to LLC Bashneft-Polyus was invalid. In the course of investigation of the claim, on May 21, 2012, a representative of the Federal Subsoil Resources Management Agency announces that the order to transfer the licence to LLC Bashneft-Polyus had been cancelled on May 18, 2012. As a result of this decision, the license shall be returned to JSOC Bashneft. The Moscow Commercial Court made a decision to discontinue the proceedings.

The transfer of license from JSOC Bashneft to LLC Bashneft-Polyus and the subsequent sale of a 25.1% share in LLC Bashneft-Polyus to OJSC Lukoil were aimed at promoting the efficient implementation of a large-scale project involving an experienced partner who owns well-developed infrastructure in the region. These activities served the interests of both JSOC Bashneft's and OJSC Lukoil's shareholders.

JSOC Bashneft will firmly stick to the decisions of state regulatory bodies and will fully comply with the license requirements for the development of the Trebs and Titov oilfields. JSOC Bashneft intends to discuss with OJSC Lukoil the possible ways of further cooperation in the development of the Trebs and Titov oilfields.

ABOUT THE COMPANY

● MAIN RISK FACTORS

LEGAL RISKS

JSOC Bashneft estimates the possibility of an unfavourable course of events in connection with the licence for the Trebs and Titov oilfields as low but does not rule out the possibility that the development licence may be revoked, suspended or limited. Such a decision could have a negative impact on Bashneft's performance and financial situation, given the costs already incurred in order to purchase the licence, the

works that have been performed and the arrangements that have been made. This may also make JSOC Bashneft less competitive, influencing its ability to build up hydrocarbon reserves and boost production in the future.

The Group does not hold any licences for operations in foreign markets, thus there are no licence risks related to foreign markets.

PRODUCTION RISKS

ENVIRONMENTAL RISKS

Bashneft Group's operations are often potentially hazardous and entail the risk of civil liability for damage to environment. The risk is further increased by emergency response costs.

The Group accepts risks related to environmental responsibility. Bashneft's environmental policy is aimed at complying with the requirements of applicable environmental legislation by meeting all environmental regulations. To achieve this, Bashneft makes sizeable investments in environmental protection, including technologies which minimize adverse environmental impact. In 2011, these investments amounted to 2.1 billion roubles, in 2010 – 1.9 billion.

These activities significantly reduce the probability of risk events related to environmental pollution.

Stricter environmental protection requirements and the need for emergency response activities in case of industrial accidents may have a significant negative impact on the Group's financial performance.

Financial performance may be indirectly influenced by a damaged reputation and by actions of authorities in case of such risk events. There is a risk that production facilities in some of the Group's operating regions won't meet new environmental standards, which will result in additional upgrade costs and thus affect financial performance.

RISK OF ACCIDENTS DURING OIL PRODUCTION, HYDROCARBON REFINING AND MARKETING PROCESSES

Bashneft's operations involve operating technologically complex production equipment. Emerging risks related to failure of production equipment may stop production facilities and prevent the Group from achieving planned operating and financial results, may cause damage to human health and result in liability to third parties.

To minimize the consequences of such risks, Bashneft uses an integrated insurance system includ-

ABOUT THE COMPANY

● MAIN RISK FACTORS

PRODUCTION RISKS

ing property insurance, liability insurance, etc. This system is considered to be one of the most important mechanisms ensuring the Group's steady strategic development in the long term, protecting the Group against non-refundable losses resulting from industrial accidents.

Bashneft's insurance activities are based on uniform principles and an integrated insurance process methodology and are comprehensive. They include a system for monitoring insurance risks, insurance contracts and insurance quality, based on a list of requirements and criteria for assessing the quality (reliability) of insurance companies and their services. In 2010 and 2011, a technical examination of Bashneft Group's engineering risks was conducted. This examination showed that overall the Group's risks of property loss did not exceed the world's average for oil production, refining and petrochemical companies.

Risk management measures resulted in Bashneft's high-quality insurance protection, effectively protecting all rights and interests of the shareholders concerning the safeguarding of assets and prevention of non-refundable losses caused by industrial accidents. Further, the Group's industrial safety system involves continuous equipment monitoring, an equipment upgrade programme, measures for preventing industrial

accidents and further reduction of risk levels.

Corporate policies on industrial accident prevention are being continuously improved and shall minimize the possibility of risk of emergency situations during the Group's operations.

However, there is no guarantee that such emergency situations will not arise at one of the Group's facilities where the required compensation will be so great that will exceed Bashneft's insurance coverage. This may have a negative impact on the Group's performance and financial strength.

CONSTRUCTION RISKS

When implementing investment projects aimed at oilfield development, upgrading its refining capacities, constructing filling stations, etc., the Group faces the risk that facilities may not be brought into operation in time. Key factors contributing to this risk are planning errors, contractor performance and risks caused by the condition of infrastructure.

Bashneft considers the management of this risk a high priority. Therefore, the Group thoroughly prepares projects, selects reliable suppliers and contractors, acquiring guarantees that they will fulfil their obligations, and creates partnerships with infrastructure operators.

ABOUT THE COMPANY

● MAIN RISK FACTORS

CORRUPTION RISK

JSOC Bashneft follows a zero tolerance policy towards all forms and manifestations of corruption. The President and all senior executives of the Company establish an ethical standard of zero tolerance to corruption in any form at any level setting an example by their own behaviour.

The Company has adopted an Anti-corruption Policy. Its aim is to define the main rules, standards and principles for preventing, combating and detecting cases of corruption or bribery. There is a

Company hotline for reporting committed or potential violations.

JSOC Bashneft continually monitors corruption risks. Based on risk analysis results, the Company has developed and implemented reasonable procedures for preventing corruption that comply with international requirements. The Company also monitors their implementation.

These procedures include due diligence, which involves an assessment of the contractors' tolerance to bribery.

ABOUT THE COMPANY

● DISCLOSURE OF INFORMATION

As for the disclosure of information, JSOC Bashneft is guided by the Federal Law on the Securities Market, by the Federal Law on Joint-Stock Companies, by the Regulations on Information Disclosure by Securities Issuers approved by order No.11-46/pz-n of the Federal Financial Markets Service, dated October 4, 2011. The Company is also guided by the requirements of stock exchanges where its shares are traded and by other requirements and regulations.

On October 3, 2011, JSOC Bashneft's Board of Directors adopted the Regulation on Information Policy of JSOC Bashneft.

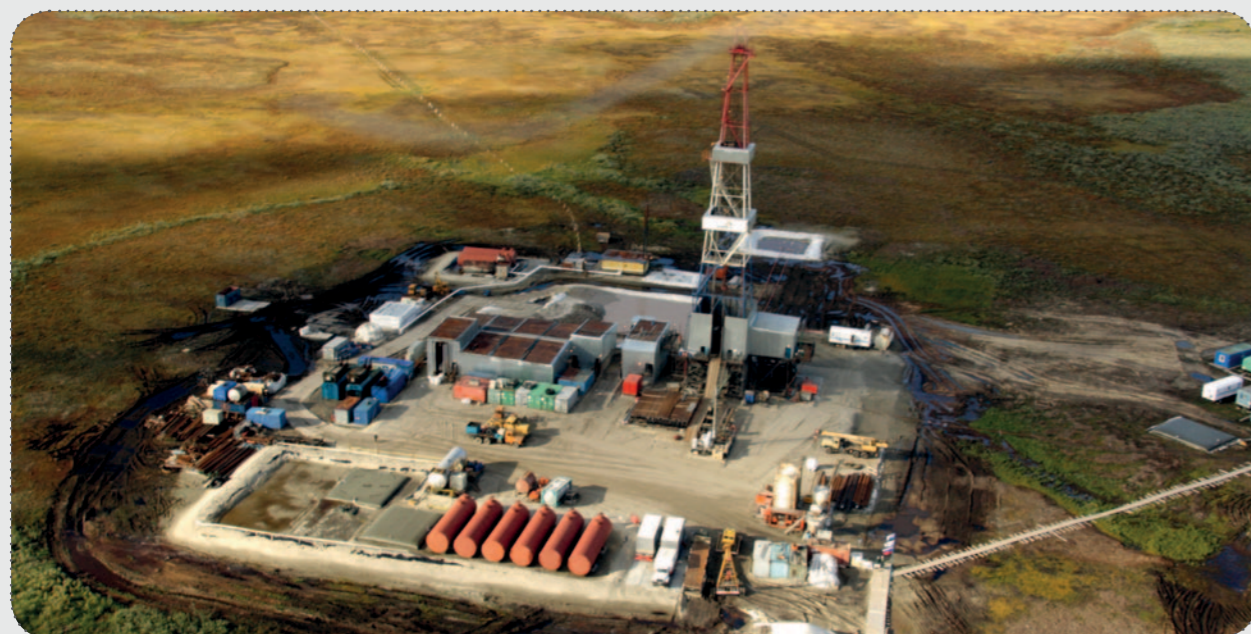
JSOC Bashneft's information disclosure policy is based on the following principles: regularity, immediacy, accessibility, reliability and integrity and completeness. The Company ensures a timely and complete disclosure of information about all aspects of its operations to the stakeholders (except when the information constitutes trade secret).

The main channel of information disclosure is JSOC Bashneft's corporate

website (<http://www.bashneft.ru>, <http://www.bashneft.com>). The website contains information about material facts, events, governance structure and financial and operating results of the Company. The Charter and other internal documents, annual reports, quarterly financial reports under Russian Accounting Standards, quarterly IFRS financial reports, press releases, presentations, the corporate newspaper, data on affiliated persons and other information which could possibly influence the value of JSOC Bashneft's shares are also available on the website. The corporate site is updated regularly.

The Company also organizes meetings with investors and shareholders, telephone conferences and press conferences. At a request from shareholders, the Company provides copies of internal documents, documents and materials concerning the General Meeting of Shareholders, lists of affiliated persons and other documents as required by the Federal Law on Joint-Stock Companies.

REPORT OF THE BOARD OF DIRECTORS ON THE RESULTS OF DEVELOPMENT IN THE KEY AREAS OF BUSINESS



IN 2011, THE BOARD OF DIRECTORS HELD 24 MEETINGS: SEVENTEEN IN THE FORM OF JOINT PRESENCE AND SEVEN BY ABSENTEE VOTING.

In the reporting period, the Board of Directors focused its attention on the following issues: integrated strategic

development of the Company, corporate structure and corporate governance, financial and economic operations, investment activities, human resources policy and other topics within its competence, such as approval of transactions and revised versions of regulations and rules.

IN TERMS OF PRODUCTION, BASHNEFT'S DEVELOPMENT STRATEGY INVOLVES STABILIZATION OF OIL PRODUCTION AT EXISTING OILFIELDS AT A LEVEL OF 15 MILLION TONNES PER YEAR AND LAUNCHING PRODUCTION AT THE TREBS AND TITOV OILFIELDS

REPORT OF THE BOARD OF DIRECTORS ON THE RESULTS OF DEVELOPMENT IN THE KEY AREAS OF BUSINESS

● STRATEGIC DEVELOPMENT OF JSOC BASHNEFT

At the meeting on December 26, 2011, the Board of Directors of JSOC Bashneft approved the Development Strategy of the Group until 2016. The Strategy is aimed at increasing Bashneft's value by boosting hydrocarbon production and building up oil and gas reserves, diversifying production assets and implementing the programme for refinery upgrades, developing the Group's own retail network in various regions of Russia and enhancing the efficiency of the entire value chain.

In terms of production, Bashneft's Development Strategy involves stabilization of oil production at existing oilfields at a level of 15 million tonnes per year and launching production at the Trebs and Titov oilfields. At the same time the Group is planning to implement a large-scale geological exploration programme in its key operating region, the Republic of Bashkortostan, and hopes to acquire licences for a number of oilfields in other regions. After 2016, the Group's hydrocarbon reserves are expected to increase significantly due to these measures, including exploration of unconventional reserves in the Republic of Bashkortostan. In the sphere of refining and marketing, the Strategy involves refinery upgrades, which will increase the competitiveness and

value of manufactured petroleum products, expansion of the Company's own retail network as well as enhancement of efficiency of all marketing channels and the development of export logistics. The Board of Directors also approved the Group's Business Plan for 2012 including a capital investment programme. The Board of Directors regularly discusses implementation of the Strategy in the main areas of operations at its meetings.

In February 2012, the Board of Directors discussed implementation of the action plan on monitoring the Company's key material flows. The action plan, which was launched at the end of 2010, includes the minimization of losses during production, transportation and storage of petroleum products, an increase in the accuracy of metering commercial and interplant flows of raw materials, semi-finished and finished products and more transparent cost accounting.

Under the programme for development of JSOC Bashneft's retail network and introduction of a new corporate style, the Board of Directors approved the concept of filling stations design and a schedule of rebranding measures.

REPORT OF THE BOARD OF DIRECTORS ON THE RESULTS OF DEVELOPMENT IN THE KEY AREAS OF BUSINESS

CORPORATE STRUCTURE

In March 2012, the Company's Board of Directors made a decision to reorganize the Company through legal merger of its subsidiaries, OJSC Ufimsky refinery plant, OJSC Novoil, OJSC Ufaneftekhim, OJSC Bashkirnefteprodukt, and OJSC Orenburgnefteprodukt, with Bashneft. The Board of Directors also approved an Agreement on the legal merger of the aforementioned subsidiaries and conversion ratios for the merger. The Board of Directors also set the prices for their ordinary and preferred shares to be repurchased at the request of the shareholders who either did not cast a vote, or voted against the reorganization. In April 2012, the Agreement on legal merger was approved at the extraordinary general meeting of shareholders of JSOC Bashneft and extraordinary general meetings of shareholders of the companies to be merged with Bashneft. The consolidation is aimed at increasing the transparency of the Company's operations as well as enhancing its efficiency and the quality of corporate governance.

The Board of Directors also approved an action plan to hand over the powers of the sole executive body of OJSC Ufaorgsintez to the managing company OJSC United Petrochemical Company, the establishment of which was approved by the Board of Directors in September 2011.

The Board of Directors approved the implementation status of the Company's functional strategy on managing oilfield service companies and the measures for implementing it. In accordance with the strategy, Bashneft will establish 100% subsidiaries that will operate as service companies forming an indispensable part of the production process (such as refinery service, communications and IT, research and development, and energy service).

The strategy also involves establishing an oilfield service holding company in the current year on the basis of market-oriented oilfield service companies that specialize in drilling, well workover, oilfield equipment manufacturing, technical support for production, capital and road construction and transport. In the future Bashneft is planning to divest the companies which form part of the holding company in order to enhance their operational efficiency and create a competitive environment in line with international practices.

In accordance with the decision made by the Board of Directors in May 2012, the stake of JSOC Bashneft and its subsidiaries (OJSC Ufimsky refinery plant, OJSC Novoil, OJSC Ufaneftekhim) in the authorized capital of OJSC Sistema-invest increased to 49.4%. This

was achieved by converting the shares of CJSC Bashkir United Energy Systems, CJSC UNKH-EnergolInvest, CJSC UNPZ-EnergolInvest and CJSC Novoil-EnergolInvest owned by Bashneft and its subsidiaries into the shares of OJSC

tal). As a result of the merger with OJSC Sistema-invest, the aforementioned companies (CJSC Bashkir United Energy Systems, CJSC UNH-EnergolInvest, CJSC UNPZ-EnergolInvest and CJSC Novoil-EnergolInvest) ceased to exist.

THE MAIN OBJECTIVES OF THE CONSOLIDATION INCLUDE ENHANCING EFFICIENCY THROUGH IMPROVEMENT OF CORPORATE STRUCTURE, INCREASING THE LIQUIDITY OF JSOC BASHNEFT'S SHARES, PROTECTING THE RIGHTS OF MINORITY SHAREHOLDERS, INCREASING THE TRANSPARENCY OF BASHNEFT'S OPERATIONS AND ENHANCING THE QUALITY OF CORPORATE GOVERNANCE

Sistema-invest. As a result of the conversion, Bashneft's stake in the authorized capital of OJSC Sistema-invest totals 26.7%, its stake of OJSC Ufimsky refinery plant amounts to 7.3%, OJSC Novoil holds a 7.3% stake and the stake of OJSC Ufaneftekhim represents 8.1% (total of 49.4% of the authorized capi-

This decision enabled JSOC Bashneft to pursue its strategy on assets optimization by increasing its stake in the authorized capital of OJSC Sistema-invest, which has interests in Bashneft's subsidiaries.

REPORT OF THE BOARD OF DIRECTORS ON THE RESULTS OF DEVELOPMENT IN THE KEY AREAS OF BUSINESS

CORPORATE MANAGEMENT

In the reporting period the Company's Board of Directors worked consistently to revise internal documentation in a timely and precise manner. Upon the recommendation of the Board of Directors, the General Meetings of Shareholders approved the amendments to the Company's Charter. At the meetings held on January 19 and October 3, 2011, it was decided to convene Extraordinary General Meetings of Shareholders with a relevant agenda. The new version of the Charter was prepared in line with the amendments to the legislation of the Russian Federation which regulates operations of the open

- **THE ANTI-CORRUPTION POLICY OF JSOC BASHNEFT;**
- **THE CODE OF CORPORATE CONDUCT OF JSOC BASHNEFT;**
- **THE CODE OF ETHICS OF JSOC BASHNEFT;**
- **REGULATIONS ON INSIDER INFORMATION OF JSOC BASHNEFT;**
- **REGULATION OF THE INFORMATION POLICY OF JSOC BASHNEFT;**
- **REGULATIONS FOR THE CORPORATE SECRETARY OF JSOC BASHNEFT** (new version);
- **REGULATIONS ON BONUSES FOR EMPLOYEES OF JSOC BASHNEFT** (new version).

Compliance with the aforementioned regulations was regularly discussed at the meetings of the Board of Directors.

In July 2011, the Board of Directors approved the Regulations on Dividend

joint-stock companies in relation to the dates of and procedures for dividend payment and determining the number of the Company's authorized shares. A number of adjustments are related to the Group's operational development.

Over the year the Company's Board of Directors made decisions on improving organizational structure and corporate governance (including reducing the membership of the Management Board from thirteen to nine members) and approved the following internal documents:

Policy of JSOC Bashneft, which was developed in compliance with legislation of the Russian Federation, the Charter and internal documents of the Group. The Regulations stipulate the main approaches of the Board of Direc-

tors to developing recommendations on the size of dividends of the Company's shares, the procedure and form of payment while taking into consideration the interests of all groups of shareholders.

In the reporting period, the Company attached great importance to the selection and appointment of employees to the Company's regulating bodies.

In January 2012, the Board of Directors approved the Standard on the Credit Policy of JSOC Bashneft in order to improve corporate governance and enhance the transparency of the decision-making process on the issues of debt and cash management. The Standard outlines the Company's policy with respect to the distribution of authority when making decisions on obtaining credits and loans, issuing and discounting bills, using and providing guarantees and pledges, accepting guarantees and letters of credit, placing funds in bank deposits, granting loans, and investing in securities.

Under the aforementioned Standard, the Company's President has a right to

conduct such transactions on the Company's behalf provided that the transaction amount does not exceed US\$ 100 million. Otherwise, the decision on concluding/approving such deals is taken in accordance with the Company's Charter.

In accordance with the Charter, the Company cannot conclude deals which include the following:

- Investments in the shares and interests of investment funds unless they are controlled by the companies of the Group;
- Operations with any kinds of derivatives except for risk hedging instruments;
- Operations with precious metals and other commodities, including operations with commodity derivatives or warehouse certificates, such as using items which contain precious metals as collateral or as a metal to be put into an account or deposit;
- Financial instruments with low capital protection;
- Investments in instruments if their issuers or issuers of their underlying assets are insolvent or bankrupt or if there is a risk of a default, bankruptcy or liquidation.

REPORT OF THE BOARD OF DIRECTORS ON THE RESULTS OF DEVELOPMENT IN THE KEY AREAS OF BUSINESS

● FINANCIAL AND INVESTMENT ACTIVITIES

On July 22, 2011, the Board of Directors approved the decision to issue securities and prospectuses for series 04 and 05 bonds and series BO-01, BO-02, BO-03 and BO-04 exchange-traded bonds. Series BO-01 exchange-traded bonds (identification number of the issue 4B02-01-00013-A as of August 29, 2011) were issued on December 6, 2011.

The report on the issue of series 04 corporate bonds was approved. At the meeting in October 2011, the Company's Board of Directors decided to

acquire series 01, 02 and 03 certificated interest-bearing non-convertible bearer bonds with a par value of 1,000 roubles (state registration numbers 4-01-00013-A as of November 17, 2009, 4-02-00013-A as of November 17, 2009, and 4-03-00013-A of November 17, 2009, respectively).

At a scheduled meeting in October 2011, the Board of Directors discussed the results of implementation of investment projects and programmes for long-term capital investments since 2010.

NUMBER OF MEETINGS OF THE BOARD OF DIRECTORS

	2009	2010	2011
Number of the Board meetings in the form of joint presence	7	13	17
Number of the Board meetings by absentee voting	15	11	7
Number of issues according to the schedule of the Board meetings	18	116	109
Number of issues considered at the Board meetings	57	161	258

REPORT OF THE BOARD OF DIRECTORS ON THE RESULTS OF DEVELOPMENT IN THE KEY AREAS OF BUSINESS

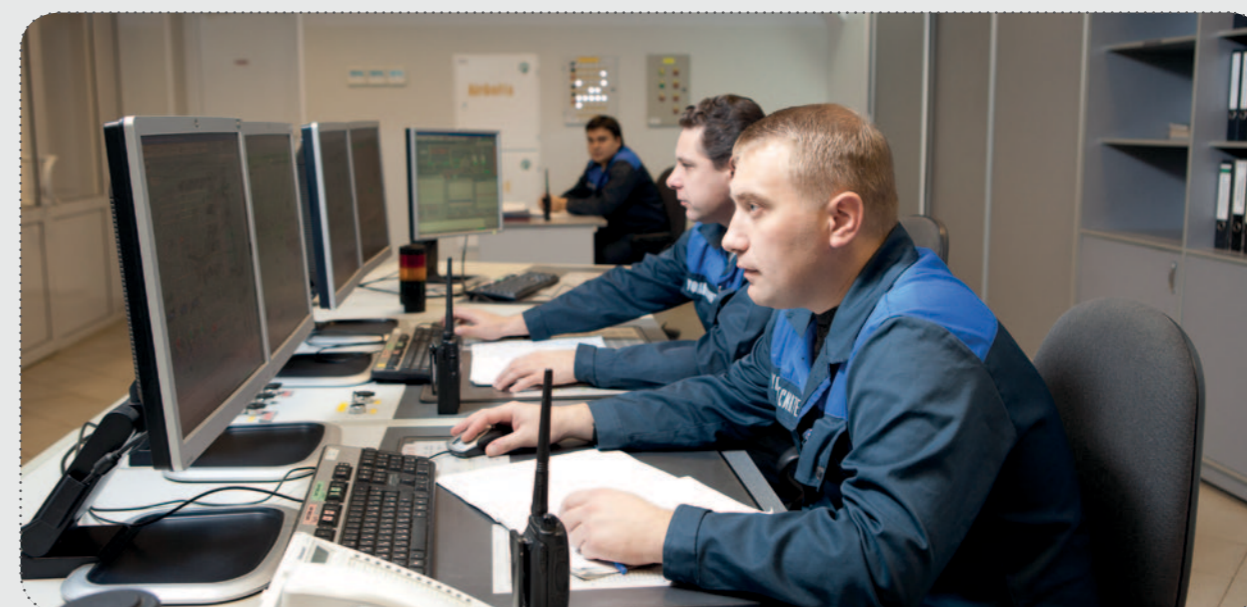
● HUMAN RESOURCES

In February 2012, the Board of Directors examined and approved the Group's functional strategy on human resources management. Bashneft's policy involves recruiting, training and retaining key employees who contribute to the Group's shareholder value. At present, Bashneft successfully implements modern HR processes, such as recruitment, employee training and development systems and employee incentive programmes.

The Group's key strategic goals in the HR sphere include meeting the demand for highly qualified personnel by develop-

ing its internal talent pool, training young specialists and working with students, as well as developing a comprehensive incentive programme for improving employee performance.

In November 2011, the Board of Directors considered the Company's HSE strategy and identified the following priorities in the sphere: protecting the employees' life and health, ensuring their safety in case of emergencies; addressing environmental issues; ensuring that the Company's HSE performance meets the strictest standards.





RESERVES:

AS OF DECEMBER 31, 2011, THE PROVED RESERVES OF BASHNEFT GROUP AMOUNTED TO 1,983.5 MILLION BARRELS OF OIL, WHICH EXCEEDS THE LEVEL OF 2010 BY 3.8%. THE RESERVE REPLACEMENT RATION TOTALED APPROXIMATELY 165%. THE RESERVES-TO-PRODUCTION RATIO IS 18 YEARS.



REFINING:

THE STRUCTURE OF BASHNEFT GROUP INCLUDES THREE REFINERIES: OJSC UFANEFTKHM, OJSC UFIMSKY REFINERY PLANT, OJSC NOVOIL, AS WELL AS A PETROCHEMICAL PLANT, OJSC UFAORGSINTEZ. THE REFINERIES' INSTALLED CAPACITY TOTALS 24.1 MILLION TONNES. THE NELSON INDEX TOTALED 8.3, WHICH IS ONE OF THE BEST RESULTS IN RUSSIA. IN 2011, BASHNEFT GROUP REFINED 21.1 MILLION TONNES OF CRUDE OIL AT ITS REFINERIES. REFINING DEPTH DURING THE YEAR AMOUNTED TO 85.9%. THE LIGHT PRODUCT YIELD IN THE REFINERIES AMOUNTED TO 59.95%.



MARKETING:

IN 2011, THE GROUP DELIVERED APPROXIMATELY 15.1 MILLION TONNES OF CRUDE OIL, INCLUDING 10.4 MILLION TONNES OF CRUDE OIL SUPPLIED TO UFA GROUP FOR REFINING. EXPORT SALES OF PETROLEUM PRODUCTS AND PETROCHEMICALS AMOUNTED TO 9.2 MILLION TONNES, EXCEEDING THE AMOUNT OF 2010 BY 17.7%. WHOLESALSALES OF PETROLEUM PRODUCTS AND PETROCHEMICAL ON THE DOMESTIC MARKET AMOUNTED TO 9.1 MILLION TONNES, WHICH IS 12.7% LESS THAN IN THE PREVIOUS YEAR. THE MAIN REASON FOR THIS IS THE CONSIDERABLE GROWTH OF THE RETAIL NETWORK. RETAILS SALES THROUGH OUR OWN AND PARTNER FILLING STATIONS IN 2011 AMOUNTED TO 1.0 MILLION TONNES OF PETROLEUM PRODUCTS AND PETROCHEMICALS, THUS EXCEEDING THE AMOUNT OF 2010 BY 66,1%. IN THE ACCOUNTING YEAR, THE GROUP INCREASED THE NUMBER OF ITS FILLING STATIONS TO 485.

 OVERVIEW OF OPERATIONS

OVERVIEW OF OPERATIONS

LICENSING

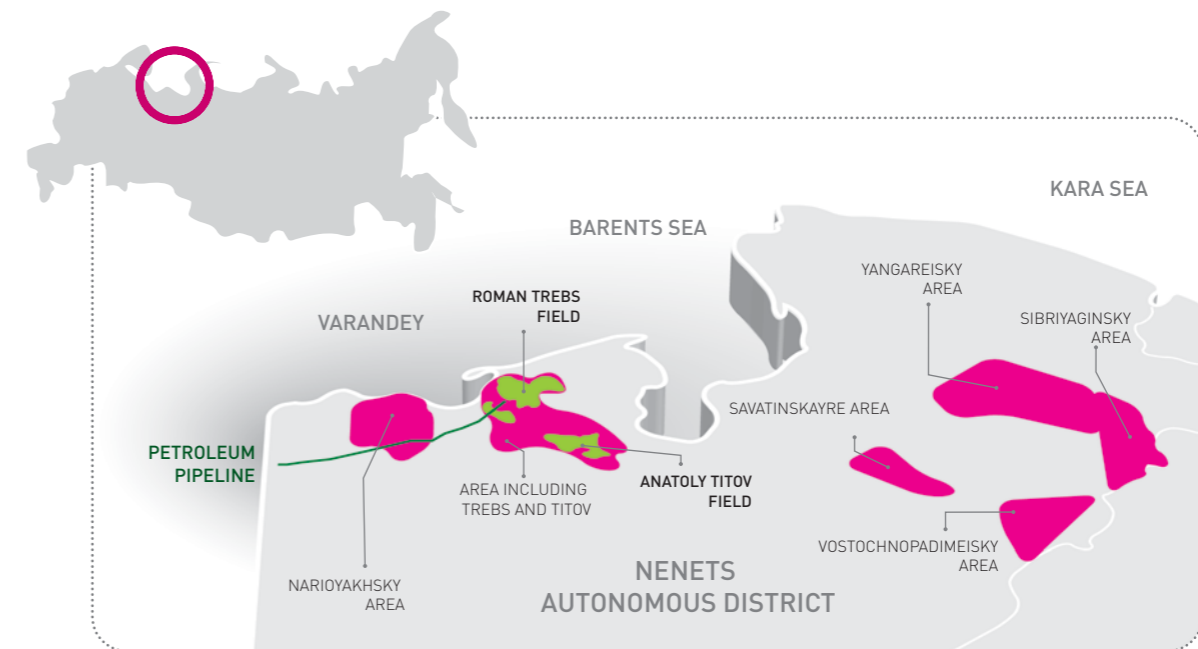
As of December 31, 2011, JSOC Bashneft held 309 development licences, including 197 licences for oil and gas production, 22 licences for geological studies, exploration and production of hydrocarbons, two licences for geological studies, prospecting and evaluation of hydrocarbon deposits and 88 other licences not related to hydrocarbon production. Most of JSOC Bashneft's

(e.g., the Republic of Bashkortostan and the Nenets Autonomous District). This expansion is an integral part of JSOC Bashneft's long-term development strategy.

In 2011, the Company obtained seven development licences. In the end of November 2011, as a result of auctions, three development licences

THE COMPANY IS CONSTANTLY EXPANDING ITS PORTFOLIO OF GEOLOGICAL EXPLORATION AND PRODUCTION PROJECTS BY OBTAINING NEW LICENCES IN STRATEGICALLY IMPORTANT REGIONS. THIS EXPANSION IS AN INTEGRAL PART OF JSOC BASHNEFT'S LONG-TERM DEVELOPMENT STRATEGY. IN 2011, THE COMPANY OBTAINED SEVEN DEVELOPMENT LICENCES

LOCATION OF BASHNEFT'S AREAS OF SUBSURFACE RESOURCES



licences for hydrocarbon production are valid until 2014-2030.

The Company is constantly expanding its portfolio of geological exploration and production projects by obtaining new licences in strategically important regions

for geological studies, exploration and production of hydrocarbons were obtained for the Vostochno-Padimeiskiy (D1 resources totalling 0.6 million tonnes), Savatinskiy (D1 resources totalling 1.6 million tonnes) and Nariyakhskiy (D1 resources

totalling 5 million tonnes) areas, as well as for the area including the R.Trebs and A.Titov fields, the auction for which was held at the end of 2010. These areas are located in the Nenets Autonomous District. In August 2011, two licences for geological studies, prospecting and evaluation of hydrocarbon fields

were obtained without tendering for the Yarkeevskiy and Uzharovskiy areas in the Republic of Bashkortostan. A development licence for hydrocarbons production was also obtained for the Opalovoye field in the Republic of Bashkortostan, following the discovery of the field.

GEOGRAPHY OF ACTIVITIES



OVERVIEW OF OPERATIONS

LICENSING

IN FEBRUARY 2011, the Russian Federal Subsoil Resources Management Agency granted JSOC Bashneft a licence for a subsoil area of federal significance, including the R.Trebs and A.Titov oilfields. The area of the field is 2,151 sq.km. The total recoverable C1+C2 reserves under Russian classification are estimated at 140.1 million tonnes. It is expected that oil production at the Roman Trebs field will start in 2013, and peak production will be achieved by 2018. The cost of the area of federal significance, including the Trebs and Titov fields, was paid in 2010 and totalled 18,476 million roubles and the licence was obtained in 2011.

IN DECEMBER 2011, JSOC Bashneft won the development licence auction for the Elanskiy (area — 246.72 sq.km, recoverable C3 reserves — 1,775 million tonnes) and Znamenskiy-1 (area — 5.15 sq.km, recoverable C1 reserves — 0.341 million tonnes, C2 reserves — 0.264 million tonnes) areas in the main production region, the Republic of Bashkortostan. The Znamenskiy-1 area is an extension of the Znamenskoye field developed by Bashneft Group.

The cost of new areas in the Nenets Autonomous District and the Republic of Bashkortostan acquired at auctions in 2011 totalled 503.1 million roubles.

The Company continued to expand the portfolio of licences in 2012. In January 2012, JSOC Bashneft won the licence auction for the Priiskiy subsoil block in the Republic of Bashkortostan. The one-time payment for the Priiskiy block amounted to 17.0 million roubles. The auction commission also recommended issuing a five-year licence to Bashneft for geological studies of the Zapadno-Kungakskiy subsoil block in the Republic of Bashkortostan without one-time payment because the auction for geological studies, prospecting, exploration and production of hydrocarbons in this area was declared void. The Zapadno-Kungakskiy block is located in the Askinskiy municipal district of the Republic of Bashkortostan. In the North the area borders with Biavashskoye oilfield, which was discovered earlier and the development licence for which is also held by JSOC Bashneft.

The new acquisitions in the Republic of Bashkortostan comply with the strategy for expansion of the resource base in the main operating region. It is expected that efficient implementation of a large-scale geological exploration programme in the Republic of Bashkortostan will enable Bashneft to maintain the planned annual production volume of 15 million tonnes in the medium term.

IN FEBRUARY 2012, JSOC Bashneft was declared the winner of competition for the mineral rights of the Yangareiskiy and Sibriyaginsky subsoil blocks in the Nenets Autonomous District. The total cost of the licences amounted to 4,513.3 million roubles. The Yangareiskiy (area — 2,268.0 sq.km, D1L reserves — 8.4 million tonnes, D2 reserves — 17.8 million tonnes) and Sibriyaginsky (area — 1,118 sq.km, D1L reserves — 0.8 million tonnes, D1 reserves — 0.3 million tonnes, D2 reserves — 0.9 million tonnes) blocks are located in the north-eastern part of the Nenets Autonomous District. They are situated about 200 km to the east of the Trebs and Titov fields and 20-80 km to the north-east of the Savatinskiy and Vostochno-Padimeiskiy subsoil blocks, licences for which were obtained at auctions in 2011.

The acquisition of subsoil blocks in the Nenets Autonomous District proves that investments in the north of the Timano-Pechora form part of a long-term strategy that is not confined to the implementation of the large-scale project at the Trebs and Titov fields. Bashneft plans to expand the resource base in this region by exploring the acquired areas, which the Group's geologists expect to contain considerable oil reserves.

IN 2011, the Company made amendments to its current licences. 11 supplementary agreements on oil and gas production licences and on licences for geological studies, exploration and production of hydrocarbons were registered.

IN 2011, the development licences for the Aksenovskiy and Zapadno-Veselovskiy blocks were returned as they were found to be unproductive. At the beginning of 2012, the Company submitted an application for waiver of its development licence for geological studies, exploration and production of hydrocarbons at the Borovoy subsoil block which was considered to be unproductive. From January 1, 2012, the Company returned licences for the Aznaevskoye and Goncharovskoye fields as their development was unprofitable. The Company submitted an application for suspending its development licence for the Karakulskoye field until January 1, 2014.

JSOC Bashneft ensures that its operations meet the high standards of the licence holder's responsibility and the principle of strict compliance with all licence requirements. In 2011, supervisory bodies in the sphere of mineral rights did not perform checks on the Group's compliance with licence requirements and its environmental activities.

MOVEMENT IN LICENSES OF JSOC BASHNEFT

TYPE OF LICENCE	DECEMBER 31, 2010	ISSUED	REVOKED	DECEMBER 31, 2011
Oil & gas production	196	1	—	197
Oil & gas prospecting and evaluation	1	2	(1)	2
Geological studies, exploration and production of hydrocarbons	19	4	(1)	22
Other	75	15	(2)	88
TOTAL	291	22	(4)	309

* Licences for the Aznaevskoye and Goncharovskoye oilfields were returned on January 1, 2012, as the development of these fields is unprofitable.

** The table contains only the data on licences of JSOC Bashneft and LLC Bashneft-Polyus. The reserves of other subsidiaries total about 1% of the Group's reserves.

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LICENCES OF BASHNEFT GROUP BY OPERATING REGIONS, AS OF DECEMBER 31, 2011

	OIL & GAS PRODUCTION	OIL & GAS PROSPECTING AND EVALUATION	GEOLOGICAL STUDIES, EXPLORATION AND PRODUCTION OF HYDROCARBONS
Republic of Bashkortostan	193	2	16
Nenets Autonomous District	—	—	4
Republic of Tatarstan	1	—	—
Khanty-Mansi Autonomous District (Yugra)	3	—	1
Orenburg Region	—	—	1
TOTAL	197	2	22

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GROWTH

OVERVIEW OF OPERATIONS

● GEOLOGICAL EXPLORATION

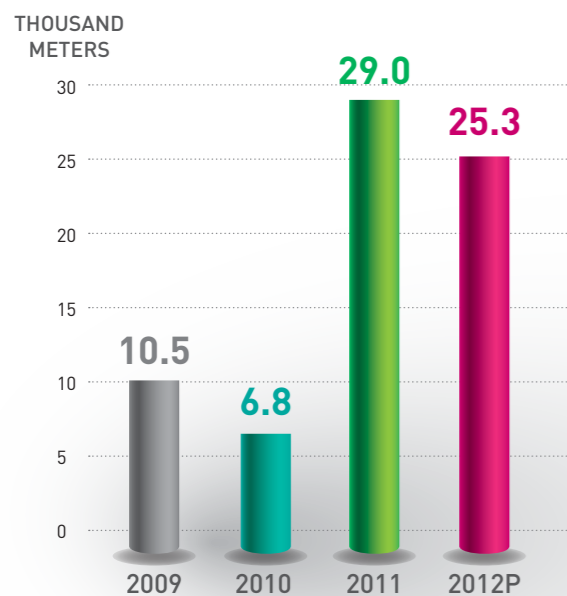
Efficient geological exploration, including seismic survey, deep exploration drilling, geochemical studies and specialized research, is key to achieving the Group's strategic goals of replenishing its resource base and increasing the recovery factor of the existing oilfields. Special attention has been paid to ensuring environmental safety and introducing advanced technologies.

THE MAIN REGIONS OF OIL EXPLORATION INCLUDE:

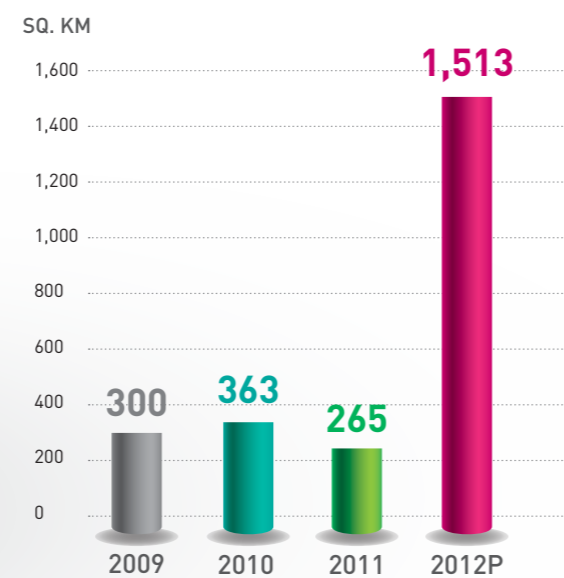
- THE REPUBLIC OF BASHKORTOSTAN,
- THE NENETS AUTONOMOUS DISTRICT,
- THE KHANTY-MANSI AUTONOMOUS DISTRICT (YUGRA),
- THE ORENBURG REGION.

In 2011, prospecting and exploration drilling (without further exploration) totalled 29,000 m in comparison with 6,800 m in 2010. A substantial increase in prospecting and exploration drilling

TRENDS IN PROSPECTIVE AND EXPLORATION DRILLING



TRENDS IN 3D SEISMIC EXPLORATION



was determined by the following factors:

- Formations were prepared based on the data of previous years' seismic surveys;
- Exploration drilling at the Trebs and Titov fields was carried out;
- Exploration plans for existing oilfields for 2009-2010 were reviewed and adjusted,

which substantially reduced exploration drilling volumes during these years.

In 2011, mineral exploration was carried out mainly in two regions: in the Republic of Bashkortostan and at the Roman Trebs field in the Nenets Autonomous District.

KEY METRICS OF GEOLOGICAL EXPLORATION OF BASHNEFT GROUP

METRIC	UNIT	ACTUAL, 2010	ACTUAL, 2011	PLAN, 2012
EXPLORATION DRILLING	ths m	6.8	29.0	25.3
in the Republic of Bashkortostan	ths m	6.8	24.8	16.8
In the Nenets Autonomous District	ths m	–	4.2	8.5
WELLS DRILLED	unit	2	14	10
in the Republic of Bashkortostan and the Orenburg Region	unit	2	13	8
In the Nenets Autonomous District	unit	–	1	2
WELLS COMPLETED	unit	2	7	13
in the Republic of Bashkortostan	unit	2	7	–
· of which were productive	unit	2	3	13
in the Nenets Autonomous District	unit	–	–	–
SEISMIC SURVEY, INCLUDING:				
· 2D (common-depth point)	linear km	125	–	–
· 3D (common-depth point)	sq.km	363	265	1,513
· in the Republic of Bashkortostan	sq.km	363	265	913
· in the Nenets Autonomous District	sq.km	–	–	600
FIELDS DISCOVERED	unit	2	–	n/a
OIL & GAS POOLS DISCOVERED	unit	–	2	n/a
PROSPECTIVE FORMATIONS PREPARED	unit	6	9	n/a

OVERVIEW OF OPERATIONS

● GEOLOGICAL EXPLORATION

As of January 1, 2012, more than 81.4% of initial potential oil resources in Palaeozoic sediments of the Republic of Bashkortostan had been explored.

Nevertheless, although a major portion of the subsoil has already been

In 2012, Bashneft plans to conduct the following activities in the Republic of Bashkortostan and the Orenburg Region:

- Drilling of eight prospecting and exploration wells totalling 16,800 m;

AS OF DECEMBER 31, 2011, PROVED OIL RESERVES OF BASHNEFT GROUP AMOUNTED TO 1,983.5 MILLION BARRELS, WHICH IS 3.8% HIGHER COMPARED TO THE PREVIOUS YEAR. THE RESERVE REPLACEMENT RATIO WAS ABOUT 165%. THE GROUP HAS THE RESERVES-TO-PRODUCTION RATIO OF 18 YEARS ACCORDING TO RESULTS OF THE YEAR

thoroughly explored, there remains a potential for replenishing oil and gas reserves by developing difficult-to-recover reserves and resources contained in Permian sediments. These can be accessed by implementing the Comprehensive Geological Exploration Programme in the Republic of Bashkortostan and studying Palaeozoic Domanic facies of the Volga-Ural oil province in order to discover reserves in unconventional reservoirs.

- Deepening of seven wells in order to study the potential of underlying formations;
- Tests at twenty wells in order to study the potential of overlying undeveloped formations;
- 3D seismic surveys (common-depth point) totalling 913 sq. km;
- Using vertical seismic profile at five wells.

In 2011, the first exploration well totalling 4.2 kilometres was drilled at the Trebs

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GROWTH

field in the Nenets Autonomous District. A flow string of oil was obtained in Silurian sediments and development continues.

In 2012, Bashneft plans to drill two exploration wells totalling 8.500 m and to carry out 3D seismic surveys (common-depth point) totalling 600 sq. km

3D seismic surveys (common-depth point) are used in order to determine objects for prospecting drilling more precisely.

In 2011, prospecting and exploration drilling in the Republic of Bashkortostan totalled 24,800 m, 13 prospecting and

exploration wells were drilled, seven of which were completed and tested, and three of them produced commercial oil flows.

Prospecting drilling resulted in the discovery of two oil deposits whose C1 reserves under Russian classification totalled 739,000 tonnes with recoverable reserves amounting to 275,000 tonnes (increase in reserves achieved at one well).

In 2011, the area covered by 3D seismic surveys (common-depth point) totalled 265 sq. km. As a result of seismic surveys, nine prospective formations were prepared with total oil resources of 7,069,000 tonnes.



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GROWTH

OVERVIEW OF OPERATIONS

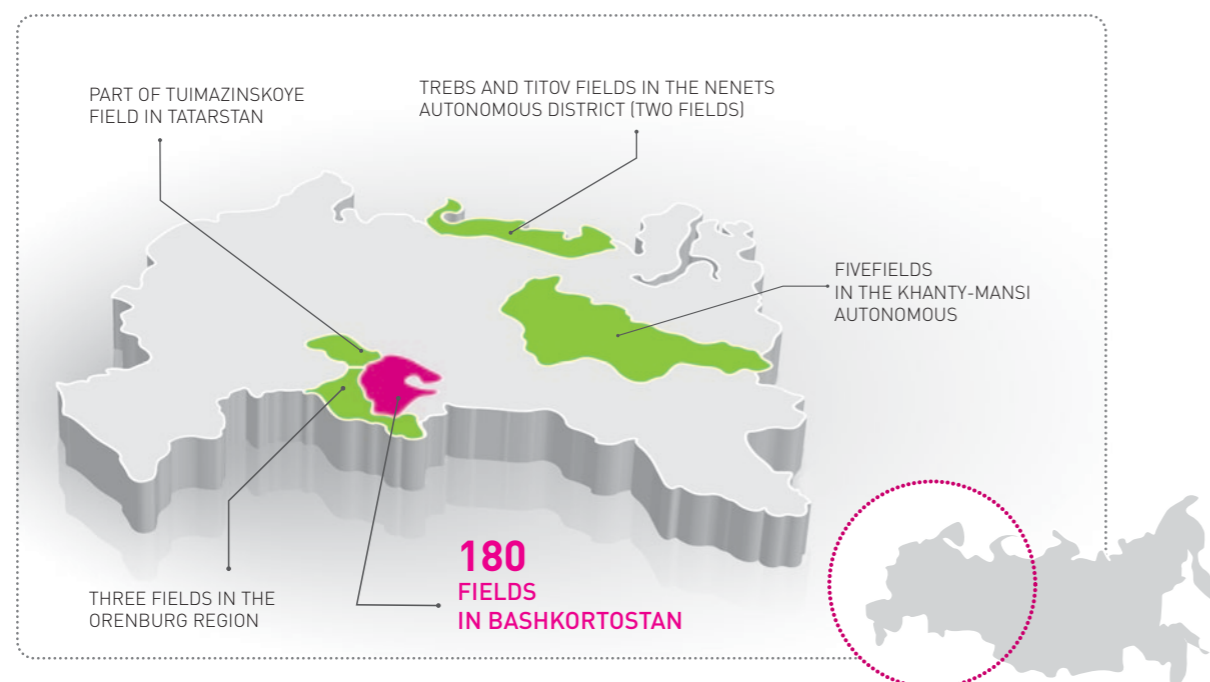
RESERVES

As of January 1, 2012, the Group's assets included 190 oilfields, including:

- 180 FIELDS IN THE REPUBLIC OF BASHKORTOSTAN,
- THREE FIELDS IN THE ORENBURG REGION,
- FIVE FIELDS IN THE KHANTY-MANSI AUTONOMOUS DISTRICT –YUGRA,
- TWO FIELDS IN THE NENETS AUTONOMOUS DISTRICT,
- A PART OF THE LARGE TUIMAZINSKOYE FIELD IN THE REPUBLIC OF TATARSTAN.

166 Groups oilfields are in commercial production.

GEOGRAPHY OF JSOC BASHNEFT'S RESERVES AS OF DECEMBER 31, 2011



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GROWTH

According to the results of the independent audit of reserves conducted by Miller and Lents, Ltd. using the PRMS classification, as of December 31, 2011, Bashneft Group's proved reserves amounted to 1,983.5 million barrels of oil, which is 3.8% higher than in the previous year. The reserve replacement ratio was about 165%. At the end of the year, the Group's reserves-to-production ratio was 18 years.

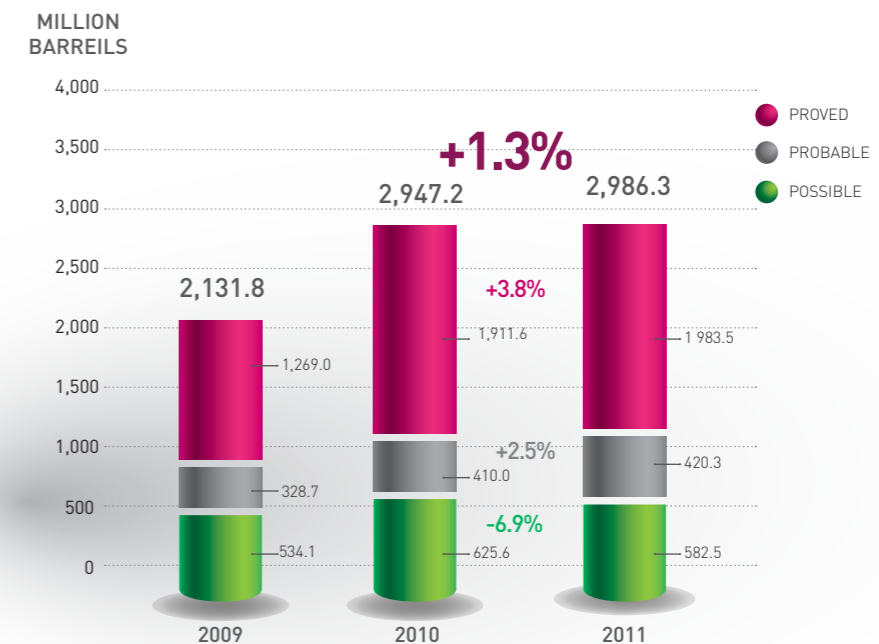
As of December 31, 2011, probable and possible reserves of Bashneft Group totalled 1,002.8 million barrels of oil, including probable reserves amount-

ing to 420.3 million barrels and possible reserves amounting to 582.5 million barrels.

Thus, the total audited reserves of the Group as of December 31, 2011 amounted to 2,986.3 million barrels of oil.

The audit results presented do not include potential reserves of the Trebs and Titov oilfields. At these fields Miller and Lents, Ltd estimated 3C contingent resources and prospective oil resources of Bashneft Group according to the PRMS classification at 548 million barrels of oil and 46 million barrels of oil, respectively.

OIL RESERVES ACCORDING TO THE PRMS CLASSIFICATION



INDEX

	AS OF DECEMBER 31, 2009	AS OF DECEMBER 31, 2010	AS OF DECEMBER 31, 2011
Share of the audited reserves in total ABC ₁ resource base	70.0%	96.6%	98.9%
Share of the audited fields in total annual production	81.0%	98.5%	99.7%

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GROWTH

OVERVIEW OF OPERATIONS

RESERVES

All of the Group's hydrocarbon reserves are conventional. About 67% of recoverable reserves are situated in terrigenous deposits, and the remaining 33% are located in carbonate reservoirs. 38.5% of residual reserves are in reservoirs with low permeability that contain heavy oil.

The recovery factor achieved at the Group's fields is 35.3%. The residual recoverable oil reserves are characterized by a high degree of depletion (77.8%) and high water cut (90.4%).

THE GROUP INTENDS TO SYSTEMATICALLY IMPROVE THE EFFICIENCY OF EXPLORATION ACTIVITIES, PARTICIPATE IN FOREIGN PROJECTS AND ACQUIRE NEW LICENCES, ASSETS, AND RIGHTS FOR NEW EXPLORATION AREAS

MAIN FIELDS CURRENTLY DEVELOPED BY THE GROUP

The Arlanskoye field (with an area of 131,600 hectares) is located in the Krasnokamsky, Kaltasinsky, Byraevsky, Ilishevsky and Dyurtyulinsky Districts of the Republic of Bashkortostan. The field was discovered in 1954, and development started in 1958. The field is being developed by the Arlanneft and the Chekmagushneft oil and gas production departments of LLC Bashneft-Dobycha.

The Tuimazinskoye field (with an area of 47,200 hectares) is located in two regions: the Republic of Bashkortostan (in the town of Oktyabrsky in the Tuimazinsky District) and the Republic of Tatarstan (in the Bavlinsky and Yutazinsky Districts). The field was discovered in 1937, and development started in 1939. The field is being developed by the Tuimazaneft oil and gas production department of LLC Bashneft-Dobycha.

The Yugomashevskoye field (with an area of 22,700 hectares) is located in the Yanaulsky and Tatyshlinsky Districts of the Republic of Bashkortostan. The field was discovered in 1958, and development started in 1966. The field is being developed by the Krasnokholmskneft oil and gas production department of LLC Bashneft-Dobycha.

Chetyrmanskoye field (with an area of 11,300 hectares) is located in the Yanaulsky and Tatyshlinsky Districts of the Republic of Bashkortostan. The field was discovered in 1959, and development started in 1964. The field is being developed by the Krasnokholmskneft oil and gas production department of LLC Bashneft-Dobycha.

DEVELOPMENT OF THE TREBS AND TITOV FIELDS

In February 2011, JSOC Bashneft obtained an exploration and development licence for an area including the Trebs and Titov oilfields in the Nenets Autonomous District.

In April 2011, JSOC Bashneft and OJSC LUKOIL signed an agreement on the creation of a joint venture for the development of the Trebs and Titov fields.

In October 2011, the Central Development Commission of the Federal Subsoil Resources Management Agency approved a pilot operation product design at the Trebs and Titov fields prepared by BashNIPIneft institute. The project defines the main principles of development of the fields at the initial stage in the three years that follow the start of oil production at production wells.

In December 2011, JSOC Bashneft and OJSC LUKOIL signed an agreement under which OJSC LUKOIL acquired 25.1% stake in LLC Bashneft-Polyus which is a development licence holder for the subsoil area including the Trebs and Titov oilfields, and a joint venture agreement. The transaction amounted to 4.8 billion roubles. LLC Bashneft-Polyus also signed an agreement under which LLC LUKOIL-Komi sold 29 prospecting and exploration wells to it at the listed oilfields for US\$ 60 million.

These deposits are currently under additional exploration, including: additional exploration drilling, coring, formation tests, 3D seismic exploration and other additional tests at earlier drilled exploration wells.

THE ROMAN TREBS FIELD was discovered in 1987 during the study of the Varknavtskaya prospective structure. It was named in honour of Roman Trebs, the professional geologist who organized and headed the Varandey oil exploration expedition of Arkhangelsk Geological Department (Arkhangelskgeologia geological enterprise) in 1974 which discovered Varandeyskoye, Laboganskoye, Myadseyskoye, Naulskoye, Toboyskoye, Toraveyskoye and other oilfields in the northern part of Timano-Pechora oil and gas province. In 2011, the Group drilled the first exploration well № 1R at the Trebs field which totals 4.2 km.

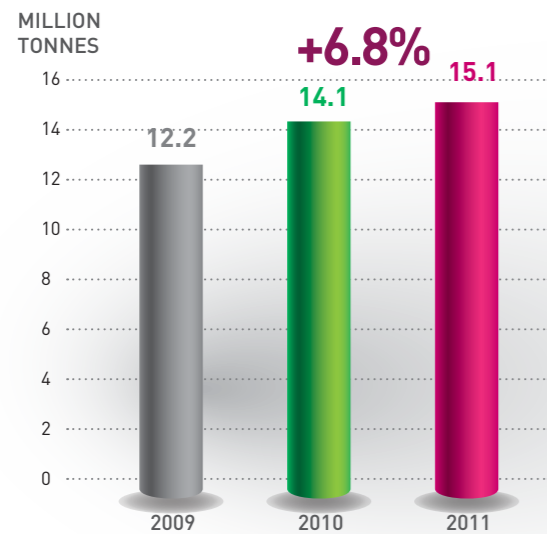
THE ANATOLY TITOV FIELD was discovered in 1987 during the study of the Olenya prospective structure. It was named in honour of Anatoly Titov, the professional geologist who headed the Nenets structural and prospective drilling detachment and then led the Khorei-Verskaya oil and gas exploration expedition of the Arkhangelskgeologia geological enterprise for thirteen years from 1979 to 1992. He led and actively participated in the discovery and exploration of Vasilkovskoye gas condensate, Vaneivisskoye and Yareyuskoye oil and gas, Kumzhinskoye gas condensate, North Kharyaginskoye oil and South Khylichuyuskoye oil and gas fields in the northern part of Timano-Pechora.

OVERVIEW OF OPERATIONS

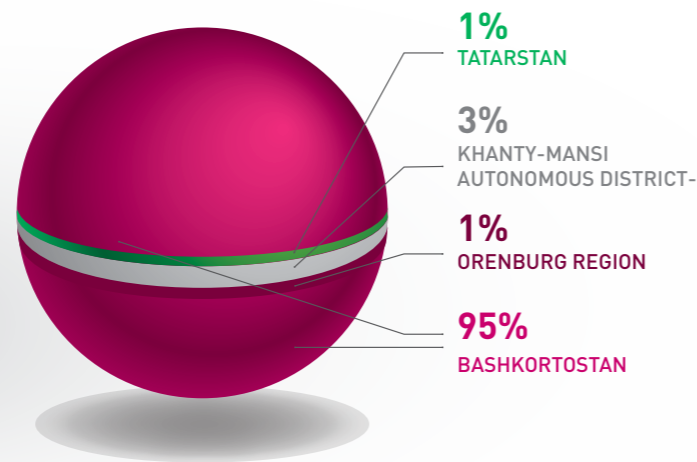
PRODUCTION

IN 2011, BASHNEFT CONFIRMED ITS STATUS OF THE SECTOR LEADER BY RATES OF OIL PRODUCTION GROWTH IN RUSSIA: THE GROUP PRODUCED 15.1 MILLION TONNES OF CRUDE OIL, WHICH IS 6.8% HIGHER THAN IN THE PREVIOUS YEAR. THE TOTAL CRUDE OIL PRODUCTION IN RUSSIA IN 2011 WAS 511 MILLION TONNES

CRUDE OIL PRODUCTION



REGIONAL CRUDE OIL PRODUCTION DISTRIBUTION IN 2011



MAIN PRODUCTION FIELDS OF BASHNEFT GROUP

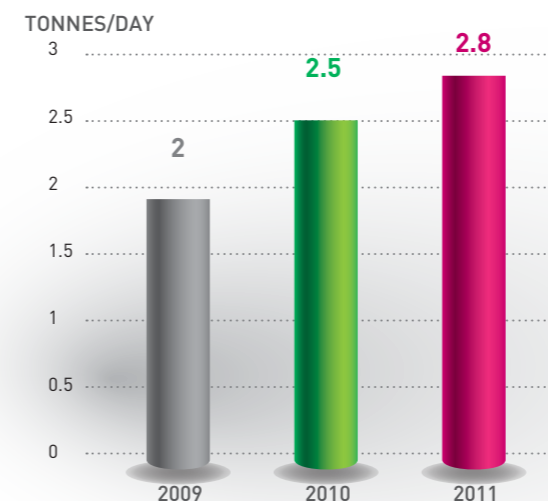
REPUBLIC OF BASHKORTOSTAN	Arlanskoye, Tuimazinskoye, Yugomashevskoye, Chetyrmanovskoye fields
KHANTY-MANSI AUTONOMOUS DISTRICT—YUGRA	Kirskoye, Kottynskoye, Lyukpayskoye, Permyakovskoye and Pecherinskoye fields
ORENBURG REGION	Kitayamsko-Blagodarovskiy and Dachno-Repinskiy licence areas
REPUBLIC OF TATARSTAN	Western part of Tuimazinskoye field is involved in production

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GROWTH

The growth of crude oil production was ensured by an increase in the efficiency of the geological and engineering operations, which included drilling new wells, optimizing drainage systems and transferring wells to other facilities as well as hydraulic fracturing, the creation of new waterflooding points and a wider use of other high efficiency methods to increase oil recovery. The average well production rate in 2011 was 2.8 tonnes per day, which is 10.8% higher than in 2010.

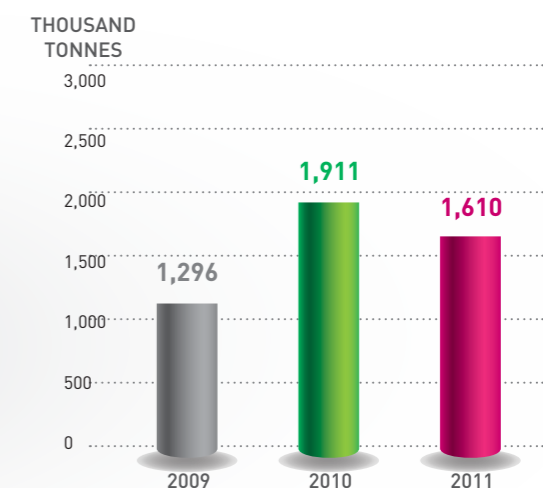
AVERAGE FLOW RATE



In 2011, 2,308 geological and engineering operations were carried out, which ensured the growth of

crude oil production in the amount of 1,610,000 tonnes. Most additional crude oil production (590,000 tonnes) was ensured by geological and engineering operations that optimized pumping equipment. Hydraulic fracturing at transferred wells ensured additional production in the amount of 231,000 tonnes, which is three times more than the additional production due to hydraulic fracturing in 2010. For the first time at the Group's fields oil production

ADDITIONAL PRODUCTION VOLUMES DUE TO GEOLOGICAL AND ENGINEERING OPERATIONS IN 2011



rate increased by more than 100 tonnes per day due to hydraulic fracturing.

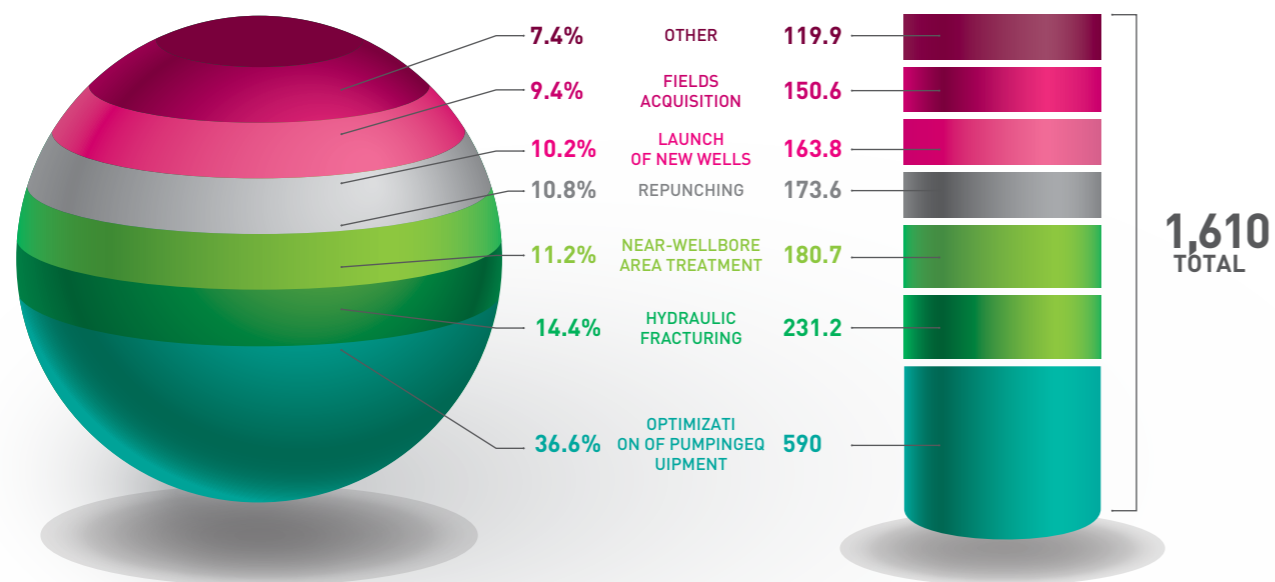
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GROWTH

OVERVIEW OF OPERATIONS

PRODUCTION

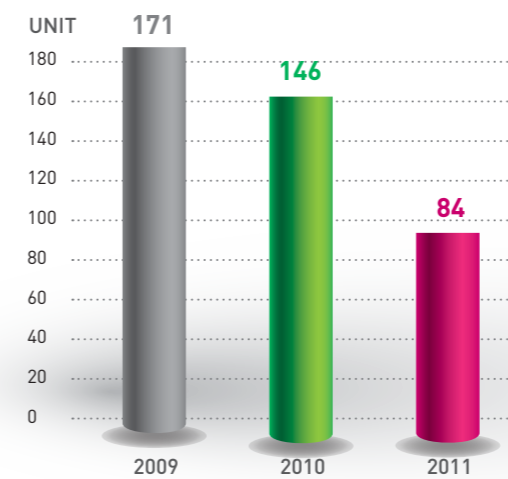
GROWTH OF PRODUCTION DUE TO GEOLOGICAL AND ENGINEERING OPERATIONS IN 2011, THOUSAND TONNES



In 2011, drilling totalled 129,600 m of production drilling. Production started at 84 new wells, 73 wells were drilled. The crude oil production volume of new wells put into production in 2011 was 163,800 tonnes; the average production rate of new wells was 13.9 tonnes/day.

Reduction of production drilling from 233,900 m in 2010 to 129,600 m in 2011 and the number of drilled wells from 146 in 2010 to 84 in 2011 was caused by adjustments made to the geological model of production areas as a result of 3D seismic surveys in 2011. The average well production rate increased due to work related to production enhancement.

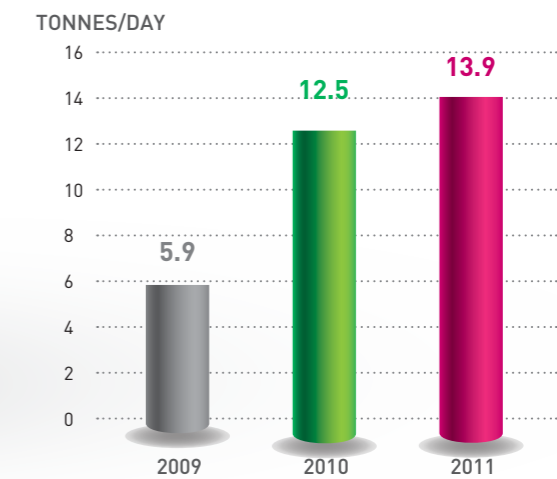
LAUNCH OF NEW WELLS



To increase the efficiency of geological and engineering operations and to optimize development of fields with a high degree of reserves depletion, a large-scale programme of hydraulic fracturing was implemented in 2011. The programme for drilling of new wells used optimal methods of well completion, such as drilling horizontal and multilateral wells based on results of geological and hydrodynamic modelling.

In 2011, gas production of Bashneft Group was 43.6 million cubic metres and the production of associated oil gas was 494.8 million cubic metres. Use of associated oil gas was 405.2 million

AVERAGE FLOW RATE OF NEW WELLS



cubic metres and the disposal ratio was 81.9%.

In 2012, it is planned to drill 65,800 m of production drilling, drill 36 production wells and construct 38 production wells. The planned production for 2012 is 15.2 million tonnes.

Bashneft Group plans to maintain the production volume at the achieved optimal level of 15 million tonnes at the existing fields during next several years and put the Trebs and Titov fields into production in 2013. One of the key aspects is production cost control within controlled share of unit costs.

OVERVIEW OF OPERATIONS

REFINING

OIL REFINING

THE GROUPS TOTAL PRIMARY REFINING CAPACITY IS 24.1 MILLION TONNES OF CRUDE OIL PER YEAR. IN 2011, THE OUTPUT OF BASHNEFT'S REFINERIES AMOUNTED TO 21.1 MILLION TONNES OF CRUDE OIL. THUS, THE CAPACITY LOAD WAS 87.5%

The Nelson Index was 8.3, which is one of the best scores in Russia. Refining depth in the reporting year was 85.9%. The refining depth declined in 2011 in comparison with 2010 due to planned

workovers of facilities for secondary refining of dark petroleum products. The share of light products in the Group's refinery output changed insignificantly and amounted to 59.9%.

KEY OIL REFINING INDICATORS

REFINING INDICATOR	2009	2010	2011
Refining indicator	26.1	24.1	24.1
Oil refining per year, million tonnes	20.7	21.2	21.1
Capacity load	79.3%	87.9%	87.5%
Total refinery output, million tonnes	18.9	19.4	19.2
Refining depth	83.4%	86.3%	85.9%
Light product yield	60.4%	61.8%	59.9%
NELSON INDEX	7.50	8.30	8.33

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GROWTH

The Group's refining and petrochemical facilities stand among the leaders by refining depth and output quality. The complex consists of three refineries — OJSC Ufaneftekhim, OJSC Ufimsky refinery plant, OJSC Novoil and also includes Ufaorgsintez petrochemical plant. The Group's refining complex is unique because the refineries closely cooperate in almost all activities, which allows to select an optimal refining scheme with maximum economic advantage.

In 2011, the total output of the refining capacities amounted to 19.2 million

tonnes, which is 1.3% less than in 2010. Production for all commodities broke down into the following portions: diesel fuel at about 39%, gasoline (including stable natural gasoline) at 26% and fuel oil at 14%. The configuration of petroleum products changed due to maintenance work.

In particular, repairs were carried out on the catalytic cracking unit, the "Aromatics" complex and the delayed coker unit at OJSC Ufaneftekhim during 2011.

CRUDE OIL REFINING BY REFINERIES OF THE GROUP, 2009–2011, MILLION TONNES

	CAPACITY	2009	2010	2011
Ufaneftekhim	9.5	7.6	7.8	8.4
Ufimsky refinery plant	7.5	6.5	6.7	6.1
Novoil	7.1	6.6	6.7	6.6
TOTAL	24.1	20.7	21.2	21.1

STRUCTURE OF PRODUCTS OF BASHNEFT GROUP'S REFINERIES, 2009–2011, MILLION TONNES

	2009	2010	2011
Gasoline (including stable natural gasoline)	5.17	4.74	4.92
Diesel fuel	7.10	7.67	7.41
Fuel oil	3.05	2.65	2.61
Vacuum gas oil	1.70	1.70	1.89
Other	1.89	2.68	2.35
TOTAL	18.90	19.43	19.18

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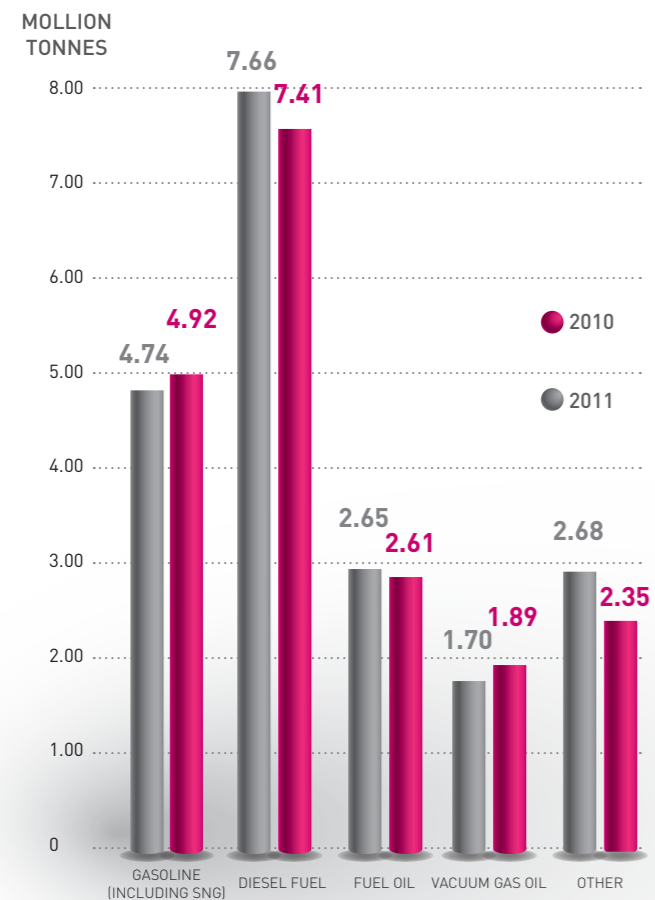
GROWTH

OVERVIEW OF OPERATIONS

REFINING

OIL REFINING

STRUCTURE OF PRODUCTS OF JSOC BASHNEFT'S REFINERIES, 210-2011



7.1 MLN TONNES

OJSC NOVOIL

CAPACITY: 7.1 MILLION TONNES

PRODUCTS: gasoline, jet fuel, diesel fuel, engine, transmission and other special oils, vacuum gas oil, paraffin-wax products, oil bitumens, boiler fuel, coke, lump sulphur.

OJSC NOVOIL is one of the biggest producers of high-quality petroleum products in Russia. The current production facilities of OJSC Novoil include primary oil refining, hydrotreatment, reforming and iso-reforming, sulphuric acid alkylation, thermocracking and visbreaking, coking and gas fractionation, solvent refining and dewaxing of oil distillates, tar deasphalting and bitumen production, gas desulphurization and sulphur production units as well as environmental facilities.

The flexible technological schemes refine various types of hydrocarbons – low- and high-sulphur crude oil, various gas condensates as well as medium and heavy distillates obtained at other refineries of Ufa Group – and produce a wide range of high-quality petroleum products.

In 2011, the refinery continued to produce Euro-3 and Euro-4 engine fuels. It is planned to start producing Euro-5 fuel in the near future.



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GROWTH

7.5 MLN TONNES

OJSC UFIMSKY REFINERY PLANT

CAPACITY: 7.5 MILLION TONNES

PRODUCTS: high-octane gasoline, diesel fuel, boiler fuel, liquefied gas, liquid and lump sulphur, bisphenol A.

OJSC UFIMSKY REFINERY PLANT is one of the most up-to-date oil refineries in Russia which can produce a wide range of high-quality petroleum products.

The technological workflow of the refinery ensures complex and deep oil refining using highly efficient thermic, catalytic and hydrogenation processes. The refinery's modern technological equipment produces Euro-4 and Euro-5 fuels, boiler fuel as well as a wide range of liquefied gases.

To achieve 100% output of Euro-4 and Euro-5 automobile gasoline, a catalytic cracking gasoline hydrotreater for removal of sulphur compounds is being constructed at OJSC Ufimsky refinery plant. In the future the plant plans to construct a delayed coker which will enable to achieve a refining depth of 95%.



9.5 MLN TONNES

OJSC UFANEFTEKHIM

CAPACITY: 9.5 MILLION TONNES

PRODUCTS: high-octane gasoline, low-sulphur diesel fuel, boiler fuel, bitumen, coke, lump and granulated sulphur, liquefied gases, benzene, orthoxylene and paraxylene.

OJSC UFANEFTEKHIM is one of the largest refineries in Russia, it uses advanced technologies and specializes in refining several types of hydrocarbons (West Siberian oil, a high-sulphur oil blend from the Arlanskoye field and gas condensate) producing various fuel grades and petrochemicals.

OJSC Ufaneftekhimi has fuel, gas catalysis, goods production and service units and aromatic hydrocarbons production. Tens of technological units operate at the refinery, including practically all units ensuring a high rate of crude oil refining depth (delayed coking, hydrocracking, catalytic cracking, deasphalting, visbreaking, bitumen production).



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GROWTH

OVERVIEW OF OPERATIONS

REFINING

MODERNIZATION AND DEVELOPMENT OF REFINING CAPACITIES OF BASHNEFT GROUP

Within the framework of strategic development of refineries, JSOC Bashneft carried out a number of activities to modernize production in 2011.

THE TOTAL AMOUNT INVESTED IN MODERNIZATION WAS OVER 7.9 BILLION ROUBLES IN 2011

PRIORITY AREAS ARE THE TWO FOLLOWING AREAS:

1

IMPROVING ENGINE FUEL QUALITY

Bashneft Group's refineries produce Euro-4 engine fuel and Euro-5 diesel fuel. In order to ensure that all products meet Euro-4 and Euro-5 standards, construction and modernization of facilities continued at refineries in 2011. Full transition to Euro-5 products is planned for 2015.

In 2011, Premium Euro-95 gasoline produced by OJSC Novoil, 'summer' Euro-4 diesel fuel by OJSC Ufaneftekhim and 'winter' Euro-4 diesel fuel by OJSC Ufimsky refinery plant were recognized as the best in the category of "Products for Industrial Purposes," in the fourteenth All-Russian competition, "The 100 Best Russian Products".

2

INCREASING OIL REFINING DEPTH AND LIGHT PRODUCTS OUTPUT

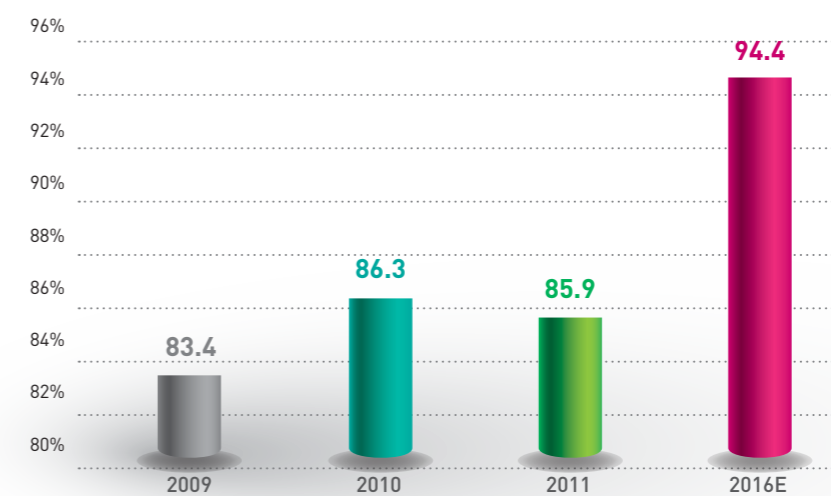
The Group set tasks to increase oil refining depth and light products output in order to significantly strengthen its status of technological leader of the

oil refining industry and to achieve an oil refining depth of 94.4% by 2016.

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GROWTH

AVERAGE CRUDE OIL REFINING DEPTH OF UFA GROUP



PLANNED ACTIVITIES

OJSC UFANEFTEKHIM

OJSC UFIMSKY REFINERY PLANT

OJSC NOVOIL

ACTIVITIES TO IMPROVE ENGINE FUEL QUALITY

L-24-5, L-24-7, 1A/1M units and the aromatic hydrocarbons production unit were upgraded. A scheme of catalytic cracking heavy gasoline hydrotreatment was introduced.

Construction of a catalytic cracking gasoline hydrotreater was continued.

Construction of sulphuric acid alkylation, sulphuric acid regeneration and hydrogen production units continued and absorption and gas fractionation unit 1 was upgraded.

ACTIVITIES TO INCREASE OIL REFINING DEPTH AND AND LIGHT PRODUCT YIELD

Work on increasing capacity of a delayed coker from 1.2 to 1.6 million tonnes per year started, the completion is planned for 2012.

A new delayed coke unit is being constructed in order to further increase refining depth. The launch is planned for 2016.

A vacuum gas oil hydrocracker is being designed in order ensure efficient refining of all secondary gas oil, producing environmentally safe products.

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GROWTH

OVERVIEW OF OPERATIONS

REFINING

PETROCHEMICALS PRODUCTION

Bashneft is Russia's fourth largest petrochemicals producer and has a diversified and balanced production

structure. OJSC Ufaorgsintez's product configuration did not change significantly during the reporting year.

MAIN TYPES OF PRODUCTS OF OJSC UFAORGSINTEZ, 2009-2011, THOUSAND TONNES

	2009	2010	2011
Polypropylene	114.4	97.0	106.0
High-pressure polyethylene	90.0	85.2	93.5
Phenol	60.1	67.0	60.5
Acetone	37.4	41.7	38.0
Alpha-methylstyrene	10.7	10.8	9.8

Bashneft's petrochemical facilities include three refineries– OJSC Ufaneftekhim, OJSC Ufimsky refinery plant and OJSC Ufaorgsintez, an organic synthesis plant. These refineries are parts of a clear structured production chain of the unified refining capacities of JSOC Bashneft.

OJSC Ufaorgsintez uses primary products from the three Ufa refineries, hydrocarbon gases, light gasoline (gas waste) and benzene and produces more than 30 designated petrochemical products, including polypropylene and propylene copolymers, high-pressure polyethylene, acetone, phenol, alpha-methylstyrene, isopropyl and synthetic rubber.

Petrochemical production of OJSC Ufaneftekhim consists of one of the largest aromatic hydrocarbons production facilities in Russia.

The refineries of Ufa Group closely cooperate in petrochemical production. The aromatic capacity of Ufaneftekhim refines straight-run gasoline fraction from all the three refineries and produces such valuable petrochemical products as benzene, paraxylene, orthoxylene and toluene. In 2011, the refinery produced 111,700 tonnes of paraxylene, 66,100 tonnes of benzene, 22,000 tonnes of orthoxylene and 500 tonnes of toluene.

Benzene produced by OJSC Ufaneftekhim is used at OJSC

OJSC UFAORGSINTEZ

PRODUCTS: more than 30 petrochemical products, including polypropylene, high-pressure polyethylene, acetone, phenol, alpha-methylstyrene, rubber as well as more than 25 types of consumer goods.

OJSC UFAORGSINTEZ is one of the largest organic synthesis producers in Russia. It is the successor of the Ufa Synthetic Alcohol Plant which began operations in 1956.

The plant produces about 40% of the total Russian output of phenol, 12-13% of high-pressure polyethylene and about 20% of polypropylene, and is one of the leading producers of acetone. The consumers of Ufaorgsintez products are chemical enterprises sector that use these products for the production of plexiglass, diphenylolpropane, phenolformaldehyde resins, alkylphenol, lubricant additives, layers, and other products for use in industry and agriculture, various technical rubbers and other goods.

Ufaorgsintez's products are also used in machine building, light industry, medicine, production of electronic and electrical appliances, pipeline and cable insulation in electrical appliances and as corrosion-resistant coatings.

Ufaorgsintez for production of phenol and acetone which then are used at OJSC Ufimsky refinery plant for the production of diphenylolpropane (bisphenol A) – a raw material used in the production of epoxy resins and polycarbonates. In 2011, OJSC Ufimsky refinery plant produced 50,300 tonnes of diphenylolpropane.

OJSC UNITED PETROCHEMICAL COMPANY

In September 2011, the Board of Directors of JSOC Bashneft considered the issue of creation the joint venture to develop petrochemical production. Later OJSC United Petrochemical Company was created and tasked with studying and analysing current condition and investment attractiveness of the Russian petrochemical industry as well as developing projects and proposals on the growth of this sector in JSOC Bashneft.

The authorized capital of the joint venture was paid in the amount of 10 million euros in proportion with the stakeholders' shares, which was 75% for JSOC Bashneft and 25% for Petrochemical Holding GmbH (Austria).

The creation of the joint venture is a legal confirmation of the cooperation arrangements between JSOC Bashneft and Petrochemical Holding.

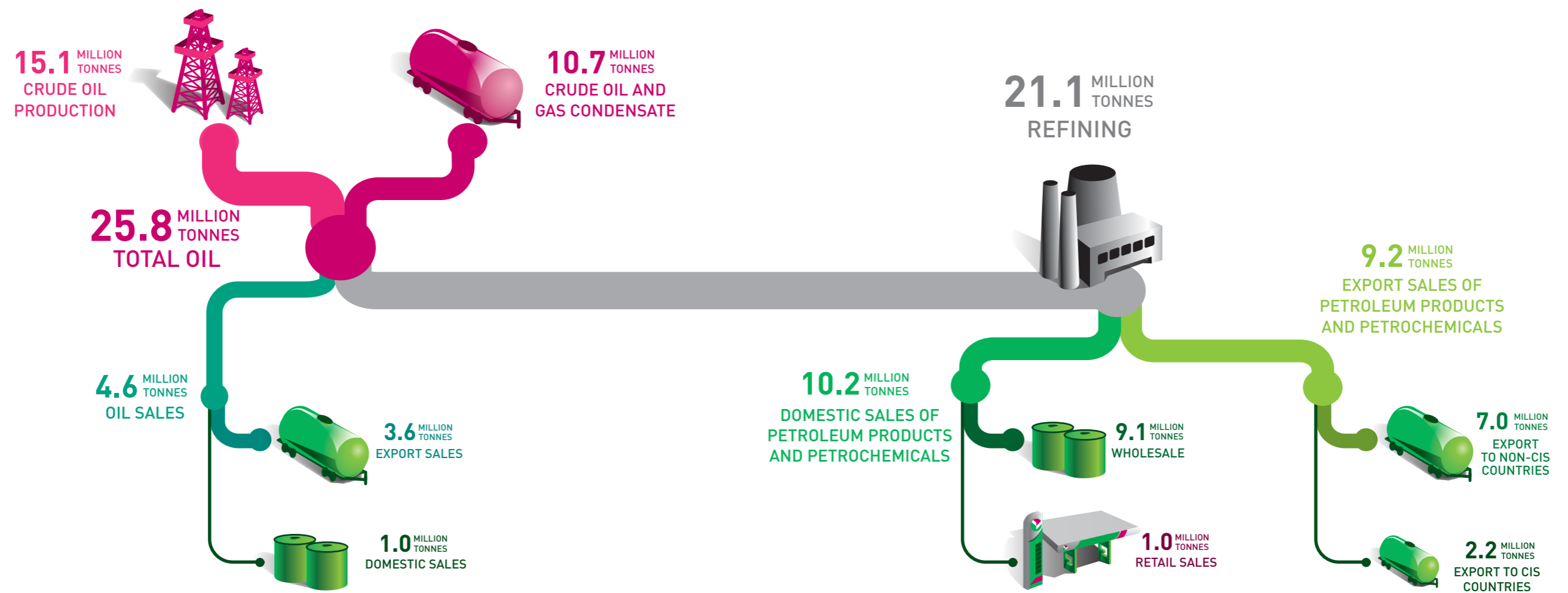
In April 2012, the Board of Directors approved the schedule of activities aimed at transferring functions of a sole executive body of OJSC Ufaorgsintez to OJSC United Petrochemical Company (the managing company).

High-quality paraxylene (99.8% pure) produced by the aromatic facility is then refined at OJSC Polief (Blagoveshchensk) where it is used for production of terephthalic acid which is a raw material for a wide range of polymer products.

OVERVIEW OF OPERATIONS

● MARKETING

PRODUCT CHAIN OF BASHNEFT GROUP



OVERVIEW OF OPERATIONS

● MARKETING

CRUDE OIL SALES

Bashneft Group supplies crude oil mainly to its own refineries but also sells it on the international market.

The main export countries are Czech Republic (40% of supplies) and Poland (38%).

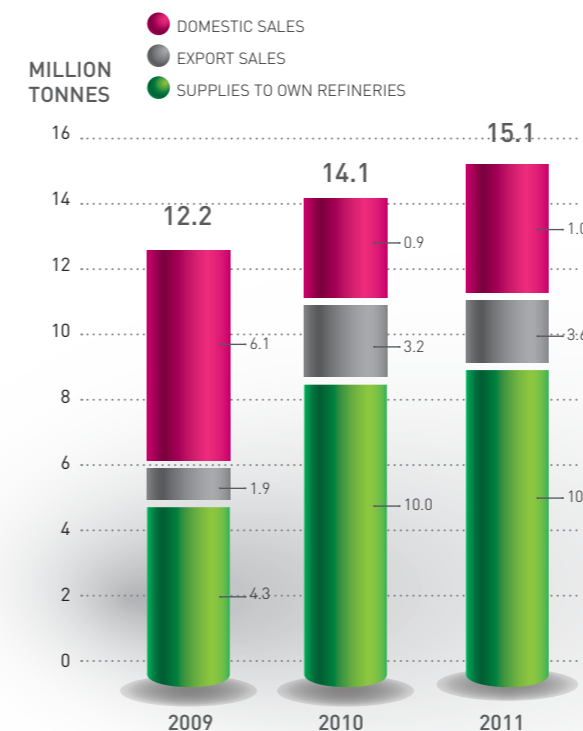
CRUDE OIL SALES BY THE GROUP IN 2011 WERE APPROXIMATELY 15.1 MILLION TONNES. FURTHER, THE GROUP SUPPLIED 10.4 MILLION TONNES TO THE REFINERIES OF UFA GROUP AND EXPORTED 3.6 MILLION TONNES, WHICH IS 12% MORE THAN IN 2010. ABOUT ONE MILLION TONNES OF OIL WAS SOLD ON THE DOMESTIC MARKET, WHICH IS 13% MORE THAN IN THE PREVIOUS YEAR



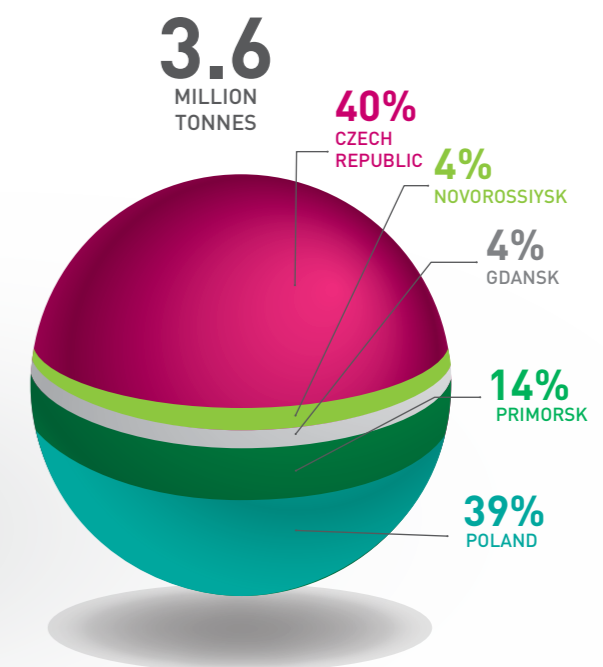
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GROWTH

DISTRIBUTION OF OIL OF OWN PRODUCTION



STRUCTURE OF EXPORT SALES OF CRUDE OIL



To optimize its products structure, JSOC Bashneft purchases West Siberian crude oil for its own refineries. In 2011, Bashneft purchased 10.7 million tonnes of crude oil and gas condensate from LUKOIL, TNK-BP, Shell, Surgutneftegaz

and RussNeft under oil supply contracts concluded in 2010. In the reporting year and in the beginning of 2012, all contracts for purchase of raw materials for refining were extended.

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GROWTH

OVERVIEW OF OPERATIONS

MARKETING

PETROLEUM PRODUCT SALES

DOMESTIC SALES OF PETROLEUM AND PETROCHEMICAL PRODUCTS

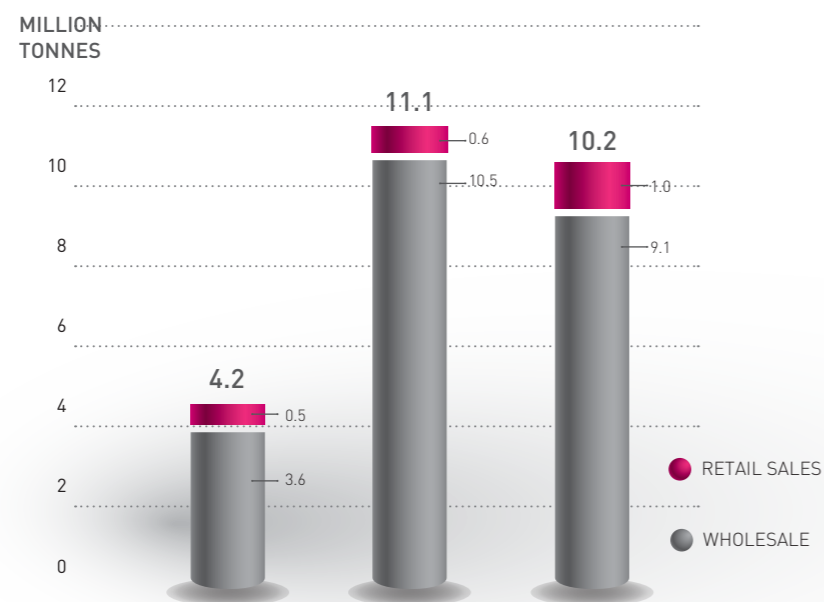
In 2011, the Group sold about 53% of the total volume of petroleum and petrochemical products on the domestic market, which amounted to 10.2 million tonnes.

Bashneft Group sells all types of products on the domestic market both wholesale (including small-scale wholesale) and through a rapidly developing retail network.

own filling stations in the total volume of the Group's supplies to the domestic market was 11% in comparison with 6% in 2010.

Including acquisitions made in 2011, the geography of the Group's retail sales covers the Republic of Bashkortostan, Udmurtia and the Orenburg and Sverdlovsk Regions.

DOMESTIC SALES OF PETROLEUM PRODUCTS AND PETROCHEMICALS IN 2011

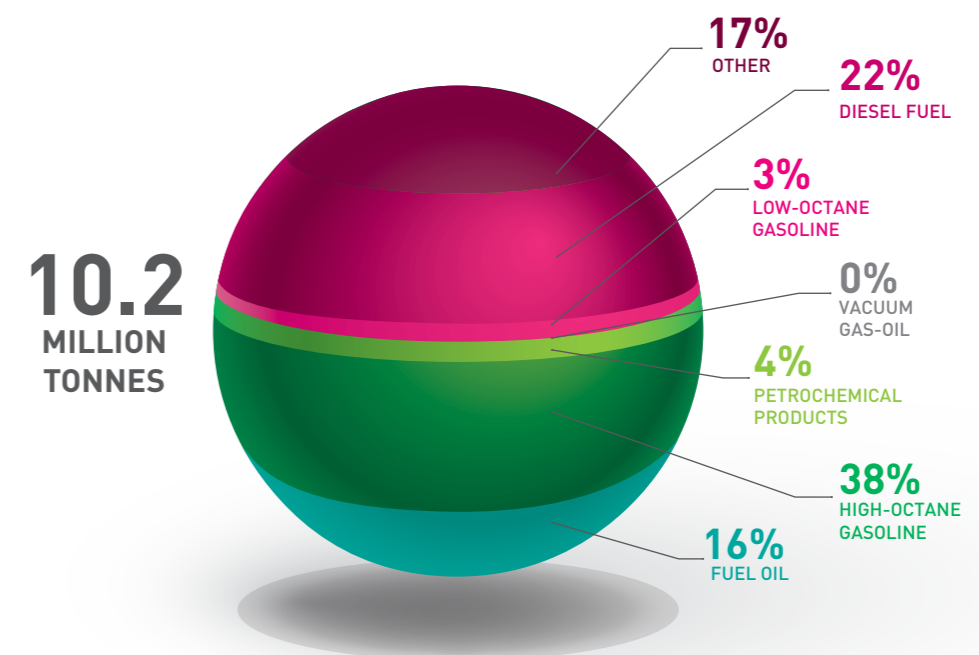


In 2011, the wholesale (including small-scale wholesale) volume of petroleum and petrochemical products on the domestic market decreased by 12.7% and was 9.1 million tonnes mainly due to significant growth of the retail network.

In 2011, the volume of retail sales through our own filling stations was about 1.0 million tonnes of petroleum and petrochemical products. Year-on-year growth was 66.1%. Thus, in 2011, the share of retail sales of petroleum and petrochemical products through our

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GROWTH

STRUCTURE OF DOMESTIC SALES OF PETROLEUM PRODUCTS AND PETROCHEMICALS IN 2011



The Company's marketing subsidiary, CJSC Bashneft-Region, directs the small-scale wholesale distribution of petroleum products through a network of regional marketing units that deliver

the Ufa refineries' products to more than 30 regions of Russia.

In 2011, the volume of small-scale wholesale supplies of petroleum products increased. The Group plans to increase small-scale wholesale volume in future.

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GROWTH

OVERVIEW OF OPERATIONS

● MARKETING

PETROLEUM PRODUCTS SUPPLIES

JSOC BASHNEFT ATTACHES GREAT IMPORTANCE TO PROMOTING ITS BRAND NAME AT THE FEDERAL LEVEL. THE GROUP PLANS A 2.5 TIMES INCREASE IN THE NUMBER OF ITS OWN FILLING STATIONS BY 2016 THROUGH ACQUISITION OF INDEPENDENT NETWORKS. THE GROUP ALSO PLANS TO IMPLEMENT PARTNERSHIP PROGRAMMES FOR PROMOTING HIGH QUALITY PRODUCTS OF BASHNEFT'S REFINERIES

To expand its own retail marketing network, in 2011, the Group concluded a number of major transactions on purchase of filling station networks in the Urals and Volga regions.

In April 2011, JSOC Bashneft concluded a transaction in which OJSC Rusneft sold to JSOC Bashneft more than 94% of the authorized capital of OJSC Orenburgnefteprodukt, the largest regional marketing enterprise that owns 16 oil storage facilities and 95 filling stations in the Orenburg Region.

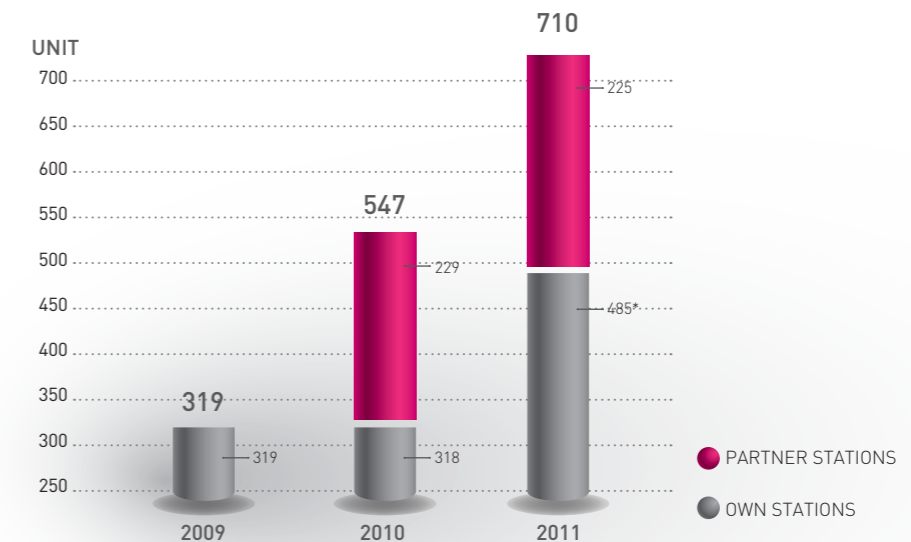
In July 2011, the Group acquired control over the petroleum products business of LLC ASPEC. The shareholders of ASPEC Group decided to reorganize the Group and to divide it into two legal entities: LLC ASPEC and LLC BN-Nefteprodukt which were included in the Uniform State Register of Legal Entities on July 1, 2011. As a result of the Group's reorganization, JSOC Bashneft, which before had a 49.99% share in the authorized capital of LLC ASPEC, obtained a 100% share in the authorized capital of LLC BN-Nefteprodukt, that owns a production base of 50 filling stations and 4 oil storage facilities.

GEOGRAPHY OF RETAIL NETWORK

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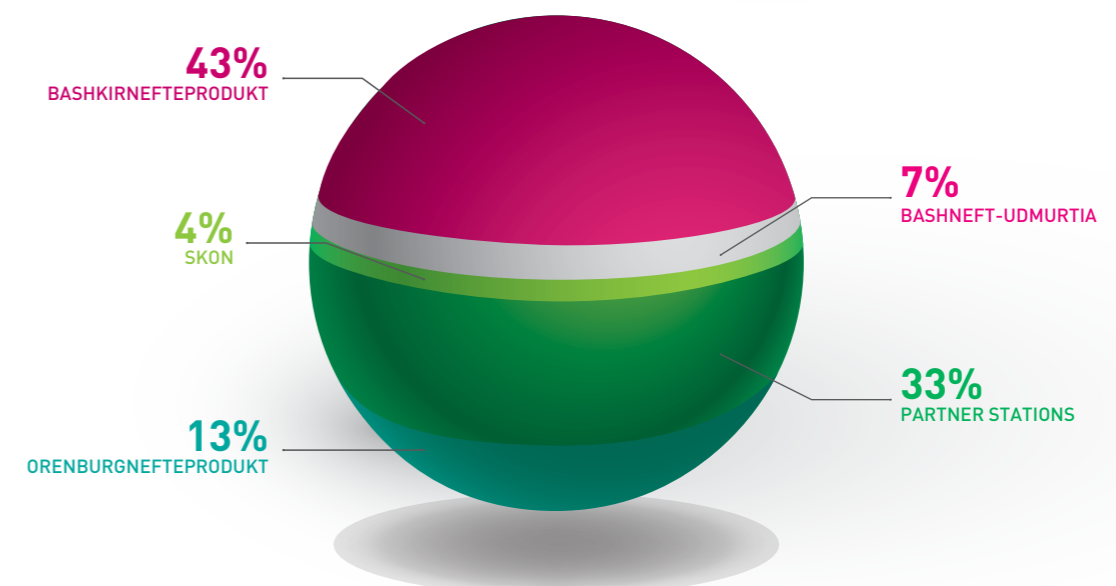
GROWTH

NUMBER OF FILLING STATIONS



* Including 20 leased stations.

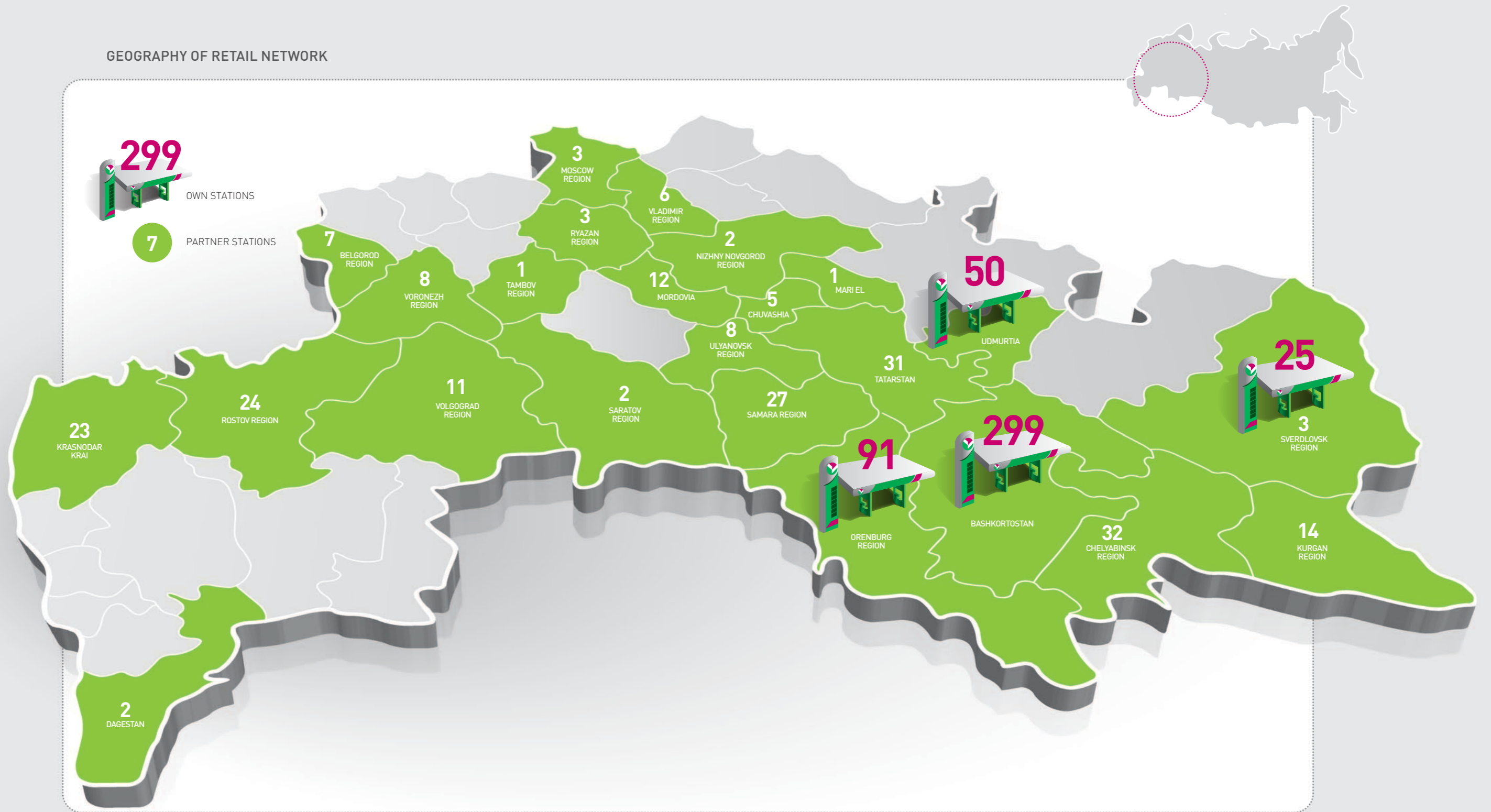
STRUCTURE OF RETAIL NETWORK IN 2011



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GROWTH

GEOGRAPHY OF RETAIL NETWORK



OVERVIEW OF OPERATIONS

MARKETING

PETROLEUM PRODUCTS SUPPLIES

In December 2011, JSOC Bashneft acquired a 100% share of LLC SKON Group of Companies, which owns an oil storage facility and 25 filling stations in Yekaterinburg and the Sverdlovsk Region that operate under ERGO brand.

The Group's strategy stipulates expansion of its own retail marketing network up to 1,200 filling stations during next several years.

Under the programme of retail network development and introduction of new corporate style of JSOC Bashneft, in February 2012, the Board of Directors approved the concept of external design of filling stations and the schedule of rebranding activities for Bashneft's filling stations. The Group's investment in the filling stations' rebranding programme is expected to be about 3.7 billion roubles in 2012-2015. Besides its own retail sales network, the Group actively develops a partnership programme that started in April 2010. As of the end of 2011, Bashneft had nine long-term contracts for fuel marketing through 225 filling stations

in 21 Russian regions. The partners of JSOC Bashneft operate in neighbouring parts of the Urals and Volga region: Tatarstan, Mordovia, Chuvashia, Mari El, Chelyabinsk, Sverdlovsk, Kurgan, Samara, Saratov, Ulyanovsk and Nizhny Novgorod Regions; as well as in more distant regions: Moscow, Ryazan, Vladimir, Tambov, Voronezh, Volgograd, Krasnodar, Belgorod, Rostov Regions and the Republic of Dagestan.

The development of the programme, in particular, the transfer of partners to Bashneft's brand through franchise agreements, will speed up after the full approval of external design standards for the Group's filling stations in 2012.

The Group plans to gradually increase the number of its own filling stations by means of acquiring separate networks and to implement partnership programmes cooperating with the owners of modern efficient filling-station retail networks in order to promote the high-quality products of Bashneft's refineries under long-term mutually-beneficial contracts.

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GROWTH

EXPORT SALES OF PETROLEUM PRODUCTS AND PETROCHEMICALS

In 2011, the Group's export of petroleum products and petrochemicals was about 9.2 million tonnes, which is 17.7% more than in the previous year.

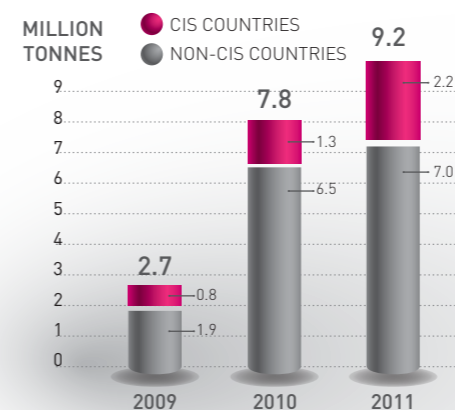
About 76% of these deliveries were to non-CIS countries, in particular, North-West Europe. In 2011, the CIS countries accounted for a 24% share of total export sales (2.2 million tonnes) as compared to 16% (1.3 million tonnes) in 2010. This change in export geography occurred due to the Group's focus on CIS markets.

For its deliveries of exports, the Group used the Transnefteprodukt system of export pipelines, railways to Kazakhstan, trucks to Europe and sea terminals in Murmansk and Kaliningrad. With an eye to optimizing export deliveries, the Group has

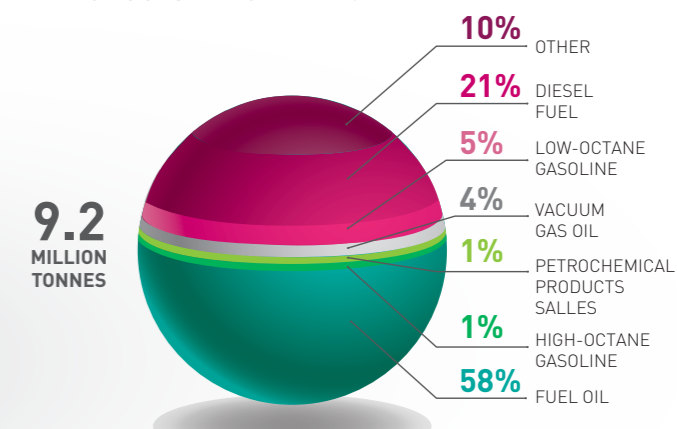
concluded short-term and long-term contracts in relation to the pricing environment.

The Group exports a well-diversified set of petroleum products that includes diesel fuel, vacuum gas oil, fuel oil and other products. Diesel fuel accounted for the largest share of the Group's exported products (about 58%). The share of vacuum gas oil is about 21% while that of high-octane gasoline is 5%. The share of furnace fuel oil in the export configuration is less than 10%. The main petrochemical product of the Group's export was diphenylolpropane (bisphenol A) produced by OJSC Ufimsky refinery plant. The Group also exported lump sulphur and alpha-methylstyrene in significant volumes.

EXPORT SALES OF PETROLEUM PRODUCTS AND PETROCHEMICALS



STRUCTURE OF PETROLEUM PRODUCTS EXPORT IN 2011



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GROWTH

OVERVIEW OF OPERATIONS

MARKETING

LOGISTICS

Bashneft Group has its own transport infrastructure, including a fleet of 4,500 rail wagons, which provides a high level of service to ultimate customers and control over transport costs. In November 2010, the 100% subsidiary LLC Bashneft-Trans was established to consolidate the transport assets of Bashneft Group's main subsidiaries.

In 2011, the Group's rolling stock delivered 6.5 million tonnes of

petroleum products or 60% of Bashneft's total railway deliveries.

SALES OF CRUDE OIL AND GAS CONDENSATE

Bashneft supplies crude oil and gas condensate to its own refineries by railway or pipelines.

In 2011, 8.7% of crude oil and gas condensate supplies to refineries were delivered by railway. The Group used OJSC Transneft's pipelines to

supply 91.3% of its crude oil and gas condensate.

Export crude oil is delivered by Transneft pipelines. In 2011, export crude oil was delivered only by pipeline transport.

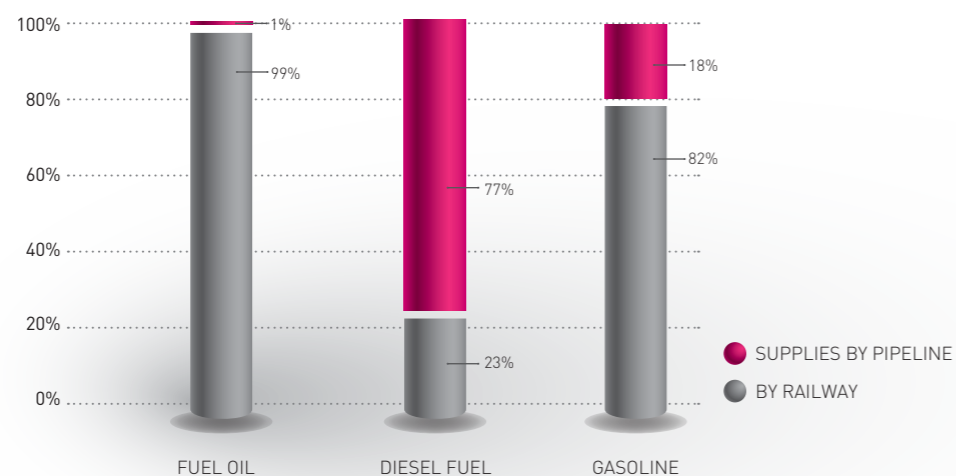
SALES OF PETROLEUM PRODUCTS

In Russia Bashneft Group delivers petroleum products by railway and pipeline. In 2011, 99%, 23% and 82% of

fuel oil, diesel fuel and gasoline domestic sales were supplied by railway, and 1%, 77% and 18% were supplied by pipelines of OJSC Transnefteprodukt.

JSOC Bashneft supplies petroleum products to seaports by railway and the pipelines of OJSC Transnefteprodukt. In 2011, 100%, 1.4% and 62% of the fuel oil, diesel fuel and gasoline exported was delivered by railway and OJSC Transnefteprodukt transported 98.6% of the diesel fuel and 38% of the gasoline exported.

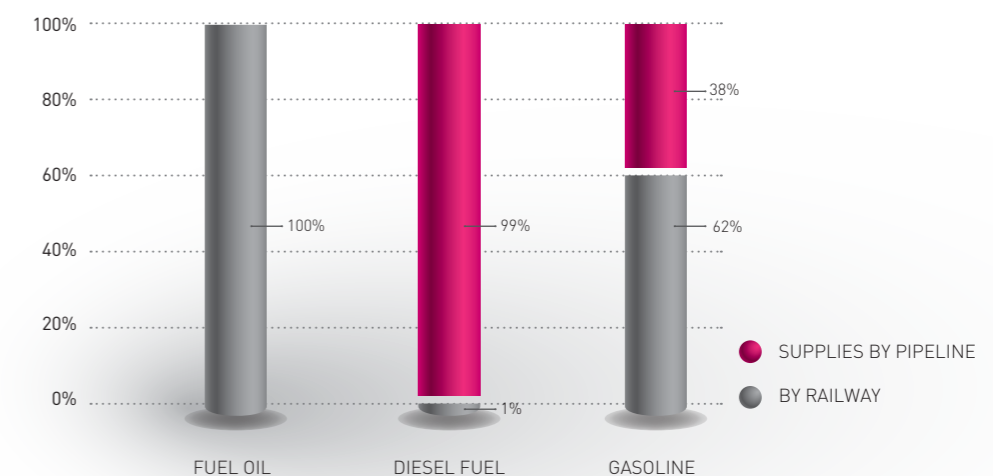
PETROLEUM PRODUCTS SUPPLIES IN RUSSIA, 2011



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GROWTH

EXPORT SUPPLIES OF PETROLEUM PRODUCTS, 2011



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GROWTH



EQUITY MARKET AND CAPITALIZATION:

IN 2011, VOLUME-WEIGHTED AVERAGE PRICE OF THE COMPANY'S ORDINARY SHARES INCREASED BY 28.5% COMPARED TO 2010.



DIVIDEND POLICY:

THE MINIMUM RECOMMENDED AMOUNT OF DIVIDEND PAYMENT SHOULD BE NO LESS THAN 10% OF CONSOLIDATED NET INCOME OF BASHNEFT GROUP ACCORDING TO IFRS.



DEBT PORTFOLIO:

IN 2011, DUE TO OPTIMIZING 90% OF CREDIT PORTFOLIO BY IMPROVING TERMS OF THE EXISTING INSTRUMENTS AND REFINANCING BY MORE PROFITABLE INSTRUMENTS, THE GROUP REDUCED THE AVERAGE INTEREST RATE BY MORE THAN 2.1 P.P. (FROM 10.8% TO 8.7%) AND INCREASED THE AVERAGE TERM TO MATURITY FROM 3.41 TO 3.60 YEARS.

SHARE CAPITAL AND DEBT PORTFOLIO

SHARE CAPITAL AND DEBT PORTFOLIO

● SHARE CAPITAL

AUTHORIZED CAPITAL

THE COMPANY'S AUTHORIZED CAPITAL IS 204,792,440 ROUBLES. THE AMOUNT OF AUTHORIZED CAPITAL STOCK HAS BEEN SET AT 204,792,440 SHARES, WHICH AMOUNTS TO 204,792,440 ROUBLES, INCLUDING:

- 170,169,754 ordinary shares with nominal value of one rouble per share and the total value of 170,169,754 roubles, which is 83.09% of the Company's authorized capital;
- 34,622,686 type-A preferred shares with nominal value of one rouble per share and the total value of 34,622,686 roubles, which is 16.91% of the Company's

authorized capital. Type-A preferred shares are not subject to conversion to ordinary shares when they are resold.

In accordance with the Charter, JSOC Bashneft is entitled to place new authorized preferred and ordinary shares with nominal value of one rouble in the amount of 6,000,000,000 shares and with total value of 6,000,000,000 roubles, including:

- 4,985,626,051 ordinary shares with nominal value of one rouble and total value of 4,985,626,051 roubles (authorized ordinary shares);

- 1,014,373,949 type-A preferred shares with nominal value of one rouble and total value of 1,014,373,949 roubles (authorized preferred shares).

Authorized shares give the same rights under the Company's Charter as placed shares of a corresponding type.

The state registration number of JSOC Bashneft's ordinary shares is 1-01-00013-A, the registration date – April 7, 2004.

The state registration number of JSOC Bashneft's preferred shares is 2-01-00013-A, the registration date – April 7, 2004.

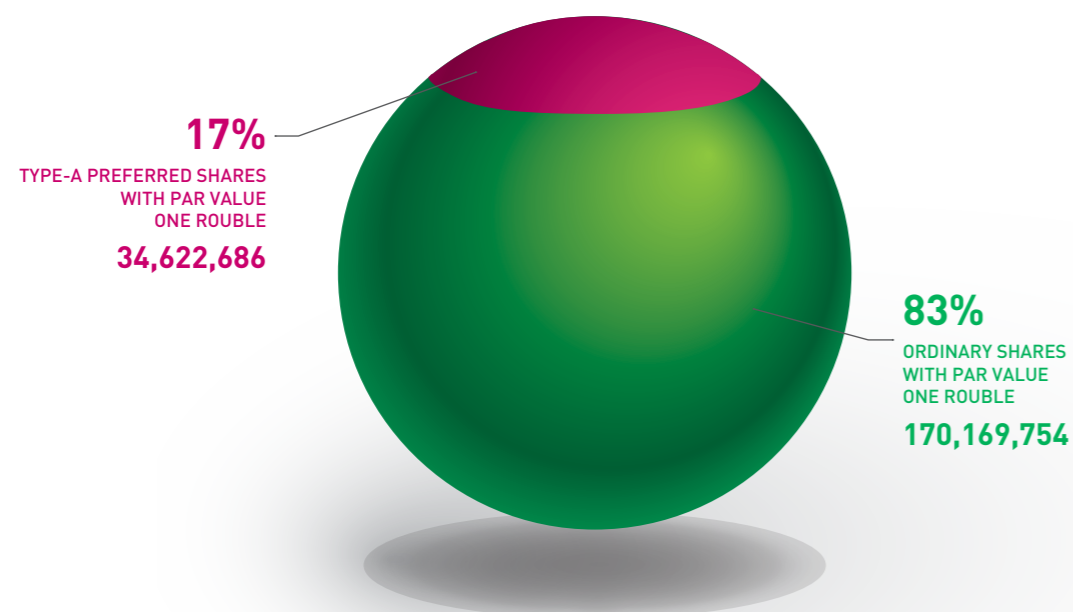
In 2011, JSOC Bashneft did not issue or place new shares.

As of December 31, 2011, JSOC Bashneft had 10,782 registered shareholders (including eight nominees).

The rights of shareholders and owners of ordinary and preferred shares of JSOC Bashneft, are listed in Articles 23 and 24 of the Company's Charter which is available on the Company web-site.

The table below shows the changes of Bashneft Group equity structure during last three years according to the International Financial Reporting Standards.

STRUCTURE OF AUTHORIZED CAPITAL



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GROWTH

	2009	2010	2011
	US\$ MILLION		
Authorized capital	77*	77*	77*
Treasury shares	-	(252)	(464)
Additional paid-in capital	1,170	1,160	1,160
Foreign currency translation reserve	(104)	(155)	(575)
Retained earnings	4,162	4,445	5,412
Total share capital of the parent company	5,305	5,275	5,610
Non-controlling interests	3,135	2,717	1,438
TOTAL EQUITY	8,440	7,992	7,048

* Nominal value of the authorized capital in accordance with International Financial Reporting Standards was adjusted to hyperinflation from the date of shares issued on December 31, 2002.

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GROWTH

SHARE CAPITAL AND DEBT PORTFOLIO

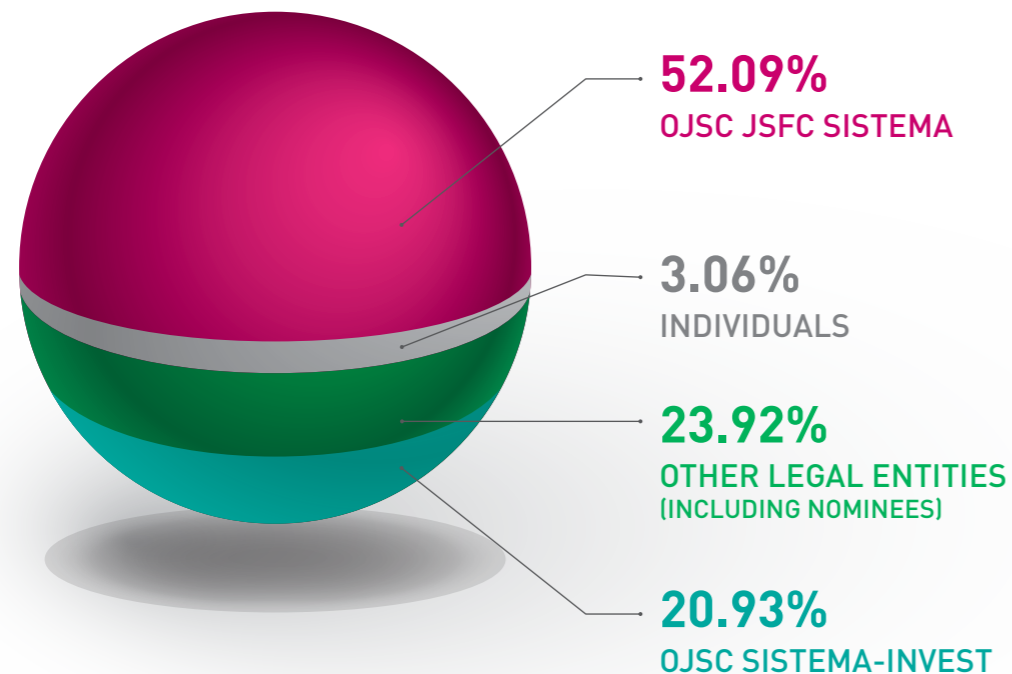
● SHARE CAPITAL

SHAREHOLDERS

The share capital structure did not change significantly in 2011. There were no changes in the list of shareholders who own more than 5% of the Company's shares.

As of December 31, 2011, there were no Company's shares in state and municipal ownership.

STRUCTURE OF SHARE CAPITAL



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GROWTH

EQUITY MARKET AND CAPITALIZATION

Since March 2002, shares of JSOC Bashneft have been traded at the Russian securities market, OJSC RTS. In November 2011, shares of JSOC Bashneft were included in non-listed securities list eligible for trading at the CJSC MICEX Stock Exchange and are traded under the BANE ticker for ordinary shares and the BANEP ticker for preferred shares. In December 2011, OJSC RTS stopped its operations due to its merger with CJSC MICEX Stock Exchange, which resulted in creation of the single trading platform MICEX-RTS.

Quotations of JSOC Bashneft's ordinary shares at RTS decreased by 6.1% as of December 31, 2011, in comparison with December 31, 2010. At the same time as the RTS Index decreased by 22% in 2011, the price for the Urals oil brand increased by 14.6% to US\$ 105.69 per barrel. The RTS Oil & Gas Index decreased by 8.5% from 196.97 to 180.29 points. At the same time the volume weighted average price for the Company's ordinary shares increased by 28.5% in 2011 as compared to 2010.

THE VOLUME WEIGHTED AVERAGE PRICE FOR THE COMPANY'S ORDINARY SHARES INCREASED BY 28.5% IN 2011 AS COMPARED TO 2010.

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GROWTH

SHARE CAPITAL AND DEBT PORTFOLIO

● SHARE CAPITAL

EQUITY MARKET AND CAPITALIZATION

In 2011, the average daily trading volume of JSOC Bashneft's shares at the RTS platform was 4,917 shares (7,269,064 roubles) and at the MICEX platform – 10,686 shares (15,132,468 roubles). Market capitalization of JSOC Bashneft as of the end of 2011 was US\$ 7.1 billion, average market capitalization for the reporting period was US\$ 8.7 billion.

JSOC Bashneft carries out regular

activities aimed at increasing investment attractiveness and capitalization due to increased transparency of the Group's business, improved information disclosure and corporate governance. These activities include the following:

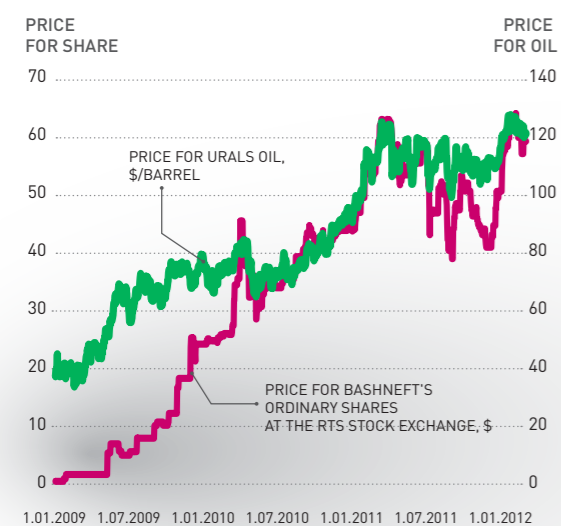
- quarterly teleconferences on financial results prepared in accordance with the IFRS have been held since 2011;
- The Group holds regular meetings with investors and shareholders and the

Group's representatives participate in investment conferences. In 2011 the number of investment banks analyzing the Group's operations and making recommendations on its shares increased from 4 to 18;

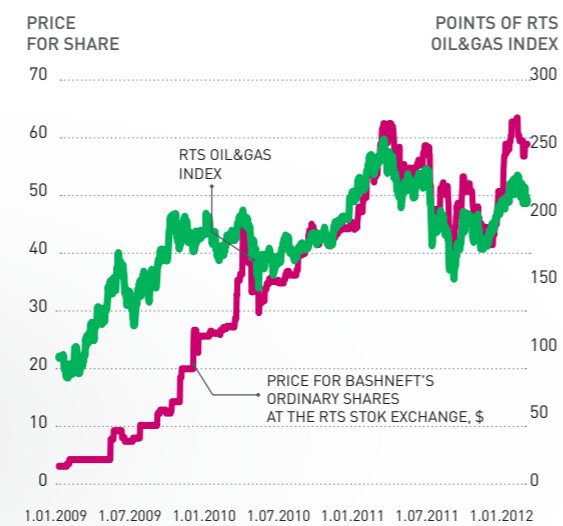
- Since 2011, the Company has cooperated with authoritative international rating agencies in order to obtain credit ratings;
- The issue of corporate structure reorganization of Bashneft Group by means of the merger of the five refining, petrochemical and marketing

subsidiaries to JSOC Bashneft has been developing since 2011. The Group plans to complete the reorganization by the end of 2012. The reorganization is aimed at optimizing the corporate structure, increasing the liquidity of Bashneft Group shares, optimizing management processes, increasing business transparency and the quality of corporate governance.

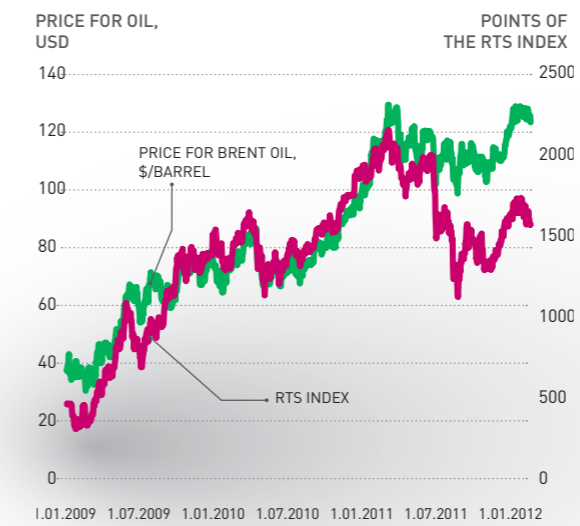
PRICES FOR JSOC BASHNEFT'S ORDINARY SHARES AND URALS OIL



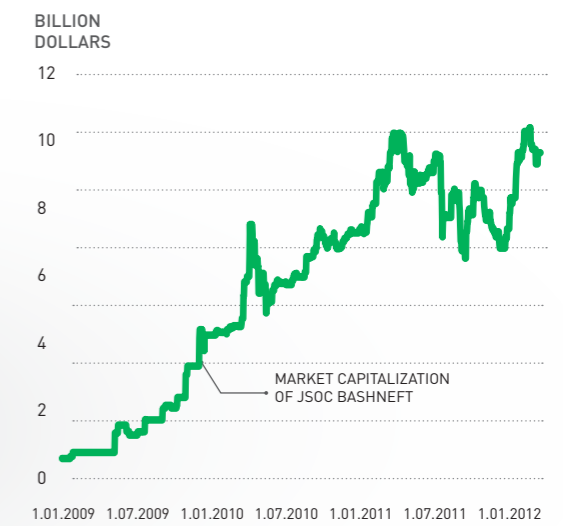
PRICES FOR JSOC BASHNEFT'S ORDINARY SHARES AND THE RTS OIL&GAS INDEX



THE RTS INDEX AND PRICE FOR BRENT OIL



JSOC BASHNEFT'S MARKET CAPITALIZATION



SHARE CAPITAL AND DEBT PORTFOLIO

● SHARE CAPITAL

DIVIDEND POLICY

In July 2011, the Company's Board of Directors approved the Statement on Dividend policy of JSOC Bashneft. The Company's dividend payment policy is based on the principle of rational distribution of the Company's profits, taking into account both the shareholders' interests and the Company's development needs.

should be no less than 10% of Bashneft Group's consolidated net income for the complete fiscal period attributable to the shareholders of the parent company and calculated in accordance with the IFRS. If the criteria for determining the amount of dividend payment established by the Dividend policy are rejected, the Company is obliged to

THE MINIMUM RECOMMENDED AMOUNT OF DIVIDEND PAYMENT SHOULD BE NO LESS THAN 10% OF CONSOLIDATED NET INCOME OF BASHNEFT GROUP ACCORDING TO IFRS (WITHOUT MINORITY INTEREST)

Decisions on dividend payment, their amount and form are made by the General Meeting of Shareholders on the recommendation of the Company's Board of Directors. The amount of dividends cannot exceed the amount recommended by the Board of Directors. In compliance with JSOC Bashneft's Statement on Dividend Policy, the recommended amount of dividend payment is defined by the Board of Directors on the basis of the Company's financial results for the first quarter, six months, nine months of a fiscal year and (or) for a full fiscal year and usually

disclose full information on its reasons of this rejection. In compliance with existing Russian legislation dividends on ordinary and preferred shares are paid from the Company's net income, which is calculated on the basis of accounting reports prepared in accordance with the requirements of Russian legislation.

Dividends are usually paid in cash. Under a decision of the General Meeting of Shareholders and in compliance with the Charter of the Company, dividends can be paid in kind – in shares, bonds, goods or other property.

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The amount of the dividend on one type A preferred share equals 10% of the value of this share. If the amount of the dividend to be paid on each ordinary share in a certain year exceeds the amount of the dividend to be paid on each preferred share, the amount of the preferred dividend should be increased to the amount of the dividend paid on ordinary shares.

In compliance with existing legislation and the Charter, the Company pays dividends within 60 calendar days from the date of the decision of the GMS on dividend payment. The Company is not entitled to pay dividends on ordinary shares before dividends payment on preferred shares. The Company's executive body is responsible for full and timely dividend payment.

In paying dividends, the Company performs the functions of tax agent; calculating, withholding and transferring payable taxes in accordance with the procedures stipulated by legislation. The Company provides necessary assistance to any person who is entitled to receive dividends, and, in compliance with tax legislation, has a right to a tax exemption or a reduced tax rate.

The Company publishes information on the decision of the GMS on dividend payment on its web-site and informs its shareholders. The publication of this information is in accordance with the requirements of existing legislation of the Russian Federation. More detailed information on the provisions of the Dividend policy is available on the Company's web-site: www.bashneft.ru.

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GROWTH

SHARE CAPITAL AND DEBT PORTFOLIO

● SHARE CAPITAL

DIVIDEND HISTORY OF JSOC BASHNEFT

In 2011, dividends were paid in two stages:

- Interim dividends for the nine months of 2010 were paid before March 31, 2011;
- Dividends for 2010 were paid before August 28, 2011.

Under the decision of the Extraordinary General Meeting of Shareholders as of December 17, 2010, dividends for nine months of 2010 were paid by JSOC Bashneft in March 2011 in the amount of 104.50 roubles per one ordinary share of the Company and 104.50 roubles per one preferred share of the Company. The amount of dividends on JSOC Bashneft's shares paid for the nine months of 2010 totalled 21,400,791,065.50 roubles. Dividends were mainly paid at the end of 2010, final dividends payments for the nine months of 2010 were made in March 2011.

On June 29, 2011, the Annual General Meeting of Shareholders of JSOC

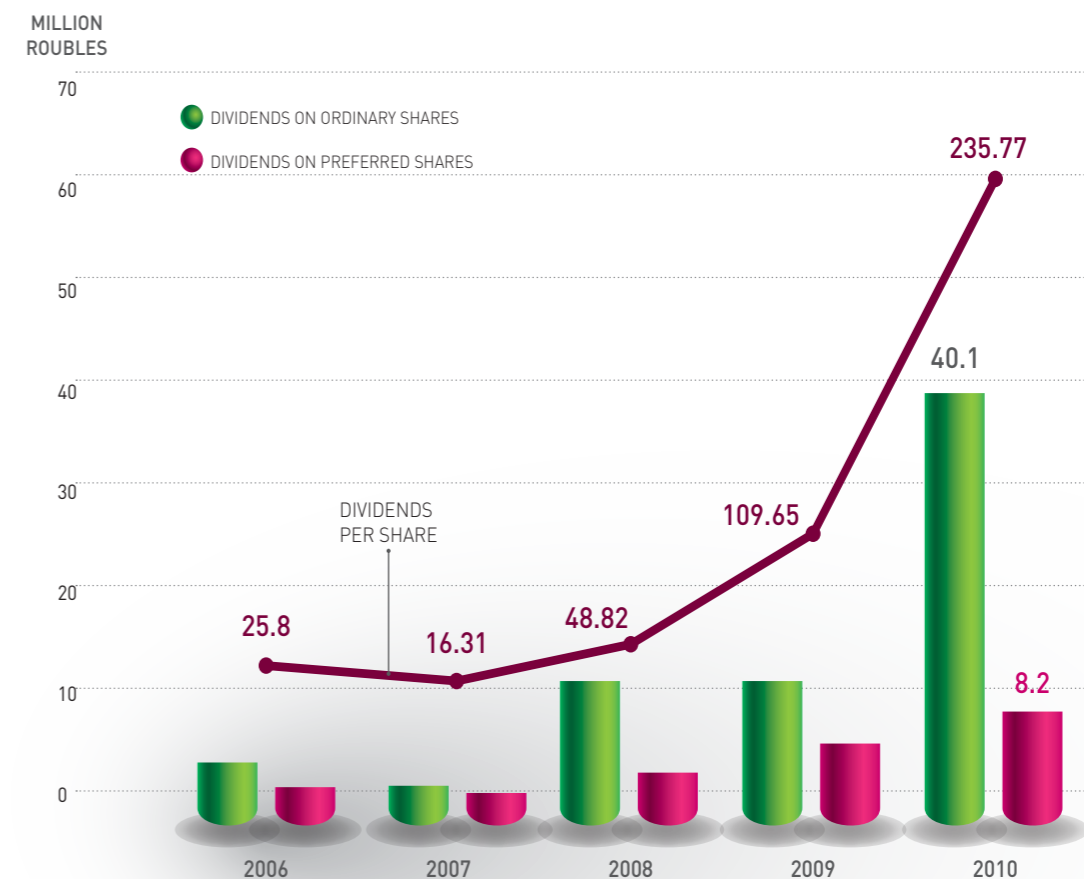
Bashneft made a decision to pay dividends for the 2010 fiscal year in the following amount:

- A total of 235.77 roubles per one ordinary share of the Company including earlier paid interim dividends on ordinary registered shares of the Company for the nine months of 2010. A final dividend payment to be paid in cash in the amount of 131.27 roubles;
- A total of 235.77 roubles per one preferred share of the Company including earlier paid interim dividends on preferred registered shares of the Company for the nine months of 2010. A final dividend payment to be paid in cash in the amount of 131.27 roubles.

A final dividend payment for 2010 was made in August 2011.

The total amount of dividends declared by the Company for 2010 was 48,283,894,664.30 roubles. Dividends were paid fully and in due time.

DIVIDENDS ACCRUED FOR THE LISTED FINANCIAL PERIODS



SHARE CAPITAL AND DEBT PORTFOLIO

DEBT PORTFOLIO

According to the Group's aim to function as a fully-fledged vertically integrated oil company, Bashneft Group continued to implement a balanced debt strategy including, in particular, active credit portfolio management in 2011. The following key results were achieved during the year.

Debt was consolidated at the level of the parent company of the Group – JSOC Bashneft. Aligning borrowing center and the center of management decision-making has made it possible for the Company to concentrate on increasing the operational efficiency of its subsidiaries, making the acquisition of financing more effective and transparent.

In 2011, the Group reduced its weighted average interest rate by more than 2.1% – from 10.8% to 8.7% – and increased the average term to maturity from 3.41 to 3.60 years due to optimizing 90% of the credit portfolio by means of improving the terms of existing debt instruments and refinancing current instruments with more profitable ones.

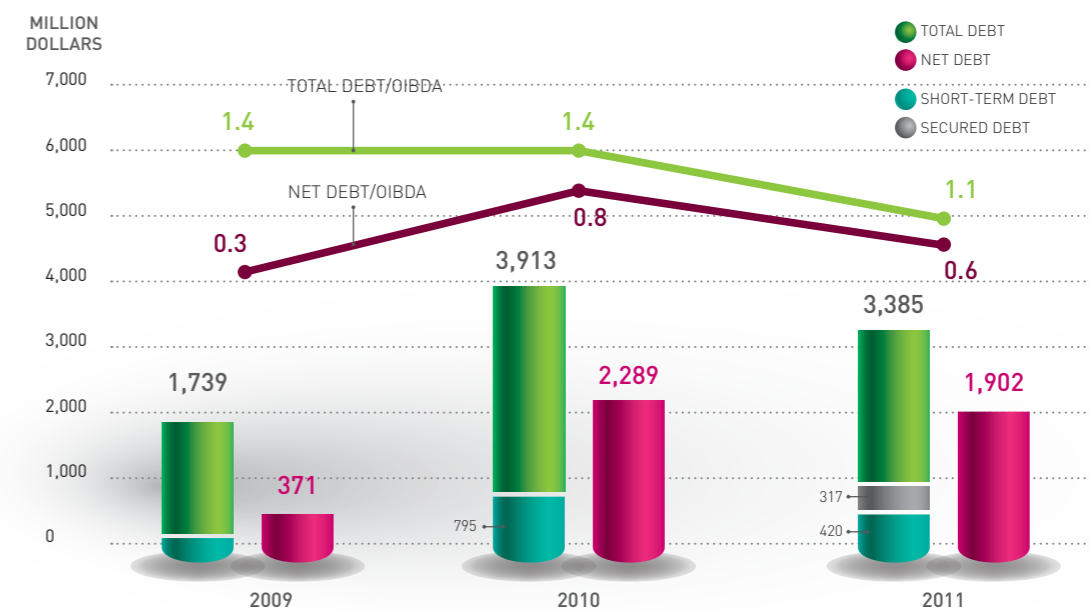
One of the examples of active debt management was the repurchase (in October 2011) of bonds with a nominal value of 38.5 billion roubles from bonds of series 01, 02, 03 that had been placed

in 2009 with total a nominal value of 50 billion roubles and a coupon rate of 12.5%. The repurchase cost was 105% of the nominal value. The repurchase was partially financed by cheaper long-term bank loans and the new issue of exchange-traded BO-01 bonds with total value of 10 billion roubles and a coupon rate of 9.35% in December 2011. Next time the coupon rate on exchange-traded BO-01 bonds will be reviewed in December 2013, bondholders will obtain the right to submit bonds for redemption at their nominal value.

In 2011, the Group entered international capital markets, placing the first syndicated loan secured by crude oil supplies. Three-year pre-export financing in the amount of 300 million dollars and with a floating rate equaling one-month USD LIBOR + 1.55 % was borrowed from an international bank syndicate.

As of the end of 2011, the total debt of the Group in the form of short and long-term loans and credits was US\$ 3.385 million as compared to US\$ 3.913 million as of the end of 2010; the share of long-term debt increased from 80% to 88% in 2011. Taking into account cash and its equivalents and short-term financial investments, the adjusted net debt decreased from US\$ 2.289 million

STRUCTURE OF DEBT AND DEBT RATIOS



to US\$ 1.902 million during the year. During the year the share of rouble credits decreased from 95% to 91% and the share of debt denominated in US dollars increased from 5% to 9%. Public credit instruments accounted for 20% of debt portfolio, private credit instruments accounted for 80% as of the end of 2011 in comparison with 42% and 58% as of the end of 2010 respectively. As compared to 2010 the share of secured loans in the debt

portfolio increased from 1% to 9% due to the syndicated loan secured by crude oil supplies. Due to significant growth of operating income and a reduction of the absolute debt amount in 2011, the total debt/OIBDA and net debt/OIBDA ratios decreased from 1.4 and 0.8 as of the end of 2010 to 1.1 and 0.6 as of the end of 2011 respectively. The total debt/equity ratio decreased in comparison with 2010 by 1% to 48% as of the end of 2011.

SHARE CAPITAL AND DEBT PORTFOLIO

DEBT PORTFOLIO

CONSOLIDATED LIABILITIES OF BASHNEFT GROUP

	AS OF DECEMBER 31, 2011		AS OF DECEMBER 31, 2010	
	RATE, %	OUTSTANDING BALANCE, US\$ MILLION	RATE, %	OUTSTANDING BALANCE, US\$ MILLION
NON-CURRENT LIABILITIES				
· Unsecured loans with fixed rate	7.75%–8.95%	2,403	11,9%–12,0%	1,466
· Unsecured non-convertible bonds issued in December 2011	9.35%	310	–	–
· Secured loans with a floating rate	Libor 1M + 1.55%	248	–	–
· Secured loans with a fixed rate	16.0%	4	16.0%	19
· Unsecured non-convertible bonds issued in December 2009	–	–	12.5%	1,633
TOTAL		2,965		3,118
CURRENT LIABILITIES				
· Unsecured non-convertible bonds issued in December 2009	12.5 %	355	–	–
· Current secured loans with a floating rate	Libor 1M + 1.55%	50	–	–
· Current secured loans with a fixed rate	16.0%	15	16.0%	14
· Short-term unsecured loans with a fixed rate	–	–	3.6%–7.2%	773
· Short-term secured loans with a fixed rate	–	–	4.5%–20.0%	8
TOTAL		420		795
TOTAL LIABILITIES		3,385		3,913
CASH AND CASH EQUIVALENTS				
· Cash		881		1,067
· Short-term financial investments		602		557
TOTAL		1,483		1,624
ADJUSTED NET DEBT		1,902		2,289

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GROWTH

In February 2012, JSOC Bashneft placed documentary non-convertible interest-bearing 04 series bearer bonds with compulsory centralized storage. The total par value was 10 billion roubles with a coupon rate of 9%. The maturity of 04 series bonds is 10 years from the date of beginning of placement. In February 2015, the interest rate will be reviewed. At the same time the bondholders will be able to exercise a put option on the bonds at their par value.

ru national scale rating with a stable outlook. The Moody's and Moody's Interfax ratings were given to JSOC Bashneft for the first time. In May 2012, the international rating agency Fitch Ratings assigned to JSOC Bashneft a long-term issuer default rating in foreign and national currencies at the level of BB as well as a national long-term rating of AA-(rus), and a short-term issuer default rating in foreign and national currencies of B. The agency gave the Company's

IN 2011, THE GROUP REDUCED ITS WEIGHTED AVERAGE INTEREST RATE BY MORE THAN 2.1%—FROM 10.8% TO 8.7%—AND INCREASED THE AVERAGE TERM TO MATURITY FROM 3.41 TO 3.60 YEARS DUE TO IMPROVING THE TERMS OF EXISTING DEBT INSTRUMENTS AND REFINANCING CURRENT INSTRUMENTS WITH MORE PROFITABLE ONES

In April 2012, the international rating agency Moody's Investors Service assigned to JSOC Bashneft a Ba2 corporate credit rating and probability of default ratings with a stable outlook on each. The rating agency Moody's Interfax assigned an Aa2.

internal issues of rouble bonds a senior unsecured rating in foreign and national currencies of BB and a national senior unsecured rating of AA-(rus). The outlook for the long-term rating was stable.

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GROWTH



GEOLOGICAL EXPLORATION AND PRODUCTION TECHNOLOGIES:

TARGET INNOVATIVE GEOLOGICAL EXPLORATION PROJECTS ARE AIMED AT REDUCING GEOLOGICAL RISKS AND INCREASING THE EFFICIENCY OF GEOLOGICAL EXPLORATION. MOST OF RESEARCH IS CARRIED OUT BY LLC BASHNIPINEFT, THE INDUSTRY-LEADING R&D AND PROJECT INSTITUTE OF THE GROUP.



OIL REFINING TECHNOLOGIES:

THE GROUP ACTIVELY INTRODUCES TECHNOLOGICAL INNOVATIONS IN OIL REFINING AND PETROCHEMICALS SEGMENT IN ORDER TO ENSURE COMPLIANCE OF PRODUCTS WITH THE STRICTEST ENVIRONMENTAL REQUIREMENTS AND TO INCREASE OIL REFINING DEPTH.



INFORMATION TECHNOLOGIES:

THE GROUP CONSIDERS DEVELOPMENT AND USE OF INFORMATION TECHNOLOGIES (IT) AS ONE OF THE MOST IMPORTANT WAYS TO ACHIEVE ITS STRATEGIC GOALS, SUCH AS IMPROVING MANAGEMENT QUALITY AND ENSURING OPERATING EFFICIENCY. IN 2010 AND IN 2011 (FOR TWO YEARS) JSOC BASHNEFT WAS GIVEN THE ANNUAL NATIONAL AWARD "IT-LEADER".

RESEARCH AND INNOVATION

RESEARCH AND INNOVATION

THE GROUP'S SCIENTIFIC, TECHNICAL AND INNOVATIVE DEVELOPMENT ENABLED IT TO ACHIEVE SIGNIFICANT RESULTS IN ALL THE KEY AREAS OF ITS BUSINESS DURING THE REPORTING YEAR.

Bashneft Group's key areas of R&D and innovative development include improving product quality, enhancing business efficiency, and ensuring environmental and process safety.

The Scientific and Technical Council acts as Bashneft Group's management centre for introducing innovations and advanced technologies. The Council collects, structures and analyzes information necessary for making recommendations on current and future issues related to the Group's scientific, R&D and industrial activities. The Council assists JSOC Bashneft's senior management in formulating technical policy for the Group as a whole and its individual entities, including long-term technical development plans up to 2015 for each department of JSOC Bashneft.

In the third quarter of 2011, the R&D Department was created in order to organize and coordinate the implementation of R&D strategy of Bashneft

Group. The Research and Development Commission of the Scientific and Technical Council was created as an expert body responsible for the development and implementation of JSOC Bashneft's R&D Programme. The main goal of the Commission is to assure the implementation of the Company's innovative and R&D policy through planning, streamlining and control the application of R&D regulations.

The development of R&D regulations started in 2011. The R&D Programme for 2012 was approved in the reporting year. In 2012, the priority investment areas include research aimed at:

- Studying the potential for shale oil production from the Domanic facies in the Republic of Bashkortostan, as well as the Orenburg, Samara, Saratov and Ulyanovsk regions;
- Reducing the risks of inefficient drilling at key oilfields;
- Structuring and unifying storage procedure, analyzing of data on qualities of formation fluids;
- Forecasting well operation at a high gas/oil ratio;
- Improving the quality of petroleum products.

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TRANSFORMATION

Most of JSOC Bashneft's research will be carried out by LLC BashNIPIneft, the industry-leading R&D institute of the Group. LLC BashNIPIneft is a corporate R&D centre conducting research in the key areas of the Group's operations in geological exploration and crude oil production.

Top priority activities of LLC BashNIPIneft include:

- Research in geology, exploration, field development, drilling, production, enhanced oil recovery, collection of oil and gas, well workovers and environmental protection;
- Design, development analysis and monitoring of oil, oil & gas and gas fields;

- Construction of updateable field models, development of well construction technologies and new enhanced oil recovery methods;
- Feasibility studies for design concepts;
- Selection of technologies and agents for crude oil production;
- Laboratory study of core materials and formation fluids;
- Environmental and radiation monitoring;
- Development of new agents and materials for well construction;
- Designs for the construction of wells and other field facilities, overhaul and reconstruction of production facilities.

The institute develops innovations in close cooperation with the Group's departments.

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TRANSFORMATION

RESEARCH AND INNOVATION

● TECHNOLOGIES IN GEOLOGICAL EXPLORATION AND PRODUCTION

EXPLORATION

The target innovation projects in geological exploration are aimed at reducing geological risks and improving the efficiency of exploration activities.

To increase the efficiency of geological exploration, Bashneft continues to apply modern geochemical techniques (GORE™ Surveys for Exploration). This helps to evaluate the potential of discovered and prepared formations before starting deep prospecting and exploration drilling and discard the least promising structures, thus reducing financial risks related to drilling of prospecting and exploration wells.

Bashneft purchased and is introducing the latest geological and geophysical Kingdom software system which enables structural and stratigraphic interpretation of seismic data and rapid construction of geological models of prospective areas, their mapping, and the evaluation of prospective C3 and D1L hydrocarbon resources. Bashneft is creating an integrated complex comprising all seismic surveys carried out in Bashkortostan.

Bashneft purchased the Strategy software system which enables it to make rapid geological and financial calcu-

lations to evaluate new and existing assets.

Feasibility studies were carried out on the potential and advisability of bidding for more than 60 subsoil areas in various regions of European Russia and Eastern and Western Siberia offered at auctions during 2011 and conclusions were prepared.

After feasibility studies were carried out for four prospective areas in Bashkortostan, it was recommended that three areas should be included in the licencing programme for 2012.

Feasibility studies were carried out for 11 licence areas of the Group (nine areas in Bashkortostan, one area in the Orenburg region and one in the Khanty-Mansi Autonomous District). It is recommended that geological studies should be continued for 10 licence areas. It is also recommended that the licence for one area (in the Khanty-Mansi Autonomous District) should be waived. Feasibility studies were carried out for 22 prospective areas offered at auctions during 2011. Development licences were obtained for two licence areas (Uzharovskiy and Yarkeevskiy).

Feasibility studies were carried out for three fields and four licence areas in order to evaluate the advisability of further development and geological exploration. Based on the calculations, it was decided to terminate the development licence for two fields and two areas before the end of the licence period and to suspend the licence for one field.

Feasibility studies were carried out for three licence areas owned by other licence holders in order to purchase these areas; positive conclusions were given for all three of them.

Within the framework of the Integrated Regional Project for Exploration in Bashkortostan and Selection of Areas for Licencing, research was carried out in order to determine the feasibility of further geological exploration at conventional (the Aktanysh-Chishminskaya depression) and non-conventional (the Uralian foreland folds) reservoirs

and areas. Based on these works aimed at analysis and generalization of geological and geophysical data on Palaeozoic sedimentary cover in the region of the Uralian foreland folds and the Aktanysh-Chishminskaya depression, eight areas were assigned for further geological exploration. It is recommended that three areas should be included in the licencing list for 2012.

Analysis of geological and geophysical data was carried out for eight fields under development in Bashkortostan in order to find undeveloped formations. 74 areas were found to be promising in terms of oil production and were subsequently ranked.

In 2012, Bashneft plans to carry out research to determine the potential for shale oil production from Domanic sedimentary facies in the Republic of Bashkortostan, the Orenburg, Samara, Saratov and Ulyanovsk Regions.

RESEARCH AND INNOVATION

TECHNOLOGIES IN GEOLOGICAL EXPLORATION AND PRODUCTION

OILFIELD DEVELOPMENT: DRILLING AND PRODUCTION

In oil production the Group continued to introduce the latest highly efficient technologies aimed at increasing hydrocarbon reserves and crude oil production volumes while reducing costs.

In 2011, LLC BashNIPneft monitored oilfield development. Recommendations were made for optimizing the development system and a number of fields were selected for geological and engineering operations. Proposals were prepared for hydraulic fracturing, a shift to higher horizons, and the application of enhanced oil recovery methods. Short-term monthly and yearly programmes of geological and engineering operations supervised by chief project engineers are being approved.

LLC BashNIPneft carried out rapid analysis of problem areas in development, the exploration of prospective areas in existing wells, activities aimed at reducing water cut and enhancing the productivity of marginal wells. Measures for developing non-commercial wells were designed, optimal field development schemes were designed using methods of material balance and construction of two-dimensional hydrodynamic models.

The programmes for reduction of associated water production volumes and inefficient injection were implemented at the Mancharovskoye and Kottynskoye fields on the recommendations of LLC BashNIPneft.

On the basis of constructed geological and hydrodynamic models the optimal methods of well development were selected for a number of fields in Bashkortostan, multilateral wells were drilled at the Lemezinskoye field and a horizontal well was drilled at the Ilishevskoye field.

In 2011, LLC BashNIPneft carried out the following R&D activities for the development of new equipment and technologies:

- The GNI-90 hydraulic running tool for entering the branches of multilateral wells was designed, constructed and successfully deployed for the development of two multilateral wells at the Lemezinskoye field. It controls the operation of each branch and promptly carries out repairs when necessary. This leads to an increase in the Group's crude oil production;
- A hydraulic calibrator-centralizer for sidetracking was developed and constructed. It is a reliable instrument which minimizes the costs associated with

drilling lateral branches of existing wells. Sidetracking is one of the key activities aimed at the development of remaining oil reserves;

- A program was developed and profiles of directional, horizontal, and multilateral wells at the Trebs and Titov fields were calculated in order to optimize the profiles and minimize drilling rig utilization. As a result, the Group's needs were defined for carrying out production drilling at one of its key assets.

In 2011, the results of 2008-2010 R&D and experimental programs were used for well design and industrial application, which confirmed their high technical and economic efficiency. Two multilateral wells were constructed at the Lemezinskoye oilfield with flow rates 2-3 times higher than the flow rates of existing horizontal wells.



RESEARCH AND INNOVATION

TECHNOLOGIES IN GEOLOGICAL EXPLORATION AND PRODUCTION

LABORATORY STUDIES

In 2011, the laboratory of flush fluids and well casing was accredited (Certificate of accreditation No ROSS RU 0001.517992 as of 24.08.2010, valid until 24.08.2015). Within the framework of engineering and technical work, the laboratory carried out comparative tests of Russian and foreign chemical agents for drilling fluids and plugging materials in terms of their possible use in well construction at oilfields of the Urals, the Volga region, Western and Eastern Siberia.

In 2011, LLC BashNIPIneft continued petrophysical research. Re-equipping

the laboratories made it possible to implement a wide range of petrophysical research methods. The introduction of cutting-edge technologies improved the quality and accuracy of research.

Applying the latest atomic emission-absorption methods, micro-component analysis of fresh ground water was carried out. These innovative technologies have widened the field of research and increased the accuracy of the results resulting in higher accuracy of environmental monitoring.



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TRANSFORMATION

IMPLEMENTATION OF INNOVATIVE TECHNOLOGIES

In 2011, under the System of Innovative Technologies Implementation, activities were carried out in the following high priority areas:

- HYDRAULIC FRACTURING;
- TREATMENT OF THE NEAR-WELLBORE AREA;
- WELL REPAIR AND SEALING OPERATIONS;
- WATERFLOODING CONTROL AIMED AT EFFICIENT MAINTENANCE OF FORMATION PRESSURE;
- PERFORATING TECHNIQUES.

Under the Innovation System the following activities were carried out in 2011:

- 99 hydraulic fracturing operations were carried out at 43 fields, including 15 cases of acid fracturing of carbonate formations. During these operations the cumulative additional oil production totalled 231,200 tonnes.
- The method of thermochemical binding of special proppant particles was tested in order to prevent proppant flowback after hydraulic fracturing and early breakdown of pumping equipment caused by it. According to the results of the research, the pumps' lifespans increased by 2.5 times.
- The method of mechanical perforation by drilling with the perforation tunnel in a

formation up to two meters was adapted for Bashkortostan's crude oil production conditions. The technology efficiently enters a formation with neighbouring oil- and water-bearing layers, without excessive stress on the production string and the surrounding cement sheath and without any increase in water cut. The total additional crude oil production from the tests at five wells amounted to 1,500 tonnes.

- Tests of matrix acidizing through a coiled tubing unit which operates the formation without lifting the pumping equipment were carried out at over 100 wells. As a result of these tests, workover time was reduced by three days for each well and additional crude oil production exceeded 35,000 tonnes.
- Over 20 tests of matrix acidizing were carried out with the use of demulsifiers specially selected according to well operation conditions. During the tests the total increase in crude oil production amounted to 8,000 tonnes.
- The technology of silicate alkalization for homogenisation of injectivity profile was tested at the Igrovskoye field in order to enhance the efficiency of the system of formation pressure maintenance. As a result of these activities, total additional crude oil production exceeded 1,000 tonnes for each cell under development with associated water production decreasing by 1,520 tonnes.

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TRANSFORMATION

RESEARCH AND INNOVATION

● TECHNOLOGIES IN GEOLOGICAL EXPLORATION AND PRODUCTION

IMPLEMENTATION OF INNOVATIVE TECHNOLOGIES

- Technologies for repair and sealing operations with the use of new plugging materials and mechanisms were tested at 14 production wells. The total water production was reduced by 30% with additional crude oil production amounting to 6,000 tonnes.
- A coiled tubing unit was used in well acidizing operations in order to reduce the duration and cost of well workover and production downtime. During production tests, well workover time was reduced threefold.

In 2011, under the Innovation System, 45 innovative methods were studied. The Group had not previously used

them and it was proposed to use them at Bashneft Group's oilfields. The ten most promising of these, in terms of the costs/oil production growth ratio, were selected and recommended for production testing. Tests of these methods are scheduled for the second half of 2012. Bashneft makes sure that all innovative methods are supported by a complete set of licences and approvals, including those for the use of the proposed substances in oil industry, and that these methods undergo comprehensive laboratory tests for compatibility with formation fluids of the oilfields where Bashneft plans to use these technologies.

RESEARCH AND INNOVATION

● TECHNOLOGIES IN OIL REFINING

Bashneft Group is actively introducing technological innovations in oil refining and petrochemical production that will enable the Group to manufacture petroleum products meeting the strictest environmental standards and further increase refining depth. Bashneft Group currently leads the industry in terms of refining depth.

The Group is increasing the capacity of its delayed cokers and reconstructing its cata-

lytic cracking, vacuum gasoil and diesel fuel hydrotreatment units.

2011 saw a year-on-year increase in the share of Euro- 4 and Euro- 5 products from 10.98% to 18.32%. The launch of a sulphuric acid alkylation unit at OJSC Novoil and facilities for gasoline separation at OJSC Ufimsky refinery plant and OJSC Ufaneftekhim is scheduled for 2012.



RESEARCH AND INNOVATION

INFORMATION TECHNOLOGY

IT DEVELOPMENT

The Group views the development and extensive use of information technology as one of the key tools for enhancing management and operational efficiency.

The Group's principal efforts in the sphere of corporate information systems are aimed at the implementation of SAP ERP, an automated system for business planning and optimization, as part of a comprehensive Programme for the development of an integrated planning and management system at Bashneft Group's key enterprises. The SAP ERP platform automates data flows in the Group's key business areas and creates a common information space for the major enterprises of the Group, thus substantially enhancing the Group's management efficiency. In the production segment it is planned to introduce SAP ERP in 2012. Personnel Management software based on SAP HCM, which the Group has used since 2010 to unify and automate basic personnel management processes, was updated in 2011 to enable the automation of processes of a higher level. These include analysis of performance indicators and personnel evaluation, career manage-

ment and succession planning, and corporate training management.

In the refining segment full-function SAP ERP-based software was introduced at OJSC Ufaneftekhim in 2011. This has been followed by the roll-out of the software to other refineries comprising the refining segment. In OJSC Ufaorgsintez the process is already finished. Bashneft also continues to carry out the Programme for the Implementation of Production Process Management Systems. It is aimed at increasing the accuracy and transparency of cost accounting, gradually upgrading measuring and automation equipment, enhancing the efficiency of dispatch control, optimizing and centralizing control over the process units, and monitoring product quality. Under the Programme in 2011 the refineries were provided with equipment for commercial oil and petroleum products accounting, a laboratory information system was introduced at OJSC Ufaneftekhim. Its main functions include:

- Automation of gathering, processing, storage and display of information received during laboratory analyses;

- Integration of data on quality control in Bashneft's common information space and cooperation between analytic laboratories and other departments of Bashneft;
- Providing information on the quality of raw materials, materials, semi-finished and finished products to Bashneft's departments using quality indicators;

oil production volumes by reducing unplanned well downtime, reducing equipment failures, ensuring smooth operation of equipment and improving the safety of the Group's property at oil production facilities. In 2011, under the Programme telemechanical

IN 2010 AND 2011, JSOC BASHNEFT WON THE ANNUAL NATIONAL IT-LEADER AWARD, THE ONLY RUSSIAN PROFESSIONAL AWARD IN THE SPHERE OF IT. BASHNEFT WAS AWARDED FOR ITS SIGNIFICANT CONTRIBUTION TO IT DEVELOPMENT IN RUSSIA IN THE OIL AND GAS COMPANIES COMPETITION

- Efficient setting and forming of reports, passports (certificates) and diagrams of performed tests.

In the production segment the Group continues implementing the Target programme for Upgrading Telemechanical Equipment and Installation of Remote Control Systems at Production Wells of Bashneft Group for 2010-2015. It is aimed at increasing

cal systems were installed at 2,606 wells in Bashkortostan. 2012 will see the installation of telemechanical systems at 2,973 wells. In 2010, telemechanical systems were installed at 1,256 wells. Upon the completion of the Programme in 2015, 100% of Bashneft's mechanized wells will be equipped with remote control systems.

RESEARCH AND INNOVATION

● INFORMATION TECHNOLOGY

IT DEVELOPMENT

In 2011, the project for upgrading Bashneft Group's automated IT measuring systems in the energy segment was launched in order to reduce electricity costs in crude oil production. The project includes installation of commercial and technical metering systems and a dispatching system. The automatic systems of commercial and technical energy metering and dispatching management cover 5,500 metering points. In 2011, about 60% of the project activities were completed; at present, construction, installation, testing and commissioning are being carried out. Bashneft plans to enter the wholesale electricity market in January 2013.

The installation of OilInfoSystem software, which provides information support for key business processes in oil production, started in 2011. The following modules were introduced:

- **OIS+ PRODUCTION:** a system of accounting and analysis of operation of oil and gas production facilities (accounting of oil production, fluids, injections into formations, analysis of well operation);
- **OIS WELL WORKOVER:** a system of accounting and monitoring of well workover results (automation of planning, accounting, well workover supervising,

retrieving operational and analytical data on workovers);

- **OIS DRILLING:** a system of monitoring and analysis of well construction.

OIS is currently undergoing operational testing; it is planned to put the system into operational use in August 2012.

In the marketing segment in 2011, Bashneft Group continued implementing the Programme for Automation of Sales, Handling and Transportation of Oil and Petroleum Products. The Programme covers:

- **RETAIL SALES**
(retail and small wholesale);
- **WHOLESALE**
(export and domestic);
- **LOADING AND TRANSPORTATION.**

Under the Program a number of projects are being implemented, for example, installation of the Customer Relationship Management System in wholesale business and introducing an integrated automatic control system for filling stations based on Retalix at OJSC Bashkirnefteprodukt. The installation of the automatic control system for filling stations will formalize and optimize business processes related to sales of petroleum products and as-

sociated products and services in OJSC Bashkirnefteprodukt and increase petroleum products sales via filling stations by 15,000 tonnes annually.

In the sphere of the information infrastructure, a corporate Tier III+ data processing centre began operation in 2011. The centre's construction incorporates Lampertz fire and explosion-proof technologies and is designated to host the Group's highly critical servers and data storage systems. Besides, Bashneft Group completed the integration of communication and data transmission networks of all its subsidiaries and affiliates into a single convergent network.

Bashneft extensively uses virtualization technologies to increase overall equipment effectiveness and to eliminate redundancy. In 2011, Bashneft continued the implementation and integration of monitoring systems and the CA Service-Desk centralized user support system to meet the high standards of the systems' users. The centralized personnel support service of the companies of Bashneft Group uses these tools.

In 2011, LLC Bashneft-Udmurtia, CJSC Bashneft-Region and OJSC Orenburgnefteprodukt were connected to CA Spectrum infrastructure management software, which increased the number of monitored elements by more than 600 units (at the end of 2010 the monitoring system covered 1,200 elements).

LLC Bashneft-Udmurtia, CJSC Bashneft-Region and OJSC Orenburgnefteprodukt were connected to CA Service Desk centralized user support system in 2011. Thus, the number of system users increased from 2,685 to 15,165 during the year.

In 2011 the Group introduced the Boss-Referent electronic document processing system and videoconferencing system at the newly acquired marketing assets in order to improve corporate governance and speed up decision-making and implementation. These systems will accelerate the integration of these assets in the Group's structure and business processes.

RESEARCH AND INNOVATION

INFORMATION TECHNOLOGY

IT MANAGEMENT

Bashneft attaches great importance to the development and implementation of state-of-the-art technologies. Innovative activity is one of the main competitive advantages of the Group and an im-

portant factor contributing to its rapid development.

The Committee on IT, Telecommunications and Metrology of the JSOC



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TRANSFORMATION

RESEARCH AND INNOVATION

INFORMATION TECHNOLOGY

Bashneft's Board is responsible for IT development. It includes representatives of IT and business departments. The responsibilities of the Committee include a feasibility study and approval of new IT projects, priorities setting, software selection and supervision of project implementation.

In order to ensure IT operational efficiency, Bashneft updates processes, standardizes equipment and software and outsources ancillary business processes. In 2011, the creation of a single service subsidiary for IT, telecommunications and automation on the basis of LLC PTUS Bashneft was completed by

the consolidation of the assets and personnel of five telecommunications service enterprises and nine oil production automation departments with a subsequent merger with LLC PTUS Bashneft. As a result of this reorganization, the number of employees decreased by 211 people, the economic benefit amounted to 30 million roubles annually.

In 2010 and 2011, JSOC Bashneft won the Annual National IT-Leader Award, the only Russian professional award in the sphere of IT. Bashneft was awarded for its significant contribution to IT development in Russia in the Oil and Gas Companies competition.



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HUMAN RESOURCES:

THE GROUP'S HR POLICY FULLY COMPLIES WITH THE RULES AND PRINCIPLES OF RUSSIAN AND INTERNATIONAL LAW AND IS BASED ON MUTUAL RESPECT. OPINIONS OF ALL PARTIES ARE ALWAYS CONSIDERED. THE GROUP CREATES ATTRACTIVE WORKING CONDITIONS FOR EMPLOYEES WHO SEEK EFFICIENCY, PROFESSIONAL DEVELOPMENT AND CAREER ADVANCEMENT.



CHARITY:

THE SOCIAL POLICY OF THE GROUP IS BASED ON THE PRINCIPLES STATED IN ITS INTERNAL DOCUMENTS. 2011 SAW FURTHER COOPERATION BETWEEN JSFC SISTEMA AND THE REPUBLIC OF BASHKORTOSTAN ON THE DEVELOPMENT OF SOCIAL INFRASTRUCTURE. 20 NEW SOCIAL FACILITIES WERE FUNDED IN SEVEN DISTRICTS OF THE REPUBLIC



ENVIRONMENTAL PROTECTION:

ENVIRONMENTAL PROTECTION HAS ALWAYS BEEN A HIGH PRIORITY FOR BASHNEFT, SINCE TAKING CARE OF THE ENVIRONMENT IS A NECESSARY PREREQUISITE FOR THE HEALTH AND WELFARE OF FUTURE GENERATIONS. IN 2011, THE GROUP APPROVED AND ADOPTED THE FUNCTIONAL STRATEGY OF JSOC BASHNEFT ON HEALTH, SAFETY AND ENVIRONMENT.

 SOCIAL
RESPONSIBILITY

SOCIAL RESPONSIBILITY

HUMAN RESOURCES

HR POLICY

Bashneft is one of the most attractive employers in the region: it successfully ensures comfortable working conditions, maximizes opportunities for professional development and career advancement, and fosters the creativity and health of the employees.

The Group's HR policy fully complies with the rules and principles of Russian and international law and is based on mutual respect. Opinions of all parties are always considered.

The Group's employees are one of its main strategic resources, enabling the

The aims of the Group's HR policy include:

- providing the Group with highly qualified specialists capable of solving problems as they arise and contributing to the achievement of business goals;
- creating the prerequisites for a mutually beneficial long-term cooperation between the Group and its employees through effective incentive programmes;
- employee training and development;
- performance evaluation;
- development of corporate culture.

THE GROUP'S EMPLOYEES ARE ONE OF ITS MAIN STRATEGIC RESOURCES, ENABLING THE GROUP TO BE COMPETITIVE. WORK WITH PERSONNEL IS CONSIDERED A PRIORITY FOR ALL MANAGERS.

Group to be competitive. Work with personnel is considered a priority for all managers.

Basic principles and approaches of personnel management are stated in the Human Resources Policy of Bashneft adopted in 2010.

The Group uses clear criteria when hiring new personnel. Candidates are selected on a competitive basis and assessed upon their professional and managerial skills and overall growth potential. Decisions concerning recruitment are made regardless of the candidate's race, nationality, gender and age.

In 2011, Bashneft adopted the Code of Ethics and the Code of Corporate Conduct declaring the following basic corporate values:

- Compliance with laws, norms and rules
- Efficiency
- Honesty, integrity and reliability in business
- Professionalism, competence and awareness
- Social responsibility

Besides, the Group takes on voluntary commitments concerning corporate conduct that complement the applicable legislation. The Group's codes stipulate that the Group's management and its employees shall avoid behaviour leading to discrimination against others and guarantee equal rights and opportunities concerning remuneration and the careers of its employees. The Group does not employ contract and agency staff or use other non-standard forms of employment that may directly or indirectly lower the social protection of employees.



SOCIAL RESPONSIBILITY

HUMAN RESOURCES

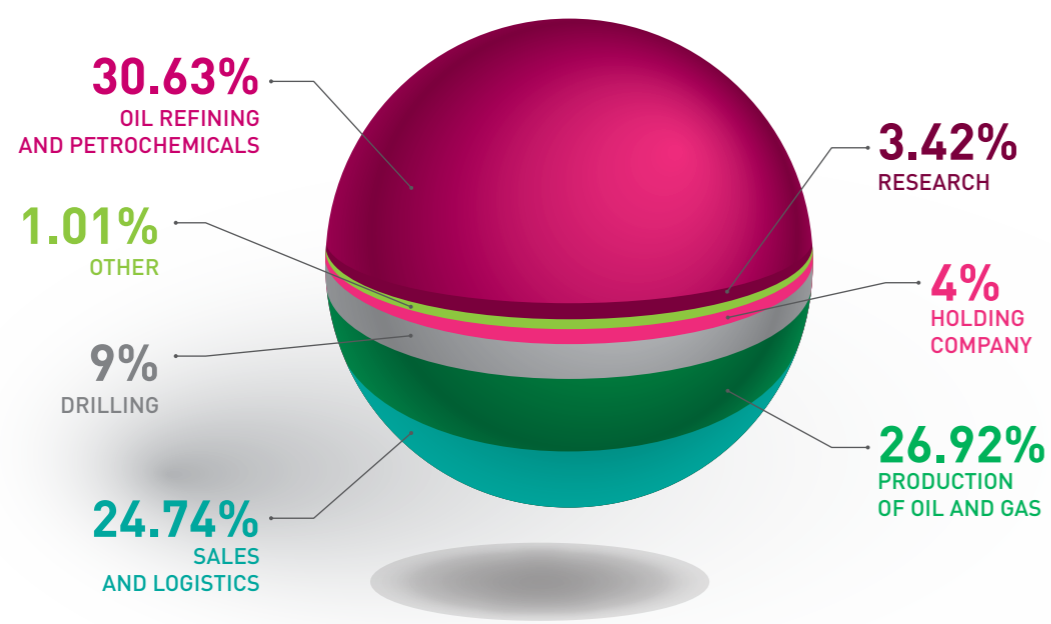
PERSONNEL NUMBERS AND STRUCTURE

As of December 2011, the average headcount in Bashneft Group was 26,754 (in December 2010 – 28,245).

CHANGE IN AVERAGE HEADCOUNT BY BUSINESS TYPES:

#	BUSINESS TYPE	2009	2010	2011
1	HOLDING COMPANY	395	854	1,025
2	DRILLING	6,270	4,489	2,528
3	PRODUCTION OF OIL AND GAS	8,337	7,931	7,202
4	OIL REFINING AND PETROCHEMICALS	8,247	8,173	8,195
5	SALES AND LOGISTICS	4,936	5,659	6,619
6	RESEARCH	852	882	914
7	OTHER	253	257	271
	TOTAL	29,290	28,245	26,754

PERSONNEL STRUCTURE

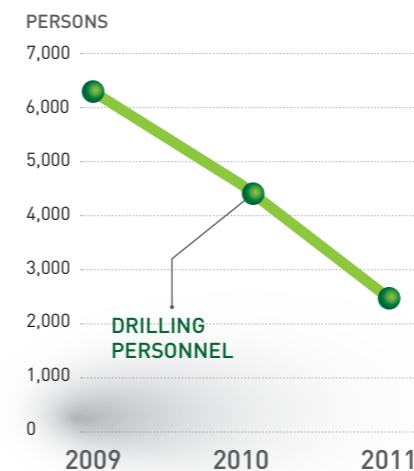


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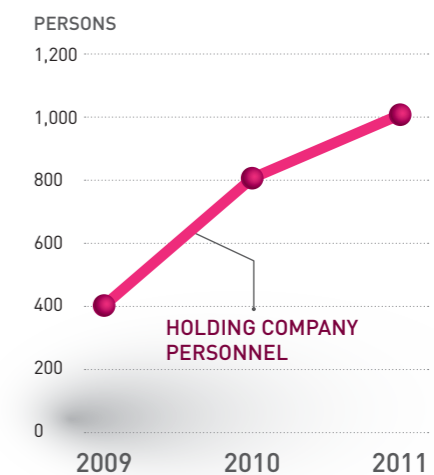
In 2011, the organizational structure of the Group was streamlined and headcount decreased by 1,505 (5.7%). This was achieved mainly by restructuring oilfield service companies working with Bashneft and downsizing their workforce.

DRILLING PERSONNEL



The headcount of the holding company increased, first and foremost, in the key sectors of Development, Production, Refining and Sales. The Economics and Finance department also experienced major changes, as several businesses were transformed into independent units.

HOLDING COMPANY PERSONNEL



At the same time, several businesses of the Group saw an increase in headcount. This resulted from the hiring of new managers for the recently created Marketing, Energy, IR and GR Departments.

The number of Sales and Logistics personnel increased due to the acquisition of operating networks of filling stations (OJSC Orenburgnefteprodukt, LLC SKON Group of Companies) leading to the expansion of the Group's footprint in Russia.

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TRANSFORMATION

SOCIAL RESPONSIBILITY

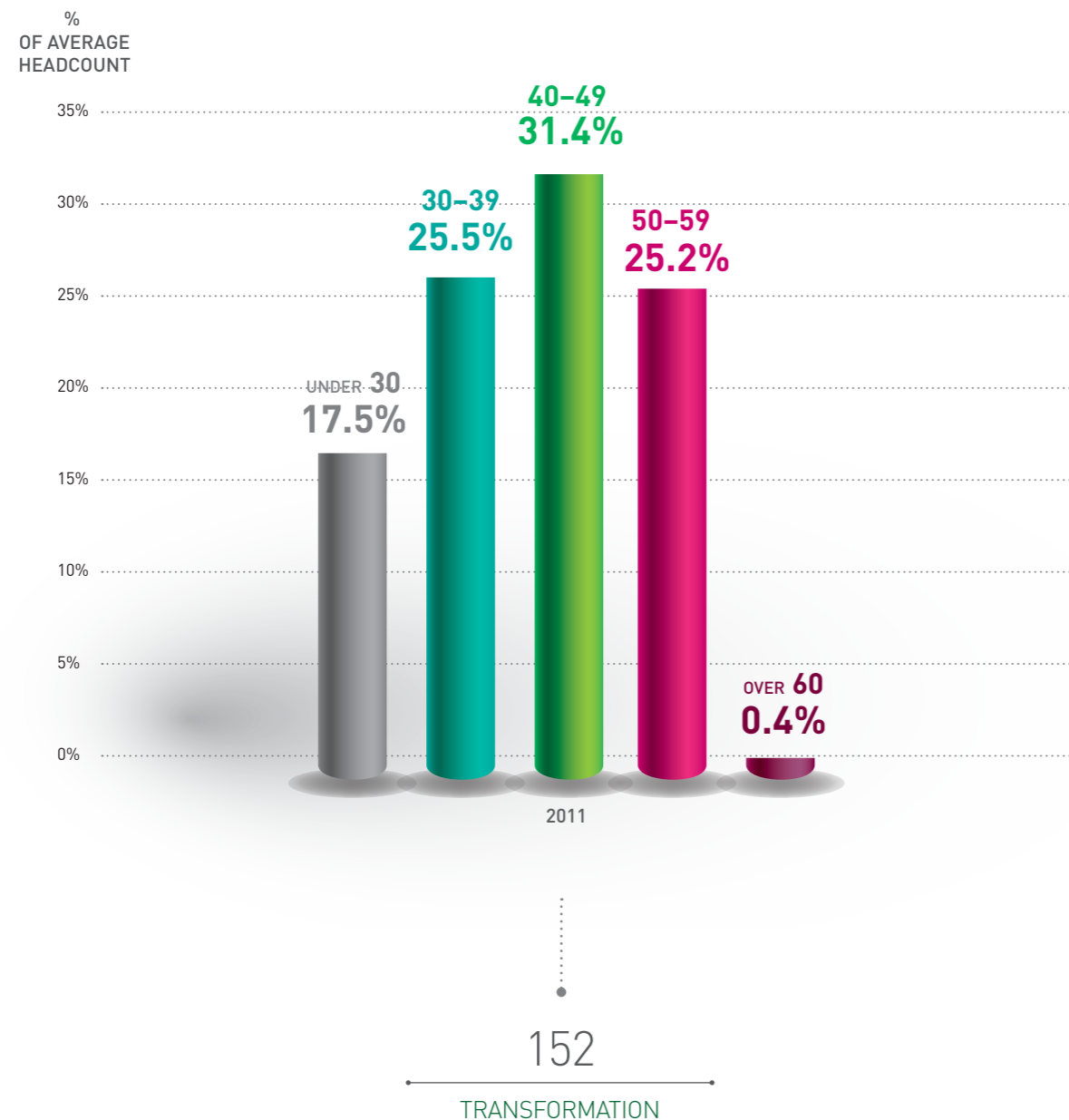
HUMAN RESOURCES

PERSONNEL NUMBERS AND STRUCTURE

As to the employee age distribution, employees between 30 and 50 traditionally comprise two thirds of the total

number to ensure an optimal combination of good physical form and work experience.

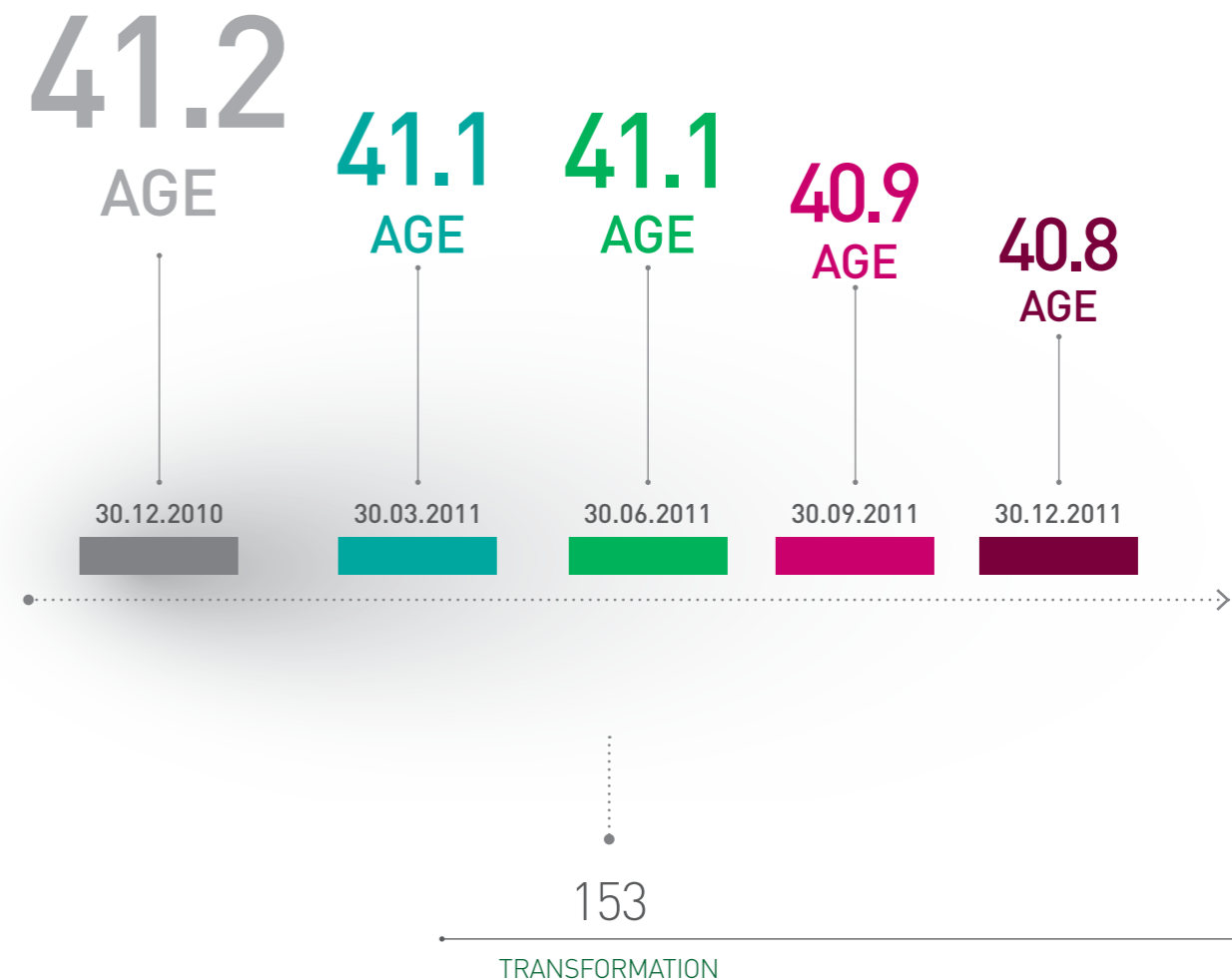
EMPLOYEE AGE DISTRIBUTION



In 2011, the average employee age further decreased due to succession planning programmes, the creation of a talent pool and the hiring of young specialists.

Staff turnover in the Group remained low in 2011 and amounted to 4.28%, which is lower than in 2009 (5.36%) and in 2010 (5.41%).

CHANGE IN THE AVERAGE AGE OF EMPLOYEES



SOCIAL RESPONSIBILITY

HUMAN RESOURCES

EMPLOYEE TRAINING AND DEVELOPMENT, PERFORMANCE EVALUATION

In 2011, the Group continued to implement the Functional Strategy on HR Management aimed at continuous recruitment of young specialists. This policy allows for a growing number of employees to receive various kinds of further training and development:

- short-term training (training seminars / courses / workshops, up to 72 hours);
- medium-term training (professional development programmes, from 72 hours to 500 hours);
- long-term training;
- distance online learning.

Total training and development expenses for three years amounted to 247.653 million roubles.

Apart from compulsory training required by legislation, employees can take advantage of development training under corporate development programmes.

In 2011, the Group continued to implement training programmes for top and middle managers. These distance learning programmes, organized by the Group together with the Corporate University of JSFC Sistema, have operated successfully since 2010. They include workshops and training seminars that help to develop professional and personal skills.

The Group funds MBA programmes for its top managers and vocational training for managers and specialists in oil and gas production and refining.

In 2009-2011, under the employee retraining programme, 63.8 thousand courses were provided to the employees (measured by the number of recipients of the courses) aimed at the development professional and managerial skills. More than 40 thousand courses were provided in 2011.

Bashneft cooperates closely with Ufa State Petroleum Technological University, the Corporate University of JSFC Sistema, Moscow Institute of Modern Business, the Graduate School of Management of St. Petersburg State University and other specialized institutes.

In 2011, a corporate managerial development programme for members of the Group's "talent pool" was implemented. The programme is hosted by the Graduate School of Management of St. Petersburg State University.

The Group has adopted a procedure for annual comprehensive employee evaluation that assesses the level of professional competence, development and key performance indicators (KPIs). The results of evaluation are used to plan

and organize training, to manage the "talent pool" and to prepare propositions to Bashneft's management concerning

employees' salaries and other organizational decisions.



SOCIAL RESPONSIBILITY

HUMAN RESOURCES

INCENTIVES AND REMUNERATION

For the last three years the Group has been using a remuneration system based on grading. This fosters an objective assessment of professional competence and increases employee motivation.

This remuneration system has made the Group more competitive in Russian

the Group in general and their contribution to the bottom line.

Remuneration consists of a fixed part and a variable part. The fixed part includes the salary, additional payments for health risks and a regional coefficient. The variable part (or the bonus) depends on whether KPIs have been

REMUNERATION CONSISTS OF A FIXED PART AND A VARIABLE PART. THE FIXED PART INCLUDES THE SALARY, ADDITIONAL PAYMENTS FOR HEALTH RISKS AND A REGIONAL COEFFICIENT. THE VARIABLE PART (OR THE BONUS) DEPENDS ON WHETHER KPIS HAVE BEEN ACHIEVED.

and foreign markets and more transparent for investors. Further, it has helped to attract highly qualified specialists in various areas of business, thus ensuring continuous development of the Group's business processes.

The system enables to assess all types of positions and is therefore crucial to the remuneration structure. Positions are assessed upon their influence on

achieved. The bonus depends on the employee's position: the more important his or her position, the higher the bonus share. For employees, the fixed part/bonus proportion is 85/15, for top managers this proportion is 50/50.

In 2011, the Group continued to use the Personnel Management software (as part of IT development programme) to unify the calculation of remuneration.

Group salaries are above the industry average (51,016 roubles versus 50,746 roubles, respectively).

In 2011, the Group introduced an "additional bonus" awarded in exceptional

cases, for accident prevention and emergency response activities at the Group's facilities, as well as for participation in new projects vital to the Group. This bonus does not exceed the salary of the employee.



SOCIAL RESPONSIBILITY

HUMAN RESOURCES

COMPLIANCE WITH SOCIAL NORMS OF A RESPONSIBLE EMPLOYER

Apart from remuneration and benefits required by law, the Group provides its employees with a benefit package according to their position.

Bashneft allocates significant sums for healthcare, optional health insurance and resort therapy of employees, since their health is one of the Company's priorities and a vital prerequisite to smooth high-quality working processes.

The recreation facilities available to employees and their families include five children's camps, seven health resorts and

three recreation centres. Under the collective agreement with Bashneft, employees of JSOC Bashneft and its subsidiaries cover only part of the cost of holidays (10% for summer camps, 15% for health resorts and 30% for recreation centres).

Retired employees of the Group are also entitled to holidays in health resorts at a discount.

In 2011, the Group's expenses related to health and safety totalled 229.8 million roubles. Other social expenses at seven of the Group's enterprises amounted to

845.1 million roubles in 2011: this sum was allocated for covering the cost of holidays, food, transportation of shift workers and other perquisites.

The Group ensures that its employees enjoy freedom of association. Trade un-

Corporate sport is regaining popularity: staff of all oil and gas production departments and their families can visit leased swimming pools and sports halls. The staff of refineries in Ufa visit gyms.

THE GROUP CREATES ATTRACTIVE WORKING CONDITIONS FOR EMPLOYEES WHO SEEK EFFICIENCY, PROFESSIONAL DEVELOPMENT AND CAREER ADVANCEMENT

ions are in place at several enterprises of the Group. Employees' councils represent the interests of all employees.

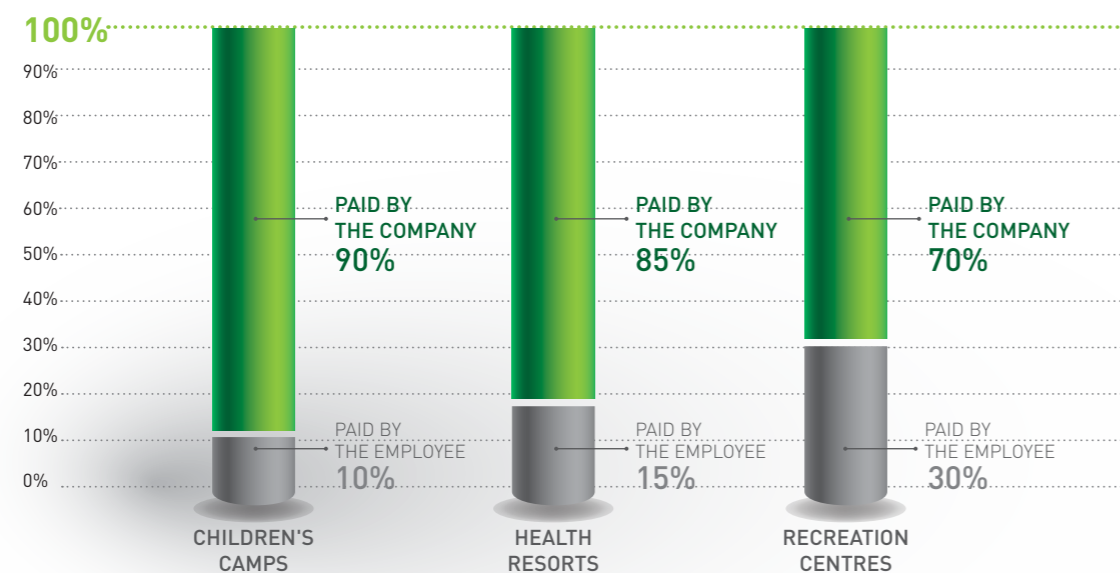
A new collective agreement was signed in 2011, valid through 2013. The main change consisted in the increase of payments for retired employees of the Company.

Significant sums are traditionally allocated to promote sports traditions of the Group. The Group spent 11,448 million roubles on sporting events and support of healthy lifestyle in 2011.

The Group annually organizes a futsal championship and the Golden Autumn cross country race. Summer and winter sports festivals, ski races, the Kandry Kul Games, volleyball, football, chess championships and snowmobile races are highly popular among the employees.

In 2011, the team of Bashneft ranked first in the Summer Spartakiad organized by JSFC Sistema. As sporting events take place in new cities, the number of participants grows. The Group is thus creating a culture of sport and healthy lifestyle.

CO-FINANCING OF EMPLOYEE RECREATION



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SOCIAL RESPONSIBILITY

● HUMAN RESOURCES

CORPORATE EVENTS

The corporate culture of Bashneft is based on mutual respect between employees in all positions. Its goal is to create an atmosphere that fosters positive results.

The Group creates attractive working conditions for employees who seek efficiency, professional development and career advancement.

An internal communications system currently being implemented in the Group shall inform the entire staff about current and future goals, achieved results and expectations of management. The Bashkir Oil corporate newspaper is an effective tool for realizing these goals. The paper describes important events of the Group, publishes interviews with top managers and presents pieces about the veterans of the Company.

This paper also gives the employees the opportunity to address the management, publish artwork or a photograph, or report an interesting event.

The Group regards acknowledgement of achievements and encouragement as a powerful incentive.

In 2011, distinguished employees received Bashneft's corporate prize for the second time. The prize was awarded during the celebrations on the Day of Workers of the Oil & Gas Industry. The Group celebrates Victory Day, Day of Oil Industry, Knowledge Day. Bashneft also organizes New Year family celebrations. In 2011, the Company introduced a new tradition: KVN (Club of the Cheerful and Sharp-witted) games among the Group's enterprises.



SOCIAL RESPONSIBILITY

● SOCIAL POLICY AND CHARITY

The Group's social responsibility includes the development and implementation of target social programmes and charitable projects in cooperation with local authorities and communities. Their aim is to support social, economic and cultural development of regions that are of strategic interest to the Group. Bashneft contributes to maintenance and development of sites that are of historical, religious, cultural or environmental importance.

Since March 2009, the General Agreement between the Republic of Bashkortostan and JSFC Sistema is in place. The Agreement is aimed at fruitful collaboration in order to create favourable conditions for economic and social development of the Republic of Bashkortostan. In March 2012, LLC Bashneft-Polyus, which held the development license for the Trebs and Titov oilfields, and the Administration of the Nenets Autonomous District signed an Agreement on cooperation stipulating that the Group shall invest in the development of the social and economic

infrastructure of the Nenets Autonomous District, as well as job creation and charity projects.

Most social and charity programmes in the Republic of Bashkortostan are funded through the branch of Charity Fund Sistema. In 2011, 1,499 million roubles were provided through this Fund. Apart from this, the Group itself spent 273 million roubles for charity.

2011 saw the following special events related to social policy:

- In April 2011, the Group won an award at the national 'The Best Russian Companies: Development, Efficiency, Responsibility - 2010' in the Social Responsibility category. The competition has been held by the Russian Union of Industrialists and Entrepreneurs since 1997 and is supported by the Government of the Russian Federation.
- In May 2011, Bashneft ranked 9th in the Social Responsibility Rating of Russian companies of the newspaper Trud.

SOCIAL RESPONSIBILITY

● SOCIAL POLICY AND CHARITY

SOCIAL POLICY

The Social Policy of the Group is based on the principles stated in the Policy on Charity of Bashneft (approved by order No.429 dated November 20, 2009) and the Policy on Corporate Social Responsibility (approved by order No.221 dated April 14, 2010).

2011 saw further cooperation between JSFC Sistema and the Republic of Bashkortostan on the development of social infrastructure. The budget of the programme totalled 1,449 billion roubles, including funds provided by Bashneft. The funds are allocated for construction and renovation of kindergartens, schools, hospitals and sports facilities in various cities and districts of the Republic. In 2011, 20 new social

facilities were funded in seven districts of the Republic, including the city of Ufa. The list of facilities to be funded is determined in cooperation with the Republic's authorities.

The Group's management cooperates with representatives of various authorities. Since 2010, Alexander Goncharuk, the Chairman of Bashneft's Board of Directors and member of JSFC Sistema's Board of Directors, has been a member of the Presidential Council of Bashkortostan. The Council is a permanent advisory body responsible for preparing proposals outlining the main trends of the Republic's government policies in order to increase the operational efficiency of regulatory bodies, etc.



CHARITY

SUPPORT OF A REHABILITATION CENTRE FOR CHILDREN

Bashneft has been supporting the Ufa rehabilitation centre for children for four years. The Group organizes concerts and educational events for the young patients recovering from difficult situations. The events are attended by representatives of Bashneft's management and the Ufa administration. In 2011, a relaxation room was installed in the centre. The children received New Year presents from the Group.

SOCIAL EVENTS FOR EMPLOYEES' CHILDREN

Bashneft's social policy also covers the families of the Group's employees, especially children. The Group organizes festivals for employees' children including New Year, Children's Day, and Knowledge Day. About 1000 children and their parents participate in these holiday events. Neftyonok (little beaver-oilman), the corporate mascot, is always present. The corporate drawing contest for children 'My Family are Oil Workers' is highly popular. This contest is for children under 14; up to 1,000 drawings are submitted each year. In June, the results are announced, and the young artists receive awards during a prize-giving ceremony attended by the Group's management.

SPRINGS OF BASHKIRIA

For a number of reasons, the Republic of Bashkortostan faces difficulties in supplying its population with high-quality drinking water. Water hardness, mineral and chloride content in some regions is more than twice the acceptable rate. This is caused both by natural and anthropogenic factors. Agriculture and industry have a negative impact on water quality. Some areas lack storm drainage systems.

The oil producing industry is also responsible for this condition of ground water. Outdated production technologies used in the soviet period now adversely affect the quality of water. Ground water in the Republic of Bashkortostan has become contaminated with brine that has been pumped into the wells during 70 years of production. Bashneft tries to solve the problem in the "old" oil-producing regions of the Republic through the Springs of Bashkiria programme, which supplies several areas with high-quality drinking water. Under the programme, 67 springs in at risk regions will be restored between 2011 and 2013. The programme is funded by Bashneft through the branch of the Charity Fund Sistema and includes reconstruction of water treatment units at the pumping stations, construction of additional water supply wells and water pipes, repair of water supply systems and other measures.

In 2011, the restoration of 25 springs in the Ishimbaysky, Bizhbulyaksky, Belebeyevsky, Tuimazinsky, Iglinsky, Blagoveshensky, Chekmagushevsky, Yanautsky, Krasnokamsky and Dyurtyulinsky districts of Bashkortostan was financed through charity funds.

The Group attaches great importance to supplying the population with high-quality drinking water. Bashneft not only restores springs, but also funds construction and maintenance of water supply systems (water withdrawal facilities, water pipes etc.) as well as drilling of new water wells in more than twenty villages and towns of the Republic of Bashkortostan. For instance, in 2011, the Group started the construction of water pipes in the villages of Starye Tuimazy and Gorny (Tuimazinsky district).

Overall, in 2011, Bashneft allocated more than 149 million roubles for water-related measures in the Republic of Bashkortostan through the Charity Fund Sistema.

SOCIAL RESPONSIBILITY

● SOCIAL POLICY AND CHARITY

SPORTS

COOPERATION WITH THE PROFESSIONAL FOOTBALL CLUB CSKA AND DEVELOPMENT OF SPORTS FOR CHILDREN

In February 2010, Bashneft became a general sponsor of the professional football club CSKA, one of the strongest teams in Russia. In 2011, the cooperation continued, and a series of events involving players and trainers of the club took place.

Bashneft, together with the CSKA football club, has launched a social initiative for developing children's football in the Republic of Bashkortostan.

For instance, two workshops for coaches of youth football teams were organized. In April, young players were selected for the CSKA youth team. One of them passed the selection and is currently training with the team. Eight teams from Bashkortostan's sports schools participated in the JSOC Bashneft Cup futsal tournament for children. The "I'm a Fan of PFC CSKA" quiz was offered to the citizens of Ufa, a fan-club was founded and an opening ceremony was held. The fans helped organize an exhibition futsal game with the children from the Ufa orphanage No.9.

A "My Football" drawing contest was held in the Ufa Special (Corrective) Boarding School No.92. Footballs were made in accordance with the winning designs. Some of these balls were presented to players of the Professional Football Club CSKA; others are used at the Company's sporting events.

CONSTRUCTION OF SPORTS FACILITIES

In November 2011, the opening ceremony of the second stage of the Ufa Arena sports complex took place. Under the Agreement between JSFC Sistema and the Government of the Republic of Bashkortostan, Bashneft Group has covered more than 20% of the construction costs; 105 million roubles were allocated for this purpose in the last two years.

Apart from this, in 2011 the Group funded the construction of an indoor skating rink with artificial ice in the city of Tuimazy, the overhaul of the Dulkyn swimming pool in the city of Yanaul, the construction of sports and recreation centres in the villages of Verkhneerkeyevo and Chishmy and several other facilities.

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EDUCATIONAL PROJECTS

COOPERATION OF BASHNEFT AND USPTU

Under the cooperation agreement between Bashneft and Ufa State Petroleum Technological University, several events took place in 2011, including the final of the JSOC Bashneft Oil & Gas Contest, a USPTU Museum tour for the employees' children, and the 'I Want to Become an Oilman' open day for senior pupils from Ufa.

In 2011, under the agreement on vocational guidance, a "summer school" for senior pupils was organized. For several days, schoolchildren could participate in quizzes and listen to lectures by the best university teachers.

The agreement between Bashneft and USPTU also provides for a scholarship programme. In 2011, 49 students of the university received personal scholarships from Bashneft after successful interviews with managers from Bash-

neft's HR Department. The best graduates will be offered a position in the Group. Scholarships range from 1,500 to 2,500 roubles; the funds allocated for scholarships in the 2011/2012 school year total 1.5 million roubles.

'I WANT TO BECOME AN OILMAN' WEB-PROJECT

In 2011, the Group continued the development of an interactive educational project, the WWW.NEFTYANIK-SCHOOL.RU web portal. This is the first Russian educational resource dedicated to careers in the oil industry. The main goal of the project is to attract more attention to technical disciplines, such as chemistry, mathematics, geology, mining and others.

Visitors to the site participate in various online competitions and quizzes, solve problems and are awarded prizes for the best results.

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TRANSFORMATION

SOCIAL RESPONSIBILITY

HEALTH, SAFETY AND ENVIRONMENT

Bashneft Group is well aware of its responsibility for preserving the environment in its operating regions and for the health and safety of its employees.

The Group's subsidiaries and affiliates successfully implement HSE management systems.

The Group introduced an integrated risk management system to minimize the risk of accidents. The system involves compiling risk registers, identifying risk owners, developing risk management plans and monitoring their implementation. A multi-level process control system was introduced to prevent emergencies and manage risks at hazardous production facilities.

COMPLIANCE WITH SAFETY REQUIREMENTS FOR COMPLEX TECHNOLOGICAL PROCESSES IS A PRIORITY FOR BASHNEFT

The basic documents outlining the Group's HSE policy are the Functional Strategy of JSOC Bashneft on Health, Safety and Environment, adopted in 2011, the Regulations on Occupational and Process Safety Management System and the Regulations on Industrial Environmental Monitoring at JSOC Bashneft.

As the Group prioritizes strategic target-setting and implementation of HSE measures, it will remain in compliance with the National Policy on Health, Safety and Environment and the Russian Social and Economic Development Strategy until 2020.

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TRANSFORMATION

HEALTH AND SAFETY

PROCESS SAFETY MEASURES

The Group's facilities include long pipe systems for collecting, preparing and transporting oil. Given that Bashneft's sophisticated equipment is subjected to a harsh environment and is controlled by automatic systems, accidents cannot always be prevented, but the Group does its best to minimize possible risks.

Bashneft's subsidiaries and affiliates have introduced target programmes for ensuring compliance of their facilities with HSE requirements approved by the supervisory bodies. These programmes involve renovating and upgrading the production facilities and installing all necessary monitoring, controlling and accident prevention equipment. Compliance with safety requirements for complex technological processes is a priority for Bashneft. Bashneft's efficient process safety management system includes industrial control, a set of administrative and engineering measures for ensuring process safety at the facilities of JSOC Bashneft, its subsidiaries and affiliates. This multi-level system of industrial control enables risk management, accident prevention and compliance with all necessary process safety requirements.

In compliance with the Functional HSE Strategy of JSOC Bashneft in 2011 – 2016, hazardous facilities of the Ufa oil refinery group (OJSC Ufimsky refinery plant, OJSC Ufaneftekhim, OJSC Novoil, OJSC Ufaorgsintez) shall be upgraded to meet current process safety requirements; upgrade costs will total 6.4 billion roubles.

To cover insurance risks and to increase civil liability for damages resulting from accidents, all hazardous development, production, refining and sales facilities have been insured for more than 10 billion roubles. The insurance will be valid in 2012 – 2013. The insurance premium totalled about 36 million roubles.

OCCUPATIONAL SAFETY MEASURES

Bashneft's subsidiaries and affiliates contribute annually to health and safety funds and take measures for improving working conditions and safety performance under the relevant programmes.

Trade unions and employee councils help to address issues related to occupational safety. Collective agreements stipulate that the employer shall ensure occupa-

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SOCIAL RESPONSIBILITY

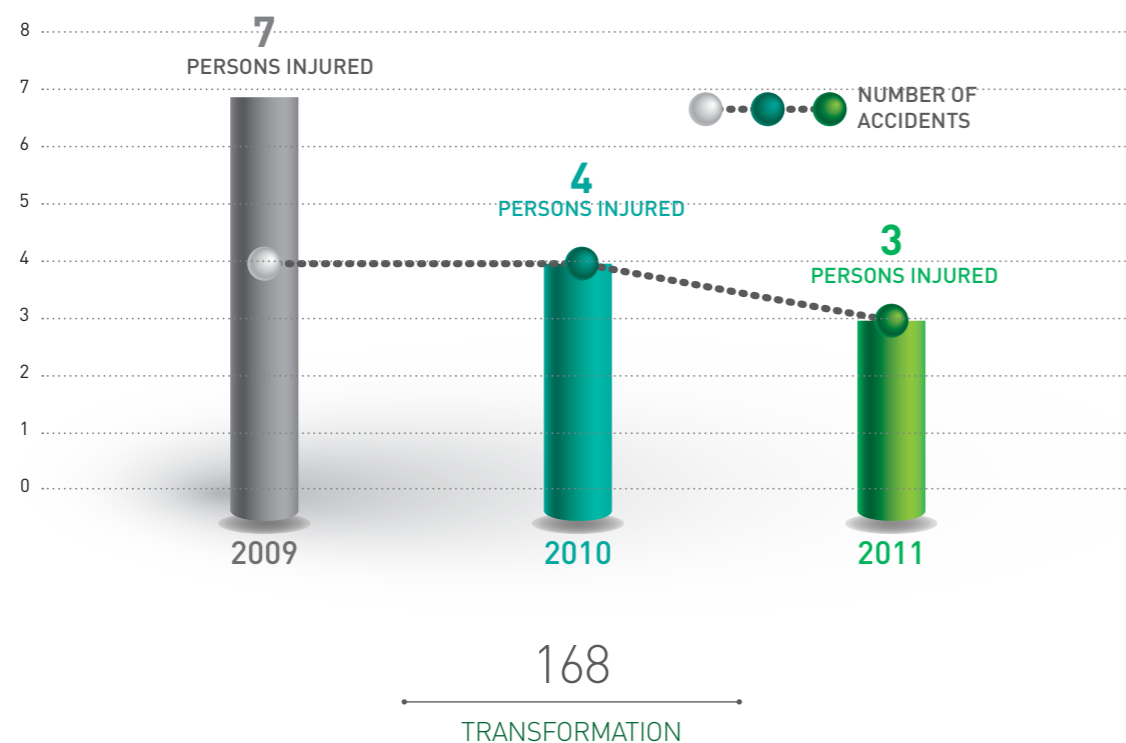
HEALTH, SAFETY AND ENVIRONMENT

HEALTH AND SAFETY

tional safety and provide employees with personal protective equipment; authorized representatives in charge of occupational safety are elected in every department. A multi-level industrial control system is in place to monitor working conditions and safety performance at all facilities. Joint occupational safety committees represent equally the employer and employees (through authorized representatives). The Joint Committee conducts inspections according to an approved schedule.

Workplaces comply with health and safety requirements. All Group's employees are provided with up-to-date personal protective equipment taking into account individual working conditions. In 2011, all workplaces were assessed in terms of hazardous factors and their impact on workers; this is the basis of Bashneft's professional risk management system. After the assessment, measures for improving working conditions were designed. Their aim is to ensure that the working conditions at every facility and position comply with the legal safety requirements.

INDUSTRIAL ACCIDENTS



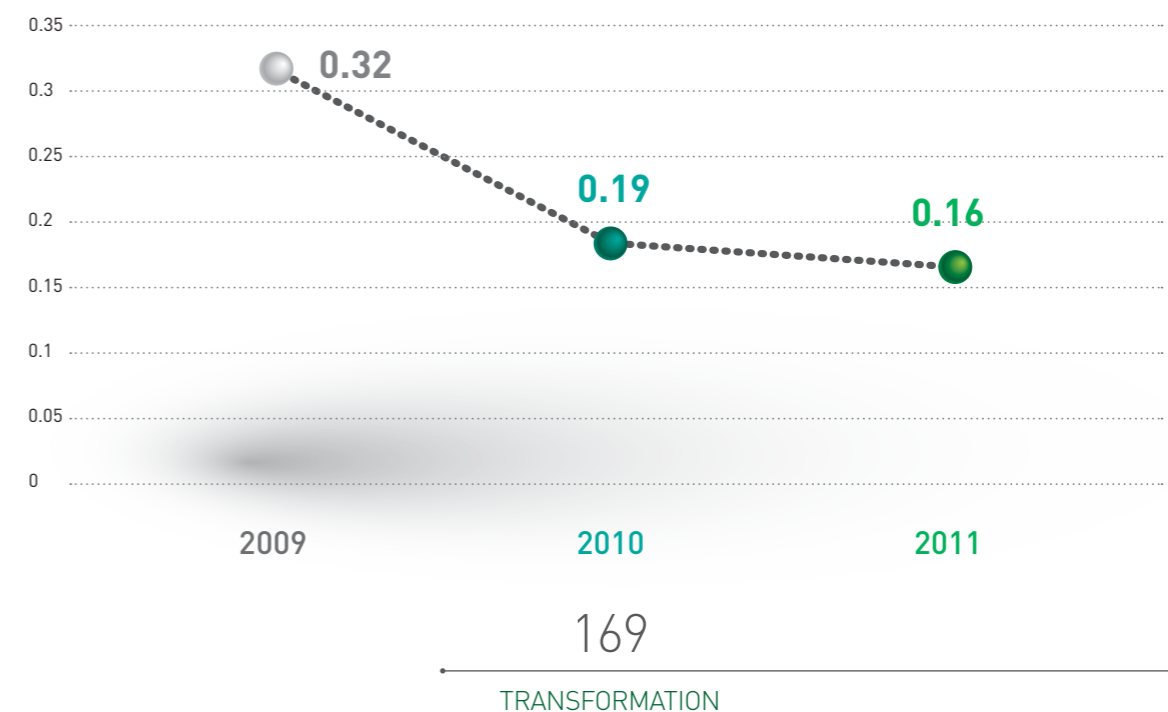
In 2011, Bashneft's expenses related to occupational safety and health amounted to 10,400 roubles per employee.

Bashneft's subsidiaries and affiliates contribute annually to health and safety funds and introduce long-term and target programmes aimed at improving working conditions and safety performance. In 2011, all safety measures of JSOC Bashneft, its subsidiaries and affiliates received the necessary funding. The related costs totalled 229.8 million roubles.

In 2011, three accidents occurred at the facilities of the Group's subsidiaries and affiliates, three persons were injured (in 2010, there were four accidents). The accident rate was 0.16. The rate is calculated as the number of accidents per 1000 employees. In 2010, the accident rate was 0.19, in 2009 – 0.32.

Measures for preventing occupational diseases include medical examinations, hospital treatment and resort therapy.

ACCIDENT RATE



SOCIAL RESPONSIBILITY

HEALTH, SAFETY AND ENVIRONMENT

HEALTH AND SAFETY

Resort therapy is provided to Bashneft's employees at eight health resorts. All of them are located near rivers and lakes in scenic areas of the Republic of Bashkortostan with a healthy environment.

Thanks to these measures no cases of occupational diseases have been registered by JSOC Bashneft, its subsidiaries and affiliates during the last five years.

EMPLOYEE TRAINING IN OCCUPATIONAL AND PROCESS SAFETY

In compliance with legislation, the Group's employees receive compulsory training in occupational, process and fire safety and undergo certification. The training is provided by large training centres which have the necessary experience and knowledge of the industry. In 2011, Bashneft's subsidiaries and affiliates spent 38 million roubles on compulsory employee training.

In 2011, Bashneft took a variety of steps for training the employees and encouraging their involvement in this process.

Every year, employees of the Group participate in the republican competition 'The Best Process Safety Specialist' held

by the non-governmental educational institution, 'Intersectoral institute', and supported by the Priuralskiy administration of the Federal Service for Ecological, Technological and Nuclear Supervision (Rostekhnadzor).

Occupational, process and fire safety training and certification are mandatory under applicable legislation and are conducted by the Group thoroughly and regularly. Since all of the Group's subsidiaries and affiliates are characterized by high occupational risks, Bashneft considers first aid training a high priority.

Apart from compulsory training, employees of Bashneft Group had the opportunity to join workshops and training sessions to study Russian and international best practices at R&D conferences.

HSE MANAGEMENT

The main document defining the Group's strategic goals in the sphere of health, safety and environment is the Functional Strategy on Health, Safety and Environment. The strategy is aimed at:

- protecting the life and health of the employees;

- ensuring that Bashneft's HSE performance meets corporate standards;
- ensuring maximum protection of employees in case of emergencies;
- reducing the accident rate at hazardous facilities;
- creating an image of an environmentally responsible company.

The Group's activities in the sphere of HSE are governed by the Regulations on HSE Management System of Bashneft. This document defines the main issues concerning operational and process safety, organizational structure, as well as the schedule of relevant measures, responsibilities, available resources and performance analysis procedures for further improvement.

The Group's subsidiaries and affiliates have adopted similar HSE Management Systems. They are based on standards that are regularly updated based on the results of system performance evaluation. All of the Group's subsidiaries and affiliates have safety certificates confirming that their safety measures comply with the requirements of the law.

Due to the importance of hazardous works, several operational regulations were developed in 2011. A Standard on

Health and Safety Culture was introduced in order to encourage attitudes contributing to the minimization of health and safety risks to improve Bashneft's safety culture.

CIVIL DEFENCE AND EMERGENCY SITUATIONS

The Company and its subsidiaries and affiliates have an emergency response and prevention system in place. To keep the personnel prepared, 93 exercises in oil spill response, firefighting and accident containment were performed in 2011. 3,616 employees participated in these exercises and trainings.

The Group, its subsidiaries and affiliates have six emergency response teams comprising 228 persons, 35 of whom are in a state of constant readiness. There are also volunteer emergency response teams totalling 3,603 persons provided with special equipment and vehicles.

All shelters of Bashneft's subsidiaries and affiliates are in constant readiness. In 2011, Bashneft spent eight million roubles on maintenance of these shelters.

The General Directorate of EMERCOM of Russia in Bashkortostan constantly

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HEALTH AND SAFETY

monitors the fire safety systems and the preparedness of the Group's personnel. The Ministry conducts inspections and involves the personnel and equipment of

Bashneft's subsidiaries and affiliates in the Republic's command and staff training. In 2011, inspections were conducted at the Chekmagushneft oil and gas



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production department, LLC Bashneft-Dobycha and OJSC Novoil.

In 2011, large-scale exercises involving six oil and gas production departments took place. Scenarios of worst-case oil spills on the Belaya River were imitated to comply with the Oil Spill Response and Prevention Plan requirements to determine whether LLC Bashneft-Dobycha had sufficient personnel and equipment for such emergencies. All requirements were met. Specialists from EMERCOM confirmed that Bashneft Group's per-

sonnel and shelters were prepared for unforeseen emergencies.

All of Bashneft's subsidiaries and affiliates are preparing 3D models of potentially hazardous facilities so that decisions on safe operation of these facilities and accident containment can be made promptly.

In 2011, the Group spent 29 million roubles on emergency response and prevention as well as on fire safety.

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ENVIRONMENTAL PROTECTION

The Group implements a set of measures to reduce the negative impact of its production on the environment and climate. The Group's main efforts are aimed at ensuring efficient use of natural resources, reducing waste and emissions, promoting energy efficiency and investing in modern, environmentally friendly technologies.

protection and regards environmental protection and efficient use of resources as an important part of its corporate social responsibility. The Group strives to achieve common international standards, which stipulate that environmental and social responsibility is as important as economic performance.

ENVIRONMENTAL PROTECTION HAS ALWAYS BEEN A HIGH PRIORITY FOR BASHNEFT, SINCE TAKING CARE OF THE ENVIRONMENT IS A NECESSARY PREREQUISITE FOR THE HEALTH AND WELFARE OF FUTURE GENERATIONS

Environmental protection has always been a high priority for Bashneft, since taking care of the environment is a necessary prerequisite for the health and welfare of future generations

Environmental protection has always been a high priority for Bashneft, since taking care of the environment is a necessary prerequisite for the health and welfare of future generations. Bashneft Group takes a proactive approach to environmental

The Group's strategic environmental goals include:

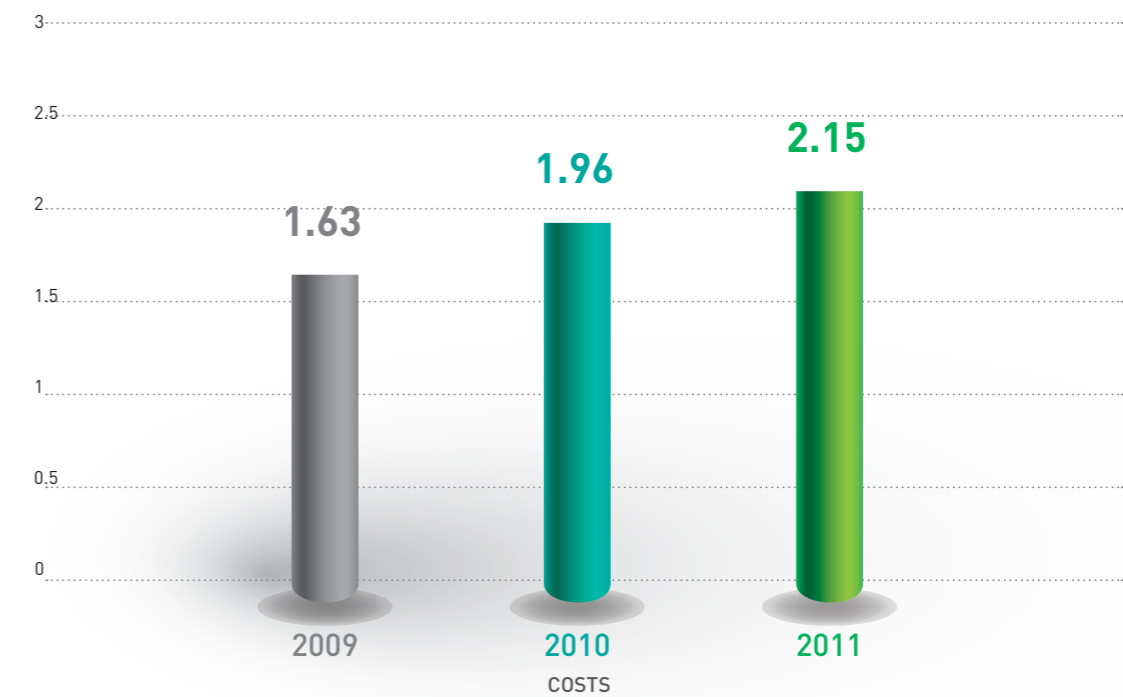
- introducing a united HSE management system complying with international OH-SAS 18001-2007 and ISO 14000 standards;
- achieving the utilization rate of associated gas required by Decree No.7 of the Government of the Russian Federation dated January 18, 2009;
- decreasing the amount of oil sludge remaining from past operations;

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ENVIRONMENTAL PROTECTION COSTS

MILLION ROUBLES



- ensuring the required sewage treatment at the Ufa oil refinery group and at OJSC Ufaorgsintez;
- increasing the share of environmentally friendly Euro- 4 and Euro- 5 engine fuels in the total production output;
- creating an image of an environmentally friendly company.

In 2011, Bashneft Group spent 2.145 billion roubles on environmental protection.

The main areas of environmental protection at Bashneft Group include:

- efficient use of water resources;
- protecting the atmosphere;
- land conservation and restoration;
- recycling of hazardous production waste.

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SOCIAL RESPONSIBILITY

HEALTH, SAFETY AND ENVIRONMENT

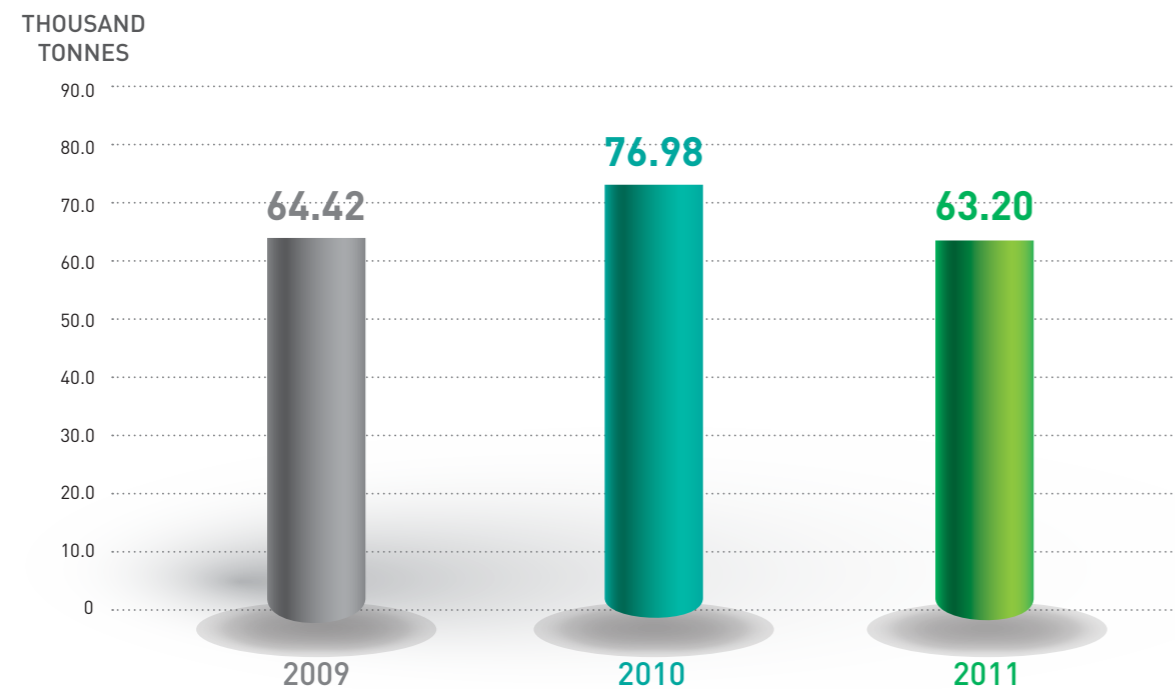
ENVIRONMENTAL PROTECTION

PROTECTING THE ATMOSPHERE

Protecting the atmosphere is an important part of the Group's environmental policy. In order to reduce the negative impact of production on air quality and comply with legal requirements for air protection, the Group's entities have taken a number of measures for reducing atmospheric emissions. These measures include:

- equipping storage facilities with up-to-date airproof hydrocarbon light end vapour recovery units;
- using hydrocarbon light end vapour recovery units along with sealed light petroleum product loading facilities for tank cars at the Group's refineries;
- installing a flare gas recovery system for subsequent compression and re-use of gas at the flares of the facility.

REDUCTION OF EMISSIONS



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The Group plans to invest 67 million roubles in a series of engineering measures for reducing air pollutant emissions at the refineries. The expected reduction of sulphur dioxide emission amounts to 600 tonnes per year, the reduction of hydrocarbon emissions amounts to 250 tonnes per year.

Another source of air pollution are cars. Car exhaust accounts for more than 60% of total air pollution. One of the ways to solve this problem is to switch over to producing Euro-4 and Euro-5 engine fuels at the Ufa refineries. The Euro-4 standard requires reducing CO emissions by a factor of 2.3 and hydrocarbon emissions by a factor of two as compared with Euro-3. It has been estimated that a shift from Euro-2 to Euro-4 fuels will reduce emissions from gasoline and diesel fuel by a factor of 10.5 and by a factor of 7.5 respectively. Process units at the Ufa refineries are being upgraded and new units are being constructed in order to ensure that 100% of engine fuel produced by the refineries complies with new environmental standards.

The scheduled upgrade of equipment at the Group's refineries will enable

Bashneft to switch over to producing Euro-4 and Euro-5 light petroleum products within the timeframe set by the Technical Regulations (between 2012 and 2015).

An important step to reduce emissions from oil refining facilities is to implement Decree No.7 of the Government of the Russian Federation On Measures to Stimulate Reduction of Air Pollution from Associated Gas Flaring Products, dated January 08, 2009. In 2010, Bashneft approved the Programme on Enhancement of Associated Gas Utilization at JSOC Bashneft for 2010-2013. This Programme will increase the utilization rate of associated gas from 83.1% (in 2010) to 95% (in 2013). In 2011, 164 million roubles were invested in this Programme. The implementation of the Programme included the following steps: construction of the Akhta Booster Pumping Station (BPS) - Chermasan OGS1 oil and gas pipeline, construction of the gas pipeline Saitovo OGS and the intersection with the Karacha-Yelga OGS — Salpar OGS gas pipeline, expansion of BPS-9, introduction of gas desulphurization system, installing gas metering units and several smaller projects.

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Associated gas, a by-product of oil production, is a valuable material for petrochemical production and an efficient organic fuel. However, due to a weak refining infrastructure, oil producing companies flare a significant share of associated gas, polluting the air and causing heat emissions that can be noticed even five kilometers away. These two factors influence meteorological and climatic conditions both locally, in oil-producing regions, and globally.

A promising method of emission reduction that also effectively utilizes associated gas is a multiphase booster pump and gas ejection technology.

The adoption of resource-saving technology involving associated gas can be illustrated by the use of multiphase booster pumps for WAG injection at the Ilishevskoye oilfield. This method reduces air pollution and maintains formation pressure. Another unique method of utilization of associated gas is used at the oilfields of the Ishimbayneft oil and gas production department of LLC Bashneft-Dobycha, where gas injections are used for attic oil recovery from depleted reef reservoirs. This is currently one of the most efficient enhanced oil recovery techniques.

Another method of efficient utilization of associated gas is the construction of gas-fired power plants at JSOC Bashneft's oilfields. For instance, a gas-fired power plant constructed at the Kirsko-Kottynskoye oilfield (the Khanty-Mansi Autonomous District, in the Nizhnevartovskiy area) increased the utilization rate of associated gas from 18% to 83.1% as early as the end of 2009. This power source also reduced production costs. Since 2010, gas from the Lyukpayskoye field has been supplied to this power plant, and associated gas utilization rate at the West-Siberian oilfields of Bashneft Group exceeded 96%.

Thanks to these new recycling technologies associated the gas utilization rate exceeds 95% for several of the Group's oilfields. The Group's average utilization rate in 2011 was 81.9%.

EFFICIENT AND SAFE WATER USAGE

Protection of ground and surface water is important for the Group.

All of Bashneft Group's facilities try to use water, which is needed at almost all stages of oil production and refining, as efficiently as possible. The oil producing industry is undoubtedly responsible

for the state of ground water. Production wells and pipeline systems have the most impact on water. Modern drilling technologies used by Bashneft Group prevent brine from getting into the aquifer.

Mechanical wastewater treatment facilities installed at all of the Ufa refineries reduce the concentration of petroleum products in industrial wastewater by a factor of 100, from a 1000 mg/l at the inlet to less than 10 mg/l at the outlet. Wastewater from all plants is transported to the biological treatment facilities of OJSC Ufaneftekhim. More than 63% of treated water (over 11.6 million cubic metres per year) is subsequently reused at, and the remaining 37% is discharged into the Belaya River.

To improve the treatment of water that is discharged into the Belaya River, biological treatment facilities of the Ufa Refinery Group will be upgraded in 2011-2015.

As OJSC Ufimsky refinery plant and OJSC Novoil are located in the Belaya River water protection area their pipelines will be dismantled and removed in 2011-2013 to ensure no discharge of untreated wastewater contaminates the river due to pipeline failure.

To reduce the negative impact on surface and ground water, all filling stations and storage facilities of the Group are equipped with storm and industrial drainage systems. Wastewater is processed at the SUPER-PEK treatment facility and subsequently reused for technical purposes.

The first floating filling station for small ships in the Ural region operates at the Pavlovskoye reservoir. Before the station was commissioned, ship fueling involved a significant risk of water pollution. This floating station has all the necessary equipment to prevent contamination with petroleum products, including up-to-date fuel dispensers, reliable double-walled fuel tanks, water treatment equipment as well as containment booms and an absorbent for containing oil spills. Water pollution is impossible during normal operations.

Bashneft Group has made the commitment to provide good drinking water to five districts of the Republic which have suffered greatly during the decades of oil production. In 2011, new water wells were drilled and new water pipes and standpipes were installed where necessary. All these activities are part of the Springs of Bashkiria programme.

SOCIAL RESPONSIBILITY

HEALTH, SAFETY AND ENVIRONMENT

ENVIRONMENTAL PROTECTION

HAZARDOUS WASTE RECYCLING

More than 30 kinds of industrial and domestic waste are produced as a result of the Group's operations. This waste is processed by specialized companies under agreements concluded with Bashneft Group. The main type of waste resulting from oil production and refining is oil sludge.

Every year, 20,000–25,000 tonnes of oil sludge are recycled. Currently, oil sludge

is recycled at the same rate as it is produced, therefore no environmental risks arise. Industrial environmental monitoring has demonstrated that, in 2008–2011, the number of facilities having a negative impact on soil (oil contamination) decreased from 25.3% to 19%.

Although the volumes of newly generated oil sludge are decreasing, there remains a significant amount of sludge, especially at OJSC Ufaneftekhim. Currently, Alfa

Laval equipment is used to recycle oil-contaminated waste. More than 130,000 cubic metres of oil sludge were processed, 17 sludge pits were eliminated by 2011 and site restoration was carried out. LLC Bashneft-Dobycha uses a MegaMacs mobile cleaning system (USA) in order to improve cleaning and maintenance of storage facilities and to ensure occupational safety when cleaning tanks and reservoirs.

All refineries have mechanic oil sludge dewatering units as part of their mechanical treatment facilities; new oil sludge is thus safely processed. However, there remains a significant amount of old hard sludge which cannot be processed using traditional methods.

To eliminate the accumulated oil sludge and other hazardous waste, an up-to-date treatment facility with a capacity of 80,000 tonnes per year will be built at OJSC Ufaneftekhim. This facility will comply with Russian and international regulations on emissions and recycling products.

SOIL CONSERVATION

In order to use land reasonably and efficiently, oil wells are usually drilled in clusters. One platform accommodates from two to twenty wells, thus reducing the territory occupied by drilling rigs and associated equipment, as well as the lengths of oil and water pipelines.

Improving the reliability of pipelines and equipment is important for soil protection, as it minimizes oil contamination of the soil. To prevent leaks and oil spills, pipelines are continually checked and repaired and old pipes are replaced. In 2011, more than 300 km of field pipelines were constructed or replaced. The pipeline accident rate stood at 0.017 failures/km in 2011, which is one of the best results in the industry.

Bashneft Group constantly monitors and assesses soil quality at all of its oilfields.



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ENVIRONMENTAL STRATEGY

In 2011, the Board of Directors approved the Functional Strategy of JSOC Bashneft on Health, Safety and Environment. The strategy includes several important projects aimed at establishing (maintaining) the reputation of an environmentally friendly corporation:

- construction of an oil sludge treatment facility with a capacity of 80,000 tonnes per year to process new waste and to gradually minimize the negative environmental impact of past operations. This project shall be implemented in 2012-2015;
- upgrading of the integrated biological treatment facilities of OJSC Ufaneftekhim to ensure that wastewater treatment complies with the regulations. This project shall be implemented in 2011-2015. In

2011, a feasibility study for the project was prepared and approved. The preparation of relevant design and engineering documentation has been put out to tender.

- implementation of measures for increasing the associated gas utilization rate at Bashneft Group's oilfields. This project shall be completed in 2011-2013. In 2011, the Target Programme on Enhancement of Associated Gas Utilization at Bashneft Group for 2011-2013 was approved.

Bashneft continuously implements environmental activities in various areas of its business. Under its CSR programme, the Group plans to invest 21.1 billion roubles between 2011 and 2015 to solve environmental problems that accrued during previous years of operation and reduce the impact of its current activity.



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ENERGY EFFICIENCY

THE ENERGY SECTOR IS THE BASIS OF ALL OF THE GROUP'S BUSINESS PROCESSES AND, TO A HIGH DEGREE, DETERMINES ITS FINANCIAL AND ECONOMIC PERFORMANCE.

The issues of energy conservation and efficiency were addressed systematically at the end of 2010, as the Group's Energy Conservation Strategy until 2015 was introduced. This Strategy views Bashneft as a vertically integrated oil company characterized by high energy efficiency.

The Group's strategic energy conservation goals include:

- organizing an efficient power consumption management system;
- updating equipment and introducing energy-efficient technologies;

- optimizing heat generation and consumption;
- developing our own power generation sources, including those using associated gas.

Under this Strategy, the Energy Supply Policy and the Regulations on Energy Efficiency were prepared and adopted. These documents define Bashneft's main goals and tasks concerning fuel and energy supply.

2011 saw the start of energy audits of the assets of the Upstream and Downstream sectors. The results of this comprehensive examination shall be used to prepare the comprehensive Energy Efficiency Programme of Vertically Integrated Oil Company Bashneft. This programme will contain a list of energy conservation measures to be taken by the Group's enterprises and projects for introducing modern energy-efficient technologies and equipment.



THE GROUP'S STRATEGIC ENERGY CONSERVATION GOALS INCLUDE:

- ✓ ORGANIZING AN EFFICIENT POWER CONSUMPTION MANAGEMENT SYSTEM;
- ✓ UPDATING EQUIPMENT AND INTRODUCING ENERGY-EFFICIENT TECHNOLOGIES;
- ✓ OPTIMIZING HEAT GENERATION AND CONSUMPTION;
- ✓ DEVELOPING OUR OWN POWER GENERATION SOURCES, INCLUDING THOSE USING ASSOCIATED GAS.

ENERGY EFFICIENCY

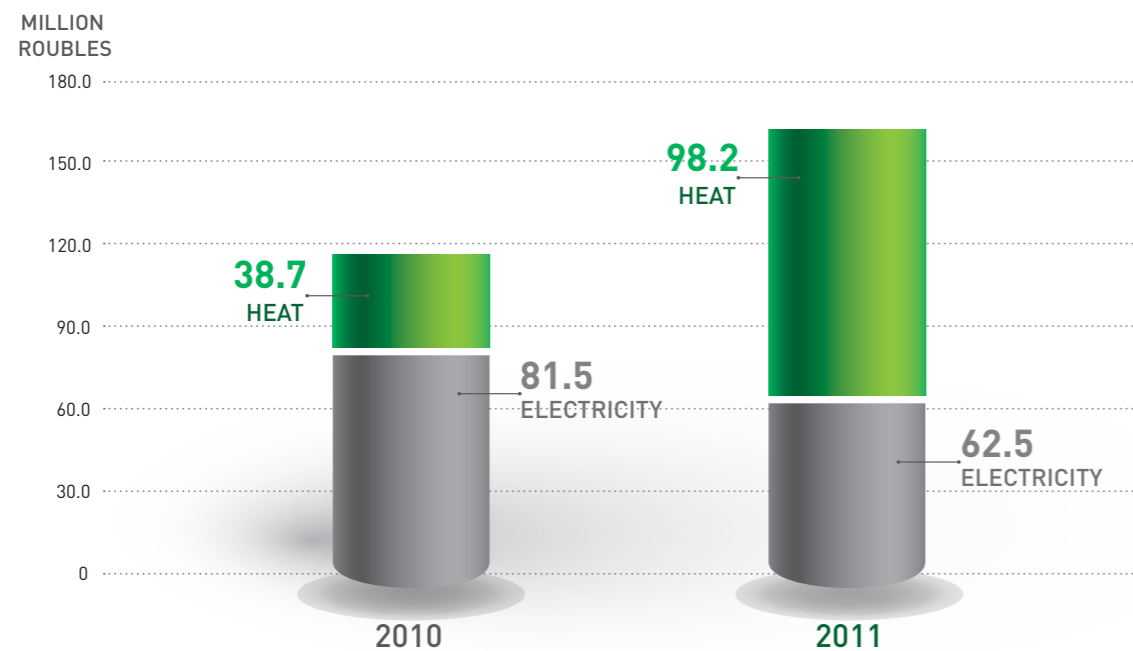
ENERGY EFFICIENCY PROGRAMMES

In 2010–2011, the enterprises of Bashneft Group implemented a number of energy efficiency measures. The existing metering and monitoring system was upgraded to ensure maximum energy efficiency during oil production and refining and petroleum product marketing. Distribution grid losses were reduced. Lastly, Bashneft introduced automated equipment and up-to-date power and heat consumption management sys-

tems. A programme aimed at reducing purchased energy costs through optimization of power supply systems is being introduced together with energy efficiency measures.

Overall, due to these steps aimed at increasing energy efficiency, the Group saved 120 million roubles in 2010 and 161 million roubles in 2011.

IMPACT OF ENERGY EFFICIENCY PROGRAMMES



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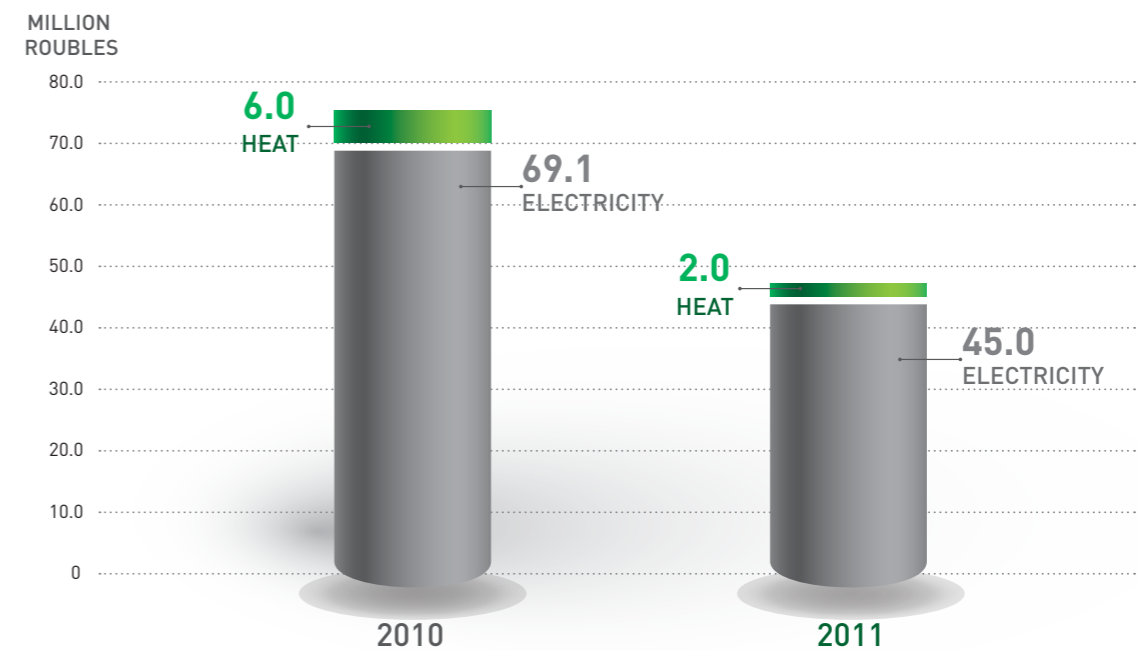
ENERGY EFFICIENCY IN OIL PRODUCTION

In 2010–2011, administrative and engineering measures for increasing energy efficiency in oil production resulted in a saving of 122 million roubles.

The most important measures are related to energy-efficient enhanced oil

recovery methods and to enhancing the efficiency of existing facilities and equipment. Most oil production processes require a lot of energy, thus energy efficiency measures affect the whole production chain: formation pressure maintenance, oil recovery, oil gathering and transportation, crude oil treatment and other processes.

IMPACT OF ENERGY EFFICIENCY PROGRAMMES IN OIL PRODUCTION AND DRILLING



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ENERGY EFFICIENCY

ENERGY EFFICIENCY PROGRAMMES

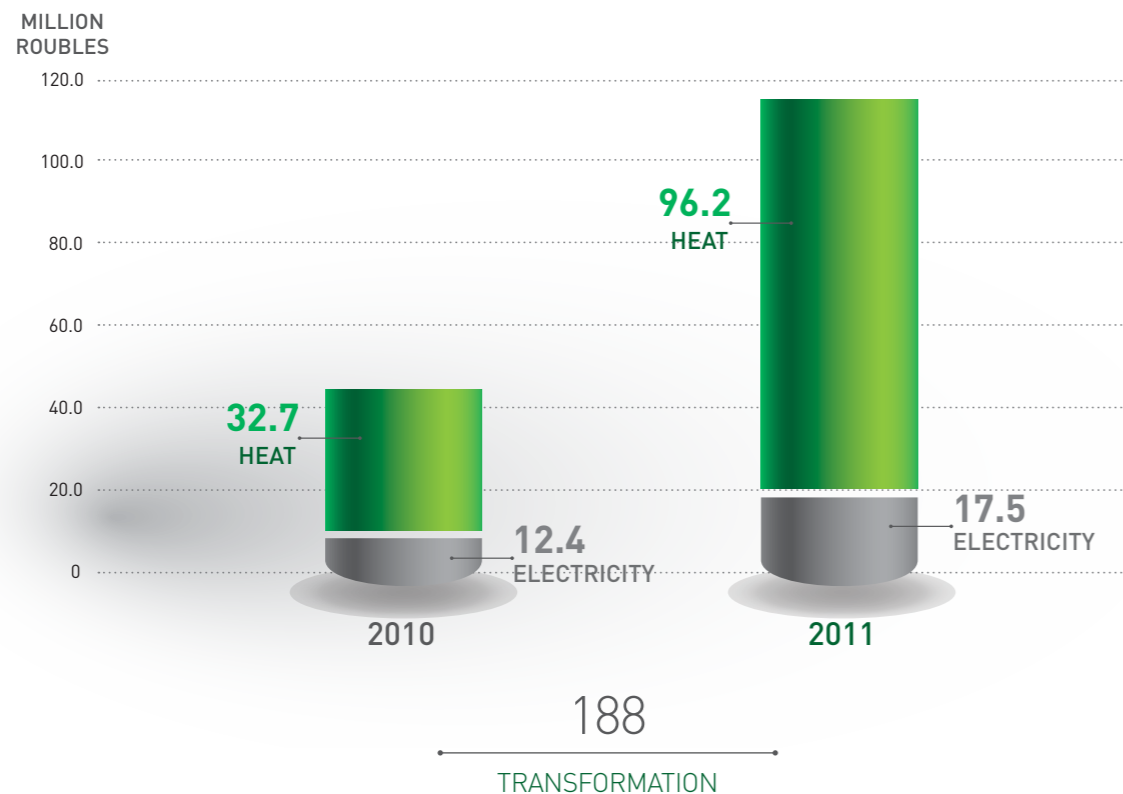
ENERGY EFFICIENCY IN OIL REFINING AND PETROCHEMICAL PRODUCTION

In oil refining and petrochemical production, energy efficiency measures include the introduction of up-to-date pumps and compressors, variable-frequency drives, energy-saving lamps, secondary energy resources and other relevant technologies.

The implementation of the Energy Efficiency Programme for 2010-2013 at the facilities of OJSC Ufimsky refinery plant, OJSC Novoil, OJSC Ufaneftekhim and OJSC Ufaorgsintez resulted in a savings of 159 million roubles, including:

- ELECTRICITY SAVINGS OF 30 MILLION ROUBLES;
- HEAT SAVINGS OF 129 MILLION ROUBLES.

IMPACT OF ENERGY EFFICIENCY PROGRAMMES IN OIL REFINING AND PETROCHEMICAL PRODUCTION



ENERGY EFFICIENCY

DATA ON ENERGY CONSUMPTION IN THE REPORTING YEAR

ENERGY CONSUMPTION OF JSOC BASHNEFT IN 2011

Non-consolidated information on energy resources used by the Company in the reporting year is presented in the

table below. JSOC Bashneft did not use any other types of energy resources in its operations.

TYPE	UNIT	2011*	
		AMOUNT	SUM, THOUSAND ROUBLES
HEAT	Gcal	58,364.49	52,316
ELECTRICITY	ths kWh	62,896.83	161,907
NATURAL GAS (used as fuel)	ths cubic meters	11,504.00	39,180
ASSOCIATED GAS (used as fuel)	ths cubic meters	28,912.41	74,637
TOTAL	X	X	328,040

* Non-consolidated data, representing only the holding company JSOC Bashneft.



ENERGY EFFICIENCY

● DATA ON ENERGY CONSUMPTION IN THE REPORTING YEAR

ENERGY CONSUMPTION OF JSOC BASHNEFT IN 2011

ENERGY CONSUMPTION OF THE GROUP'S OIL PRODUCING AND DRILLING ENTERPRISES

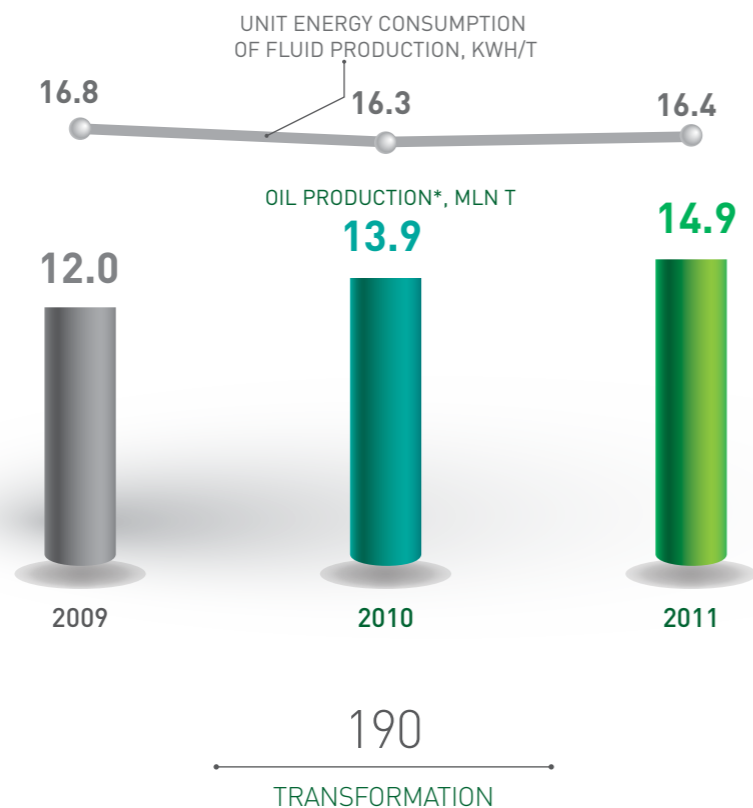
Energy consumption of the oil producing and drilling enterprises increased from 2,655 million kWh in 2007 to 2,842 million kWh in 2010 and to 2,822 million kWh in 2011.

The price of purchased electric energy for oil producing and drilling companies increased by a factor of 1.7 compared to 2007. The price was growing gradually.

Energy efficiency measures reduced unit energy consumption per tonne of produced oil by 16.3% (as compared with 2009). The unit energy consumption per tonne of fluid decreased by 6.7%.

In 2011, energy consumption of oil producing enterprises totalled 2,788 million kWh, which is comparable to the 2010 level of 2,792 million kWh, while the amount of produced fluid increased by 1.7%.

OIL PRODUCTION AND ENERGY CONSUMPTION



*Production volumes are given for LLC Bashneft-Dobycha only.

ENERGY CONSUMPTION BY THE GROUP'S OIL REFINING AND PETROCHEMICALS ENTERPRISES

Energy consumption of the oil refining and petrochemicals enterprises increased from 2,612 million kWh in 2007 to 2,763 million kWh in 2011. The consumption increased by 5.8%, the main growth drivers being the increasing oil refining volume and depth.

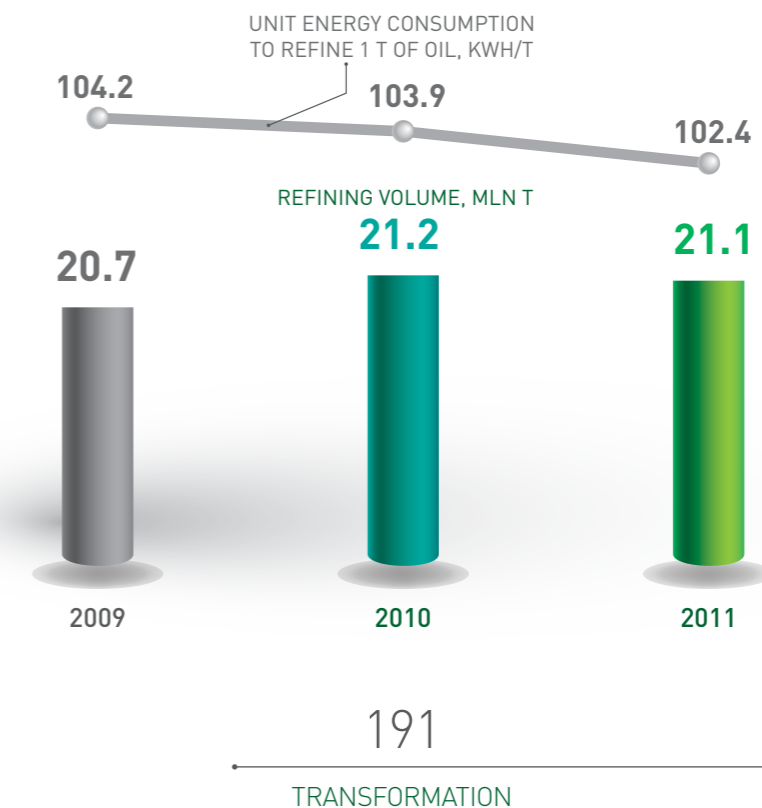
The price of purchased electric energy for oil refining and petrochemicals com-

panies increased by a factor of 1.7 compared to 2007.

In 20102011, the refineries managed to reduce unit energy consumption by 1.7% owing to an increase in oil refining volumes and more regular oil supplies.

In 2011, energy consumption by oil refining and petrochemicals enterprises totalled 2,763 million kWh, which is 0.3% less than in 2010.

OIL REFINING AND ENERGY CONSUMPTION



ENERGY EFFICIENCY

DATA ON ENERGY CONSUMPTION IN THE REPORTING YEAR

ENERGY CONSUMPTION OF JSOC BASHNEFT IN 2011

ENERGY CONSUMPTION BY THE GROUP'S MARKETING COMPANIES

In 2011, the retail petroleum products marketing companies OJSC Bashkirnefteprodukt and LLC Bashneft-Udmurtia, consumed 27 million kWh. An increase in electricity consumption up to 34 million kWh (in 2012) is expected in this sector due to the acquisition of OJSC Orenburgnefteprodukt and the growth of the retail network.

The share of the Group's marketing companies in Bashneft's total heat consumption is the smallest.

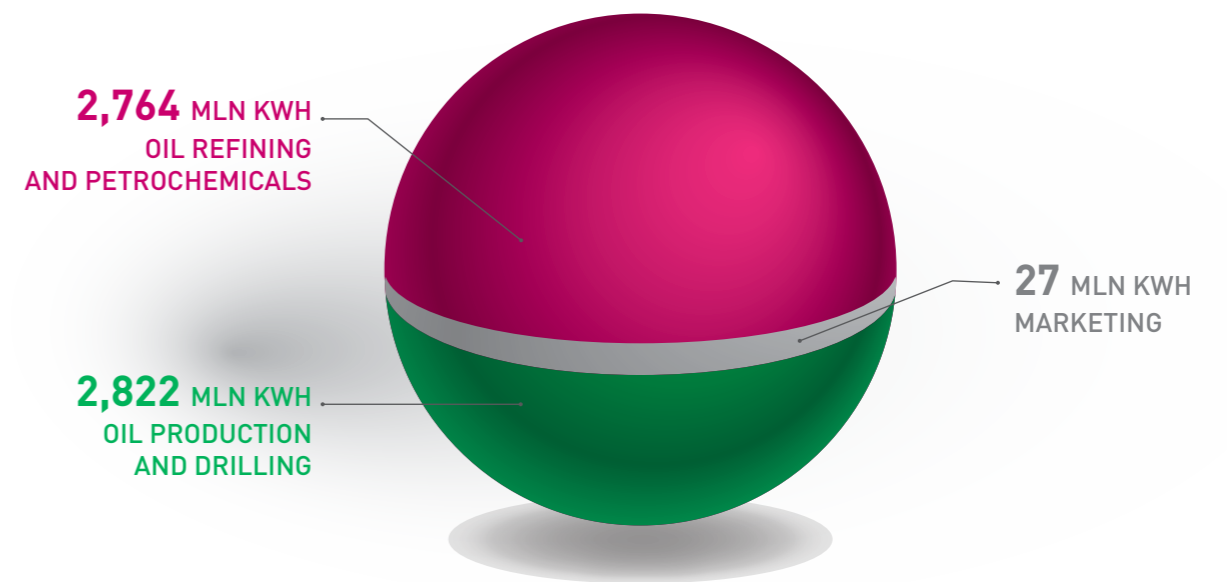
CONSUMPTION OF ENERGY RESOURCES BY BASHNEFT GROUP

In 2011, Bashneft Group consumed 7,418,171 Gcal of thermal energy. Energy consumption amounted to 5,651 million kWh. The volume of natural gas used as fuel totalled 216,567 thousand cubic meters. The Group's companies used 57,249 thousand cubic meters of associate gas as fuel.

The Group's energy consumption structure in 2011 by sector is presented below.



THE GROUP'S ENERGY CONSUMPTION STRUCTURE, 2011



HEAT AND ELECTRICITY CONSUMPTION BY BASHNEFT GROUP, 2011

#	TYPE	UNIT	TOTAL	INCLUDING:		
				OIL PRODUCTION AND DRILLING	REFINING AND PETROCHEMICAL PRODUCTION	MARKETING
1	ELECTRICITY	thousand kWh	5,612,989.84	2,821,979.65	2,763,932.60	27,077.59
2	HEAT	Gcal	7,347,199.51	260,001.93	7,079,657.50	7,540.08
3	NATURAL GAS (used as fuel)	thousand cubic meters	210,965.39	56,927.42	152,689.50	1,348.47
4	ASSOCIATE GAS (used as fuel)	thousand cubic meters	57,248.64	57,248.64	0.00	0.00



THE CORPORATE GOVERNANCE SYSTEM

THE CORPORATE GOVERNANCE:

JSOC BASHNEFT ATTACHES GREAT IMPORTANCE TO THE CORPORATE GOVERNANCE SYSTEM AND AIMS FOR COMPLIANCE WITH INTERNATIONAL STANDARDS OF CORPORATE CONDUCT AND BUSINESS ETHICS. A TIMELY ADAPTATION OF JSOC BASHNEFT'S CORPORATE GOVERNANCE SYSTEM TO MODERN INTERNATIONAL TRENDS ENABLES THE COMPANY TO DEVELOP AS A BALANCED AND FAST-GROWING VERTICALLY INTEGRATED COMPANY.

COMMITTEES OF THE BOARD OF DIRECTORS:

TO INCREASE EFFICIENCY OF DECISIONS OF THE BOARD OF DIRECTORS, CARRY OUT MORE DETAILED PRELIMINARY CONSIDERATION OF THE MOST IMPORTANT ISSUES AND PREPARE APPROPRIATE RECOMMENDATIONS, THERE ARE FOUR COMMITTEES OF THE BOARD OF DIRECTORS: THE STRATEGY COMMITTEE, THE NOMINATING AND COMPENSATION COMMITTEE, THE BUDGET AND AUDIT COMMITTEE AND THE CORPORATE CONDUCT COMMITTEE. NOT ONLY MEMBERS OF THE BOARD OF DIRECTORS, BUT ALSO EXPERTS OF OJSC JSFC SISTEMA AND EMPLOYEES OF JSOC BASHNEFT ARE INVOLVED IN THE WORK OF THE COMMITTEES.

MANAGEMENT BOARD:

THE MANAGEMENT BOARD IS RESPONSIBLE FOR THE CURRENT MANAGEMENT OF JSOC BASHNEFT. IT APPROVES AND ORGANIZES IMPLEMENTATION OF THE COMPANY'S INVESTMENT ATTRACTION PROGRAMME, COORDINATES THE COMPANY'S INTERACTION WITH SUBSIDIARIES AND AFFILIATES AND CARRIES OUT PRELIMINARY CONSIDERATION OF MAJOR INNOVATION AND INVESTMENT PROJECTS AND PROGRAMMES OF THE COMPANY, ITS SUBSIDIARIES AND AFFILIATES. THE MANAGEMENT BOARD ALSO CONSIDERS OTHER ISSUES BEFORE SUBMITTING THEM TO THE BOARD OF DIRECTORS.

THE CORPORATE GOVERNANCE SYSTEM

JSOC BASHNEFT ATTACHES GREAT IMPORTANCE TO THE CORPORATE MANAGEMENT SYSTEM AND AIMS FOR COMPLIANCE WITH INTERNATIONAL STANDARDS OF CORPORATE CONDUCT AND BUSINESS ETHICS.

The system of corporate relations of JSOC Bashneft is based on trust between all participants of corporate conduct which ensures respect for rights and legitimate interests of all its participants.

Timely adaptation of the corporate governance system of JSOC Bashneft to current international tendencies promotes the development of the Company as a balanced fast-growing vertically integrated company.

In 2011, the General Meeting of Shareholders (GMS) of JSOC Bashneft approved the Regulations on Rewards of Members of the Board of Directors.

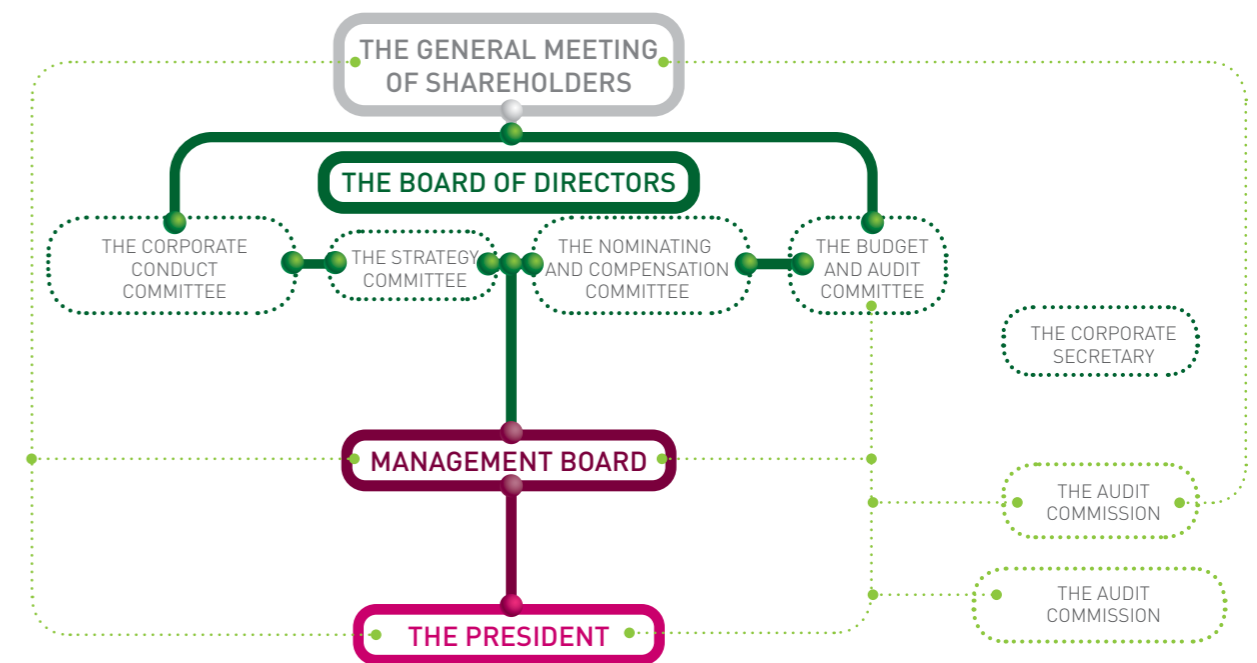
In 2011, the Board of Directors decided to approve new versions of a number of documents which are important for the Company's corporate governance system:

- The Code of Corporate Conduct
- Regulations on the Corporate Secretary
- The Code of Ethics
- Anti-corruption Policy
- Regulations on Dividend Policy
- Regulations on Insider Information
- Regulations on Information Policy

More detailed information contained in these and other documents can be found on our website at [HTTP://WWW.BASHNEFT.RU/SHAREHOLDERS_AND_INVESTORS/CHARTER/](http://www.bashneft.ru/shareholders_and_investors/charter/).

The main aspects of JSOC Bashneft's corporate governance policy are as follows:

- strict compliance with the interests and protection of the shareholders' rights;
- introduction of unified governance standards in Bashneft's structures;
- improvement of Bashneft's information policy and internal control systems;
- implementation of the principles of informational openness and transparency;
- fruitful cooperation with investors, employees and business partners;
- active implementation of best practices of corporate governance at Bashneft.



THE SYSTEM OF CORPORATE RELATIONS OF JSOC BASHNEFT IS BASED ON TRUST BETWEEN ALL PARTICIPANTS OF CORPORATE CONDUCT WHICH ENSURES RESPECT FOR RIGHTS AND LEGITIMATE INTERESTS OF ALL ITS PARTICIPANTS

Bashneft's corporate governance structure is based on the following key principles:

- transparency of all processes to shareholders, investors and partners;
- an active and competent Board of Directors;
- consistent and collective decision-making.

The Company's regulatory bodies are as follows:

- the General Meeting of Shareholders;
- the Board of Directors;

- the Management Board (collective executive body) and the President (sole executive body).

The internal control system includes the following supervisory bodies and departments of the Company:

- the Audit Commission;
- External Independent Auditor;
- the Budget and Audit Committee of the Board of Directors;
- the Internal Control and Audit Department (ICAD).

● THE GENERAL MEETING OF SHAREHOLDERS OF JSOC BASHNEFT

The General Meeting of Shareholders is the supreme regulatory body of JSOC Bashneft. Its activity is regulated by the Law of the Russian Federation on Joint-Stock Companies, the provisions of the Charter and the Company's internal documents. The procedure for holding the General Meeting of Shareholders fully ensures the shareholders' rights.

PREPARING AND HOLDING THE GENERAL MEETING OF SHAREHOLDERS

Information about an upcoming GMS shall be provided no later than 30 days before the scheduled date of the meeting. The notification of the meeting shall be sent to shareholders by post and published in the newspapers The Republic of Bashkortostan and Bashkortostan. Under the Regulations on the General Meeting of Shareholders, shareholders who own no less than 1% of votes may have access to the list of persons entitled

to participate in the GMS. The list of persons entitled to participate in the GMS can be provided to the shareholders included in this list and owning at least 1% of votes.

Shareholders can familiarize themselves with the information (materials) to be provided during the preparation for holding the GMS in the room of the Company's executive body and at the addresses indicated in the notification. They also have a right to receive copies of all materials at the indicated addresses.

Any shareholder has the right to put an issue on the agenda of the GMS or to demand a convocation of the GMS.

The Regulations on the General Meeting of Shareholders also stipulate the procedure for registration of participants of the GMS.

The GMS can be held both in the form of joint presence and by absentee voting.

GENERAL MEETINGS OF SHAREHOLDERS IN 2011 AND THEIR RESULTS

There were three General Meetings of Shareholders of the Company in 2011.

The Annual General Meeting of Shareholders of JSOC Bashneft was held on June 29, 2011. The shareholders made the following decisions at the meeting:

- approval of the Company's Annual Report for 2010;
- approval of accounting reports, including the profit and loss statement (profit and loss accounts) of the Company for 2010;
- approval of the Company's profit distribution, including dividend payments (declaration) (except for the profit distributed as dividends for nine months of the financial year 2010) for 2010;
- determination of the number of members of the Company's Board of Directors;

- election of the members of the Company's Board of Directors;
- election of the members of the Company's Audit Commission;
- approval of the Company's auditor for conducting the audit for 2011 in accordance with Russian Accounting Standards (RAS) and in accordance with International Financial Reporting Standards (IFRS);
- approval of the Regulations on Rewards and Compensation to the Members of the Board of Directors of JSOC Bashneft.

Decisions made at the General Meeting of Shareholders were fully implemented as of December 31, 2011.

In 2011, there were also two Extraordinary General Meetings of Shareholders (EGM) of Bashneft in order to make amendments to the Company's Charter.

✓
FEBRUARY 24, 2011
(by absentee voting)

The Meeting agenda included approval of the new version of the Company's Charter. The main amendments to the Charter were made in line with the changes in the Law of the Russian Federation on Joint-Stock Companies regulating the dates and procedure for dividend payment. Further, the necessity to enhance the Company's operations and plans to form a vertically integrated oil company were also taken into consideration.

✓
NOVEMBER 21, 2011
(in the form of joint presence)

The Meeting agenda included approval of the new version of the Company's Charter. The amendments to the Charter were made in order to ensure that provisions of the Charter regulating the procedure for determining the number of the Company's authorized shares comply with the Law of the Russian Federation.

THE CORPORATE GOVERNANCE SYSTEM

THE BOARD OF DIRECTORS OF JSOC BASHNEFT

The Board of Directors is responsible for the general management of JSOC Bashneft's operations. The competence of the Board of Directors is determined by the Charter of JSOC Bashneft.

The competence of the Board of Directors includes the following issues:

- appointing the President of the Company;
- determining the number of members of the Management Board and electing them;
- approving the terms and conditions of the contract with the President and the members of the Company's Management Board;
- removing the Company's President and members of the Management Board from office before the end of their term;
- approving the principles of performance evaluation and the system of rewards;
- monitoring the performance of senior managers of the Company who are directly subordinate to the Company's President.

The competence of the Board of Directors also includes the main issues related to the following:

- determining business priorities;
- considering and approving development strategy;
- considering and approving investment programmes;
- approving internal documents which regulate the principles of the Company's operations, including such spheres as new types of business, corporate governance, HR management strategy, employee incentive and rewards systems;
- approving transactions.

Members of the Board of Directors have a right to obtain information necessary for performing their duties from executive bodies and heads of the main structural departments.

Any individual nominated by a shareholder or other individuals and regulatory bodies that, in accordance with the Law of the Russian Federation, have a right to nominate candidates to the Board of Directors, and elected by the GMS under the established procedure can be a member of the Board of Directors. Individuals elected to the Company's Board of Directors can be re-elected an unlimited number of times.

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COMPETENCE

THE MEMBERSHIP OF THE BOARD OF DIRECTORS ELECTED BY THE ANNUAL GENERAL MEETING OF SHAREHOLDERS ON JUNE 29, 2011 IS AS FOLLOWS:



ALEXANDER YURIEVICH GONCHARUK

● THE CHAIRMAN OF THE BOARD OF DIRECTORS OF JSOC BASHNEFT

Born in 1956 in Sevastopol. Graduated in 1978 from the Sevastopol Higher Naval Engineering Institute and in 1987 from the A.A. Grechko Naval Academy.

WORK EXPERIENCE

- **02.2006–05.2008** — President and Chairman of the Management Board of OJSC JSFC Sistema.
- **05.2008–08.2009** — First Deputy Chairman of the Board of Directors of OJSC JSFC Sistema.
- **2009–PRESENT** — Chairman of the Board of Directors of JSOC Bashneft. Currently, a member of the Board of Directors of OJSC JSFC Sistema and OJSC RussNeft.

ELECTION TO THE BOARD OF DIRECTORS

Was first elected to the Board of Directors of JSOC Bashneft at the Annual General Meeting of Shareholders on April 30, 2008. Elected to the Company's Board of Directors for the current term at the Annual General Meeting of Shareholders of JSOC Bashneft on June 29, 2011.

DOES NOT OWN STAKE IN THE AUTHORIZED CAPITAL OF THE COMPANY.



MURTAZA GUBAIDULLOVICH RAKHIMOV

● DEPUTY CHAIRMAN OF THE BOARD OF DIRECTORS OF JSOC BASHNEFT

Born in 1934 in the village of Tavakanovo of Kugarchinsky District of the Bashkir Autonomous Soviet Socialist Republic. Graduated from Ufa State Petroleum Technological University as a Process engineer.

WORK EXPERIENCE

- **12.1993–07.2010** — Served in the administration of the President of the Republic of Bashkortostan, President of the Republic of Bashkortostan.

ELECTION TO THE BOARD OF DIRECTORS

Was first elected to the Board of Directors of JSOC Bashneft at the Extraordinary Meeting of Shareholders (EGM) on December 8, 2010.

Elected to the Company's Board of Directors for the current term at the Annual General Meeting of Shareholders of JSOC Bashneft on June 29, 2011.

DOES NOT OWN STAKE IN THE AUTHORIZED CAPITAL OF THE COMPANY.

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COMPETENCE

• THE MEMBERSHIP OF THE BOARD OF DIRECTORS ELECTED BY THE ANNUAL GENERAL MEETING OF SHAREHOLDERS ON JUNE 29, 2011 IS AS FOLLOWS:



ALEXEI NIKOLAYEVICH BUYANOV

MEMBER OF THE BOARD OF DIRECTORS OF JSOC BASHNEFT

Born in 1969 in Moscow. Graduated in 1992 from the Moscow Institute of Physics and Technology as an engineer physicist with a degree in Applied Mathematics and Physics.

WORK EXPERIENCE

- **04.2005–PRESENT** — Senior Vice-President of OJSC JSFC Sistema, Head of the Financial and Investment Division.
- Member of the Board of Directors of Joint-Stock Commercial Bank Moscow Bank for Reconstruction and Development (MBRD), OJSC MTS and East-West United Bank.
- Member of the Management Board of OJSC JSFC Sistema.

ELECTION TO THE BOARD OF DIRECTORS

Was first elected to the Board of Directors of JSOC Bashneft at the Extraordinary Meeting of Shareholders (EGM) on November 25, 2009. Elected to the Company's Board of Directors for the current term at the Annual General Meeting of Shareholders of JSOC Bashneft on June 29, 2011.

DOES NOT OWN STAKE IN THE AUTHORIZED CAPITAL OF THE COMPANY.



YURY LEONIDOVICH PUSTOVGAROV

MEMBER OF THE BOARD OF DIRECTORS OF JSOC BASHNEFT

Born in 1964 in Beloretsk of the Bashkir Autonomous Soviet Socialist Republic. Graduated in 1986 from Magnitogorsk Institute of Mining and Metallurgy as a metallurgical engineer.

WORK EXPERIENCE

- **12.2006–03.2009** — Deputy Prime Minister, Minister for Industry, Investment and Innovation Policy of the government of the Republic of Bashkortostan.
- **03.2009–08.2010** — Deputy Prime Minister – Minister for Industry and External Economic Relations of the government of the Republic of Bashkortostan.
- **08.2010–2011** — Deputy Prime Minister of the government of the Republic of Bashkortostan.
- **2011–PRESENT** — President of the Chamber of Commerce and Industry of the Republic of Bashkortostan.
- Member of the Board of Directors of OJSC Bashkirsky Tractor, OJSC Premium, OJSC Soda, OJSC Ufa Engine Industrial Association and OJSC Bashkirskaya Venture Company.

ELECTION TO THE BOARD OF DIRECTORS

Was first elected to the Board of Directors of JSOC Bashneft at the Extraordinary Meeting of Shareholders (EGM) on December 8, 2010. Elected to the Company's Board of Directors for the current term at the Annual General Meeting of Shareholders of JSOC Bashneft on June 29, 2011.

DOES NOT OWN STAKE IN THE AUTHORIZED CAPITAL OF THE COMPANY.



ALEXANDER LEONIDOVICH KORSIK

MEMBER OF THE BOARD OF DIRECTORS OF JSOC BASHNEFT

Born in 1956 in Minsk. Graduated in 1979 from the Bauman Moscow State Technical University as an engineer.

WORK EXPERIENCE

- **10.2006–08.2007** — Executive Director of ITERA Oil and Gas Company LLC.
- **05.2009–04.2011** — Senior Vice-President of OJSC JSFC Sistema, Head of the Fuel & Energy Business Unit.
- **04.2011–PRESENT** — President and Chairman of the Management Board of JSOC Bashneft.
- Member of the Board of Directors of OJSC Ufaneftekhim.

ELECTION TO THE BOARD OF DIRECTORS

Was first elected to the Board of Directors of JSOC Bashneft at the Extraordinary Meeting of Shareholders (EGM) on November 25, 2009. Elected to the Company's Board of Directors for the current term at the Annual General Meeting of Shareholders of JSOC Bashneft on June 29, 2011.

DOES NOT OWN STAKE IN THE AUTHORIZED CAPITAL OF THE COMPANY.



MIKHAIL VALERIEVICH SHAMOLIN

MEMBER OF THE BOARD OF DIRECTORS OF JSOC BASHNEFT

Born in 1970 in Moscow. Graduated in 1992 from the Moscow State Automobile & Road Technical University, in 1993 from the Russian Presidential Academy of National Economy and Public Administration and in 1997 from Wharton Business School.

WORK EXPERIENCE

- **2006–2008** — Vice-President of OJSC Mobile TeleSystems, Director of MTS Russia Business Unit.
- **2006–2008** — Chairman of the Board of Directors of CJSC Primtelefon.
- **2008–03.2011** — President and Chairman of the Management Board of OJSC Mobile TeleSystems.
- **03.2011–PRESENT** — President and Chairman of the Management Board of OJSC JSFC Sistema.
- Member of the Board of Directors of OJSC MTS, Sistema Shyam Teleservices Limited, International Cell Holding LTD, OJSC SMM, OJSC RTI, JSC Mosdachtrest, OJSC United Petrochemical Company, member of the Board of Trustees of the Fund.

ELECTION TO THE BOARD OF DIRECTORS

Was first elected to the Board of Directors of JSOC Bashneft by the Annual General Meeting of Shareholders on June 29, 2011.

DOES NOT OWN STAKE IN THE AUTHORIZED CAPITAL OF THE COMPANY.

• THE MEMBERSHIP OF THE BOARD OF DIRECTORS ELECTED BY THE ANNUAL GENERAL MEETING OF SHAREHOLDERS ON JUNE 29, 2011 IS AS FOLLOWS:



FELIX VLADIMIROVICH EVTUSHENKOV

MEMBER OF THE BOARD OF DIRECTORS OF JSOC BASHNEFT

Born in 1978 in Moscow. Graduated in 2000 from Griboedov Institute of International Law and Economics with a degree in Law.

WORK EXPERIENCE

- 03.2006–06.2008 — President of OJSC Sistema-Hals.
- 07.2008–04.2011 — Vice-President of OJSC JSFC Sistema, Head of Consumer Assets Business Unit.
- 04.2011–PRESENT — First Vice-President of OJSC JSFC Sistema, Head of Core Assets Business Unit.
- Member of the Board of Directors of OJSC RussNeft, OJSC Bashkirenergo, OJSC United Petrochemical Company, Joint-Stock Commercial Bank MBRD, CJSC Telecom-Development, OJSC Sistema-Hals.
- Chairman of the Board of Directors of OJSC VAO Intourist, CJSC Medsi Group.
- Member of the Management Board of OJSC JSFC Sistema.

ELECTION TO THE BOARD OF DIRECTORS

Was first elected to the Board of Directors of JSOC Bashneft by the Annual General Meeting of Shareholders on June 29, 2011.

DOES NOT OWN STAKE IN THE AUTHORIZED CAPITAL OF THE COMPANY.



SERGEY ALEXEYEVICH DROZDOV

MEMBER OF THE BOARD OF DIRECTORS OF JSOC BASHNEFT

Born in 1970 in Arkhangelsk. Graduated in 1993 from the Ordzhonikidze State Academy of Management as an engineer-economist. Is a Candidate of Economics.

WORK EXPERIENCE

- 04.2005–PRESENT — Senior Vice-President of OJSC JSFC Sistema, Head of the Property Division.
- Chairman of the Board of Directors of OJSC Reestr, member of the Board of directors of CJSC Binnopharm, CJSC VRS, OJSC AO NTR Region, OJSC Premier-Avia, OJSC Jet Air Group, ABSAFETI LLC, OJSC MTS, OJSC SMM, OJSC Moscow Stock Exchange, OJSC RussNeft, OJSC VAO Intourist, OJSC RTI, member of Charity Fund Sistema.
- Member of the Management Board of OJSC JSFC Sistema.

ELECTION TO THE BOARD OF DIRECTORS

Was first elected to the Board of Directors of JSOC Bashneft at the Annual General Meeting of Shareholders on April 30, 2008. Elected to the Company's Board of Directors for the current term at the Annual General Meeting of Shareholders of JSOC Bashneft on June 29, 2011.

DOES NOT OWN STAKE IN THE AUTHORIZED CAPITAL OF THE COMPANY.

THE BOARD OF DIRECTORS CONSISTS OF:

EXECUTIVE DIRECTOR	1	Alexander Korsik
NON-EXECUTIVE DIRECTORS	7	Anton Abugov, Alexei Buyanov, Sergey Drozdov, Alexander Goncharuk, Mikhail Gutseriev, Felix Evtushenkov, Mikhail Shamolin
INDEPENDENT DIRECTORS	2	Murtaza Rakhimov, Yury Pustovgarov



MIKHAIL SAFARBEKOVICH GUTSERIEV

MEMBER OF THE BOARD OF DIRECTORS OF JSOC BASHNEFT

Born in 1958 in the city of Akmolinsk in Kazakh Autonomous Soviet Socialist Republic. Graduated in 1981 from Dzhambulsky Technological Institute, in 1999 from Financial Academy under the Government of the Russian Federation. Is a Candidate of Law, Doctor of Economics.

WORK EXPERIENCE

- 09.2002–07.2007 — President of OJSC RussNeft.
- 08.2007–06.2010 — Consultant in Absheron Operating Company Ltd.
- 06.2010–PRESENT — President of OJSC RussNeft.
- Member of the Board of Directors of OJSC RussNeft.

ELECTION TO THE BOARD OF DIRECTORS

Was first elected to the Board of Directors of JSOC Bashneft at the Annual General Meeting of Shareholders on June 29, 2011.

DOES NOT OWN STAKE IN THE AUTHORIZED CAPITAL OF THE COMPANY.



ANTON VLADIMIROVICH ABUGOV

MEMBER OF THE BOARD OF DIRECTORS OF JSOC BASHNEFT

Born in 1976 in the city of Mytishchi in the Moscow region. Graduated in 1998 from the Russian Presidential Academy of National Economy and Public Administration as Manager; completed post-graduate studies at the Moscow State Forest University in 2003.

WORK EXPERIENCE

- 08.2006–PRESENT — First Vice-President, Head of the Strategy and Development Division of OJSC JSFC Sistema. Currently a member of the Boards of Directors of OJSC MTS, OJSC Bashkirenergo and OJSC Russneft; Deputy Chairman of the Board of Directors of JSC NIS.
- Member of the Management Board of OJSC JSFC Sistema.

ELECTION TO THE BOARD OF DIRECTORS

Was first elected to the Board of Directors of JSOC Bashneft by the Annual General Meeting of Shareholders on June 30, 2009. Elected to the Company's Board of Directors for the current term at the Annual General Meeting of Shareholders of JSOC Bashneft on June 29, 2011.

DOES NOT OWN STAKE IN THE AUTHORIZED CAPITAL OF THE COMPANY.

as of 31.12.2011

CHANGES IN THE MEMBERSHIP OF THE BOARD OF DIRECTORS

As of the start of 2011, the Board of Directors consisted of thirteen members who had been elected at the Extraordinary General Meeting of Shareholders on December 8, 2010.

On June 29, 2011, the Annual General Meeting of Shareholders of the Company decided that the Board of Directors shall comprise 10 members, and 3 new mem-

bers (M.S. Gutseriev, F.V. Evtushenkov and M.V. Shamolin) were elected. The authority of the following members of the Board of Directors was terminated: R.F. Almakaev, A. Goldin, I.V. Marchenko, L.A. Melamed, V.G. Khoroshavtsev and D.M. Yakobashvili. A.V. Abugov, A.N. Buyanov, A.Y. Goncharuk, S.A. Drozdov, A.L. Korsik, Y.L. Pustovgarov and M.G. Rakhimov were re-elected for a new term.

THE CORPORATE GOVERNANCE SYSTEM

THE BOARD OF DIRECTORS OF JSOC BASHNEFT

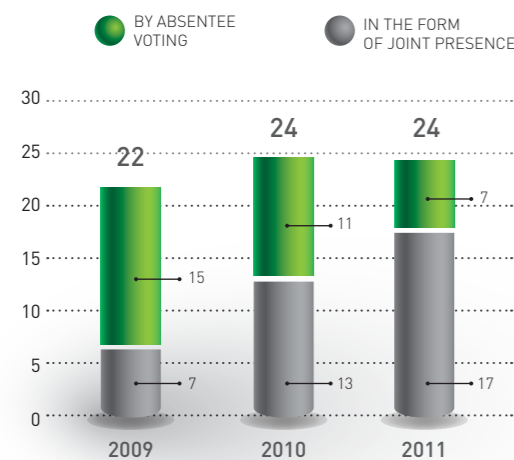
MEETINGS OF THE BOARD OF DIRECTORS

The Regulations on the Board of Directors stipulate that Meetings shall be held according to the schedule no less than once a month. The procedure for holding Meetings of the Board of Directors is set out in the Rules for Work by the Board of Directors of JSOC Bashneft.

If necessary, unscheduled meetings can also be called to make decisions on urgent issues.

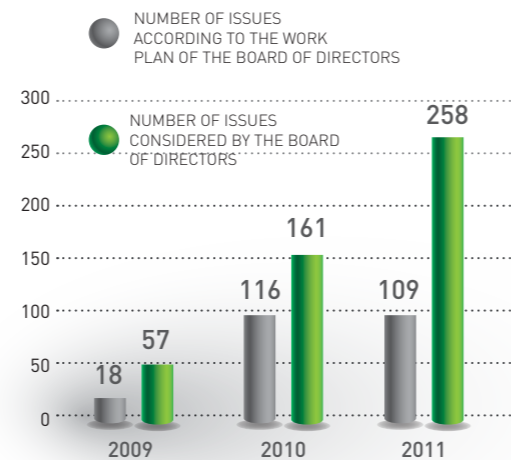
In 2011, the Board of Directors held 24 meetings, 17 of which were face-to-face and seven were conducted by absentee voting.

NUMBER OF FACE-TO-FACE BOARD MEETINGS AND MEETINGS CONDUCTED BY ABSENTEE VOTING

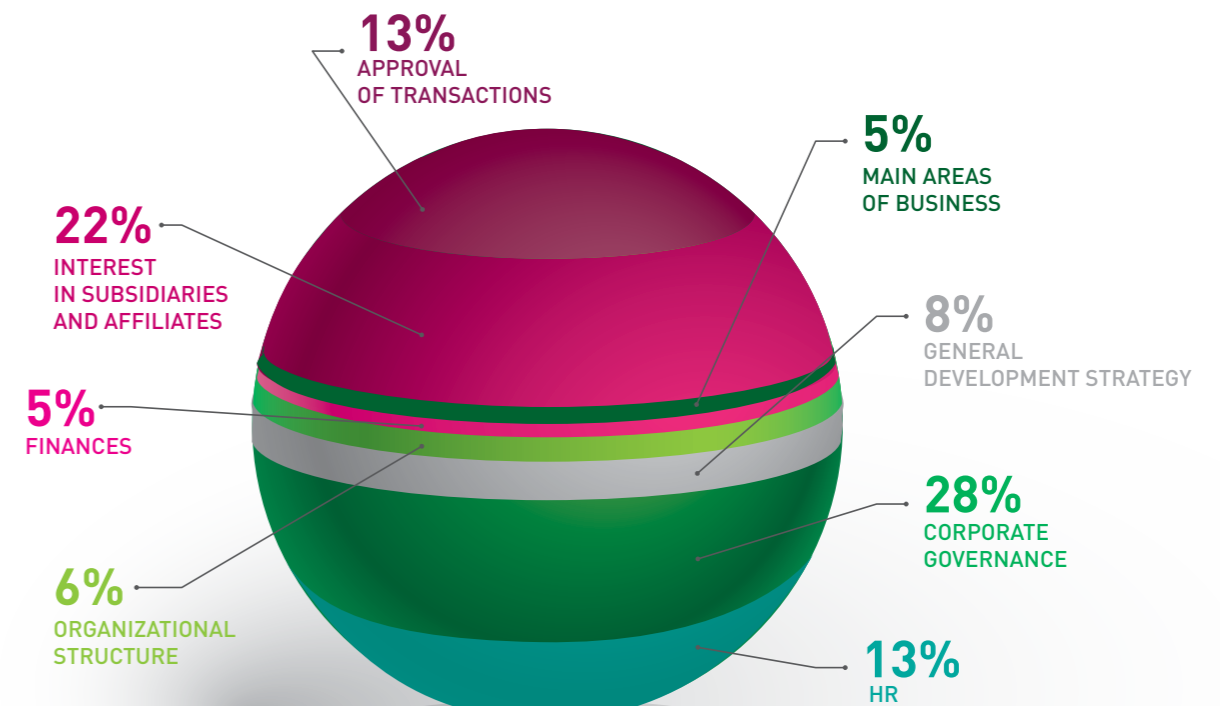


The agenda of each scheduled meeting of the Board of Directors includes from three to five main strategic issues which are within the competence of the Board of Directors, such as the Company's development strategy, financial strategy and financial reporting, corporate governance, issues concerning HR and key areas of the Company's business. Other issues within the competence of the Board of Directors, such as approval of transactions and of amendments to rules and regulations, are included in the Board agenda as and when necessary.

NUMBER OF ISSUES CONSIDERED AT THE BOARD MEETINGS



SUBJECT MATTER OF ISSUES CONSIDERED AT THE MEETINGS OF THE BOARD OF DIRECTORS IN 2011 WAS AS FOLLOWS:



THE CORPORATE GOVERNANCE SYSTEM

THE BOARD OF DIRECTORS OF JSOC BASHNEFT

THE CORPORATE SECRETARY

The Corporate Secretary is responsible for ensuring that the Company's bodies and executives comply with the procedural requirements that safeguard the rights and legitimate interests of the shareholders.

The Corporate Secretary performs his or her duties in compliance with the

Regulations on the Corporate Secretary of the Company and is directly subordinate to the Chairman of the Company's Board of Directors.

Since February 2011, the post of the Corporate Secretary of the Company has been held by Elvira Olegovna Zhuravleva.



ELVIRA OLEGOVNA ZHURAVLEVA

THE CORPORATE SECRETARY OF JSOC BASHNEFT

Born in 1970. Graduated in 2001 from the Immanuel Kant Baltic Federal University (Kaliningrad State University). 2006–2008 — Master's degree at Lomonosov Moscow State University; Master in Innovation Management, MIM. 2009–2011 — completed the "Corporate Lawyer" Master's programme at the Higher School of Economics.

WORK EXPERIENCE

- **08.2001–02.2011** — Head of the Office — the Corporate Secretary of the Office of the Board of OJSC VAO Intourist.
- **02.2011–PRESENT** — the Corporate Secretary of JSOC Bashneft.

COMMITTEES OF THE BOARD OF DIRECTORS OF JSOC BASHNEFT

Members of the Board of Directors have formed four Committees in order to increase the efficiency of decisions made by the Board and to enable a more detailed preliminary consideration of key issues and preparation of relevant recommendations. Apart from the members of the Board of Directors, the Committees include OJSC JSFC Sistema's experts in the relevant fields and employees of JSOC Bashneft.

THE STRATEGY COMMITTEE deals with long-term strategy of the Company as a whole and with functional strategies on individual areas of business.

The Strategy Committee comprises eight members: F.V. Evtushenkov (Chairman), G.M. Antonova, A.V. Abugov, A.Y. Goncharuk, A.L. Korsik, I.V. Marchenko, M.D. Chyorny and M.V. Shamolin.

THE NOMINATING AND COMPENSATION COMMITTEE deals with the main issues concerning the employee incentive and rewards system, gives recommendations on methods of assessing management's performance, including activities related to the Company's achievements in the sphere of sustainable development, and nominates candidates to senior management positions in the Company.

The Nominating and Compensation Committee comprises five members: A.Y. Goncharuk (Chairman), F.V. Evtushenkov, D.A. Prokhorenko, A.L. Korsik and M.V. Shamolin.

THE BUDGET AND AUDIT COMMITTEE provides assistance in ensuring the reliability of the Company's financial statements and the efficiency of the internal control and risk management systems.

The Budget and Audit Committee comprises five members: A.N. Buyanov (Chairman), I.G. Busarov, A.M. Kamensky, I.V. Marchenko and G.M. Antonova.

The task of **THE CORPORATE CONDUCT COMMITTEE** is to develop recommendations for creating an efficient system of corporate governance which safeguards the rights and interests of the shareholders and enables more effective cooperation between the Board of Directors and the Company's management.

The Corporate Conduct Committee comprises five members: S.A. Drozdov (Chairman), N.A. Solomatina, V.M. Uvakin, A.A. Shmakov and A.S. Andreeva.

Information on the membership of the Committees of the Board of Directors is provided as of 31.12.2011.

THE CORPORATE GOVERNANCE SYSTEM

THE BOARD OF DIRECTORS OF JSOC BASHNEFT

STATISTICS ON THE ACTIVITY OF THE BOARD OF DIRECTORS AND THE BOARD COMMITTEES OF JSOC BASHNEFT IN 2011

	Q1	Q2	Q3	Q4	TOTAL
BOARD OF DIRECTORS					
MEETINGS	4	11	3	6	24
· face-to-face	3	7	3	4	17
· absentee voting	1	4	0	2	7
ITEMS CONSIDERED	49	82	50	77	258
· at face-to-face meetings	48	75	50	55	228
· at meetings by absentee voting	1	7	0	22	30
THE STRATEGY COMMITTEE					
MEETINGS	8	7	5	7	27
· face-to-face	8	6	5	6	26
· absentee voting	0	1	0	0	1
ITEMS CONSIDERED	46	21	12	29	109
· at face-to-face meetings	46	21	12	29	108
· at meetings by absentee voting	0	1	0	0	1
THE BUDGET AND AUDIT COMMITTEE					
MEETINGS	3	5	3	3	14
· face-to-face	3	3	3	1	10
· absentee voting	0	2	0	2	4
ITEMS CONSIDERED	18	25	15	17	75
· at face-to-face meetings	18	21	15	8	62
· at meetings by absentee voting	0	4	0	9	13
THE NOMINATING AND COMPENSATION COMMITTEE					
MEETINGS	4	6	2	5	17
· face-to-face	1	4	2	4	11
· absentee voting	3	2	0	1	6
ITEMS CONSIDERED	13	29	7	28	77
· at face-to-face meetings	5	27	7	27	66
· at meetings by absentee voting	8	2	0	1	11
THE CORPORATE CONDUCT COMMITTEE					
MEETINGS	3	2	2	3	10
· face-to-face	2	1	2	2	7
· absentee voting	1	1	0	1	3
ITEMS CONSIDERED	3	7	15	17	53
· at face-to-face meetings	2	5	15	11	41
· at meetings by absentee voting	1	2	0	6	12

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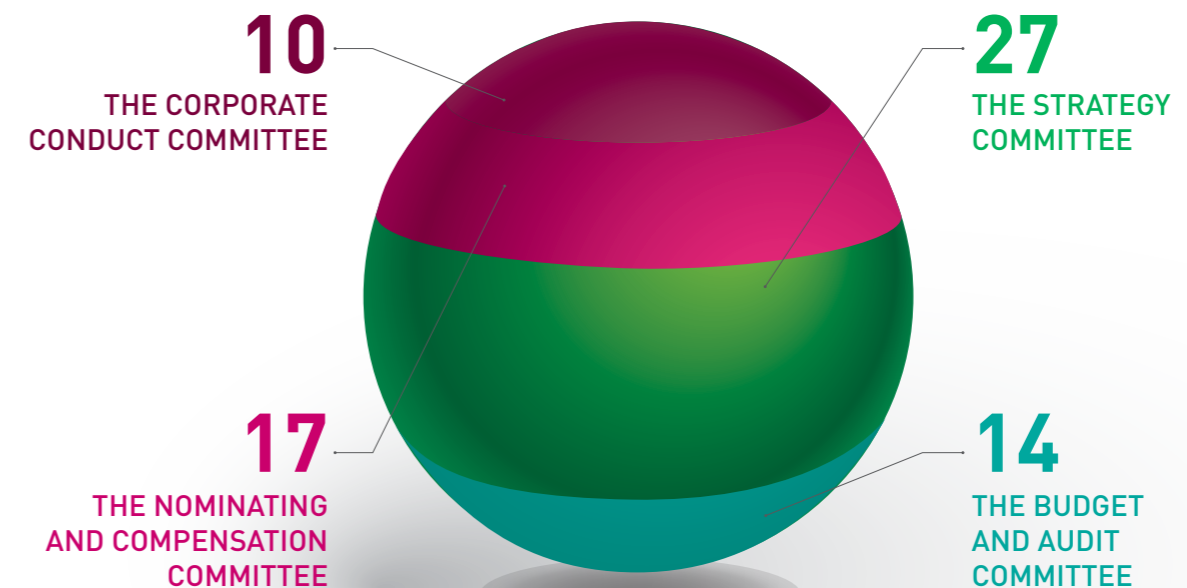
COMPETENCE

STRUCTURE OF THE MEETINGS OF THE BOARD COMMITTEES IN 2011

Overall, in 2011 the Board of Directors and the Committees of the Board of Directors of JSOC Bashneft held 92 meet-

ings and it considered a total number of 572 items.

NUMBER OF MEETINGS OF THE BOARD COMMITTEES



211

COMPETENCE

THE CORPORATE GOVERNANCE SYSTEM

THE PRESIDENT AND THE MANAGEMENT BOARD OF JSOC BASHNEFT

THE PRESIDENT OF JSOC BASHNEFT

is a permanent sole executive management body whose main task is to manage current operations in order to ensure the Company's profitability and competitiveness, as well as its financial and economic stability. Further, the President safeguards the rights of shareholders and ensures social guarantees for the Company's personnel. The President acts within his or her competence and is accountable to the Board of Directors

and the General Meeting of Shareholders of the Company.

Until April 7, 2011, the position of the President of JSOC Bashneft was held by **VIKTOR GENNADIEVICH KHOROSHAVTSEV**.

On April 7, 2011, the Board of Directors appointed **ALEXANDER LEONIDOVICH KORSIK** to the post of President of JSOC Bashneft.

THE MANAGEMENT BOARD OF JSOC BASHNEFT is a collective executive management body of the Company.

The Management Board acts in accordance with current legislation, the Company's Charter and the Regulations on the Management Board.

The Management Board is responsible for day-to-day management of JSOC Bashneft. The Management Board approves and organizes the implementation of the Company's programme for attracting

investments and coordinates the Company's cooperation with subsidiaries and affiliates. It also conducts preliminary investigations of major innovation and investment projects and programmes that have been implemented by the Company and its subsidiaries and affiliates as well as carries out advance examinations of other issues submitted for consideration by the Board of Directors. Meetings of the Management Board are held once a week as a rule. The President of the Company is the Chairman of the Management Board.



THE CORPORATE GOVERNANCE SYSTEM

THE PRESIDENT AND THE MANAGEMENT BOARD OF JSOC BASHNEFT

MEMBERSHIP OF THE MANAGEMENT BOARD OF JSOC BASHNEFT AS OF 31.21.2011



ALEXANDER LEONIDOVICH KORSIK

CHAIRMAN OF THE MANAGEMENT BOARD

Born in 1956 in Minsk. Graduated in 1979 from the Bauman Moscow State Technical University as an engineer.

WORK EXPERIENCE

- **10.2006–08.2007** — Executive Director of ITERA Oil and Gas Company LLC.
- **05.2009–04.2011** — Senior Vice-President of OJSC JSFC Sistema, Head of the Fuel & Energy Business Unit.
- **04.2011–PRESENT** — President and Chairman of the Management Board of JSOC Bashneft.
- Member of the Board of Directors of OJSC Ufaneftekhim.

DOES NOT OWN STAKE IN THE AUTHORIZED CAPITAL OF THE COMPANY.



KIRILL IGORIEVICH ANDREICHENKO

MEMBER OF THE MANAGEMENT BOARD

Born in 1975. Graduated in 1997 from Moscow State Industrial University.

WORK EXPERIENCE

- **2005–2009** — General Director of CJSC United TeleSystems (part-time).
- **2006–2007** — Deputy General Director for Corporate Governance of CJSC Sistema Telecom.
- **2007–2008** — Director for Corporate Governance and Legal Issues of OJSC COMSTAR-OTS.
- **2008–2009** — Vice-President for Corporate Governance and Legal Issues of OJSC COMSTAR-OTS.
- **2009–PRESENT** — Vice-President for Corporate Governance and Legal Issues of JSOC Bashneft.
- Chairman of the Board of Directors of OJSC Ufimsky refinery plant, OJSC Novoil and OJSC Ufaorgsintez.
- Member of the Board of Directors of LLC Bashneft-Dobycha, OJSC Belkamneft, LLC Bashneft-Trans, LLC Bashneft-Service Assets, LLC PSC SAFETI-TEK, LLC Hotel complex Bashkortostan, CJSC Bashneft-Region and OJSC United Petrochemical Company.

DOES NOT OWN STAKE IN THE AUTHORIZED CAPITAL OF THE COMPANY.



YELENA ANATOLIEVNA BRUSILOVA

MEMBER OF THE MANAGEMENT BOARD

Born in 1963. Graduated in 1986 from Leningrad Medical Institute of Sanitary and Hygiene. Graduated in 2004 from the Russian Presidential Academy of National Economy and Public Administration. Holds an MBA degree.

WORK EXPERIENCE

- **2006–2007** — First Deputy General Director of Insurance company VTB Insurance Ltd.
- **2007–2010** — First Deputy General Director and Vice-President for Government Relations and Special Projects of CJSC Medsi Group.
- **2010–2011** — Vice-President for Government Relations of JSOC Bashneft.
- **2011–PRESENT** — Vice-President for Corporate Communications and Government Relations of JSOC Bashneft.
- Member of the Board of Directors of LLC Bashneft-Polyus and CJSC Bashneft-Region.

DOES NOT OWN STAKE IN THE AUTHORIZED CAPITAL OF THE COMPANY.



VIKTOR ALEXANDROVICH GANTSEV

MEMBER OF THE MANAGEMENT BOARD

Born in 1957. Graduated in 1986 from Ufa State Petroleum Technological University.

WORK EXPERIENCE

- **2006–2009** — General Director of OJSC Ufaneftekhim.
- **2009–2009** — First Deputy General Director for Oil Refining and Petrochemicals of OJSC Sistema-invest.
- **2009–PRESENT** — Senior Vice-President for Oil Refining and Petrochemicals of JSOC Bashneft.
- Member of the Board of Directors of OJSC Ufaneftekhim.

DOES NOT OWN STAKE IN THE AUTHORIZED CAPITAL OF THE COMPANY.

MEMBERSHIP OF THE MANAGEMENT BOARD OF JSOC BASHNEFT AS OF 31.21.2011



ALEXANDER VLADIMIROVICH DASHEVSKY

MEMBER OF THE MANAGEMENT BOARD

Born in 1968. Graduated in 1990 from Grozny State University of Petroleum and in 2003 from Gubkin Russian State University of Oil and Gas.

WORK EXPERIENCE

- **2005–2008** — Director of the Department of Strategic Planning and Preparation of Investment Projects, Director of the Oil & Gas Department of OJSC Rosneft.
- **2008–2009** — General Director of CJSC Vankorneft.
- **2010–PRESENT** — Senior Vice-President for Oil & Gas Production of JSOC Bashneft.
- Member of the Board of Directors of LLC Bashneft-Dobycha, LLC Bashneft-Polyus and LLC BashNIPIneft.

DOES NOT OWN STAKE IN THE AUTHORIZED CAPITAL OF THE COMPANY.



ALEXEI VALERIEVICH KURACH

MEMBER OF THE MANAGEMENT BOARD

Born in 1980. Graduated in 2003 from Loughborough University.

WORK EXPERIENCE

- **2006–2009** — Director of the Department of Strategic Planning and Preparation of Investment Projects, Director of the Oil & Gas Department of OJSC Rosneft.
- **2009–2009** — General Director of CJSC Vankorneft.
- **2009–PRESENT** — Senior Vice-President for Oil & Gas Production of JSOC Bashneft.
- Member of the Board of Directors of LLC Bashneft-Dobycha, LLC Bashneft-Trans, LLC Bashneft-Service Assets, LLC PSC SAFETI-TEK and Bashneft Trading AG.

DOES NOT OWN STAKE IN THE AUTHORIZED CAPITAL OF THE COMPANY.



VIKTOR VIKTOROVICH MISHNYAKOV

MEMBER OF THE MANAGEMENT BOARD

Born in 1971. Graduated in 1993 from Lomonosov Moscow State University and in 1999 from Gubkin Russian State University of Oil and Gas. Graduated in 2001 from the City University Business School (Great Britain); Master of Finance.

WORK EXPERIENCE

- **2006–2008** — Deputy Head of Asset Management, Economics and Business Planning Department of OJSC Rosneft.
- **2008–2010** — Leading Oil and Gas Analyst of OJSC URAL-SIB Capital.
- **09.2010–PRESENT** — Vice-President for Strategy and Development of JSOC Bashneft.

DOES NOT OWN STAKE IN THE AUTHORIZED CAPITAL OF THE COMPANY.



MIKHAIL EFIMOVICH STAVSKY

MEMBER OF THE MANAGEMENT BOARD

Born in 1961. Graduated in 1985 from Ufa State Petroleum Technological University. In 2010, received an MBA in International Business in Oil and Gas at MGIMO.

WORK EXPERIENCE

- **2005–2010** — Vice-President for Production of OJSC Rosneft.
- **05.2011–PRESENT** — First Vice-President for Exploration and Production of JSOC Bashneft.
- Chairman of the Board of Directors of LLC Bashneft-Dobycha and LLC Bashneft-Polyus.

DOES NOT OWN STAKE IN THE AUTHORIZED CAPITAL OF THE COMPANY.



ALI MUSSAYEVICH UZENOV

MEMBER OF THE MANAGEMENT BOARD

Born in 1962. Graduated in 1985 from Rostov Railway Engineering Institute.

WORK EXPERIENCE

- **2001–2007** — Chairman of the Board of Directors of OJSC Kormmash.
- **2007–2009** — General Director of LLC Rostovregiongaz, OJSC Rostovoblgaz, JSC Rostovgorgaz and JSC Novocherkasskorgaz.
- **2009–PRESENT** — First Vice-President for Refining and Commerce of JSOC Bashneft.
- Chairman of the Board of Directors of OJSC Bashkirnefteprodukt, CJSC Bashneft-Region, LLC Bashneft-Trans; member of the Board of Directors of OJSC United Petrochemical Company.

DOES NOT OWN STAKE IN THE AUTHORIZED CAPITAL OF THE COMPANY.

NOTE: the information is given as of 31.12.2011

CHANGES IN THE MEMBERSHIP OF THE MANAGEMENT BOARD

As of the start of 2011, the Management Board consisted of 13 members elected by the Company's Board of Directors on December 2, 2009.

On April 6, 2011, the Board of Directors removed V.G. Khoroshavtsev from the position of the Chairman of the Management Board and appointed A.L. Korsik to assume this position. On June 24, 2011, the Company's Board of Directors reduced the membership of the Management Board to seven members and elected three new members (M.E. Stavsky, Y.A. Brusilova and V.V. Mishnyakov). The authority of the following members of the Management Board was terminated: V.A. Gantsev, A.V. Dashevsky, R.A. Khomenko, D.S. Pankratov, R.N. Gensh, E.R. Kamalova, I.O. Kalyuzhny, O.Y. Sidomonidze and V.R. Nurgutdinov.

On August, 26 2011, the Company's Board of Directors increased the membership of the Management Board to nine members; V.A. Gantsev and A.V. Dashevsky became members of the Management Board.

No lawsuits against the members of the Board of Directors or of the Management Board or against the President of JSOC Bashneft were filed in 2011.

VIKTOR GENNADIEVICH KHOROSHAVTSEV

Born in 1953. Graduated in 1976 from Izhevsk State Technical University.

WORK EXPERIENCE

- **05.2003–01.2009** — Member of the Council of Federation of the Federal Assembly of the Russian Federation.
- **01.2009–09.2009** — General Director of OJSC Sistema-invest.
- **09.2009–01.2010** — General Director of JSOC Bashneft.
- **02.2010–04.2011** — President and Chairman of the Management Board of JSOC Bashneft.

DOES NOT OWN STAKE IN THE AUTHORIZED CAPITAL OF THE COMPANY.

● REWARDS FOR MEMBERS OF THE BOARD OF DIRECTORS, THE PRESIDENT AND THE MANAGEMENT BOARD OF JSOC BASHNEFT

Rewards shall be paid to members of the Board of Directors of JSOC Bashneft in accordance with the Regulations on Rewards and Compensation to the members of the Board of Directors of JSOC Bashneft approved by the Annual General Meeting of Shareholders of JSOC Bashneft on June 29, 2011.

Rewards for performing the duties of members of the Company's Board of Directors shall be paid to the members of the Board of Directors who are not employees and/or do not have positions in the regulatory bodies of:

- Companies included in the group of the Company's entities determined according to the Federal Law on the Protection of Competition and/or
- Affiliates of companies included in the group of the Company's entities determined according to the Federal Law on the Protection of Competition.

The following types of rewards for performing the duties of members of the Board of Directors have been established:

- Base pay;
- Rewards for performing additional duties;
- A bonus based on performance during the year.

Base pay for performing the duties of a member of the Company's Board of Directors shall be paid in cash during the corporate year in equal instalments on a quarterly basis.

Additional rewards shall be paid to members of the Company's Board of Directors for serving on the Committees of the Company's Board of Directors.

Members of the Board of Directors shall receive a bonus based on performance during the year depending on the amount of the Company's estimated capitalization provided that there is profit according to International Financial Reporting Standards (IFRS). The estimated capitalization and fair market value of an ordinary share of the Company shall be determined on the basis of independent annual valuation.

Members of the Company's Board of Directors did not conduct transactions in shares of the Company in 2011.

Additional rewards for serving on the regulatory bodies of JSOC Bashneft or its subsidiaries and affiliates shall not be paid to the management of the Company.

In 2011, the system of financial incentives for the management of JSOC Bashneft consisted of the following:

- A monthly salary established according to the internal system of job grades;
- 3 quarterly bonuses and an annual bonus paid for the performance of:
 - financial key performance indicators established for the Company as a whole for the corresponding reporting period;
 - functional key performance indicators established individually for each senior manager of JSOC Bashneft for a corresponding reporting period;

- additional rewards according to the Company's regulations on the programme of long-term financial incentives.

Members of the Management Board and the President of JSOC Bashneft did not conduct transactions in shares of the Company in 2011.

The total amount of remuneration paid to members of the Board of Directors and of the Management Board as well as to the President of JSOC Bashneft for 2011 under RAS was 1.054 billion roubles. A considerable part (43%) of this amount consisted of other payments under the employment contracts concluded with senior managers who resigned their positions in the Company's management in 2011.

INTERNAL CONTROL AND AUDIT

The Internal Audit Service is an integral part of the corporate governance structure of JSOC Bashneft.

Activities of the Internal Audit Service are governed by the Regulations on Internal Audit. The activities of the employees of the Internal Audit Service are regulated by international standards in control and audit, the legislation of the Russian Federation, the Company's Charter, by decisions of the Board of Directors, the Management Board and the President of the Company as well as by local regulatory documents.

The Internal Audit Service cooperates with the Board of Directors and senior management of the Company in improving the system of risk management, internal control and corporate governance. The Internal Audit Service is responsible for the following:

- Assessing the reliability and efficiency of the system of internal control, risk management and corporate governance of the Company and its subsidiaries and affiliates; preparing recommendations for enhancing the efficiency and reliability of the system;
- Monitoring compliance of financial and business operations of the Company and its subsidiaries and affiliates with the requirements set out in the Company's statutes and regulations and in the appli-

cable legislation of the Russian Federation aimed at protecting the Company's assets;

- Participating in identification and assessment of risks associated with corporate governance, the Company's business operations and with its information systems regarding the reliability and integrity of financial and operational information, effectiveness and efficiency of operations, safeguarding of assets, compliance with laws, regulations and contracts;
- Assisting the Company's management in developing measures based on the audit results, as well as in monitoring the implementation of measures for eliminating violations.

The Internal Audit Service fulfils the following functions:

- developing audit programmes as well as organizing and conducting the audit at the Company and its subsidiaries and affiliates aimed at:
 - assessing the efficiency of internal controls in the main business processes of the Company;
 - assessing compliance with the requirements of applicable legislation and internal regulatory documents, i.e. conducting the Compliance Audit;
 - assessing the quality of preparation and reliability of financial statements;
- preparing reports on the results of project implementation outlining the main observations and conclusions on the audit results, as well as recommendations for eliminating shortcomings with

a list of specific actions, deadlines and persons in charge at the Company and its subsidiaries and affiliates;

- monitoring the implementation of internal auditors' recommendations and preparing the relevant reports for the Budget and Audit Committee;
- cooperating with external auditors, including monitoring the audit of accounts (according to RAS) conducted by them;
- monitoring the implementation of recommendations of internal auditors and measures for eliminating the shortcomings identified by external auditors and audit commissions;
- consulting the Company's management on risk management, internal control and corporate governance issues;
- detecting fraud;
- conducting special checks at the request of the Company's senior management;
- developing recommendations and proposals for organizing control aimed at ensuring the achievement of the Company's business objectives, efficiency of financial and business operations and safeguarding of assets of the Company and its subsidiaries and affiliates;

- monitoring the implementation of recommendations for combating fraud;
- ensuring that factual functional key performance indicators of the Company's departments are calculated accurately;
- conducting spot checks of the implementation of decisions and orders of the Company's executive and collective bodies and compliance with internal procedures.

On December 23, 2011, the Company's Board of Directors approved a new organizational structure of the Internal Audit Service. It is headed by the Chief Accountant, who serves as the head of internal audit unit.

The Chief Accountant is administratively subordinate to the President of the Company and functionally accountable to the Company's Board of Directors (the Budget and Audit Committee). This ensures an appropriate level of independence from the management in judgements and conclusions based on the audit results.

EXTERNAL AUDITORS

LLC FINEXPERTIZA

The Annual General Meeting of Shareholders of the Company made the decision to approve LLC FinExpertiza as an independent auditor of JSOC Bashneft's accounting and financial statements for 2011. They were prepared in accordance with Russian Accounting Standards (RAS).

AUDITOR SELECTION PROCEDURE

Under Clause 1 of Article 5 of the Federal Law on Auditing and Article 86 of the Federal Law on Joint-Stock Companies, JSOC Bashneft's annual financial statements, which are prepared in accordance with RAS, are subject to statutory audit to confirm the accuracy and reliability of the reported data. The Company holds an annual closed competition to select an auditing company in accordance with the requirements of internal documents. In determining the winner of this competition, the Company's Central Procurement Commission evaluates the applications by comparing them with the criteria and procedures specified in the competition announcement and tender documents, and then takes the feasibility study of the project and the cost of services into account. JSOC Bashneft publishes the announcement of the closed competition for selecting auditing organizations on its website (www.zakupki.bashneft.ru) and in an official publication. The announcement contains information on the conditions of the competition, such as the subject of the contract (including the amount and brief description of services provided), the type of bidding, the initial contract price, etc. The winner of the annual competition for selecting an auditing organization is presented to the Budget and Audit Committee of the Board of Directors of JSOC Bashneft for approval.

Under Clause 2.1.4. of the Regulations on the Budget and Audit Committee of the Board of Directors of JSOC Bashneft, assessment of candidates to serve as the Company's auditors is the exclusive function of this Committee. The Board of Directors makes a decision on the nomination of the auditor for approval at the Annual General Meeting of Shareholders based

on the recommendation of the Budget and Audit Committee. The auditor's remuneration is based on the planned working time and auditors' hourly fees as stated in the business proposal.

Based on the recommendation of the Budget and Audit Committee of the Company's Board of Directors, the amount paid to LLC FinExpertiza for the audit of JSOC Bashneft's annual financial statements of for 2011, prepared in accordance with RAS, was set by the Board of Directors at 2,875,000 roubles, including VAT.

ZAO DELOITTE & TOUCHE CIS

ZAO Deloitte & Touche CIS conducts the audit of annual consolidated statements prepared in accordance with International Financial Reporting Standards (IFRS), as well as reviews of interim (quarterly) financial statements prepared in accordance with IFRS.

The auditor is selected by holding a closed competition among the Big 4 auditing firms.

The selection is based on a comprehensive analysis of the applications to determine their compliance with the Company's requirements. The auditor nominated for conducting the audit of Bashneft's consolidated financial statements prepared in accordance with IFRS is then assessed and approved by the Budget and Audit Committee of the Company's Board of Directors. Approval of the nominated auditor at the General Meeting of Shareholders is not required. Based on the analysis of applications, the Budget and Audit Committee of the Company's Board of Directors decided to appoint ZAO Deloitte & Touche CIS as the auditor of JSOC Bashneft's annual consolidated statements for 2011 prepared in accordance with IFRS.

THE BIG 4 are the four leading international companies that provide audit and consulting services. They are: PricewaterhouseCoopers, Ernst & Young, Deloitte and KPMG.

STATEMENT OF MANAGEMENT'S RESPONSIBILITIES FOR THE PREPARATION AND APPROVAL OF THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2011

The following statement, which should be read in conjunction with the independent auditors' report set out on page 2, is made with a view to distinguish the respective responsibilities of management and those of the independent auditors in relation to the consolidated financial statements of Joint Stock Oil Company Bashneft (the "Company"), its subsidiaries and its special purpose entities (the "Group").

Management is responsible for the preparation of consolidated financial statements that present fairly in all material respects the consolidated financial position of the Group as at 31 December 2011, its financial performance, cash flows and changes in equity for the year then ended, in accordance with the International Financial Reporting Standards ("IFRS").

In preparing the consolidated financial statements, management is responsible for:

- Properly selecting and applying accounting policies;
- Presenting information, including accounting policies, in a manner that provides relevant, reliable, comparable and understandable information;
- Providing additional disclosures when compliance with the specific requirements in IFRSs are insufficient to enable users to understand the impact of particular transactions, other events and conditions on the Group's consolidated financial position and financial performance;
- Making judgements and estimates that are reasonable and prudent;

- Stating whether IFRS have been followed, subject to any material departures disclosed and explained in the consolidated financial statements; and

- Making an assessment of the Group's ability to continue as a going concern.

Management is also responsible for:

- Designing, implementing and maintaining an effective and sound system of internal controls, throughout the Group;
- Maintaining adequate accounting records that are sufficient to show and explain the Group's transactions and disclose with reasonable accuracy at any time the consolidated financial position of the Group, and which enable them to ensure that the consolidated financial statements of the Group comply with IFRS;
- Maintaining statutory accounting records in compliance with legislation and accounting standards in the Russian Federation;
- Taking such steps as are reasonably available to them to safeguard the assets of the Group; and
- Preventing and detecting fraud and other irregularities.

The consolidated financial statements for the year ended 31 December 2011 were approved by:

 A.L. Korsik (President)

 A.Y. Lisovenko (Chief Accountant)

Ufa, Russian Federation

16 April 2012

REPORT OF THE INDEPENDENT AUDITORS

TO THE SHAREHOLDERS OF JOINT STOCK OIL COMPANY BASHNEFT:

We have audited the accompanying consolidated financial statements of Joint Stock Oil Company Bashneft, its subsidiaries and its special purpose entities (the "Group") which comprise the consolidated statement of financial position at 31 December 2011, consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

MANAGEMENT'S RESPONSIBILITY FOR THE CONSOLIDATED FINANCIAL STATEMENTS

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with International Financial Reporting Standards and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

AUDITORS' RESPONSIBILITY

Our responsibility is to express an opinion on these consolidated financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

OPINION

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the financial position of the Group as at 31 December 2011, and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards.



Moscow, Russian Federation

16 April 2012

BASHNEFT GROUP

**CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME
FOR THE YEAR ENDED 31 DECEMBER 2011**

Millions of US Dollars

	NOTES	YEAR ENDED 31 DECEMBER 2011	YEAR ENDED 31 DECEMBER 2010
CONTINUING OPERATIONS			
Revenue	6	16,549	11,707
Export tariffs and excise		(4,231)	(2,753)
Cost of purchased crude oil, gas and petroleum products		(3,994)	(2,882)
Taxes other than income tax	8	(2,052)	(1,347)
Production and operating expenses		(1,684)	(1,436)
Transportation expenses		(788)	(538)
Depletion and depreciation		(616)	(597)
Selling, general and administrative expenses		(495)	(374)
Exploration expenses		(16)	(9)
Gain on reclassification of available-for-sale investment to investment in associate	12	-	477
Other operating expenses, net		(97)	(113)
Operating profit		2,576	2,135
Finance income	9	74	67
Finance costs	9	(508)	(356)
Foreign exchange loss, net		(13)	(2)
Share of profit of associates, net of income tax	12	75	36
Profit before income tax		2,204	1,880
Income tax	10	(513)	(426)
Profit for the year from continuing operations		1,691	1,454
DISCONTINUED OPERATIONS			
Profit for the year from discontinued operations	18	124	92
Profit for the year		1,815	1,546
Attributable to:			
Owners of the Company		1,696	1,429
Non-controlling interests		119	117
		1,815	1,546
EARNINGS PER SHARE			
Weighted average number of ordinary shares in issue during the year	19	152,275,527	162,295,807
From continuing and discontinued operations			
Basic and diluted earnings per share attributable to shareholders of the parent company (US Dollars per share)		9.07	7.26
From continuing operations		8.84	7.07
Basic and diluted earnings per share attributable to shareholders of the parent company (US Dollars per share)			
OTHER COMPREHENSIVE LOSS			
Effect of translation to presentation currency		(231)	(93)

	NOTES	YEAR ENDED 31 DECEMBER 2011	YEAR ENDED 31 DECEMBER 2010
Other comprehensive loss for the year, net of income tax		(231)	(93)
TOTAL COMPREHENSIVE INCOME FOR THE YEAR		1,584	1,453
Attributable to:			
Owners of the Company		1,403	1,356
Non-controlling interests		181	97
		1,584	1,453

BASHNEFT GROUP
CONSOLIDATED STATEMENT OF FINANCIAL POSITION
AT 31 DECEMBER 2011

Millions of US Dollars

	NOTES	31 DECEMBER 2011	31 DECEMBER 2010
ASSETS			
Non-current assets			
Property, plant and equipment	11	7,882	9,552
Advances paid for acquisition of property, plant and equipment		51	120
Advance payment for acquisition of license for Trebs and Titov deposit		-	597
Intangible assets		47	33
Financial assets	13	321	217
Investments in associates and joint ventures	12	938	667
Long-term inventories	14	62	50
Other non-current assets	15	3	3
		9,304	11,239
Current assets			
Inventories	14	748	625
Financial assets	13	1,073	676
Trade and other receivables	16	509	523
Advances to suppliers and prepaid expenses		158	157
Income tax prepaid		13	11
Other taxes receivable	23	886	685
Cash and cash equivalents	17	881	1,067
Other current assets		1	8
		4,269	3,752
TOTAL ASSETS		13,573	14,991

	NOTES	31 DECEMBER 2011	31 DECEMBER 2010
EQUITY AND LIABILITIES			
Capital and reserves			
Share capital	19	77	77
Treasury shares	4	(464)	(252)
Additional paid-in capital		1,160	1,160
Foreign currency translation reserve		(575)	(155)
Retained earnings		5,412	4,445
Equity attributable to owners of the Company		5,610	5,275
Non-controlling interests		1,438	2,717
		7,048	7,992
Non-current liabilities			
Borrowings	20	2,965	3,118
Decommissioning provision	11	295	217
Deferred tax liabilities	10	947	1,099
Other non-current liabilities	21	24	49
		4,231	4,483
Current liabilities			
Borrowings	20	420	795
Trade and other payables	22	726	659
Dividends payable		8	73
Advances received		531	553
Provisions	24	101	97
Income tax payable		42	21
Other taxes payable	23	466	318
		2,294	2,516
TOTAL LIABILITIES		6,525	6,999
TOTAL EQUITY AND LIABILITIES		13,573	14,991

BASHNEFT GROUP
CONSOLIDATED STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED 31 DECEMBER 2011

Millions of US Dollars

	NOTES	YEAR ENDED 31 DECEMBER 2011	YEAR ENDED 31 DECEMBER 2010
OPERATING ACTIVITIES			
Profit before income tax from continuing and discontinued operations		2,358	2,014
Adjustments for ¹ :			
Depletion and depreciation		655	711
Loss on disposal of property, plant and equipment		41	66
Interest income		(57)	(67)
Finance costs		509	357
Dividends income		(17)	-
Gain on disposal of subsidiaries		(40)	-
Share of profit of associates		(75)	(36)
Impairment loss recognised on trade and other receivables		41	27
Revaluation of previously held share in associate	4	17	-
Gain on reclassification of available-for-sale investment to investment in associate	12	-	(477)
Impairment of investment in associate		-	17
Foreign exchange loss, net		4	2
Change in other provisions and allowances		28	23
Other		(6)	10
Operating cash flows before working capital changes		3,458	2,647
Movements in working capital:			
Inventories		(164)	(236)
Trade and other receivables		(213)	(335)
Advances to suppliers and prepaid expenses		(17)	(62)
Other taxes receivable		(325)	(263)
Trade and other payables		142	232
Advances received		52	213
Other taxes payable		261	(80)
Cash generated from operations		3,194	2,116
Interest paid		(472)	(312)
Income tax paid		(494)	(404)
NET CASH GENERATED FROM OPERATING ACTIVITIES		2,228	1,400

¹Adjustments are presented for continuing and discontinued operations on a combined basis.

BASHNEFT GROUP
CONSOLIDATED STATEMENT OF CASH FLOWS (CONTINUED)
FOR THE YEAR ENDED 31 DECEMBER 2011

Millions of US Dollars

	NOTES	YEAR ENDED 31 DECEMBER 2011	YEAR ENDED 31 DECEMBER 2010
INVESTING ACTIVITIES			
Payments for acquisition of property, plant and equipment		(851)	(492)
Advance payment for acquisition of license for Trebs and Titov deposit		-	(597)
Proceeds from disposal of property, plant and equipment		64	10
Payment for acquisition of associate	12	-	(123)
Acquisition of subsidiaries, net of cash acquired	4	(143)	-
Proceeds from disposal of subsidiaries net of cash disposed		3	-
Cash inflows on disposal of 25.1% share in LLC Bashneft-Polyus, net	12	42	-
Payments for acquisition of intangible assets		(20)	(32)
Payments for acquisition of financial assets		(153)	(2,326)
Proceeds from disposal of financial assets		17	1,510
Dividends received		17	-
Interest received		16	55
NET CASH USED IN INVESTING ACTIVITIES		(1,008)	(1,995)
FINANCING ACTIVITIES			
Payment for acquisition of Sistema-invest, net of cash acquired		-	(201)
Payments for acquisition of non-controlling interests		-	(142)
Proceeds from borrowings		3,779	3,044
Repayments of borrowings		(4,180)	(899)
Change of classification of investment in Bashkirenergo	18	(32)	-
Dividends paid by the Company		(948)	(1,290)
Dividends paid by subsidiaries		(2)	(24)
NET CASH (USED IN)/GENERATED FROM FINANCING ACTIVITIES		(1,383)	488
Net decrease in cash and cash equivalents		(163)	(107)
Cash and cash equivalents at beginning of the year	17	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		(23)	8
Cash and cash equivalents at end of the year	17	881	1,067

BASHNEFT GROUP
CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
FOR THE YEAR ENDED 31 DECEMBER 2011

Millions of US Dollars

	NOTES	SHARE CAPITAL	TREASURY SHARES	ADDITIONAL PAID-IN CAPITAL	FOREIGN CURRENCY TRANSLATION RESERVE	RETAINED EARNINGS	EQUITY ATTRIBUTABLE TO OWNERS OF THE COMPANY	NON-CONTROLLING INTERESTS	TOTAL
Balance at 1 January 2010		77	-	1,170	(104)	4,162	5,305	3,135	8,440
Profit for the year		-	-	-	-	1,429	1,429	117	1,546
Other comprehensive loss for the year		-	-	-	(73)	-	(73)	(20)	(93)
Total comprehensive (loss)/income for the year		-	-	-	(73)	1,429	1,356	97	1,453
Acquisition of interest in Sistema-invest	4	-	(252)	-	-	163	(89)	(307)	(396)
Dividends to equity holders		-	-	-	22	(1,360)	(1,338)	(23)	(1,361)
Acquisition of additional interests in subsidiaries	4	-	-	-	-	49	49	(178)	(129)
Other equity transactions		-	-	(10)	-	2	(8)	(7)	(15)
Balance at 31 December 2010		77	(252)	1,160	(155)	4,445	5,275	2,717	7,992
Profit for the year		-	-	-	-	1,696	1,696	119	1,815
Other comprehensive (loss)/income for the year		-	-	-	(293)	-	(293)	62	(231)
Total comprehensive (loss)/income for the year		-	-	-	(293)	1,696	1,403	181	1,584
Result from disposal of Bashkirenergo in exchange of additional interest in Sistema-Invest	4, 18	-	(212)	-	(127)	169	(170)	(1,499)	(1,669)
Non-controlling interests arising on acquisition and establishment of subsidiaries		-	-	-	-	-	-	10	10
Dividends to equity holders		-	-	-	-	(898)	(898)	(2)	(900)
Disposal of special purpose entities		-	-	-	-	-	-	31	31
Balance at 31 December 2011		77	(464)	1,160	(575)	5,412	5,610	1,438	7,048

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2011

1. 1. GENERAL INFORMATION

ORGANISATION AND OPERATIONS

Joint Stock Oil Company Bashneft (the "Company" or "Bashneft"), its subsidiaries and special purpose entities (together referred to as the "Group" or the "Bashneft Group") are primarily involved in oil production, refining, marketing and distribution of petroleum products in the Russian Federation. Bashneft is the parent company of a vertically integrated group of oil and gas companies.

The Company was incorporated as an open joint stock company on 13 January 1995, following the privatisation of Bashkir Petrochemical Enterprise ("Bashneftekombinat"). The Company's registered office is located at 30 Karl Marx Street, Ufa, 450008, Russian Federation.

JSFC "Sistema" is a parent company of the Group. The controlling shareholder of JSFC "Sistema" and the ultimate controlling party of Bashneft Group is Mr. Vladimir P. Evtushenkov.

The Group's oil production, refining, marketing and distribution base includes 166 oilfields, 4 refineries and 485 petrol stations.

The following principal subsidiaries incorporated in the Russian Federation were included in the scope of consolidation at 31 December 2011 and 2010:

COMPANY	PRINCIPAL ACTIVITIES	GROUP'S EFFECTIVE INTEREST	
		31 DECEMBER 2011	31 DECEMBER 2010
OJSC Ufimsky refinery plant	Crude oil processing	66%	63%
OJSC Novoil	Crude oil processing	72%	69%
OJSC Ufaneftekhim	Crude oil processing	63%	60%
OJSC Ufaorgsintez	Production of petrochemicals	66%	63%
OJSC Bashkirenergo	Electricity and heat generation	n/a	35%
OJSC Bashkirnefteproduct	Petroleum products trading	64%	62%
LLC Bashneft-Dobycha	Production of crude oil and gas	100%	100%
LLC Bashneft-Bureniye	Construction services	100%	100%
OJSC Orenburgnefteproduct	Petroleum products trading	94%	n/a
LLC BN-Nefteproduct	Petroleum products trading	100%	n/a

At 31 December 2011, the Group had 31 special purpose entities ("SPEs") (31 December 2010: 93 SPEs) which were established to provide supporting services to the Company and its subsidiaries engaged in the production and refining of crude oil, and which have been consolidated.

GOING CONCERN

In assessing its going concern status, the Group has taken into account its financial position, anticipated future trading performance, its borrowings and other facilities and its capital expenditure commitments and plans, together with other risks facing the Group. After making appropriate enquires, the Group

considers that it has adequate resources to continue in operational existence for at least the next 12 months from the date of this document and that it's appropriate to adopt the going concern basis in the preparing these consolidated financial statements.

2. SIGNIFICANT ACCOUNTING POLICIES

STATEMENT OF COMPLIANCE

The consolidated financial statements have been prepared in accordance with International Financial Reporting Standards.

STANDARDS AND INTERPRETATIONS EFFECTIVE IN THE CURRENT YEAR

In the preparation of these consolidated financial statements the Group has adopted all new and revised International Financial Reporting Standards and Interpretations issued by International Financial Reporting Committee ("IFRIC") that are mandatory for adoption in annual periods beginning on 1 January 2011.

Adoption of these standards and interpretations detailed below did not have any impact on the accounting policies, financial position or performance of the Group:

- IAS 1 Presentation of Financial Statements (amended);
- IAS 24 Related Party Disclosures (revised);
- IAS 27 Consolidated and Separate Financial Statements (amended);

- IAS 32 Financial Instruments: Presentation (amended);
- IFRS 1 First-time Adoption of International Financial Reporting Standards (amended);
- IFRS 3 Business Combinations (amended);
- IFRS 7 Financial instruments: Disclosures (amended);
- IFRIC 13 Customer Loyalty Programmes (amended);
- IFRIC 14 IAS 19: Limit on a Defined Benefit Assets, Minimum Funding Requirements and their Interaction (amended);
- IFRIC 19 Extinguishing Financial Liabilities with Equity Instruments.

STANDARDS AND INTERPRETATIONS IN ISSUE BUT NOT YET EFFECTIVE

At the date of authorisation of these consolidated financial statements, the following Standards and Interpretations were in issue but not yet effective:

STANDARDS AND INTERPRETATIONS	EFFECTIVE FOR ANNUAL PERIODS BEGINNING ON OR AFTER
IAS 1 Presentation of Financial Statements (amended)	1 July 2012
IAS 12 Income Taxes (amended)	1 January 2012
IAS 19 Employee Benefits (amended)	1 January 2013
IAS 27 Consolidated and Separate Financial Statements (amended)	1 January 2013
IAS 28 Investments in Associates (amended)	1 January 2013
IAS 32 Financial Instruments: Presentation (amended)	1 January 2014
IFRS 1 First-time Adoption of International Financial Reporting Standards (amended)	1 July 2011
IFRS 7 Financial Instruments: Disclosures (amended)	1 July 2011
IFRS 9 Financial Instruments	1 January 2015
IFRS 10 Consolidated Financial Statements	1 January 2013
IFRS 11 Joint Arrangements	1 January 2013
IFRS 12 Disclosure of Interests in Other Entities	1 January 2013
IFRS 13 Fair Value Measurement	1 January 2013
IFRIC 20 Stripping Costs in the Production Phase of a Surface Mine	1 January 2013

Management of the Group anticipates that all of the above standards and interpretations will be adopted in the Group's consolidated financial statements for the respective periods. The impact of adoption of those standards and interpretations on the consolidated financial statements of future periods is currently being assessed by management.

BASIS OF PREPARATION

The consolidated financial statements have been prepared on the historical cost basis except for fair value of the Company's property, plant and equipment measured at the date of transition to IFRS.

FUNCTIONAL AND PRESENTATION CURRENCY

The national currency of the Russian Federation is the Russian Rouble ("RUB"), which is the Group's functional currency as it reflects the economic substance of the Group's operations.

Management of the Group has selected the US Dollar ("USD") as presentation currency for the convenience of the shareholders and users of the consolidated financial statements.

All financial information presented in USD has been rounded to the nearest million.

The translation from functional currency into presentation currency is performed as follows:

- Assets and liabilities are expressed in USD using exchange rates prevailing at the end of the reporting period;
- Income and expense items are translated at the average exchange rates for the period, unless exchange rate fluctuated significantly during that period, in which case the exchange rate at the dates of the transactions is used;
- Exchange differences, if any, are presented in the foreign currency translation reserve recognised as a separate component in other comprehensive income;
- All equity items are translated at their historical exchange rates; and
- In the consolidated statement of cash flows, cash balances at beginning and end of each period presented are translated at exchange rates at the respective dates. All cash flows are translated at the average exchange rate for the period, unless exchange rates fluctuated significantly during that period, in which case the exchange rate at the dates of the transactions is used. Resulting exchange differences, if any, are presented as Effect of translating reporting currency to presentation currency and exchange rate changes on the balance of cash and cash equivalents held in foreign currencies.

BASIS OF CONSOLIDATION

The consolidated financial statements incorporate financial statements of the Company and entities (including special purpose entities) controlled by the Company (its subsidiaries). Control is achieved where the Company has the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities.

All intra-group transactions, balances, income and expenses and any unrealised profits or losses are eliminated in full on consolidation.

Income and expenses of subsidiaries acquired or disposed of during the year are included in the consolidated statement of comprehensive income from the effective date of acquisition and up to the effective date of disposal, as appropriate. Total comprehensive income of subsidiaries is attributed to the owners of the Company and to the non-controlling interests even if this results in the non-controlling interests having a deficit balance.

When necessary, adjustments are made to the financial statements of subsidiaries to bring their accounting policies into line with those used by the Group.

BUSINESS COMBINATIONS

Acquisitions of businesses are accounted for using the acquisition method. The consideration transferred in a business combination is measured at fair value, which is calculated as the sum of the acquisition-date fair values of the assets transferred by the Group, liabilities incurred by the Group to the former owners of the acquiree and the equity interests issued by the Group in exchange for control of the acquiree. Acquisition-related costs are recognised in profit or loss as incurred.

At the acquisition date, the identifiable assets acquired and the liabilities assumed are recognised at their fair value at the acquisition date.

Goodwill is measured as the excess of the sum of the consideration transferred, the amount of any non-controlling interests in the acquiree, and the fair value of the acquirer's previously held equity interest in the acquiree (if any) over the net of the acquisition-date amounts of the identifiable assets acquired and the liabilities assumed. If, after reassessment, the net of the acquisition-date amounts of the identifiable assets acquired and liabilities assumed exceeds the sum of the consideration transferred, the amount of any non-controlling interests in the acquiree and the fair value of the acquirer's previously held interest in the acquiree (if any), the excess is recognised immediately in profit or loss as a bargain purchase gain.

Non-controlling interests that present ownership interests and entitle their holders to a proportionate share of the entity's net assets in the event of liquidation may be initially measured either at fair value or at the non-controlling interests' proportionate share of the recognised amounts of the acquiree's identifiable net assets. The choice of measurement basis is made on a transaction-by-transaction basis. Other types of non-controlling interests are measured at fair value or, when applicable, on the basis specified in another IFRS.

When a business combination is achieved in stages, the Group's previously held equity interest in the acquiree is remeasured to fair value at the acquisition date (i.e. the date when the Group obtains control) and the resulting gain or loss, if any, is recognised in profit or loss. Amounts arising from interests in the acquiree prior to the acquisition date that have previously been recognised in other comprehensive income are reclassified to profit or loss where such treatment would be appropriate if that interest were disposed of.

If the initial accounting for a business combination is incomplete by the end of the reporting period in which the combination occurs, the Group reports provisional amounts for the items for which the accounting is incomplete. Those provisional amounts are adjusted during the measurement period (which cannot exceed one year from the acquisition date), or additional assets or liabilities are recognised, to reflect new information obtained about facts and circumstances that existed at the acquisition date that, if known, would have affected the amounts recognised at that date.

CHANGES IN THE GROUP'S OWNERSHIP INTERESTS IN EXISTING SUBSIDIARIES

Changes in the Group's interest in subsidiaries that do not result in a loss of control are accounted for as equity transactions. The carrying amount of the Group's interest and the non-controlling interests are adjusted to reflect the changes in their relative interest in the subsidiaries. Any difference between the amount by which the non-controlling interests are adjusted and the fair value of the consideration paid or received is recognised directly in equity and attributed to owners of the Company.

When the Group loses control over a subsidiary, the profit or loss on disposal is calculated as the difference between:

- The aggregate of the fair value of the consideration received and the fair value of any retained interest; and
- The previous carrying amount of the assets and liabilities of the subsidiary and any non-controlling interests.

Amounts previously recognised in other comprehensive income in relation to the subsidiary are accounted for (i.e. reclassified to profit or loss or transferred to retained earnings) in the same manner as would be required if the relevant assets or liabilities were disposed of. The fair value of any investment retained in the former subsidiary at the date when control is lost is regarded as the fair value on initial recognition for subsequent accounting under IAS 39 Financial Instruments: Recognition and Measurement or, when applicable, the cost on initial recognition of investments in an associate.

SPECIAL PURPOSE ENTITIES

Special purpose entities are those undertakings that are created to satisfy specific business needs of the Group and the Group has the right to the majority of the benefits of the SPEs, or is exposed to risks associated with the activities of the SPEs. SPEs are consolidated in the same manner as subsidiaries.

COMMON CONTROL TRANSACTIONS

The assets and liabilities of subsidiaries acquired from entities under common control are recorded at the carrying values recognised by the transferor. Any difference between the carrying value of the net assets of subsidiaries acquired, and the consideration paid by the Group is accounted for as an adjustment to shareholders' equity. The net assets of the subsidiaries and their results are recognised prospectively from the date on which control of the subsidiaries was obtained.

The cost of assets acquired from entities under common control is measured as the carrying value of the asset given up by the transferor at the date of the transaction.

FOREIGN CURRENCIES

In preparing financial information of the individual entities, transactions in currencies other than the Russian Rouble are recorded at the rates of exchange prevailing at the dates of the transactions. At the end of each reporting period, monetary items denominated in foreign currencies are retranslated at the rates prevailing at that date.

Non-monetary items carried at fair value that are denominated in foreign currencies are translated at the rates prevailing at the date when the fair value was determined. Non-monetary items that are measured in terms of historical cost in a foreign currency are not retranslated.

PROPERTY, PLANT AND EQUIPMENT

RECOGNITION AND MEASUREMENT

The Group has utilised the exemption available to first-time adopters under IFRS 1 with regard to

determining the carrying value of property, plant and equipment at the transition date. Property, plant and equipment of the Company and its subsidiaries acquired or constructed before 1 January 2009 are recorded at amounts determined by an independent valuation at 1 January 2009. The basis of valuation was fair value. In some instances, when items of property plant and equipment are of a specialised nature, they were valued at depreciated replacement cost. For each item of property plant and equipment the replacement cost was estimated as the current cost to replace the assets with a functionally equivalent asset. The estimated replacement cost was adjusted for accrued depreciation, including physical depreciation and functional and economic obsolescence. The result of this valuation comprised deemed cost at 1 January 2009.

Items of property, plant and equipment acquired after 1 January 2009 are measured at historical acquisition or construction cost.

Oil and gas exploration and evaluation expenditures are accounted for using the "successful efforts" method of accounting separately by the fields. Costs are accumulated on a field-by-field basis. Geological and geophysical costs are expensed as incurred. Costs directly associated with an exploration well, and exploration and property leasehold acquisition cost are capitalised until the determination of reserves is evaluated. If it is determined that commercial discovery has not been achieved, these costs are recognised in profit or loss. Capitalisation is made within property, plant and equipment. Once commercial reserves are found, exploration and evaluation assets are tested for impairment and transferred to development assets. No depreciation or amortisation is recognised during the exploration and evaluation phase. Expenditure on the construction, installation or completion of infrastructure facilities such as platforms, pipelines and the drilling of commercially proven development wells, is capitalised within property, plant and equipment and intangible assets according to nature. When development is completed on a specific field, it is transferred to production or intangible assets. Extraction assets are aggregated exploration and evaluation tangible assets, and development expenditures associated with the production of proved reserves.

Property, plant and equipment include the initial estimate of the cost of conservation and liquidation of wells, pipelines, other oil and gas facilities and site restoration.

Construction cost includes expenditure that is directly attributable to the acquisition of the asset. The cost of self-constructed assets includes the cost of materials and direct labour, any other costs directly attributable to bringing the asset to a working condition for its

intended use, and the costs of dismantling and removing the items and restoring the site on which they are located. Purchased software that is integral to the functionality of the related equipment is capitalised as part of that equipment. Borrowing costs that are directly attributable to the acquisition or construction of assets, that necessarily takes a substantial period of time to get ready for its intended use, are capitalised as part of the cost of that asset.

The cost of replacing a part of an item of property, plant and equipment is recognised in the carrying amount of the item if it is probable that the future economic benefits embodied within the part will flow to the Group and its cost can be measured reliably. The carrying amount of the replaced part is derecognised. The costs of the day-to-day servicing of property, plant and equipment are recognised in profit or loss as incurred.

When parts of an item of property, plant and equipment have different useful lives, they are accounted for as separate items (major components) of property, plant and equipment.

Gains and losses on disposal of an item of property, plant and equipment are determined by comparing the proceeds from disposal with the carrying amount of property, plant and equipment, and are recognised in profit or loss.

DEPLETION AND DEPRECIATION

Property, plant and equipment related to oil production activities are depreciated using the unit-of-production method. Unit-of-production rates are based on proved developed reserves, which are oil, gas and other mineral reserves estimated to be recovered from existing facilities using current operating methods. Where individually insignificant, unproved oil and gas properties may be grouped and amortised based on factors such as the average concession term and past experience of recognising proved reserves. Acquisition costs of proved properties are depleted using the unit-of-production method based upon total proved reserves. For this purpose, the oil and gas reserves of the Group have been determined based on estimates of hydro-carbon reserves in accordance with internationally recognised definitions by internationally recognised petroleum engineers to the extent that the reserves will be extracted by the end of the expected useful life of the field reserves.

Assets which are not directly associated with oil production activities are depreciated on a straight-line basis over the estimated useful lives of each part of an item of property, plant and equipment, since this most closely reflects the expected pattern of consumption of the future economic benefits

embodied in the asset. Leased assets are depreciated over the shorter of the lease term and their useful lives unless it is reasonably certain that the Group will obtain ownership by the end of the lease term. Land is not depreciated.

The estimated useful lives of major classes of property, plant and equipment for the current year are as follows:

Buildings and constructions	2 – 100 years
Machinery and equipment	2 – 39 years
Transport	1 – 57 years

Depreciation methods, useful lives and residual values are reviewed at each reporting date, with the effect of any changes in estimates being accounted for on a prospective basis.

INTANGIBLE ASSETS

Intangible assets are measured at cost less accumulated amortisation and impairment losses. Amortisation is recognised in profit or loss on a straight-line basis over the estimated useful lives of intangible assets.

The estimated useful life for the software for the current year is two years. Amortisation methods and useful lives are reviewed annually, with the effect of any changes in estimate being accounted for on a prospective basis.

INVESTMENTS IN ASSOCIATES

An associate is an entity over which the Group has significant influence and that is neither a subsidiary nor an interest in a joint venture. Significant influence is the power to participate in the financial and operating policy decisions of the investee but is not control or joint control over those policies.

The results and assets and liabilities of associates are incorporated in these consolidated financial statements using the equity method of accounting. Under the equity method, an investment in an associate is initially recognised in the consolidated statement of financial position at cost and adjusted thereafter to recognise the Group's share of the profit or loss and other comprehensive income of the associate. When the Group's share of losses of an associate exceeds the Group's interest in that associate (which includes any long-term interests that, in substance, form part of the Group's net investment in the associate), the Group discontinues recognising its share of further losses. Additional losses are recognised only to the extent that the Group has incurred legal or constructive obligations or made payments on behalf of the associate.

Any excess of the cost of acquisition over the Group's share of the net fair value of the identifiable assets,

liabilities and contingent liabilities of an associate recognised at the date of acquisition is recognised as goodwill, which is included within the carrying amount of the investment. Any excess of the Group's share of the net fair value of the identifiable assets, liabilities and contingent liabilities over the cost of acquisition, after reassessment, is recognised immediately in profit or loss.

The requirements of IAS 39 are applied to determine whether it is necessary to recognise any impairment loss with respect to the Group's investment in an associate. When necessary, the entire carrying amount of the investment (including goodwill) is tested for impairment in accordance with IAS 36 Impairment of Assets as a single asset by comparing its recoverable amount (higher of value in use and fair value less costs to sell) with its carrying amount, any impairment loss recognised forms part of the carrying amount of the investment. Any reversal of that impairment loss is recognised in accordance with IAS 36 to the extent that the recoverable amount of the investment subsequently increases.

When a group entity transacts with its associate, profits and losses resulting from the transactions with the associate are recognised in the Group's consolidated financial statements only to the extent of interests in the associate that are not related to the Group.

INTERESTS IN JOINT VENTURES

A joint venture is a contractual arrangement whereby the Group and other parties undertake an economic activity when the strategic financial and operating policy decisions relating to the activities of the joint venture require the unanimous consent of the parties sharing control.

Joint venture arrangements that involve the establishment of a separate entity in which each venturer has an interest are referred to as jointly controlled entities.

The Group reports its interests in jointly controlled entities using the equity method of accounting whereby an interest in jointly controlled entities is initially recorded at cost and adjusted thereafter for post-acquisition changes in the Group's share of net assets of the joint venture.

When a group entity transacts with its jointly controlled entity, profits and losses resulting from the transactions with the jointly controlled entity are recognised in the Group's consolidated financial statements only to the extent of interests in the jointly controlled entity that are not related to the Group.

IMPAIRMENT OF TANGIBLE AND INTANGIBLE ASSETS

At the end of each reporting period, the Group reviews the carrying amounts of its tangible assets to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss (if any). Where it is not possible to estimate the recoverable amount of an individual asset, the Group estimates the recoverable amount of the cash-generating unit to which the asset belongs. Where a reasonable and consistent basis of allocation can be identified, corporate assets are also allocated to individual cash-generating units, or otherwise they are allocated to the smallest group of cash-generating units for which a reasonable and consistent allocation basis can be identified.

The recoverable amount is the higher of fair value less cost to sell and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset.

If the recoverable amount of an asset (or cash-generating unit) is estimated to be less than its carrying amount, the carrying amount of the asset (cash-generating unit) is reduced to its recoverable amount. An impairment loss is recognised immediately in profit or loss.

Where an impairment loss subsequently reverses, the carrying amount of the asset (cash-generating unit) is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset (cash-generating unit) in prior years. A reversal of an impairment loss is recognised immediately in profit or loss.

FINANCIAL INSTRUMENTS

Financial assets and financial liabilities are recognised when a Group entity becomes a party to the contractual provisions of the instrument.

Financial assets and financial liabilities are initially measured at fair value. Transaction costs that are directly attributable to the acquisition or issue of financial assets and financial liabilities (other than financial assets and financial liabilities at fair value through profit or loss) are added to or deducted from the fair value of the financial assets or financial liabilities, as appropriate, on initial recognition. Transaction costs directly attributable to the acquisition of financial assets or financial liabilities

at fair value through profit or loss are recognised immediately in profit or loss.

FINANCIAL ASSETS

Financial assets are recognised and derecognised on a trade date where the purchase or sale of a financial asset is under a contract whose terms require delivery of the investment within the timeframe established by the market concerned, and are initially measured at fair value plus transaction costs.

Financial assets of the Group are classified into the following specified categories: available-for-sale ("AFS") investments, held-to-maturity investments and loans and receivables.

The classification depends on the nature and purpose of the financial assets and is determined at the time of initial recognition.

EFFECTIVE INTEREST METHOD

The effective interest method is a method of calculating the amortised cost of a financial asset and of allocating interest income over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash receipts through the expected life of the financial asset, or, where appropriate, a shorter period, to the carrying amount on initial recognition.

AFS FINANCIAL ASSETS

Listed and unlisted shares held by the Group that are traded in an active market are classified as AFS and are stated at fair value, except for investments in shares for which there are no available market quotations and whose fair value cannot be reliably measured, which are accounted at cost.

Fair value of AFS financial assets with standard terms and conditions and traded in active markets is determined with reference to quoted market prices.

Gains and losses arising from changes in fair value are recognised in other comprehensive income and accumulated in the investments revaluation reserve. Where the investment is derecognised, the cumulative gain or loss previously accumulated in the investments revaluation reserve is reclassified to profit or loss, except for derecognition due to transactions under common control, where the respective cumulative gain or loss is reclassified within the consolidated statement of changes in equity.

HELD-TO-MATURITY INVESTMENTS

Promissory notes and debentures with fixed or determinable payments and fixed maturity dates which the Group has the positive intent and ability to hold to maturity are classified as held-to-maturity investments. Held-to-maturity investments are

recorded at amortised cost less impairment, if any. Interest income is recognised using the effective interest method.

LOANS AND RECEIVABLES

Trade receivables, loans, and other receivables that have fixed or determinable payments that are not quoted in an active market are classified as loans and receivables. Loans and receivables are measured at amortised cost using the effective interest method less any impairment. Interest income is recognised by applying the effective interest rate, except for short-term receivables when the recognition of interest would be immaterial.

IMPAIRMENT OF FINANCIAL ASSETS

Financial assets are assessed for indicators of impairment at the end of each reporting period. Financial assets are considered to be impaired when there is objective evidence that, as a result of one or more events that occurred after the initial recognition of the financial asset, the estimated future cash flows of the investment have been affected.

Equity securities classified as AFS, a significant and prolonged decline in the fair value of the securities below its costs is considered to be objective evidence of impairment.

For other financial assets objective evidence of impairment could include:

- Significant financial difficulty of the counterparty; or
- Default or delinquency in interest or principle payments; or
- It is becoming probable that the counterparty will enter bankruptcy or financial re-organisation.

For financial assets carried at amortised cost, the amount of the impairment is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the original effective interest rate.

The carrying amount of the financial asset is reduced by the impairment loss directly for all financial assets with the exception of trade receivables where the carrying amount is reduced through the use of an allowance account. When a trade receivable is uncollectible, it is written off against the allowance account. Subsequent recoveries of amounts previously written off are credited against the allowance account. Changes in the carrying amount of the allowance account are recognised in profit or loss.

When an AFS financial asset is considered to be impaired, cumulative gains or losses previously recognised in other comprehensive income are reclassified to profit or loss in the period.

With the exception of AFS equity securities, if, in a

subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised, the previously recognised impairment loss is reversed through profit or loss to the extent that the carrying amount of the investment at the date the impairment is reversed does not exceed what the amortised cost would have been had the impairment not been recognised.

In respect of AFS equity securities, impairment losses previously recognised in profit or loss are not reversed through profit or loss. Any increase in fair value subsequent to an impairment loss is recognised in other comprehensive income.

DERECOGNITION OF FINANCIAL ASSETS

The Group derecognises a financial asset only when the contractual rights to the cash flows from the asset expire; or it transfers the financial assets and substantially all the risk and rewards of ownership of the asset to another entity. If the Group neither transfers nor retains substantially all the risk and rewards of ownership and continues to control the transferred asset, the Group recognises its retained interest in the asset and an associated liability for amounts it may have to pay. If the Group retains substantially all the risks and rewards of ownership of a transferred financial asset, the Group continues to recognise the financial asset and also recognises a collateralised borrowing for the proceeds received.

On derecognition of a financial asset in its entirety, the difference between the asset's carrying amount and the sum of the consideration received and receivable and the cumulative gain or loss that had been recognised in other comprehensive income and accumulated in equity is recognised in profit or loss.

INVENTORIES

Inventories are stated at the lower of cost and net realisable value. The cost of inventories is based on the weighted average principle, and includes expenditure incurred in acquiring the inventories, production or conversion costs and other costs incurred in bringing them to their existing location and condition. In the case of manufactured inventories and work in progress, cost includes an appropriate share of production overheads based on normal operating capacity.

Net realisable value is the estimated selling price in the ordinary course of business, less estimated costs of completion and costs necessary to make the sale.

CASH AND CASH EQUIVALENTS

Cash and cash equivalents comprise cash in hand, current accounts and cash deposits with banks and highly liquid investments with maturities of three

months or less, that are readily convertible to known amounts of cash and are subject to an insignificant risk of changes in value.

FINANCIAL LIABILITIES

Financial liabilities of the Group are classified into the following specified categories: financial guarantee contract liabilities and other financial liabilities.

FINANCIAL GUARANTEE CONTRACT LIABILITIES

Financial guarantee contract liabilities are measured initially at their fair values and are subsequently measured at the higher of:

- The amount of the obligation under the contract, as determined in accordance with IAS 37 Provisions, Contingent Liabilities and Contingent Assets; and
- The amount initially recognised less, where appropriate, cumulative amortisation recognised in accordance with the revenue recognition policies set out below.

OTHER FINANCIAL LIABILITIES

Other financial liabilities, including trade and other payables, loans and borrowings, are initially measured at fair value, net of transaction costs. Financial liabilities are subsequently measured at amortised cost using the effective interest method, with interest expense recognised on an effective yield basis.

PROVISIONS AND CONTINGENCIES

PROVISIONS

Provisions are recognised when the Group has a present obligation (legal or constructive) as a result of a past event, it is probable that the Group will be required to settle the obligation, and a reliable estimate can be made of the amount of the obligation.

The amount recognised as a provision is the best estimate of the consideration required to settle the present obligation at the end of the reporting period, taking into account the risks and uncertainties surrounding the obligation. Where a provision is measured using the cash flows estimated to settle the present obligation, its carrying amount is the present value of those cash flows.

When some or all of the economic benefits required to settle a provision are expected to be recovered from a third party, the receivable is recognised as an asset if it is virtually certain that reimbursement will be received and the amount of the receivable can be measured reliably.

CONTINGENCIES

Contingent liabilities are not recognised in the consolidated financial statements unless they arise as a result of a business combination. Contingencies

attributable to specific events are disclosed unless the probability of an outflow of resources embodying economic benefits is remote. Contingent assets are not recognised in the consolidated financial statements but are disclosed when an inflow of economic benefits is probable.

DECOMMISSIONING PROVISION

Decommissioning provision relates primarily to the conservation and liquidation of wells, pipelines, other oil and gas facilities and site restoration. Management estimates the obligation related to these costs based on internally generated engineering estimates, current statutory requirements and industry practices. Future decommissioning costs, discounted to net present value, are capitalised and a corresponding obligation is recognised as soon as a constructive obligation to incur such costs arises and the amount can be reliably estimated. The unwinding of the discount is recognised as finance cost. Oil and gas properties related to decommissioning are depreciated using the unit-of-production method based on proved developed reserves.

The adequacy of the decommissioning provision is periodically reviewed in the light of current laws and regulations, and adjustments are made as necessary. Changes in the estimated expenditure are reflected as an adjustment to the provision and the corresponding asset.

EMPLOYEE BENEFIT OBLIGATIONS

Remuneration to employees in respect of services rendered during the reporting period, including accrual for unused vacation and bonuses and related social taxes, is recognised as an expense in the period when it is earned.

DEFINED CONTRIBUTION PLAN

Subsidiaries registered in the Russian Federation are legally obliged to make defined contributions to the State Pension Fund. This defined contribution plan is financed on a pay-as-you-earn basis.

DEFINED BENEFIT PLANS

For defined benefit retirement plans, the cost of providing benefits is determined using the Projected Unit Credit Method, with actuarial valuations being carried out at the end of each reporting period and with immediate recognition of all actuarial gains and losses in the income statement. Past service cost is amortised on a straight-line basis over the average period until the benefits become vested.

The retirement benefit obligation recognised in the statement of financial position represents the present value of the defined benefit obligation as adjusted for unrecognised past service cost.

SHARE-BASED PAYMENT ARRANGEMENTS

For cash-settled share-based payments, a liability is recognised for the goods or services acquired, measured initially at the fair value of the liability. At the end of each reporting period until the liability is settled, and at the date of settlement, the fair value of the liability is remeasured, with any changes in fair value recognised in profit or loss for the year.

REVENUE RECOGNITION

Revenue is measured at the fair value of the consideration received or receivable for the sale of goods and services in the ordinary course of the Group's activities. Revenue is shown net of value-added tax, returns, rebates and discounts and after eliminating sales within the Group.

The Group recognises revenue when the amount of revenue can be reliably measured, it is probable that future economic benefits will flow to the entity and when specific criteria have been met for each of the Group's activities as described below. The Group bases its estimates on historical results, taking into consideration the type of customer, the type of transaction and the specifics of each arrangement.

Cash received in advance from customers is not included in current year revenue, and is recognised within advances received.

SALES OF CRUDE OIL AND PETROLEUM PRODUCTS

Revenue from the sales of crude oil and petroleum products ("goods") is recognised when all the following conditions are satisfied:

- The Group has transferred to the buyer the significant risks and rewards of ownership of the goods;
- The Group retains neither continuing managerial involvement to the degree usually associated with ownership nor effective control over the goods sold;
- The amount of revenue can be measured reliably;
- It is probable that the economic benefits associated with the transaction will flow to the entity; and
- The costs incurred or to be incurred in respect of the transaction can be measured reliably.

RENDERING OF SERVICES

Revenue from a contract to provide services is recognised by reference to the stage of completion of the contract.

Revenue from time and material contracts is recognised at the contractual rates as labour hours are delivered and direct expenses are incurred.

CONSTRUCTION CONTRACTS

Contract revenue includes the initial amount agreed in the contract plus any variations in contract work, claims and incentive payments, to the extent that it is probable that they will result in revenue and can be measured reliably. As soon as the outcome of a construction contract can be estimated reliably, contract revenue is recognised in profit or loss in proportion to the stage of completion of the contract. Contract expenses are recognised as incurred unless they create an asset related to future contract activity.

The stage of completion is assessed by reference to surveys of work performed. When the outcome of a construction contract cannot be estimated reliably, contract revenue is recognised only to the extent of contract costs incurred that are likely to be recoverable. An expected loss on a contract is recognised immediately in profit or loss.

INTEREST INCOME

Interest income is recognised using the effective interest method. When a loan and receivable is impaired, the Group reduces the carrying amount to its recoverable amount, being the estimated future cash flow discounted at the original effective interest rate of the instrument, and continues unwinding the discount as interest income. Interest income on impaired loan and receivables are recognised using the original effective interest rate.

DIVIDEND INCOME

Dividend income is recognised when the right to receive payment is established.

RENTAL INCOME

Rental income from operating leases is recognised on a straight-line basis over the term of the relevant lease. Initial direct costs incurred in negotiating and arranging an operating lease are added to the carrying amount of the leased asset and recognised on a straight-line basis over the lease term.

BORROWING COSTS

Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, which are assets that necessarily take a substantial period of time to get ready for their intended use or sale, are added to the cost of those assets, until such time when the assets are substantially ready for their intended use or sale. Investment income earned on temporary investment of specific borrowings pending their expenditure on qualifying assets is deducted from the finance costs eligible for capitalisation.

All other borrowing costs are recognised in profit or loss in the period in which they are incurred.

LEASING – THE GROUP AS LESSEE

Leases are classified as finance leases whenever the terms of the lease transfer substantially all the risks and rewards of ownership to the lessee. All other leases are classified as operating leases.

Assets held under finance leases are initially recognised as assets of the Group at their fair value at the inception of the lease or, if lower, at the present value of the minimum lease payments.

The corresponding liability to the lessor is included in the consolidated statement of financial position as a finance lease obligation. Lease payments are apportioned between finance charges and reduction of the lease obligation so as to achieve a constant rate of interest on the remaining balance of the liability. Finance expenses are recognised immediately in profit or loss, unless they are directly attributable to qualifying assets, in which case they are capitalised in accordance with the Group's general policy on borrowing costs (see above). Contingent rentals are recognised as expenses in the periods in which they are incurred.

Operating lease payments are recognised as an expense on a straight-line basis over the lease term, except where another systematic basis is more representative of the time pattern in which economic benefits from the leased asset are consumed. Contingent rentals arising under operating leases are recognised as an expense in the period in which they are incurred.

INCOME TAX

Income tax expense comprises current and deferred tax.

CURRENT TAX

Current tax is based on taxable profit for the year. Taxable profit differs from profit as reported in the consolidated statement of comprehensive income because it excludes items of income or expense that are taxable or deductible in other years and it further excludes items that are never taxable or deductible. The Group's liability for current tax is calculated using tax rates that have been enacted or substantively enacted by the end of the reporting period.

DEFERRED TAX

Deferred tax is recognised on differences between the carrying amounts of assets and liabilities in the consolidated financial statements and the corresponding tax bases used in the computation of taxable profit. Deferred tax liabilities are generally recognised for all taxable temporary differences, and deferred tax assets are recognised for all deductible temporary differences to the extent that it is probable that taxable profits will be available against which those deductible temporary differences can be utilised.

Such assets and liabilities are not recognised if the temporary difference arises from the initial recognition of other assets and liabilities in a transaction that affects neither the taxable profit nor the accounting profit.

Deferred tax liabilities are recognised for taxable temporary differences associated with investments in subsidiaries, except where the Group is able to control the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future. Deferred tax assets arising from deductible temporary differences associated with such investments and interests are only recognised to the extent that it is probable that there will be sufficient taxable profits against which to utilise the benefits of the temporary differences and they are expected to reverse in the foreseeable future. The carrying amount of deferred tax assets is reviewed at the end of each reporting period and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply in the period in which the liability is expected to be settled or assets realised, based on tax rates that have been enacted or substantially enacted by the end of the reporting period. The measurement of deferred tax liabilities and assets reflects the tax consequences that would follow from the manner in which the Group expects, at the end of the reporting period, to recover or settle the carrying amount of its assets and liabilities.

Deferred tax assets and liabilities are offset when there is a legally enforceable right to set off current tax assets against current tax liabilities and when they relate to income taxes levied by the same taxation authority and the Group intends to settle its current tax assets and liabilities on a net basis.

EARNINGS PER SHARE

The Group presents basic and diluted earnings per share ("EPS") data for its ordinary shares. Profit for the year attributable to owners of the Company is allocated between the Company's ordinary and preference shares based on the two-class method. Under the two-class method, profit for the year attributable to each class of share is allocated according to their participation rights in the undistributed earnings of the Company. Basic EPS is calculated by dividing profit or loss attributable to ordinary shares of the Company by the weighted average number of ordinary shares outstanding during the period adjusted for shares purchased by the Group and held as treasury shares. Diluted EPS is determined by adjusting the profit or loss attributable to ordinary shareholders and the weighted average number of ordinary shares outstanding.

3. CRITICAL ACCOUNTING JUDGEMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY

In the application of the Group's accounting policies, described in note 2, management is required to make judgements, estimates and assumptions about the carrying amounts of assets and liabilities and recognised amounts of income and expenses that are not readily apparent from other sources. The estimates and associated assumptions are based on historical experience and other factors that are considered to be relevant. Actual results may differ from these estimates. The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period or in the period of the revision and future periods if the revision affects both current and future periods.

The most significant areas requiring the use of management estimates and assumptions relate to:

- Control over SPEs;
- Classification of investment in LLC "Bashneft-Polyus" (refer to note 12);
- Useful economic lives of property, plant and equipment;
- Impairment of property, plant and equipment;
- Decommissioning provision;
- Allowances for doubtful receivables;
- Allowances for obsolete and slow-moving inventories;
- Legal contingencies; and
- Taxation.

CONTROL OVER SPECIAL PURPOSE ENTITIES

Management judgement is involved in the assessment of control and the consolidation of certain SPEs in the Group's financial statements. The Group does not have any direct or indirect shareholdings in these SPEs and management periodically reviews the status of each of these entities.

An SPE is consolidated if, based on an evaluation of the substance of its relationship with the Group and the SPE's risks and rewards, the Group concludes that it controls the SPE. SPEs controlled by the Group were established under terms that impose strict limitations on the decision-making powers of the SPEs' management and that result in the Group receiving the majority of the benefits related to the SPEs' operations and net assets, being exposed to the majority of risks incident to the SPEs' activities, and retaining the majority of the residual or ownership risks related to the SPEs or their assets.

CLASSIFICATION OF INVESTMENT IN LLC "BASHNEFT-POLYUS"

The Group holds 74.9% stake in LLC "Bashneft-Polyus" (refer to note 12). The sale of a 25.1% stake in 2011 involved a change in governing principles, which stipulate significant decision making powers of the second shareholder on the key operational and financial decisions and appointment of key management personnel of the entity. Management assesses absence of control over the entity from the Group and considers the control to be joint with the second shareholder, and therefore its stake as an investment in joint venture.

USEFUL ECONOMIC LIVES OF PROPERTY, PLANT AND EQUIPMENT

The estimation of the useful life of an item of property, plant and equipment is a matter of management judgement based upon experience with similar assets. In determining the useful life of an asset, management considers the expected usage based on production and reserve estimates, estimated technical obsolescence, physical wear and tear and the physical environment in which the asset is operated. Changes in any of these conditions or estimates may result in adjustments to future depreciation rates.

Based on the terms included in the licences and past experience, management believes oil production licences will be extended past their current expiration dates at insignificant additional costs. Because of the anticipated licence extensions, the assets are depreciated over their useful lives beyond the end of the current licence term.

Other property, plant and equipment are depreciated on a straight-line basis over their useful economic lives. Management periodically, at the end of each reporting period, reviews the appropriateness of the assets useful economic lives and residual values. The review is based on the current condition of the assets, the estimated period during which they will continue to bring economic benefit to the Group and the estimated residual value.

IMPAIRMENT OF PROPERTY, PLANT AND EQUIPMENT

At the end of each reporting period, the Group reviews the carrying amounts of its property, plant and equipment to determine whether there is any indication that those assets are impaired. In making the assessment for impairment, assets that do not generate independent cash flows are allocated to an appropriate cash-generating unit. Management necessarily applies its judgement in allocating

assets that do not generate independent cash flows to appropriate cash-generating units, and also in estimating the timing and value of underlying cash flows within the value in use calculation. In determining the value in use calculation, future cash flows are estimated at each cash-generating unit based on a cash flows projection utilising the latest budgeted information available.

DECOMMISSIONING PROVISION

The Group's oil and gas activities are subject to various laws and regulations governing the protection of the environment. The Group estimates environmental obligations based on management's understanding of the current legal requirements in the various jurisdictions, terms of the licence agreements and internally generated engineering estimates. Provision is made, based on net present values, for decommissioning costs as soon as the obligation arises. Actual costs incurred in future periods could differ materially from the amounts provided. Additionally, future changes to environmental laws and regulations, life of oil and gas reserves estimates and discount rates could affect the carrying amount of this provision.

ALLOWANCES FOR DOUBTFUL RECEIVABLES

The Group creates an allowance for doubtful receivables to account for estimated losses resulting from the inability of customers to make required payments. When evaluating the adequacy of the allowance for doubtful receivables, management bases its estimates on the current overall economic conditions, the ageing of accounts receivable balances, historical write-off experience, customer creditworthiness and changes in payment terms. Changes in the economy, industry or specific customer conditions may require adjustments to the estimated allowance for doubtful receivables.

ALLOWANCES FOR OBSOLETE AND SLOW-MOVING INVENTORIES

The Group creates an allowance for obsolete and slow-moving inventories. Estimates of net realisable value of inventories are based on the most reliable evidence available at the time the estimates are made. These estimates take into consideration fluctuations of prices or costs directly relating to events occurring subsequent to the reporting date to the extent that such events confirm conditions existing at the end of the reporting period. Changes in the supply and demand for the products, any subsequent changes to prices or costs may require adjustments to the estimated allowance for obsolete and slow-moving inventories.

LEGAL CONTINGENCIES

Legal proceedings covering a wide range of matters are pending or threatened against the Group. Periodically, the status of each significant loss contingency is reviewed to assess the potential financial exposure of the Group. The Group records provisions for pending litigation when it determines that an unfavourable outcome is probable and the amount of loss can be reasonably estimated. Due to the inherent uncertain nature of litigation, the ultimate outcome or actual cost of settlement may materially vary from estimates. Provisions are based on the best information available at the time. As additional information becomes available, the potential liability related to pending claims and litigation is reassessed and, if required, estimates are revised. Such revisions in estimates could have a material impact on the future of the Group's results.

TAXATION

Significant judgement is required in determining the provision for taxation in the Russian Federation. There are many transactions and calculations for which the ultimate tax determination is uncertain. The Group recognises liabilities for anticipated additional tax assessments as a result of tax audits based on estimates of whether it is probable that additional taxes will be due.

Where the final tax outcome of these matters is different from the amounts that were initially recorded, such differences will impact the income tax provisions in the period in which such determinations are made.

Deferred tax assets are reviewed at the end of each reporting period and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred tax assets to be utilised. The estimation of that probability includes judgements based on the expected performance of the Group. Various factors are considered to assess the probability of the future utilisation of deferred tax assets, including past operating results, operational plans, expiration of tax losses carried forward, and tax planning strategies. If actual results differ from these estimates or if these estimates must be adjusted in future periods, the financial position, results of operations and cash flows may be negatively affected.

4. BUSINESS COMBINATIONS AND INCREASE OF OWNERSHIP IN SUBSIDIARIES

INCREASE OF OWNERSHIP IN SUBSIDIARIES

In June 2010, the Group acquired additional interests in subsidiaries as follows: 7.7% in

OJSC "Ufaneftekhim" ("Ufaneftekhim"), 0.2% in OJSC "Novoil" ("Novoil"), 0.7% in OJSC "Ufimsky refinery plant" ("Ufimsky refinery plant"), 5.0% in OJSC "Ufaorgsintez" ("Ufaorgsintez") and 0.8% in OJSC "Bashkirnefteproduct" ("Bashkirnefteproduct") for a total cash consideration of USD 129 million. As a result of these acquisitions, the Group's effective interest in Bashkirenergo increased by 1.5%. The excess of the Group's share in net assets acquired over the consideration paid of USD 49 million was recognised directly in the consolidated statement of changes in equity as an increase in retained earnings. As a result of these acquisitions, the Group recognised a decrease in net assets attributable to non-controlling interests of USD 178 million.

OJSC "SISTEMA-INVEST"

On 9 April 2010, the Group acquired 25% interest in OJSC "Sistema-invest" ("Sistema-invest") from a third party for cash consideration of USD 202 million.

As a result of this transaction, the shareholding structure of Sistema-invest was as follows:

	INTEREST
JSFC "Sistema"	65%
Bashneft	25%
Third party	10%
Total	100%

Sistema-invest is a legal entity controlled by JSFC "Sistema" that owns equity interests in the Company, Ufimsky refinery plant, Novoil, Ufaneftekhim, Ufaorgsintez and Bashkirnefteproduct. The entity is a corporate vehicle used to facilitate transactions between Bashneft Group and JSFC "Sistema" and substantively accumulate non-controlling interests in the Company and its subsidiaries within this corporate vehicle. Except for these transactions, there is no operational or economic substance. The transaction represents an acquisition of the Company's own shares and additional interests in subsidiaries. The Group 'looks-through' the legal entity and accounts for its interests in the assets, liabilities, equity, revenues and expenses of Sistema-invest. The Company's interest in its own shares was accounted for as treasury shares and the increase in the Company's interest in subsidiaries was accounted for as an increase in ownership in subsidiaries acquired by the Group.

At the date of acquisition, Group's interest in the value of Sistema-invest's net assets amounted to USD 621 million. The excess of the Group's interest in the net assets acquired over the consideration paid was recognised in the consolidated statement of changes in equity as an increase in treasury shares and retained earnings in the amounts of USD 267 million and USD 152 million, respectively. The transaction resulted in a decrease in non-controlling interests in the amount of USD 277 million.

On 3 December 2010, Sistema-invest acquired 10% of its own shares from a third party for cash consideration of USD 120 million. As a result of this transaction, the Group's interest in Sistema-invest increased from 25% to 27.78%. The excess of the Group's interest in the value of Sistema-invest's net assets over the Group's interest in the consideration paid by Sistema-invest for its own shares was recognised in the Group's consolidated statement of changes in equity as an increase in treasury shares and retained earnings in the amounts of USD 19 million and USD 11 million, respectively. The transaction resulted in a decrease in non-controlling interests in the amount of USD 30 million.

As a result of Sistema-invest acquisition of additional 10%, the shareholding structure of Sistema-invest was as follows:

	INTEREST
JSFC "Sistema"	72.22%
Bashneft	27.78%
Total	100.00%

In May 2011, Sistema-invest issued an additional 28,488 shares, representing 28.49% of its own shares, in exchange for the 48.22% stake in Bashkirenergo owned by Bashneft, Ufaneftekhim, Novoil and Ufimsky refinery plant. As a result of this transaction, the Group's interest in Sistema-invest increased from 27.78% to 49.41%. The excess of the Group's interest in Sistema-invest's net assets over the disposed amount of the Group's share in Bashkirenergo's net assets was recognised in the Group's consolidated statement of changes in equity as an increase in treasury shares and retained earnings in the amounts of USD 212 million and USD 42 million, respectively. The transaction resulted in a decrease in non-controlling interests in the amount of USD 1,499 million.

As a result of this transaction, the shareholding structure of Sistema-invest was as follows:

	INTEREST
JSFC "Sistema"	50.59%
Bashneft	26.73%
Ufaneftekhim	8.12%
Ufimsky refinery plant	7.28%
Novoil	7.28%
Total	100.00%

As a result of this transaction, the Group lost control over Bashkirenergo in 2011. The Group's effective interest in Bashkirenergo held through Sistema-invest became 23.62%, and is accounted for as investment held for sale at the lower of fair value less cost to sell and cost as at 31 December 2011.

At 31 December 2010, the carrying value of treasury shares held by the Company was as follows:

	1 JANUARY 2010	TREASURY SHARES ACQUIRED ON 9 APRIL 2010	TREASURY SHARES ACQUIRED ON 3 DECEMBER 2010	31 DECEMBER 2010
Value	-	486	52	538
Excess of the Group's interest in the net assets acquired over the consideration paid attributable to treasury shares	-	(267)	(19)	(286)
Total	-	219	33	252

At 31 December 2011, the carrying value of treasury shares held by the Company was as follows:

	1 JANUARY 2010	TREASURY SHARES ACQUIRED ON 5 MAY 2011	31 DECEMBER 2011
Value	538	212	750
Excess of the Group's interest in the net assets acquired over the consideration paid attributable to treasury shares	(286)	-	(286)
Total	252	212	464

At 31 December 2011, the carrying value of treasury shares held by the Company was as follows:

	EFFECTIVE OWNERSHIP ACQUIRED ON 9 APRIL 2010	EFFECTIVE OWNERSHIP ACQUIRED ON 3 DECEMBER 2010	EFFECTIVE OWNERSHIP ACQUIRED ON 5 MAY 2011	TOTAL
Bashneft (treasury shares)	5.19%	0.58%	4.52%	10.29%
Ufimsky refinery plant	5.62%	0.62%	3.13%	9.37%
Novoil	6.40%	0.71%	3.56%	10.67%
Ufaneftekhim	4.55%	0.51%	2.53%	7.59%
Ufaorgsintez	5.38%	0.60%	3.03%	9.01%
Bashkirnefteproduct	4.30%	0.48%	2.42%	7.20%
Bashkirenergo ¹	1.99%	0.22%	n/a	n/a

¹ The Company controlled Bashkirenergo through its controlling interests in Ufimsky refinery plant, Novoil and Ufaneftekhim..

BUSINESS COMBINATIONS

As part of retail business development strategy the Group acquired controlling shares in the following companies engaged in petroleum products trading through chains of petrol stations and petrol facilities: OJSC "Orenburgnefteproduct" ("Orenburgnefteproduct"), LLC "BN-Nefteproduct" ("BN-Nefteproduct"), LLC "GP "SKON" ("SKON").

At the date of acquisition, the fair value of identifiable assets and liabilities of Orenburgnefteproduct was as follows:

	FAIR VALUE AT THE ACQUISITION DATE
ASSETS	
Property, plant and equipment	118
Inventories	18
Trade and other receivables	6
Advances to suppliers and prepaid expenses	13
Cash and cash equivalents	9
	164
LIABILITIES	
Deferred tax liabilities	(20)
Trade and other payables	(18)
	(38)
Fair value of net assets acquired	126
Non-controlling interests measured at fair value	(7)
Cash consideration	119
Excess of the cost of acquisition over the Group's share in the fair value of net assets acquired	-
Net cash outflow arising on acquisition	
Consideration paid	119
Cash and cash equivalents acquired	(9)
Net cash outflow on acquisition	110

Orenburgnefteproduct contributed USD 345 million of revenue, USD 5 million of profit before tax and USD 4 million of profit from the date of acquisition to 31 December 2011.

The Group's financial results if the combination had taken place at the beginning of the year ended 31 December 2011 are not disclosed as Orenburgnefteproduct did not prepare standalone financial statements in accordance with IFRS before the acquisition.

LLC "BN-NEFTEPRODUCT"

On 31 July 2010, the Group acquired 49.99% interest in OJSC "Aspec" from a related party for cash consideration of USD 123 million. OJSC "Aspec" is the holding company of the Aspec Group ("Aspec"). Aspec is engaged in wholesale and retail of oil products, real estate development and also owns an automotive retail business. Aspec's petrol stations and

OJSC "ORENBURGNEFTEPRODUCT"

In April 2011, the Group acquired from OJSC "Russneft" a 94% stake in Orenburgnefteproduct for total cash consideration of USD 119 million. Orenburgnefteproduct is a company engaged in petroleum products trading in the Orenburg region through a chain of 95 petrol stations and 16 petrol storages.

storage depots are located throughout the Russian Federation, with its headquarter located in the Republic of Udmurtia. As at 31 December 2010, the Group recognised an impairment loss in the amount of USD 17 million on its investment in Aspec.

In July 2011, LLC "Aspec", the holding company of the Aspec Group was reorganized into two companies: BN-Nefteproduct and LLC "Aspec". As a result of this reorganisation, the Group swapped previously held 49.99% interest in LLC "Aspec" to 100% interest in BN-Nefteproduct, a company, which consolidated the wholesale and retail businesses of Aspec Group. The company's production facilities includes: 50 petrol stations and 4 petroleum storage facilities.

The remeasurement to fair value of the Group's previously held 49.99% in LLC "Aspec" resulted in a loss of USD 17 million, which has been recognised in other operating expenses in the statement of comprehensive income.

At the date of acquisition, the fair value of identifiable assets and liabilities of BN-Nefteproduct was as follows:

	FAIR VALUE AT THE ACQUISITION DATE
ASSETS	
Property, plant and equipment	90
Inventories	70
Trade and other receivables	12
Cash and cash equivalents	6
Other assets	12
	190
LIABILITIES	
Deferred tax liabilities	(12)
Trade and other payables	(76)
	(88)
Fair value of net assets acquired	102
Fair value of previously held share of investment in associate	102
Excess of the cost of acquisition over the Group's share in the fair value of net assets acquired	-
Cash inflow arising on acquisition	
Cash and cash equivalents acquired	6
Cash inflow on acquisition	6

BN-Nefteproduct contributed USD 1,239 million of revenue, USD 31 million of profit before tax and USD 25 million of profit from the date of acquisition to 31 December 2011.

If the acquisition had taken place at the beginning of the year ended 31 December 2011 the Group's revenue would have been USD 16,665 million, profit for the year would have been USD 1,817 million.

LLC "GP "SKON"

In December 2011, the Group acquired 100% of SKON, for a total cash consideration of USD 39 million. SKON is a company engaged in petroleum products trading in the Sverdlovsk region through a chain of 25 petrol stations and petrol storage. As a result of acquisition the Group recognised excess of Group's share in

fair value of net assets acquired over consideration transferred in the amount of USD 4 million in the consolidated statement of comprehensive income.

As a result of acquisition, the Group consolidated Property, Plant and Equipment in the amount of USD 47 million and attributable deferred tax liability in the amount of USD 4 million.

SKON contributed USD nil of revenue, profit before tax and profit from the date of acquisition to 31 December 2011.

The Group's financial results if the combination had taken place at the beginning of the year ended 31 December 2011 are not disclosed as SKON did not prepare standalone financial statements in accordance with IFRS before the acquisition.

5. SEGMENT INFORMATION

For management purposes the Group is organised into three segments: Extraction, Refining and Marketing. Reports reviewed by the Board of Directors of the Group that are used to allocate resources to segments and to assess their performance are prepared on the same basis.

The operations of each of the Group's reportable segments are as follows:

- Extraction: The Extraction segment comprises subsidiaries and business units of the Company

engaged in exploration, production and wholesale of crude oil and petrochemicals on export and domestic markets;

- Refining: The Refining segment comprises subsidiaries and business units of the Company engaged in processing crude oil and oil products; and
- Marketing: The Marketing segment comprises subsidiaries and business units of the Company engaged in wholesale and retail of oil and oil products.

Operations of subsidiaries and business units of the Company engaged in electricity and heat generation were discontinued during the year ended 31 December 2011 (refer to note 18).

The segment information reported below does not include any amounts for these discontinued operations.

Electricity and heat operations were not included within the reportable operating segments, as they were not included in the reports provided to the Board of Directors. The results of these operations were included in the "Other segment" column. After discontinuance of energy and heat operations, revenue of other entities included in "Other segment" column comprises less than 1% of combined revenue of the Group for the year ended 31 December 2011. Therefore management decided to remove "Other segment" and reclassify remaining amounts to other operations.

There are varying levels of integration between the Extraction, Refining and Marketing reportable segments. This integration includes transfers of crude oil from the Extraction segment to the Refining segment for processing into petroleum products.

Information regarding the results of each reportable segment is reviewed by the Board of Directors. Segment Profit before tax is used to measure segment performance, as management believes that such information is the most relevant in evaluating the results of certain segments relative to other entities that operate within these industries.

The significant accounting policies of the reportable segments are the same as the Group's accounting policies described in note 2.

Inter-segment pricing is determined on an arm's length basis.

Information about reportable segments for the year ended 31 December 2011 is as follows:

	EXTRACTION	REFINING	MARKETING	ELIMINATIONS	TOTAL
External revenues	13,907	41	2,601	-	16,549
Inter-segment revenues	2,362	1,518	154	(4,034)	-
Finance income	45	25	4	-	74
Finance costs	(505)	(3)	-	-	(508)
Depletion and depreciation	(241)	(349)	(26)	-	(616)
Share of profit of associates	74	-	1	-	75
Profit before tax	2,054	110	40	-	2,204
Income tax expense	(474)	(32)	(7)	-	(513)
Capital expenditure	1,186	326	14	-	1,526
Other non-cash (expenses)/income, net	(82)	(72)	8	-	(146)

Information about reportable segments for the year ended 31 December 2010 is as follows:

	EXTRACTION	REFINING	MARKETING	ELIMINATIONS	TOTAL
External revenues	10,932	32	743	-	11,707
Inter-segment revenues	647	1,458	81	(2,186)	-
Finance income	42	21	4	-	67
Finance costs	(350)	(6)	-	-	(356)
Depletion and depreciation	(181)	(398)	(18)	-	(597)
Share of profit of associates	34	172	2	-	36
Profit/(loss) before tax	1,732	(49)	(24)	-	1,880
Income tax (expense)/benefit	(379)	144	2	-	(426)
Capital expenditure	326	(57)	5	-	475
Other non-cash income/(expenses), net	431	-	(56)	-	318

For the purpose of monitoring segment performance and allocating resources between segments all assets are allocated to reportable segments.

The following tables present assets and liabilities of the Group's reportable segments at 31 December 2011:

	EXTRACTION	REFINING	MARKETING	ELIMINATIONS	TOTAL
Investments in associates and joint ventures	938	-	-	-	938
Segment assets	6,913	4,907	815	-	12,635
Segment assets	192	349	47	(588)	-
Total segment assets	8,043	5,256	862	(588)	13,573
Segment liabilities	(5,270)	(1,026)	(229)	-	(6,525)
Inter-segment liabilities and eliminations	(373)	(87)	(128)	588	-
Total segment liabilities	(5,643)	(1,113)	(357)	588	(6,525)

The following tables present assets and liabilities of the Group's reportable segments at 31 December 2010:

	EXTRACTION	REFINING	MARKETING	ELIMINATIONS	TOTAL
Investments in associates	560	-	107	-	667
Segment assets	6,986	5,015	429	-	12,430
Inter-segment assets and eliminations	70	118	24	(212)	-
Total segment assets	7,616	5,133	560	(212)	13,097
Segment liabilities	(5,782)	(869)	(115)	-	(6,766)
Inter-segment liabilities and eliminations	(116)	(72)	(7)	195	-
Total segment liabilities	(5,898)	(941)	(122)	195	(6,766)

Comparison of segment assets and liabilities with the amounts disclosed in the Group's financial statements is represented in the following table below:

	31 DECEMBER 2011	31 DECEMBER 2010
Segment assets	13,573	13,097
Bashkirenergo assets	-	1,897
Less: intergroup assets Bashkirenergo	-	(3)
Total assets of the Group	13,573	14,991
Segment liabilities	(6,525)	(6,766)
Bashkirenergo liabilities	-	(253)
Less: intergroup liabilities Bashkirenergo	-	20
Total liabilities of the Group	(6,525)	(6,999)

Substantially all of the Group's operations are conducted in the Russian Federation. The geographical regions within the Russian Federation have substantially similar economic and regulatory

conditions. Therefore, the Group has not presented any separate geographical disclosure about its non-current assets by geographical area.

The Group's revenue from external customers by geographical location is as follows:

	YEAR ENDED 31 DECEMBER 2011	YEAR ENDED 31 DECEMBER 2010
Export outside the CIS	8,147	5,309
Russian Federation	7,068	5,672
CIS	1,334	726
Total	16,549	11,707

The following counterparties relating to the Extraction segment comprise each more than 10% of the total revenue of the Group:

YEAR ENDED 31 DECEMBER 2011		
	Revenue	% of the total Revenue
STAR Oil (FZE)	2,814	17%

YEAR ENDED 31 DECEMBER 2010		
	Revenue	% of the total Revenue
Litasco SA	1,634	14%
STAR Oil (FZE)	1,522	13%

6. REVENUE

	YEAR ENDED 31 DECEMBER 2011	YEAR ENDED 31 DECEMBER 2010
Petroleum products	13,006	9,363
Crude oil	3,142	1,995
Other revenue	401	349
Total	16,549	11,707

7. EMPLOYEE BENEFIT EXPENSES

	YEAR ENDED 31 DECEMBER 2011	YEAR ENDED 31 DECEMBER 2010
Wages and salaries	849	848
Contributions to Pension Fund of the Russian Federation	163	120
Other social taxes	50	36
Phantom shares granted (refer to note 21)	23	13
Other employee benefits	6	7
Total	1,091	1,024

8. TAXES OTHER THAN INCOME TAX

	YEAR ENDED 31 DECEMBER 2011	YEAR ENDED 31 DECEMBER 2010
Mineral extraction tax	1,754	1,108
Contributions to Pension Fund of the Russian Federation	163	120
Property tax	57	58
Other social taxes	50	36
Other taxes	28	25
Total	2,052	1,347

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9. FINANCE INCOME AND FINANCE COSTS

	YEAR ENDED 31 DECEMBER 2011	YEAR ENDED 31 DECEMBER 2010
Finance income		
Dividends income	17	-
Interest income on loans, promissory notes and bonds	41	36
Interest income on cash and deposits	16	31
Total	74	67
Finance costs		
Interest expense on borrowings	412	326
Premium on bonds redeemed	65	-
Unwinding of discount	30	29
Other accretion expenses	1	1
Total	508	356

10. INCOME TAX

Income tax expense

	YEAR ENDED 31 DECEMBER 2011	YEAR ENDED 31 DECEMBER 2010
Current year income tax expense	469	346
Adjustments relating to current income tax of prior years	9	19
Current income tax expense	478	365
Deferred tax expense	35	61
Income tax expense	513	426

Reconciliation of statutory income tax to income tax expense is as follows:

	YEAR ENDED 31 DECEMBER 2011	YEAR ENDED 31 DECEMBER 2010
Profit before tax	2,204	1,880
Income tax at statutory rate 20%	441	376
Tax effect of permanent difference on sale of 25.1% ownership in LLC "Bashneft-Polyus"	22	-
Other non-deductible and non-taxable items	41	31
Adjustments relating to current income tax of prior years	9	19
Income tax expense	513	426

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DEFERRED TAX ASSETS AND LIABILITIES

Movements in deferred tax assets and liabilities are as follows:

	1 JANUARY 2011	RECOGNISED IN PROFIT OR LOSS	ACQUIRED ON ACQUISITION OF SUBSIDIARIES	DISPOSED ON DISPOSAL OF SUBSIDIARIES	EFFECT OF TRANSLATION TO PRESENTATION CURRENCY	31 DECEMBER 2011
Property, plant and equipment	1,059	72	36	(194)	(46)	927
Investments	92	16	-	1	(8)	101
Inventories	9	(27)	-	2	2	(14)
Trade and other receivables	25	8	-	13	(3)	43
Decommissioning provision	(48)	(16)	-	-	4	(60)
Provisions	(15)	(10)	-	2	2	(21)
Trade and other payables	(13)	(17)	-	-	3	(27)
Other	(10)	4	-	5	(1)	(2)
Total	1,099	30	36	(171)	(47)	947

	1 JANUARY 2010	RECOGNISED IN PROFIT OR LOSS	EFFECT OF TRANSLATION TO PRESENTATION CURRENCY	31 DECEMBER 2010
Property, plant and equipment	1,127	(60)	(8)	1,059
Investments	(3)	95	-	92
Inventories	(7)	16	-	9
Trade and other receivables	-	25	-	25
Decommissioning provision	(46)	(2)	-	(48)
Provisions	(1)	(14)	-	(15)
Trade and other payables	(9)	(4)	-	(13)
Other	(10)	-	-	(10)
Total	1,051	56	(8)	1,099

At 31 December 2011, deferred tax assets in the amount of USD 7 million (31 December 2010: USD 7 million) have not been recognised in respect of deductible

temporary differences because it is not probable that future taxable profit will be available against which the Group can utilise the benefits therefrom.

11. PROPERTY, PLANT AND EQUIPMENT

	OIL AND GAS PROPERTIES	REFINING	MARKETING	OTHER	TOTAL
Cost / deemed cost					
Balance at 1 January 2010	3,643	4,819	391	1,682	10,535
Constructions and acquisitions	297	139	5	132	573
Disposals	(24)	(50)	(2)	(13)	(89)
Effect of translation to presentation currency	(28)	(37)	(3)	(13)	(81)
Balance at 31 December 2010	3,888	4,871	391	1,788	10,938
Acquisition of subsidiaries (refer to note 4)	-	-	255	-	255
Disposal of Bashkirenergo (refer to note 18)	-	-	-	(2,004)	(2,004)

Contribution to joint venture in LLC "Bashneft-Polyus (refer to note 12)	(652)	-	-	-	(652)
Other disposal of subsidiaries and SPEs	(3)	(3)			(6)
Constructions and acquisitions	1,171	320	14	12	1,517
Disposals	(87)	(26)	(2)	-	(115)
Effect of translation to presentation currency	(278)	(286)	(48)	204	(408)
Balance at 31 December 2011	4,039	4,876	610	-	9,525
Accumulated depletion, depreciation and impairment					
Balance at 1 January 2010	(173)	(363)	(21)	(111)	(668)
Charge for the year	(188)	(397)	(22)	(115)	(722)
Disposals	3	9	-	1	13
Impairment	(12)	(3)	(2)	-	(17)
Effect of translation to presentation currency	2	4	1	1	8
Balance at 31 December 2010	(368)	(750)	(44)	(224)	(1,386)
Disposal of Bashkirenergo (refer to note 18)	-	-	-	291	291
Other disposal of subsidiaries and SPEs	1	2	-	-	3
Charge for the year	(238)	(348)	(27)	(39)	(652)
Disposals	3	7	-	-	10
Effect of translation to presentation currency	45	71	3	(28)	91
Balance at 31 December 2011	(557)	(1,018)	(68)	-	(1,643)
Net book value					
At 1 January 2010	3,470	4,456	370	1,571	9,867
At 31 December 2010	3,520	4,121	347	1,564	9,552
At 31 December 2011	3,482	3,858	542	-	7,882

At 31 December 2011, properties with a carrying amount of USD 191 million (31 December 2010: USD 214 million) are pledged as security for the Group's bank loans.

DECOMMISSIONING PROVISION

Balance at 1 January 2010	231
Unwinding of discount	29
New obligations	3
Changes in estimates of existing obligations	(29)
Effect of translation to presentation currency	(3)
Balance at 31 December 2010	231
Unwinding of discount	30
New obligations	1
Changes in estimates of existing obligations	62
Property dispositions	(15)
Effect of translation to presentation currency	(14)
Balance at 31 December 2011	295

Current and non-current portions of decommissioning provision are as follows:

	31 DECEMBER 2011	31 DECEMBER 2010
Current portion	-	14
Non-current portion	295	217
Total	295	231

The Group's decommissioning provision relates primarily to the conservation and liquidation of wells, pipelines and other oil and gas facilities and site restoration. Key assumptions used for evaluation of decommissioning provision were as follows:

Discount rate	9.49%	12.38%
Inflation rate	2.55%-10.09%	2.25%-10.81%

The Group has estimated the costs to be incurred using the cost of technology and materials that are currently available.

12. INVESTMENTS IN ASSOCIATES AND JOINT VENTURES

	YEAR ENDED 31 DECEMBER 2011		YEAR ENDED 31 DECEMBER 2010
	INVESTMENTS IN ASSOCIATES	INVESTMENTS IN JOINT VENTURES	INVESTMENTS IN ASSOCIATES
Balance at the beginning of the year	667	-	-
Reclassified from available-for-sale investments	-	-	545
Acquired during the year	-	-	123
Acquisition of the controlling interest in BN-Nefteproduct	(119)	-	-
Loss of controlling interest in subsidiaries	-	351	-
Share of post-acquisition profits	75	-	36
Impairment	-	-	(17)
Effect of translation to presentation currency	(26)	(10)	(20)
Balance at the end of the year	597	341	667

JOINT VENTURE

At the date of reclassification of investment carrying amount of assets and liabilities in Bashneft-Polyus was as follows:

	27 DECEMBER 2011
ASSETS	
Exploration and evaluation assets	60
Trebs and Titov oilfield license	592
Trade and other accounts receivable	19
Cash and cash equivalents	111
	782
LIABILITIES	
Deferred tax liabilities	(118)
Borrowings	(171)
Trade and other payables	(24)
	(313)
Net assets disposed of	469

On 27 December 2011, the Group entered into agreement with OJSC "Lukoil" in relation to development of Trebs and Titov deposit through

sales of 25.1% shares in LLC "Bashneft-Polyus" ("Bashneft-Polyus") for cash consideration of USD 153 million and entering a joint venture agreement.

Although the Group has 74.9% interest in Bashneft-Polyus, this investment is classified as an investment in joint venture (refer to note 3).

As a part of the establishment of the joint venture, the Group issued a loan to Bashneft-Polyus in the amount of USD 171 million at 8.25% per annum which is expected to be repaid as the development and production stage of

Trebs and Titov deposit commences; and the Group sold to Bashneft-Polyus exploration and evaluation assets for a cash consideration of USD 60 million. No gain or loss was recognised on these transactions.

As of the date of reclassification of investment the value of the interest retained by the Group approximates the fair value.

The result from the sale of the ownership interest in Bashneft-Polyus is summarized in the following table:

	27 DECEMBER 2011
Consideration received	153
Less: Carrying amount of the Group's 25.1% interest in the net assets	(118)
Gain on sale of ownership interest	35

The Group recognised income tax expense in the amount of USD 31 million associated with this transaction.

The following table reconciles the carrying value of Bashneft-Polyus prior to disposal and the carrying value of the retained investment in the entity recorded under the equity method:

	27 DECEMBER 2011
Carrying value of the net assets disposed of	469
Less: carrying amount of the Group's 25.1% interest in the net assets disposed	(118)
The carrying value of equity investment	351

From the date of establishing the joint venture in Bashneft-Polyus until 31 December 2011, the joint venture did not perform significant operations.

The following is a summary of the financial information of joint venture:

	31 DECEMBER 2011
Non-current assets	692
Current assets	63
Non-current liabilities	(281)
Current liabilities	(19)
Net assets	455
Group's share of the net assets of the joint venture	341

As of 31 December 2011, the Group's share in capital commitments of the joint venture was USD 15 million.

ASSOCIATES

The Group holds 38.5% interest in OJSC "Belkamneft" ("Belkamneft"), a company engaged in the production of crude oil. At 31 December 2009, the Group's 38.5% interest in Belkamneft was classified as an available-for-sale investment as the Group was not able to exercise significant influence over the operating and financing activities of the investee. On 23 April 2010, JSFC Sistema (the Group's parent company) acquired 49% interest in OJSC "Russneft" (Belkamneft's parent Company). As a result of this transaction, the Group obtained significant influence over Belkamneft

and reclassified the investment in Belkamneft from available-for-sale to investments in associates. The excess of the fair value of the investment over the carrying value in the amount of USD 477 million was recognised in the statement of comprehensive income as gain on reclassification of available-for-sale investments to investments in associates.

On 31 July 2010, the Group acquired 49.99% interest in OJSC "Aspec" from a related party for a cash consideration of USD 123 million. OJSC "Aspec" is the holding company of the Aspec Group ("Aspec"). Aspec is engaged in wholesale and retail of oil

products, real estate development and also owns an automotive retail business. Aspec's petrol stations and storage depots are located throughout the Russian Federation, with its headquarter located in the Republic of Udmurtia. As at 31 December 2010, the Group recognised an impairment loss in the amount of USD 17 million on its investment in Aspec.

On 1 July 2011, as a part of reorganisation of Aspec Group, the Group swapped its 49.99% interest in LLC "Aspec" to 100% interest in "BN-Nefteproduct" (refer to note 4).

The following is a summary of the financial information of associates:

	31 DECEMBER 2011	31 DECEMBER 2010
Total assets	2,553	2,903
Total liabilities	(445)	(567)
Net assets	2,108	2,336
Group's share of net assets of associates	811	923

	YEAR ENDED 31 DECEMBER 2011	YEAR ENDED 31 DECEMBER 2010
Total revenue	1,422	1,514
Total profit for the year	198	138
Group's share of profit of associates	75	36

13. FINANCIAL ASSETS

	31 DECEMBER 2011	31 DECEMBER 2010
Non-current investments		
Loans given, at amortised cost	155	217
Loans given to joint venture, at amortised cost	166	-
Total	321	217
Current investments		
Loans given, at amortised cost	668	665
Investments in Bashkirenergo held for sale	398	-
Deposits	4	11
Other financial assets	3	-
Total	1,073	676

At 31 December 2011, non-current loans given at amortised cost represent corporate bonds which are not quoted in an active market and bear interest at rate 6.0% with maturity in 2015.

At 31 December 2010, non-current loans given at amortised cost represented promissory notes with interest rate 5.0% and maturity date in 2012.

At 31 December 2011, loans given to joint venture represent loan to "Bashneft-Polyus" with interest rate 8.25% which is expected to be repaid as the development and production stage of Trebs and Titov deposit commences.

At 31 December 2011, current loans given at amortised cost included promissory notes and loans given with interest rates varying from 3.5% to 8.3% (31 December 2010: 3.5% to 8.3%).

Investments in Bashkirenergo held for sale at 31 December 2011 represent Group's share in Sistema-invest's investment in Bashkirenergo (refer to note 4). The investment held for sale is stated at the lower of fair value less cost to sell and cost as at 31 December 2011.

At 31 December 2011, current deposits represent bank deposits which bear interest at rates varying from 3.0% to 8.75% (31 December 2010: 7.5% to 14.5%) per annum.

14. INVENTORIES

	31 DECEMBER 2011	31 DECEMBER 2010
Inventories expected to be recovered after twelve months		
Catalytic agents	62	44
Raw materials and other inventories	-	6
Total	62	50
Inventories expected to be recovered in the next twelve months		
Petroleum products	455	333
Crude oil	16	7
Raw materials and other inventories	303	335
Less: allowance for obsolete and slow-moving items	(26)	(50)
Total	748	625

The cost of inventories (excluding crude oil) recognised as expense during the year ended 31 December 2011 amounted to USD 354 million (year

ended 31 December 2010: USD 291 million). At 31 December 2011 and 2010, none of the Group's inventories were stated at net realisable value.

15. OTHER NON-CURRENT ASSETS

At 31 December 2011, other non-current assets included long-term accounts receivable in the amount of USD 3 million (31 December 2010: USD 3 million), net of allowance for doubtful receivables in the amount of USD 12 million (31 December 2010: USD 24 million).

16. TRADE AND OTHER RECEIVABLES

	31 DECEMBER 2011	31 DECEMBER 2010
Trade receivables	505	545
Other receivables	69	72
Total	574	617
Less: allowance for doubtful receivables	(65)	(94)
Total	509	523

The average credit period for the Group's customers is 5-10 days. During this period no interest is charged on the outstanding balances. Before accepting any new customer, the Group uses an internal credit system to assess the potential customer's credit quality and defines credit limits separately for each individual customer. At 31 December 2011, the Group's five largest customers represent 71.3% (31 December 2010: 67.9%) of the outstanding trade receivables balance. Creditworthiness of the existing customers is also periodically evaluated based on internal and external information regarding the history of settlements with these customers. The Group regularly analyses accounts receivable turnover ratios, maturity dates and takes appropriate measures on collection of debts due.

Allowances for doubtful receivables are recognised against trade and other receivables older than 30 days based on estimated irrecoverable amounts,

determined by reference to past experience and are regularly reassessed based on the facts and circumstances existing at each reporting date.

Ageing of trade and other receivables was as follows:

	31 DECEMBER 2011		31 DECEMBER 2010	
	GROSS	IMPAIRMENT PROVISIONE	GROSS	IMPAIRMENT PROVISION
Not past due	456	-	444	-
Past due up to 30 days	14	-	25	-
Past due from 31 to 90 days	22	(1)	26	(6)
Past due from 91 to 180 days	9	-	13	(5)
Past due from 181 to 365 days	9	(4)	27	(24)
Past due over 365 days	64	(60)	82	(59)
Total	574	(65)	617	(94)

Movement in the allowance for doubtful receivables in respect of trade and other receivables was as follows:

	YEAR ENDED 31 DECEMBER 2011	YEAR ENDED 31 DECEMBER 2010
Balance at the beginning of the year	94	72
Recognised in profit or loss	41	27
Disposal of subsidiaries	(36)	-
Amounts written-off as uncollected	(29)	(5)
Effect of translation to presentation currency	(5)	-
Balance at the end of the year	65	94

Specific allowance against trade and other receivables of USD 41 million (31 December 2010: USD 25 million) from entities under liquidation process or placed into bankruptcy is included in allowance for doubtful receivables. The allowance represents the difference between the carrying amount of these receivables and the present value of expected proceeds on liquidation. The Group did not hold collateral in respect of these balances.

17. CASH AND CASH EQUIVALENTS

	31 DECEMBER 2011	31 DECEMBER 2010
Call deposits	472	549
Bank balances	409	518
Total	881	1,067

As at 31 December 2011, call deposits mostly represent overnight bank deposits which are denominated in RUB with annual interest rates varying from 0.1% to 8.3% per annum (31 December 2010: 0.5% to 2.7%). As at 31 December 2010 call deposits also were represented by USD-denominated bank deposits with interest rates varying from 0.1% to 0.2% per annum. Maturity dates for these deposits

are within 3 months from the date they originated.

As part of its cash and credit risk management function, the Group regularly evaluates the creditworthiness of financial and banking institutions where it deposits cash and cash equivalents. Banking relationships are with large Russian banks with external credit ratings of at least B+.

18. DISCONTINUED OPERATIONS

DISPOSAL OF BASHKIRENERGO

On 5 May 2011 Bashneft, Ufaneftekhim, Novoil and Ufimsky refinery plant exchanged their 48.22% stake in Bashkirenergo for a 28.49% stake in Sistema-invest (refer to note 4). As a result of this transaction, the ability to exercise control over Bashkirenergo was transferred to JSFC "Sistema", controlling

shareholder of Sistema-invest, and the Group ceased to consolidate Bashkirenergo from that date. The Group's share in Sistema-invest's investment in Bashkirenergo was classified as investment held for sale (refer to note 13).

The results of operations and net cash flows of Bashkirenergo are set out below:

	PERIOD ENDED 5 MAY 2011	YEAR ENDED 31 DECEMBER 2010
Revenue	1,049	2,084
Production and operating expenses	(791)	(1,679)
Depletion and depreciation	(39)	(114)
Selling, general and administrative expenses	(31)	(96)
Taxes other than income tax	(27)	(74)
Other operating (expenses)/income, net	(6)	14
Operating profit	155	135
Finance costs	(1)	(1)
Profit before income tax	154	134
Income tax	(30)	(42)
Profit for the period from discontinued operations	124	92
Attributable to:		
Shareholders of the parent company	44	36
Non-controlling interests	80	56
Net cash generated from operating activities	49	192
Net cash used in investing activities	(35)	(98)
Net cash used in financing activities	(3)	(94)
Total	11	-

At the date of disposal, assets and liabilities of Bashkirenergo were as follows:

	5 MAY 2011
Current assets	
Cash and cash equivalents	32
Trade and other receivables	227
Advances to suppliers and prepaid expenses	15
Other taxes receivable	78
Inventories	49
Other current assets	6
Non-current assets	
Property, plant and equipment	1,713
Advances paid for acquisition of property, plant and equipment	143
Other non-current assets	10
Current liabilities	
Trade and other payables	(104)
Advances received	(50)
Other taxes payable	(75)
Other current liabilities	(11)
Non-current liabilities	
Deferred tax liabilities	(51)
Other non-current liabilities	(33)
Net assets disposed of	1,949
Result of the disposal of Bashkirenergo	
Net assets disposed of	(1,949)
Non-controlling interest	1,265
	(684)
Increase in proportionate share of interest in Treasury shares	212
Increase in proportionate share of interest in Company's subsidiaries	234
Increase in proportionate share of interest in other assets and liabilities of Sistema-Invest	(188)
Lower of fair value less cost to sell and cost of the Group's 23.62% interest in Bashkirenergo held through Sistema-invest	468
Gain on disposal of Bashkirenergo attributable to the Excess of Group's increase in share of interest in Company's subsidiaries acquired over consideration paid, recognised in Retained earnings	42
Net cash outflow on disposal of subsidiary	(32)

The result of continuing operations' transactions with Bashkirenergo is set out below:

	PERIOD ENDED 5 MAY 2011	YEAR ENDED 31 DECEMBER 2010
Revenue	13	44
Production and operating expenses	(172)	(406)
Other operating expenses, net	(9)	-

19. SHARE CAPITAL

Authorised, issued and fully paid share capital

	31 DECEMBER 2011	31 DECEMBER 2010
170,169,754 ordinary shares with a par value of RUB 1.00	64	64
34,622,686 preferred shares with a par value of RUB 1.00	13	13
Total	77	77

The nominal value of share capital was adjusted for hyperinflation from the actual dates of share issuance to 31 December 2002.

DIVIDENDS AND RETAINED EARNINGS

The holders of the Company's ordinary shares are entitled to one vote per share at shareholders' meetings and a right to dividends, as declared periodically.

The holders of the Company's preferred shares receive a non-cumulative dividend at the Company's discretion or whenever dividends to ordinary shareholders are declared. They do not have the right to vote at shareholders' meetings if dividends are declared but have the right to one vote per share if dividends are not declared.

Ordinary and preferred shares rank equally with regard to the Company's residual assets in the event of liquidation.

On 29 June 2010, the Company declared a dividend of USD 3.54 per share amounting to USD 725 million which was fully paid during the period from 29 June 2010 to 31 December 2010.

On 17 December 2010, the Company declared a dividend of USD 3.40 per share amounting to USD 696 million, out of which USD 73 million remained unpaid as of 31 December 2010.

On 29 June 2011, the Company declared a dividend of USD 4.65 per share amounting to USD 952 million

out of which USD 8 million remained unpaid as of 31 December 2011.

The IFRS consolidated financial statements of the Group are the basis for the profit distribution and other appropriations.

EARNINGS PER SHARE

Earnings per share ("EPS") is calculated by dividing profit for the year attributable to ordinary shares of the Company by the weighted average number of ordinary shares outstanding during the year adjusted for shares purchased by the Group and held as treasury shares. Profit for the year attributable to owners of the Company is allocated between the Company's ordinary and preference shares at a ratio of 1:1 in accordance with their participation rights as described in the Company's charter. Profit from continuing and discontinued operations attributable to ordinary shareholders of the Company for the year ended 31 December 2011 was USD 1,381 million (year ended 31 December 2010: USD 1,178 million). The weighted average number of ordinary shares outstanding during the year ended 31 December 2011 was 152,275,527 (31 December 2010: 162,295,807). Reciprocal interests relating to Sistema-invest's ownership in the Group are deducted from the total outstanding shares in computing the weighted average number of outstanding ordinary shares.

20. BORROWINGS

	31 DECEMBER 2011		31 DECEMBER 2010	
	RATE, %	OUTSTANDING BALANCE	RATE, %	OUTSTANDING BALANCE
Non-current liabilities				
Unsecured fixed interest rate borrowings	7.75%-8.95%	2,403	11.9%-12.0%	1,466
Unsecured non-convertible bonds issued in December 2011	9.35%	310	-	-
Secured floating rate borrowings	Libor 1M +1.55%	248	-	-
Secured fixed interest rate borrowings	16.0%	4	16.0%	19
Unsecured non-convertible bonds issued in December 2009	-	-	12.5%	1,633
Total		2,965		3,118
Unsecured non-convertible bonds issued in December 2009	12.5%	355	-	-
Current portion of secured floating rate borrowings	Libor 1M +1.55%	50	-	-
Current portion of secured fixed interest rate borrowings	16.0%	15	16.0%	14
Short-term unsecured fixed interest rate borrowings		-	3.6%-7.2%	773
Short-term fixed interest rate secured borrowings		-	4.5%-20.0%	8
Total		420		795

UNSECURED NON-CONVERTIBLE BONDS

On 22 December 2009, the Group issued 50,000,000 non-convertible RUB-denominated bonds at a par value of RUB 1,000. The bonds have a coupon rate of 12.5% from issuance date to 21 December 2012 per annum, payable semi-annually. Subsequent coupon rates are to be determined in December 2012 at which point bondholders have the right to redeem the bonds at par value.

In October 2011, the Group filed a voluntary buy-back offer, as a result of which 38,496,306 bonds were bought back at value of RUB 1,050. Excess of purchase price over the par value of bonds in the amount of USD 65 million was recognised in the consolidated statement of comprehensive income.

In December 2011, the Group issued 10,000,000 non-convertible RUB-denominated bonds at a par value of RUB 1,000. The bonds have a coupon rate of 9.35% from issuance date to 6 December 2013 per annum, payable semi-annually. Subsequent coupon rates are to be determined in December 2013 at which point bondholders have the right to redeem the bonds at par value.

SECURED BORROWINGS

At 31 December 2011, secured floating interest rate borrowing is denominated in USD and repayable

in equal instalments from September 2012 till September 2014. Borrowing is secured by assignment rights for proceeds from crude oil export sales.

UNSECURED BORROWINGS

At 31 December 2011, fixed interest rate unsecured borrowings are denominated in RUB and were obtained from a variety of lenders. The borrowings mature from 2013 through 2018 (31 December 2010: denominated in RUB and USD with maturity from 2011 to 2017).

21. OTHER NON-CURRENT LIABILITIES

	31 DECEMBER 2011	31 DECEMBER 2010
Defined benefit obligation	15	37
Non-current portion of phantom share plan	9	9
Other non-current liabilities	-	3
Total	24	49

DEFINED BENEFIT PLANS

The Group operates a number of unfunded defined benefit plans for its employees. In accordance with these plans, the employees are entitled to certain benefits in accordance with the terms of collective agreements (such as retirement bonus, anniversary bonus, reimbursement of funeral costs).

PHANTOM SHARE PLAN

In 2010, the Company granted share appreciation rights to key management personnel of the Group.

In accordance with the terms of the plan, the eligible employees are entitled to a cash payment based on a number of vested phantom shares, the value of which is to be determined by an independent appraiser at each vesting date. The program has 3 stages and is effective during the period from 2010 to 2012. Liabilities under the phantom share plan were as follows:

	YEAR ENDED 31 DECEMBER 2011	YEAR ENDED 31 DECEMBER 2010
Balance at the beginning of the year	13	-
Granted during the year	23	13
Paid during the year	(6)	-
Effect of translation to presentation currency	(2)	-
Balance at the end of the year	28	13

Current and non-current portions of liability under phantom share plan are as follows:

	31 DECEMBER 2011	31 DECEMBER 2010
Current portion (refer to note 22)	19	4
Non-current portion	9	9
Total	28	13

22. TRADE AND OTHER PAYABLES

	31 DECEMBER 2011	31 DECEMBER 2010
Financial liabilities		
Trade payables and other payables	559	474
Interest payable	6	21
Non-financial liabilities		
Salary payable and accrued vacation liabilities	142	160
Current portion of phantom share plan (refer to note 21)	19	4
Total	726	659

The average credit period on purchase of the majority of inventories and services consumed is 36 days (31 December 2010: 35 days). No interest is charged on

the outstanding balance of trade and other payables during this period.

23. TAXES

	31 DECEMBER 2011	31 DECEMBER 2010
Other taxes receivable		
VAT recoverable	370	285
Custom duties prepaid	348	252
Other taxes	168	148
Total	886	685
Other taxes payable		
VAT	115	120
Mineral extraction tax	147	103
Excise tax	145	51
Other taxes	59	44
Total	466	318

24. PROVISIONS

Provisions at 31 December 2011 include an amount of USD 80 million (31 December 2010: USD 83 million) in relation to legal claims brought against the Group. The provision charge is recognised in profit or loss within other operating expenses. The balance at 31

December 2011 is expected to be settled in 2012. In management's opinion the outcome of these legal claims will not give rise to any significant loss beyond the amounts provided at 31 December 2011.

25. RELATED PARTIES

At 31 December 2011 and 31 December 2010, the Group had the following outstanding balances with related parties:

	AMOUNT OWED BY RELATED PARTIES	
	31 DECEMBER 2011	31 DECEMBER 2010
Sistema-invest	698	786
Other Sistema Group companies	471	118
Associates and joint ventures of the Group	173	-
Total	1,343	904

	AMOUNT OWED TO RELATED PARTIES	
	31 DECEMBER 2011	31 DECEMBER 2010
Associates and joint ventures of the Group	29	-
Sistema Group companies	19	44
Other related parties	-	16
Total	48	60

The amounts outstanding were unsecured and are expected to be net settled or settled in cash. The Group does not create an allowance for doubtful receivables in respect of outstanding balances of related parties. No balances owed by related parties were past due but not impaired.

No expense has been recognised in the current year for bad debts in respect of amounts owed by related parties.

As a result of exchange of Bashkirenergo's stake to share in Sistema-invest which is common control entity (refer to note 4), transactions with Bashkirenergo were included in the table below from the date of disposal till 31 December 2011.

The Group entered into the following transactions with related parties:

	YEAR ENDED 31 DECEMBER 2011	YEAR ENDED 31 DECEMBER 2010
Sistema-invest		
Dividends declared	95	275
Loans issued	-	1,661
Proceeds from repayment of loans issued	-	607
Interest income	29	29
Other Sistema Group companies and its affiliates		
Dividends declared	476	753
Loans issued	-	290
Proceeds from repayment of loans issued	-	290
Sale of goods and services	64	32
Purchase of goods and services	390	26
Purchase of property	27	55
Interest income	5	10
Dividends received	17	-
Acquisition of subsidiaries	119	-
Associates and joint ventures of the Group		
Sale of goods and services	498	425
Purchase of goods and services	2	-
Key management personnel		
Acquisition of associate	-	123
Other related parties		
Sale of goods and services	111	323

During the year ended 31 December 2011, the Group transferred USD 30 million (year ended 31 December 2010: USD 19 million) as a donation to Charity Fund Sistema, a related party of the Group.

COMPENSATION OF KEY MANAGEMENT PERSONNEL

The remuneration of directors and other key management personnel was as follows:

	YEAR ENDED 31 DECEMBER 2011	YEAR ENDED 31 DECEMBER 2010
Wages and salaries	24	42
Share-based payments	6	4
Total	30	46

At 31 December 2011, outstanding balances in respect of wages and salaries of key management personnel were USD 4 million (31 December 2010: USD 34 million).

26. FINANCIAL RISK MANAGEMENT

CAPITAL RISK MANAGEMENT

The Group's objectives when managing capital are to safeguard the Group's ability to continue as a going concern in order to provide returns for shareholders and benefits for other stakeholders and to maintain an optimal capital structure to reduce the cost of capital.

The Board of Directors' policy is to maintain a strong capital base so as to maintain investor, creditor and market confidence and to sustain future development of the business. The Group manages its capital structure and makes adjustments to it, in light of changes in economic conditions. The Group may adjust the amount of dividends paid to shareholders and return on capital to shareholders,

issue new shares or sell assets to reduce debt, maintain or adjust the capital structure.

The Board of Directors monitors the return on capital, which the Group defines as a total net borrowings divided by OIBDA. The Group defines total net borrowings as total borrowings less cash and cash equivalents and OIBDA as operating profit adjusted for depletion, depreciation and amortisation. Since OIBDA is not a standard IFRS measure, the Group's definition of OIBDA and total net borrowings may differ from that of other companies.

The Group's gearing ratio was as follows:

	31 DECEMBER 2011	31 DECEMBER 2010
Total net borrowings	2,504	2,846
OIBDA	3,192	2,732
Net borrowings to OIBDA ratio	0.78	1.04

MAJOR CATEGORIES OF FINANCIAL INSTRUMENTS

	31 DECEMBER 2011	31 DECEMBER 2010
Financial assets		
Cash and cash equivalents	881	1,067
Trade and other receivables, excluding prepayments	509	523
Loans given, at amortised cost	989	882
Investments in Bashkirenergo held for sale	398	-
Other financial assets	3	-
Deposits	4	11
Total financial assets	2,784	2,483
Financial liabilities		
Borrowings	3,385	3,913
Trade and other payables	565	495
Dividends payable	8	73
Total financial liabilities	3,958	4,481

COMMODITY PRICE RISK

Commodity price risk is the risk or uncertainty arising from possible movements in prices for crude oil and related products, and their impact on the Group's future performance and results of the Group's operations. A decline in the prices could result in a decrease in net income and cash flows. An extended period of low prices could precipitate a decrease in development activities and could cause a decrease in the volume of reserves available for transportation and processing through the Group's systems or

facilities and ultimately impact the Group's ability to deliver under its contractual obligations. The Group's overall strategy in production and sales of crude oil and related products is centrally managed.

The main risks arising from the Group's financial instruments are foreign currency and liquidity risks.

FOREIGN CURRENCY RISK

Currency risk is the risk that the financial results of the Group will be adversely impacted by changes in exchange rates to which the Group is exposed. The

Group undertakes certain transactions denominated in foreign currencies and is exposed primarily with respect to the US Dollar.

The Group manages its net exposure to foreign exchange risk by balancing both financial assets and financial liabilities denominated in Russian Rouble and US Dollar. The Group does not use derivatives to

manage its foreign currency risk exposure.

The carrying amount of the Group's US-dollar denominated monetary assets and liabilities at 31 December 2011 and 31 December 2010 were as follows:

	31 DECEMBER 2011	31 DECEMBER 2010
ASSETS		
Trade and other receivables, excluding prepayments	345	293
Loans given, at amortised cost	155	-
Cash and cash equivalents	35	430
Total assets	535	723
Liabilities		
Loans and borrowings	298	201
Trade and other payables	6	3
Total liabilities	304	204

The table below details the Group's sensitivity to the strengthening of the US Dollar against the Russian Rouble by 10%. This analysis assumes that all other variables, in particular interest rates, remain constant. This analysis is based on foreign currency

exchange rate variances that the Group considered to be reasonably possible at the end of the reporting period. The analysis was applied to monetary items at the end of the period denominated in the respective currencies.

	YEAR ENDED 31 DECEMBER 2011	YEAR ENDED 31 DECEMBER 2010
Increase in profit before tax	23	52

The effect of a corresponding strengthening of the Russian Rouble against the US Dollar is approximately equal and opposite.

it has adequate cash available to meet its payment obligations.

LIQUIDITY RISK

Liquidity risk is the risk that the Group will not be able to settle all its liabilities as they fall due. The Group's liquidity position is carefully monitored and managed. The Group has a detailed budgeting and cash forecasting process to help ensure that

The following tables detail the Group's remaining contractual maturity for its financial liabilities and net-settled financial liabilities at 31 December 2011. The tables include both interest and principal cash flows. The contractual maturity is based on the earliest date on which the Group may be required to pay or net-settle its financial liabilities.

	CARRYING AMOUNT	CONTRACTUAL CASH FLOWS	0-6 MONTHS	6-12 MONTHS	1-5 YEARS	OVER 5 YEARS
Unsecured borrowings	2,403	3,364	104	104	2,156	1,000
Secured borrowings	317	330	11	61	258	-
Unsecured non-convertible bonds	665	770	37	394	339	-
Dividends payable	8	8	8	-	-	-
Trade and other payables	565	565	565	-	-	-
Total	3,958	5,037	725	559	2,753	1,000

The following tables detail the Group's remaining contractual maturity for its financial liabilities and net-settled financial liabilities at 31 December 2010. The tables include both interest and principal cash flows. The contractual maturity is based on the earliest date on which the Group may be required to pay or net-settle its financial liabilities.

	CARRYING AMOUNT	CONTRACTUAL CASH FLOWS	0-6 MONTHS	6-12 MONTHS	1-5 YEARS	OVER 5 YEARS
Unsecured borrowings	2,239	3,430	111	874	704	1,741
Secured borrowings	41	46	9	9	28	-
Unsecured non-convertible bonds	1,633	2,051	103	103	1,845	-
Dividends payable	73	73	73	-	-	-
Trade and other payables	495	495	495	-	-	-
Total	4,481	6,095	791	986	2,577	1,741

For the management of its day to day liquidity requirements the management had following financing facilities.

	31 DECEMBER 2011	31 DECEMBER 2010
Committed credit facilities	1,941	948
Less: amounts withdrawn	(1,213)	(56)
Total unused credit facilities	728	892

INTEREST RATE RISK

Interest rate risk arises from the possibility that changes in interest rates will affect the value of financial instruments. The table below detail's the Group's annualised sensitivity to change of floating LIBOR rate by 1% which would impact its operations.

The analysis was applied to borrowings based on the assumptions that amount of liability outstanding at the date of statements of financial position was outstanding from the whole period.

	YEAR ENDED 31 DECEMBER 2011	YEAR ENDED 31 DECEMBER 2010
Profit/Loss	3	-

27. FAIR VALUE OF FINANCIAL INSTRUMENTS

The fair value of financial assets and liabilities is determined as follows:

- The fair value of financial assets and financial liabilities with standard terms and conditions and traded on active liquid markets are determined with reference to quoted market prices; and
- The fair value of other financial assets and financial liabilities are determined in accordance with generally accepted pricing models based on discounted cash flow analysis using prices from observable current market transactions.

As at 31 December 2011 and 31 December 2010 management believes that the carrying values of all significant financial assets and financial liabilities recorded at amortised cost in the consolidated financial statements approximated their fair values,

except for the unsecured non-convertible bonds with carrying value of USD 668 million and fair value USD 650 million (31 December 2010: carrying value of USD 1,633 million and fair value USD 1,518 million).

Management believes that the carrying value of financial assets and liabilities approximated their fair values due to (i) their short-term nature for current financial assets and liabilities, (ii) the fact that interest rates on loans receivable approximate current market rates for similar debt instruments, and (iii) the fact that the interest rates on long-term liabilities approximate the current market rates for similar instruments as the majority of loans and borrowings were obtained in 2010-2011.

The Group do not have any financial instruments that are measured subsequent to initial recognition at fair value.

28. COMMITMENTS AND CONTINGENCIES

CAPITAL COMMITMENTS

At 31 December 2011, contractual capital commitments of the Group amounted to USD 192 million (31 December 2010: USD 176 million). These commitments are expected to be settled during 2012.

OPERATING LEASES: GROUP AS A LESSEE

The Group leases certain production equipment, transport and office premises. The leases typically

run for periods varying from 1 to 10 years with no renewal option at the end of the lease term. In addition to the above, the Group's extraction, refining, marketing and distribution and other facilities are located under operating leases, which expire in various years through 2060.

The amount of rental expenses for the year ended 31 December 2011 were USD 37 million (for the year ended 31 December 2010: USD 37 million).

Future minimum rental expenses under non-cancellable operating leases are as follows:

	31 DECEMBER 2011	31 DECEMBER 2010
Due in one year	32	37
Due from one to five years	103	105
Thereafter	475	514
Total	610	656

TAXATION CONTINGENCIES IN THE RUSSIAN FEDERATION

The taxation system in the Russian Federation is at a relatively early stage of development, and is characterised by numerous taxes, frequent changes and inconsistent enforcement at federal, regional and local levels.

The government of the Russian Federation has commenced a revision of the Russian tax system and passed certain laws implementing tax reform. The new laws reduce the number of taxes and overall tax burden on businesses and simplify tax litigation. However, these new tax laws continue to rely heavily on the interpretation of local tax officials and fail to address many existing problems. Many issues associated with practical implication of new legislation are unclear and complicate the Group's tax planning and related business decisions.

In terms of Russian tax legislation, authorities have a period of up to three years to re-open tax declarations for further inspection. Changes in the tax system that may be applied retrospectively by authorities could affect the Group's previously submitted and assessed tax declarations.

While management believes that it has adequately provided for tax liabilities based on its interpretation of current and previous legislation, the risk remains that tax authorities in the Russian Federation could take differing positions with regard to interpretive issues. This uncertainty may expose the Group to additional taxation, fines and penalties that could be significant.

With regard to matters where practice concerning payment of taxes is unclear, management estimated

possible tax exposure at 31 December 2011, to be approximately of USD 550 million (31 December 2010: USD 184 million).

LEGAL CONTINGENCIES

At 31 December 2011, unresolved legal claims against the Group amounted to USD 40 million (31 December 2010: USD 50 million). Management estimates the unfavourable outcome of the legal claims to be possible.

INSURANCE

The insurance industry in the Russian Federation is in a developing stage and many forms of insurance protection common in developed markets are not generally available.

The Group does not have full coverage for property damage, for business interruption and third party liabilities in respect of environmental damage arising from accidents on the Group's property or relating to the Group's operations. Until the Group obtains adequate insurance coverage, there is a risk that the losses could have a material adverse effect on the Group's operations and financial position.

RUSSIAN FEDERATION ECONOMIC ENVIRONMENT

Emerging markets such as Russian Federation are subject to different risks than more developed markets, including economic, political and social, and legal and legislative risks. As has happened in the past, actual or perceived financial problems or an increase in the perceived risks associated with investing in emerging economies could adversely affect the investment climate in Russian Federation and the country's economy in general.

Laws and regulations affecting businesses in the Russian Federation continue to change rapidly.

Tax, currency and customs legislation within the country are subject to varying interpretations, and other legal and fiscal impediments contribute to the challenges faced by entities currently operating in Russia. The future economic direction of the Russian Federation is heavily influenced by the economic, fiscal and monetary policies adopted by the government, together with developments in the legal, regulatory, and political environment.

The global financial system continues to exhibit signs of deep stress and many economies around the world are experiencing lesser or no growth than in prior years. Additionally there is increased uncertainty about the creditworthiness of some sovereign states in the Eurozone and financial institutions with exposure to the sovereign debt of such states. These conditions could slow or disrupt Russia economy, adversely affect the Group's access to capital and cost of capital for the Group and, more generally, its business, results of operations, financial condition and prospects.

Because Russia produces and exports large volumes of oil and gas, country's economy is particularly sensitive to the price of oil and gas on the world market which has fluctuated significantly during 2011 and 2010.

29. EVENTS SUBSEQUENT TO THE REPORTING PERIOD

CORPORATE BONDS

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

LICENCES IN THE NENETS AUTONOMOUS DISTRICT

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

GROUP'S REORGANISATION

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

OBSERVANCE OF THE CODE OF CORPORATE CONDUCT

Nº	PROVISION OF THE CODE OF CORPORATE CONDUCT	OBSERVED / NOT OBSERVED	NOTES/ REASON FOR NON-OBSERVANCE
GENERAL MEETING OF SHAREHOLDERS (GMS)			
1.	Shareholders shall be notified of the General Meeting of Shareholders no less than 30 days before the scheduled date of the meeting, unless legislation stipulates a longer period.	Observed <input checked="" type="checkbox"/>	This norm is included in the Company's Charter.
2.	The procedure for notification of a forthcoming General Meeting of Shareholders must enable the shareholders to prepare properly for participation in the meeting.	Observed <input checked="" type="checkbox"/>	Notification of the meeting is sent to shareholders by post and is published in the Republic of Bashkortostan and Bashkortostan newspapers.
3.	A shareholder can include an issue in the agenda of the General Meeting of Shareholders or demand to call the General Meeting of Shareholders without providing an extract from the shareholder register if his rights to the shares are recorded in the shareholder register. If his rights to the shares are recorded in the custody account, he can exercise the above-mentioned rights after providing the custody account statement.	Observed <input checked="" type="checkbox"/>	It is not required that shareholders confirm their rights by any documents except for a statement of the custody account. This is stipulated in the Regulations on the General Meeting of Shareholders of JSOC Bashneft.
4.	The registration procedure for the participants of the General Meeting of Shareholders shall be stipulated in the Company's internal documents.	Observed <input checked="" type="checkbox"/>	Determined by the Regulations on the General Meeting of Shareholders of JSOC Bashneft.
5.	Shareholders shall be given access to the information (materials) to be provided during preparation for holding a General Meeting of Shareholders by electronic means of communication including the Internet.	Partially observed <input type="checkbox"/>	Regulations on Information Policy do not stipulate the provision of access by electronic means of communication. Shareholders have a right to examine the information (materials) to be provided during preparation for holding a General Meeting of Shareholders on the premises of the Company's executive body and at the addresses indicated in the notification. They also can receive copies of all materials at the indicated addresses as well as on the website.
6.	Obligatory presence of candidates when considering the issues related to the election of members of the Board of Directors, the General Director, members of the Management Board and the Audit Commission, as well as when approving the Company's auditor at the GMS.	Observed <input checked="" type="checkbox"/>	Stipulated by Regulations on the General Meeting of Shareholders. The Company ensures the presence of candidates when considering issues related to the election of members of the Board of Directors and the Audit Commission, as well as when approving the Company's auditor at the GMS.
7.	The Charter or internal documents of the Company require the obligatory presence of the General Director, members of the Management Board, members of the Board of Directors, members of the Audit Commission and the Company's auditor at the GMS.	Observed <input checked="" type="checkbox"/>	Stipulated by Regulations on the General Meeting of Shareholders.
8.	Shareholders can familiarize themselves with the list of persons entitled to participate in the GMS, starting from the notification date of the forthcoming GMS until the end of a face-to-face GMS. If the GMS is held by absentee voting, they may do so until the receipt of ballots finishes.	Observed <input checked="" type="checkbox"/>	Shareholders (or a shareholder) included in the shareholder register and owning in total no less than 1% (one per cent) of the Company's voting shares can demand access to the list of persons entitled to participate in the GMS, provided that they are included in this list. Shareholders can also demand that the Company provides an extract from the list of persons entitled to take part in the GMS which contains information about this shareholder, or a document confirming that he/she is not included in this list.

№	PROVISION OF THE CODE OF CORPORATE CONDUCT	OBSERVED / NOT OBSERVED	NOTES/ REASON FOR NON-OBSERVANCE
WORK OF THE BOARD OF DIRECTORS			
9.	The Company's Charter shall affirm the authority of the Board of Directors to annually approve the Company's financial and business plan.	Observed	According to the Company's Charter, the competence of the Board of Directors includes "determining business priorities and the development strategy of the Company, approving the Company's annual budgets (financial plans) and overseeing the business priorities and development strategies of the subsidiaries".
10.	The Board of Directors has the right to impose requirements for the qualification and the amount of remuneration of the General Director, members of the Management Board and heads of the main departments of the Company.	Observed	The Competence of the Board of Directors includes the following issues: appointing the Company's President; determining the membership of the Management Board and election of its members; approving the terms and conditions of the contract with the President and members of the Management Board of the Company; removing the Company's President and members of the Management Board from office before the end of their term; approving the principles of performance evaluation and the system of remuneration, as well as monitoring the activities of the Company's senior managers who are directly subordinate to the President of the Company.
11.	The Company's Charter ensures the right of the Board of Directors to approve the terms and conditions of contracts with the General Director and members of the Management Board.	Observed	In accordance with the Company's Charter, the terms and conditions of the contract with the President and members of the Company's Management Board shall be approved by the Board of Directors.
12.	Any person found guilty of the following crimes may not serve on the Company's Board of Directors: financial crimes, crimes against the state and crimes against the interests of the civil service of the federal government or local authorities. Further, persons who have received an administrative penalty for any violation in the spheres of entrepreneurship, finance, taxes and duties or securities market may not serve on the Board.	Observed	The Company has taken measures to examine this issue and does not have any information about such wrongdoing by the members of the Company's Board of Directors.
13.	The Company's Board of Directors may not include persons who serve as employees, general directors (managers), members of the regulatory bodies or stakeholders of a legal entity competing with the Company.	Not observed	The Board of Directors of JSOC Bashneft includes persons who are members of the Board of Directors of OJSC Russneft: A.Y. Goncharuk, A.V. Abugov, S.A. Drozdov, M.S. Gutseriev and F.V. Evtushenkov. The Board of Directors of JSOC Bashneft also includes M.S. Gutseriev, President of OJSC Russneft.
14.	The Company's internal documents require that meetings of the Board of Directors be held not less than once every six weeks.	Observed	Regulations on the Board of Directors stipulate that its meetings are to be held at least once a month. There were 24 meetings of the Board of Directors during the reporting period.
15.	Meetings of the Company's Board of Directors during the year for which the annual report of the Company is prepared shall be held no less than once every six weeks.	Observed	There were 24 meetings of the Board of Directors during the reporting period.
16.	The Company's internal documents stipulate the procedure for holding the Board of Directors' meetings.	Observed	The procedure for holding the meetings of the Board of Directors has been established by Rules on the meetings of the Board of Directors of JSOC Bashneft.
17.	The Company shall have a strategic planning committee of the Board of Directors.	Observed	The Company has created the Strategy Committee of the Board of Directors.
18.	The Company shall have a committee of the Board of Directors (the audit committee) which recommends the Company's auditor to the Board of Directors and cooperates with the auditor and the Audit Commission of the Company.	Observed	The Company has created the Budget and Audit Committee of the Board of Directors.

№	PROVISION OF THE CODE OF CORPORATE CONDUCT	OBSERVED / NOT OBSERVED	NOTES/ REASON FOR NON-OBSERVANCE
19.	The creation of a committee of the Board of Directors (personnel and remuneration committee) that determines the criteria for selection of candidates to the Board of Directors and develops the remuneration policy of the Company.	Observed	The Company has created the Nominating and Compensation Committee of the Board of Directors. Functions of the Committee are set out in the Regulations on the Nominating and Compensation Committee.
20.	The personnel and remuneration committee shall be headed by an independent director.	Not observed	A.Y. Goncharuk who is not an independent director is the Chairman of the Nominating and Compensation Committee.
21.	The Company shall have internal documents approved by the Board of Directors which stipulate the procedure for the formation and work of committees of the Board of Directors.	Observed	The Company has approved Regulations on the Committees of the Board of Directors that stipulates the competence and procedures for the creation and activities of the committees.
22.	The Company's Charter stipulates the procedure for determining the quorum of the Board of Directors that is necessary for ensuring obligatory participation of independent directors in meetings of the Board of Directors.	Not observed	Not stipulated by the Company's Charter. The quorum of the Board of Directors is determined based on the number of members of the Board of Directors who take part in a meeting regardless of whether they are an independent, non-executive or executive director.
23.	Internal documents of the issuer shall require the members of the Board of Directors, the collective executive body and the person who performs the functions of a sole executive body, including the managing company and its executives to disclose information about the ownership of securities of the issuer and the sale and (or) purchase of the issuer's securities.	Observed	This obligation is reflected in the Regulations on the Board of Directors, the Regulations on the Management Board and in the Regulations on the President.
24.	The Company's internal documents shall stipulate the right of members of the Board of Directors to obtain information necessary for performing their duties from executive bodies and heads of the Company's main departments, as well as liability for the failure to provide such information.	Observed	This obligation is reflected in the Regulations on the Board of Directors, Regulations on the Management Board and in the Regulations on the President.
25.	The Company's internal documents shall require the members of the Board of Directors to notify the Board of Directors in writing of their intention to make transactions in the securities of any company of which they are a member of the Board of Directors, or its subsidiaries (affiliates), as well as disclose information on their transactions in such securities.	Observed	This obligation is reflected in the Regulations on the Board of Directors, Regulations on the Management Board and in the Regulations on the President.
26.	The Company's internal documents shall include a provision stipulating that the Company's transactions amounting to 10% or more of the value of the Company's assets, except for transactions conducted in the course of ordinary business operations, should be approved by the Board of Directors.	Observed	Stipulated by the Company's Charter.
27.	The Company's Charter shall require that the Board of Directors be elected by cumulative voting.	Observed	Stipulated by the Company's Charter.
28.	The Company's Board of Directors shall include at least 3 independent directors meeting the requirements of the Code of Corporate Conduct.	Not observed	The Board of Directors includes two independent directors meeting the conditions of the Code of Corporate Conduct.
29.	The audit committee shall include only independent and non-executive directors	Not observed	The Budget and Audit Committee includes non-executive directors who are not independent directors.
30.	The audit committee shall be headed by an independent director.	Not observed	A.N. Buyanov, who is not an independent director, is the Chairman of the Budget and Audit Committee.

№	PROVISION OF THE CODE OF CORPORATE CONDUCT	OBSERVED / NOT OBSERVED	NOTES/ REASON FOR NON-OBSERVANCE
31.	The Company's internal documents shall provide for the right of all members of the Audit Committee to have access to any documents and information of the Company provided that they do not disclose confidential information.	<input checked="" type="checkbox"/> Observed	Stipulated by the Regulations on the Budget and Audit Committee of the Board of Directors of JSOC Bashneft.
32.	The Company's internal documents shall require the members of the Board of Directors to refrain from taking actions which cause or may cause a conflict of interest between them and the Company, and in the case of such conflict they must inform the Board of Directors of this conflict.	<input checked="" type="checkbox"/> Observed	Stipulated by the Regulations on the Board of Directors of the Company.
33.	The Charter or internal documents of the Company shall require that, when the Board of Directors approves the terms and conditions of contracts with the general director (managing company, manager) and members of the management board, the votes cast by the general director and members of the Management Board should not be taken into consideration during vote counting.	Not observed	Not stipulated by the Company's Charter.
34.	The personnel and remuneration committee shall not include the Company's executives.	Not observed	A.L.Korsik, President of the Company, is a member of the Nominating and Compensation Committee.
35.	The risk committee of the Board of Directors shall be created or the duties of this committee shall be imposed on another committee (except for the Audit Committee and the personnel and remuneration committee).	<input checked="" type="checkbox"/> Partially observed	The Risk Committee of the Management Board of JSOC Bashneft has been created and functions.
36.	The corporate dispute resolution committee of the Board of Directors shall be created or the duties of this committee shall be imposed on another committee (except for the Audit Committee and the personnel and remuneration committee).	<input checked="" type="checkbox"/> Observed	The Corporate Conduct Committee of the Board of Directors of JSOC Bashneft has been created and functions.
37.	The corporate dispute resolution committee shall not include the Company's executives.	Not observed	N.A.Solomatina, Vice-President of the Company, is a member of the Corporate Conduct Committee.
38.	The corporate dispute resolution committee shall be headed by an independent director.	Not observed	S.A.Drozhdov who is not an independent director is the Chairman of the Corporate Conduct Committee.
39.	The Company shall have a risk management procedure approved by the Board of Directors.	<input checked="" type="checkbox"/> Partially observed	The Regulations on Risk Management of Bashneft Group that were approved by the President of the Company are in force.
EXECUTIVE BODIES			
40.	The Company has a collective executive body (management board).	<input checked="" type="checkbox"/> Observed	The Company has established the Management Board, a collective executive Body.
41.	The Company's executive bodies may not include persons who serve as employees, general directors (managers), members of the regulatory bodies or stakeholders of a legal entity competing with the Company.	<input checked="" type="checkbox"/> Observed	The executive bodies of JSOC Bashneft (according to the information available to JSOC Bashneft) do not include persons who are stakeholders, general directors (managers), members of regulatory bodies or employees of a legal entity competing with JSOC Bashneft.
42.	Any person found guilty of the following crimes may not serve in the Company's executive bodies: financial crimes, crimes against the state and crimes against the interests of the civil service of the federal government or local authorities. Further, persons who have received an administrative penalty for any violation in the spheres of entrepreneurship, finance, taxes and duties or the securities market may not serve in the Company's executive bodies. If the duties of a sole executive body are performed by a managing company or a manager, the general director and members of the management board of the managing company or the manager must meet the requirements for the general director and members of the management board of the Company.	<input checked="" type="checkbox"/> Observed	The Company has taken measures to examine this issue, and according to the information available to JSOC Bashneft, there are no such persons.

№	PROVISION OF THE CODE OF CORPORATE CONDUCT	OBSERVED / NOT OBSERVED	NOTES/ REASON FOR NON-OBSERVANCE
43.	The Charter or internal documents of the Company shall prohibit a managing company (a manager) from performing similar duties in the competing company as well as from having any other proprietary interests with the Company except for providing management organization services (management).	<input checked="" type="checkbox"/> Observed	Stipulated by the Company's Charter.
44.	Internal documents of the Company shall require that the executive bodies to refrain from taking actions which cause or may cause a conflict of interest between them and the Company, and in case of such conflict, they must inform the Board of Directors about it.	<input checked="" type="checkbox"/> Observed	This is required by the Regulations on the Board of Directors, Regulations on the Management Board and Regulations on the President.
45.	Executive bodies of the Company shall provide the Board of Directors with monthly reports on their work.	<input checked="" type="checkbox"/> Observed	The Board of Directors reviews the main operating and financial results of JSOC Bashneft on a quarterly basis. The Company's management prepares monthly interim reports on the main operating and financial results and quarterly controlling reports on the Company's operations. Management provides these materials to members of the Board of Directors.
46.	Internal documents of the issuer shall stipulate that members of the Board of Directors, members of the collective executive body and the person performing the duties of the sole executive body, including the managing company and its executives, must disclose information about ownership of the issuer's securities as well as about sale and (or) purchase of the issuer's securities.	<input checked="" type="checkbox"/> Observed	Stipulated by the Regulations on the Board of Directors, Regulations on the President and Regulations on the Management Board.
47.	Contracts concluded between the Company and the general director (managing company or a manager) and members of the management board shall stipulate responsibility for violating regulations on the use of confidential and private information.	<input checked="" type="checkbox"/> Observed	Protection of confidential information is required by the Contract with the President and members of the Management Board of the Company.
48.	The charter or internal documents of the Company shall establish the criteria for selecting a managing company (or a manager).	Not observed	Not stipulated by the Company's Charter and internal documents.
49.	The charter or internal documents of the Company shall contain a provision stipulating that transactions in real estate and borrowings be approved by the management board; if these transactions are not major and if they are not part of the Company's day-to-day operation.	<input checked="" type="checkbox"/> Observed	Stipulated by the Company's Charter and Regulations on the Credit Policy of the Company.
50.	Internal documents of the Company shall establish the procedure for coordinating operations that are beyond the financial and business plan of the Company.	<input checked="" type="checkbox"/> Observed	Stipulated by the Standard on the Credit Policy of the Company.
CORPORATE SECRETARY			
51.	The Company has a special executive (the Secretary of the Company) whose duty it is to ensure that the Company's bodies and executives comply with procedural requirements which safeguard the rights and legitimate interests of the Company's shareholders.	<input checked="" type="checkbox"/> Observed	The Company has appointed a Corporate Secretary.
52.	The charter or internal documents of the Company shall specify the procedure for appointment (election) of the Company Secretary and the Secretary's duties.	<input checked="" type="checkbox"/> Observed	Stipulated by the Company's Charter, Regulations on the Board of Directors and Regulations on the Corporate Secretary.
53.	The charter of the Company sets out the requirements for the candidate for the position of Company Secretary.	<input checked="" type="checkbox"/> Partially observed	The requirements are set out in the Regulations on the Board of Directors and Regulations on the Corporate Secretary.
SIGNIFICANT CORPORATE ACTIONS			
54.	The charter or internal documents of the Company shall require the approval of a major transaction before it is conducted.	<input checked="" type="checkbox"/> Observed	Stipulated by the Company's Charter.

№	PROVISION OF THE CODE OF CORPORATE CONDUCT	OBSERVED / NOT OBSERVED	NOTES/ REASON FOR NON-OBSERVANCE
55.	The Company must engage an independent appraiser to determine the market value of property which is the subject of a major transaction.	<input checked="" type="checkbox"/> Observed	In these cases, the Board of Directors of JSOC Bashneft engages an independent appraiser.
56.	In case of acquisition of a major stake in the Company (a takeover), the Company's charter shall prohibit any actions aimed at protecting the interests of the executive bodies (members of these bodies) or members of the Company's Board of Directors or actions that diminish the stature of shareholders. For instance, the charter shall prohibit the Board of Directors from making decisions on additional share issues and convertibles or securities which ensure the right to acquire the Company's shares, before the end of the supposed period of share purchase, even if the charter stipulates the right to make such decision.	Not observed	Not stipulated by the Company's Charter.
57.	The charter or internal documents of the Company shall require that an independent appraiser must be engaged to determine the conversion ratio for the reorganization.	Not observed	Not stipulated by the Company's Charter.
INFORMATION DISCLOSURE			
58.	The Company shall have an internal document approved by the Board of Directors which establishes rules and the Company's approaches to information disclosure (Regulations on Information Policy).	<input checked="" type="checkbox"/> Observed	Regulations on the Information Policy were approved by the Board of Directors on October 3, 2011.
59.	Internal documents of the Company shall include a list of information, documents and materials which should be provided to the shareholders in order to decide the issues to be considered at the GMS.	<input checked="" type="checkbox"/> Observed	Regulations on the General Meeting of Shareholders and Regulations on Information Policy contain the list of additionally provided information.
60.	Disclosure of financial information on the Company's operations.	<input checked="" type="checkbox"/> Observed	Financial statements prepared according to RAS are disclosed annually. The quarterly statements prepared according to RAS are disclosed in the issuer's quarterly report. Financial statements prepared according to IFRS are disclosed on a quarterly basis.
61.	Use of additional forms and means of information disclosure.	<input checked="" type="checkbox"/> Observed	The Company discloses information by all modern means in order to increase the transparency of its operations and provide shareholders and other stakeholders with free access to the most comprehensive information on its operating results.
62.	An issuer shall disclose information on the amount of remuneration received by members of the Board of Directors, members of the collective executive body and by the person who performs the duties of a sole executive body, including the managing company and the manager.	<input checked="" type="checkbox"/> Observed	This information is disclosed in the Annual Report, in the Quarterly Report of the issuer and in the prospectus of the Company.
63.	The Company shall have an Internet website and regularly disclose information about the Company on this website.	<input checked="" type="checkbox"/> Observed	Websites: http://www.bashneft.ru/ or http://www.bashneft.com
64.	Internal documents of the Company shall require the disclosure of information on the Company's transactions with its senior managers as defined in the Charter, as well as on the Company's transactions with organizations in cases if the Company's senior managers own, directly or indirectly, 20% or more of the authorized capital of these organizations or can exert significant influence by other means.	<input checked="" type="checkbox"/> Partially observed	Observed in the terms of compliance with requirements of the legislation on related-party transactions.

№	PROVISION OF THE CODE OF CORPORATE CONDUCT	OBSERVED / NOT OBSERVED	NOTES/ REASON FOR NON-OBSERVANCE
65.	The Company shall have an internal document approved by the Board of Directors that stipulates the use of material information on the Company's operations, shares and other securities of the Company, as well as on transactions in them. This information is not available to the public, and its disclosure can have a significant impact on the market value of the Company's shares or other securities.	<input checked="" type="checkbox"/> Observed	Stipulated by the Regulations on Information Policy and Regulations on Insider Information.
66.	Internal documents of the Company shall require the disclosure of information on all transactions that can affect the market value of the Company's shares.	<input checked="" type="checkbox"/> Observed	Stipulated by the Regulations on Insider Information.
67.	Disclosure of information on the aims of placement of shares, on persons who are going to acquire these shares, including a major stake, as well as on participation of the Company's senior managers in the acquisition of these shares.	<input checked="" type="checkbox"/> Observed	This information is disclosed in the issuing documents.
MONITORING FINANCIAL AND BUSINESS OPERATIONS			
68.	The Company shall establish internal control procedures approved by the Board of Directors for monitoring the Company's financial and business operations.	<input checked="" type="checkbox"/> Observed	The Company approved Regulations on Internal Audit, Regulations on the Internal Control and Audit Department as well as Rules for the organization and conduct of audit procedures.
69.	The Company shall have a special department which ensures compliance with internal control procedures (control and audit service).	<input checked="" type="checkbox"/> Observed	The Company has established the Internal Control and Audit Department (ICAD).
70.	Internal documents of the Company shall require that the Board of Directors should determine the structure and membership of the Company's control and audit service.	<input checked="" type="checkbox"/> Observed	The Company's Board of Directors approves the formation of the Company's organizational structure and changes in it according to the Rules for the Formation of Organizational Structure and Changes in it.
71.	Any person found guilty of the following crimes may not serve in the control and audit service: financial crimes, crimes against the state and crimes against the interests of the civil service of the federal government or local authorities. Further, persons who have received an administrative penalty for any violation in the spheres of entrepreneurship, finance, taxes and duties or the securities market may not serve in the control and audit service.	<input checked="" type="checkbox"/> Observed	The Company has taken measures to examine this issue and does not have any information about such wrongdoings committed by the employees of the Internal Control and Audit Department.
72.	The control and audit service may not include persons who serve as employees, general directors (managers), members of the regulatory bodies or stakeholders of a legal entity competing with the Company.	<input checked="" type="checkbox"/> Observed	The control and audit service of JSOC Bashneft does not include such persons.
73.	Internal documents of the Company shall stipulate the deadlines for providing documents and materials to the control and audit service for assessment of the financial and business operations. Internal documents shall also stipulate responsibility of the Company's executives and employees for failure to provide these documents within the deadlines.	<input type="checkbox"/> Partially observed	When conducting inspections, the control and audit service requests information and sets the deadline for providing such information. The deadline depends on how urgently the information should be provided and on its volume. No specific deadline is formalized in the internal documents of the Company.
74.	Internal documents of the Company shall stipulate the duty of the control and audit service to inform the audit committee or the Company's Board of Directors (if there is no such committee) about any violations.	<input checked="" type="checkbox"/> Observed	In accordance with Regulations on the Budget and Audit Committee, the Internal Control and Audit Department submits reports on the results of inspections to the Budget and Audit Committee.

№	PROVISION OF THE CODE OF CORPORATE CONDUCT	OBSERVED / NOT OBSERVED	NOTES/ REASON FOR NON-OBSERVANCE
75.	The Company's Charter shall require the control and audit service to carry out a preliminary assessment of the feasibility of operations that are not included in the financial and business plans of the Company (non-standard operations).	Partially observed	The Charter does not directly require the control and audit service to carry out a preliminary assessment of the feasibility of operations which are not included in the financial and business plan of the Company. However, such an assessment can be carried out if the Company's management or collective bodies of the Company demand it.
76.	Internal documents of the Company shall stipulate the procedure for approval of a non-standard operation by the Board of Directors.	Observed	The section "Competence of the Board of Directors of the Company" of the Charter of JSOC Bashneft specifies transactions that may be made only after the Company's Board of Directors approves them. The procedure for making such transactions is stipulated by the Charter and Regulations on the Board of Directors of the Company.
77.	The Company shall have an internal document approved by the Board of Directors which stipulates the procedure for conducting inspections of the Company's financial and business operations. The inspections are conducted by the Audit Commission.	Observed	The Company has adopted the Regulations on the Audit Commission of JSOC Bashneft that are approved by the General Meeting of Shareholders of the Company. The Regulations stipulate in detail the functions and tasks of the Audit Commission and formalize its rights and duties.
78.	The Audit Committee carries out the assessment of the auditor's report before presenting it to the shareholders at the GMS.	Observed	Stipulated by the Regulations on the Budget and Audit Committee of the Board of Directors.
DIVIDENDS			
79.	The Company shall have an internal document approved by the Board of Directors that serves as the guidelines for the Board of Directors when adopting recommendations on the amount of dividends to be paid (Regulations on Dividend Policy).	Observed	Regulations on Dividend Policy were approved by the Board of Directors in 2011.
80.	Regulations on Dividend Policy shall include the procedure for determining the minimum portion of the Company's net income to be used for dividends payment, as well as the conditions under which dividends on preferred shares are not paid or are paid in part. The amount of dividends on preferred shares is stated in the Company's Charter.	Observed	Stipulated by the Regulations on Dividend Policy.
81.	The Company publishes information on its dividends policy and changes to it in the periodical that, in compliance with the Company's Charter, publishes notifications of forthcoming General Meetings of Shareholders. This information is also published on the Company's website.	Partially observed	The Company does not publish information on its dividends policy and changes to it in the periodical that, in compliance with the Company's Charter, publishes notifications of forthcoming General Meetings of Shareholders. This information is published on the Company's website.

THE LIST OF MAJOR AND RELATED-PARTY TRANSACTIONS

MAJOR TRANSACTIONS

The list of the Company's transactions in the reporting year that qualify as major transactions under the Federal Law on Joint-Stock Companies, as

well as other transactions that were approved under the procedure for approval of major transactions, as stated in the Company's Charter

REGULATORY BODY WHICH MADE THE DECISION ON APPROVAL OF THE TRANSACTION	SUBJECT OF TRANSACTION	PARTIES TO THE TRANSACTION	TRANSACTION VALUE
The Board of Directors	Placement and acquisition in the process of placement for public offering of JSOC Bahneft's series 04 and 05 bonds of as well as series BO-01, BO-02, BO-03 and BO-04 exchange-traded bonds	First purchasers of series 04 and 05 bonds of JSOC Bashneft and series BO-01, BO-02, BO-03 and BO-04 exchange-traded bonds	Total par value of bonds (50,000,000,000 roubles) and total coupon yield of series 04 and 05 bonds, and series BO-01, BO-02, BO-03 and BO-04 exchange-traded bonds
The Board of Directors	Oil supply	Star Oil (FZE)	Up to US\$ 2,716,986,800

RELATED-PARTY TRANSACTIONS

The list of the Company's transactions in the reporting year which qualify as related-party transactions under the Federal Law on Joint Stock Companies and which

need to be approved by the Company's authorized regulatory body according to Chapter XI of the Federal Law on Joint-Stock Companies

REGULATORY BODY WHICH MADE THE DECISION ON APPROVAL OF THE TRANSACTION	SUBJECT OF TRANSACTION	PARTIES TO THE TRANSACTION	TRANSACTION VALUE	PERSONS RECOGNIZED AS RELATED PARTIES
The Board of Directors	Purchase and sale of ordinary and preferred shares of OJSC Orenburgnefteprodukt	OJSC RussNeft	Up to US\$ 120,000,000	OJSC JSFC Sistema A.V.Abugov S.A.Drozhdov I.V.Marchenko I.A.Melamed
The Board of Directors	Petroleum products supply	CJSC Bashneft-Region	RUB 5,055,700,000	V.G.Khoroshavtsev
The Board of Directors	Exercising the rights of stakeholders of LLC Aspec	LLC Aspec LLC Delta-Holding M.Y.Pitkevich D.A.Stankevich V.G. Khoroshavtsev.	Not indicated	V.G.Khoroshavtsev
The Board of Directors	Conclusion of a supplementary agreement to a loan agreement	OJSC Sistema-invest	RUB 3,519,000,000	OJSC JSFC Sistema
The Board of Directors	Petroleum products supply	LLC Bashneft-Udmurtia	Up to RUB 3,000,000,000	V.G.Khoroshavtsev
The Board of Directors	Conclusion of a supplementary agreement to a petroleum products supply contract	OJSC POLYEF	RUB 423,513,720	A.Y.Goncharuk
The Board of Directors	Conclusion of a supplementary agreement to a petroleum products supply contract	OJSC POLYEF	Up to RUB 560,011,480	A.Y.Goncharuk

REGULATORY BODY WHICH MADE THE DECISION ON APPROVAL OF THE TRANSACTION	SUBJECT OF TRANSACTION	PARTIES TO THE TRANSACTION	TRANSACTION VALUE	PERSONS RECOGNIZED AS RELATED PARTIES
The Board of Directors	Conclusion of a supplementary agreement to a petroleum products supply contract	OJSC POLYEF	Up to RUB 560,011,480	A.Y.Goncharuk
The Board of Directors	Conclusion of a loan agreement for working capital financing	LLC Bashneft-Polyus	Up to RUB 100,000,000	OJSC JSFC Sistema OJSC Sistema-Invest V.G. Khoroshavtsev
The Board of Directors	Supply of petroleum products and petrochemicals	CJSC Bashneft-Region	Up to RUB 5,055,700,000	V.G.Khoroshavtsev
The Board of Directors	Conclusion of a supplementary agreement to a contract for supply of petroleum products and petrochemicals	CJSC Bashneft-Region	Not indicated	V.G.Khoroshavtsev
The Board of Directors	Conclusion of a sale and purchase contract for movable property	LLC Bashneft-Bureniye	Up to RUB 1,240,000,000	OJSC JSFC Sistema OJSC Sistema-Invest A.V.Dashevsky O.Y.Sidomonidze
The Board of Directors	Supply of petroleum products and petrochemicals	CJSC Bashneft-Region	Up to RUB 3,000,000,000	V.G.Khoroshavtsev
The Board of Directors	Property insurance contract	OJSC IC Allianz	US\$ 150,000,000	Members of the regulatory bodies of the Company and its subsidiaries and affiliates
The Board of Directors	Purchase and sale of a stake in LLC BN-Neft-eprodukt	V.G. Khoroshavtsev	RUB 50,000,000	V.G. Khoroshavtsev
The Board of Directors	Supplementary agreement to a loan agreement	OJSC Sistema-Invest	RUB 233,163,900	OJSC JSFC Sistema
The Board of Directors	Granting a loan	LLC Bashneft-Polyus	Up to RUB 3,500,000,000	OJSC JSFC Sistema OJSC Sistema-Invest K.I.Andreichenko A.V.Dashevsky O.Y.Sidomonidze
The Board of Directors	Supplementary agreement to a petroleum products supply contract	OJSC POLYEF	RUB 5,080,000,000	A.Y.Goncharuk S.A.Drozhdov
The Board of Directors	Conclusion of a sale and purchase contract for movable property	LLC Bashneft-Dobycha	Up to RUB 4,121,000,000	OJSC JSFC Sistema K.I.Andreichenko M.Y.Stavsky A.V.Kurach A.V.Dashevsky
The Board of Directors	Conclusion of a supplementary agreement to a guarantee agreement	Gazprombank (OJSC)	Up to RUB 3,100,000,000	OJSC JSFC Sistema OJSC Sistema-Invest K.I.Andreichenko
The Board of Directors	Conclusion of a supplementary agreement to a guarantee agreement	Gazprombank (OJSC)	Up to RUB 4,100,000,000	OJSC JSFC Sistema OJSC Sistema-Invest A.L.Korsik V.A.Gantsev
The Board of Directors	Oil supply	OJSC RussNeft	Up to RUB 5,370,000,000	OJSC JSFC Sistema A.V.Abugov A.Y.Goncharuk S.A.Drozhdov F.V.Evtushenkov

REGULATORY BODY WHICH MADE THE DECISION ON APPROVAL OF THE TRANSACTION	SUBJECT OF TRANSACTION	PARTIES TO THE TRANSACTION	TRANSACTION VALUE	PERSONS RECOGNIZED AS RELATED PARTIES
The Board of Directors	Granting a loan	LLC Bashneft-Polyus	Up to RUB 4,950,000,000	OJSC JSFC Sistema OJSC Sistema-Invest Y.A.Brusilova M.Y.Stavsky
The Board of Directors	Conclusion of a supplementary agreement to a guarantee agreement	Gazprombank (OJSC)	Up to RUB 5,400,000,000	OJSC JSFC Sistema OJSC Sistema-Invest K.I.Andreichenko
The Board of Directors	Conclusion of a supplementary agreement to a guarantee agreement	Gazprombank (OJSC)	Up to RUB 5,400,000,000	OJSC JSFC Sistema OJSC Sistema-Invest A.L.Korsik
The Board of Directors	Conclusion of a supplementary agreement to a guarantee agreement	Gazprombank (OJSC)	Up to RUB 5,400,000,000	OJSC JSFC Sistema OJSC Sistema-Invest K.I.Andreichenko
The Board of Directors	Oil supply	LLC Zirgan	Up to RUB 100,000,000	OJSC JSFC Sistema OJSC Sistema-Invest
The Board of Directors	Oil supply	LLC Bashmineral	Up to RUB 1,300,000,000	OJSC JSFC Sistema OJSC Sistema-Invest
The Board of Directors	Oil supply	LLC Geoneft	Up to RUB 1,800,000,000	OJSC JSFC Sistema OJSC Sistema-Invest
The Board of Directors	Agreement on the terms and conditions of oil sales	LLC Bashneft-Polyus OJSC Lukoil	Not indicated	OJSC JSFC Sistema OJSC Sistema-Invest
The Board of Directors	Agreement on terms for financing by participants of operations of LLC Bashneft-Polyus	LLC Bashneft-Polyus, OJSC Lukoil	Not indicated	OJSC JSFC Sistema OJSC Sistema-Invest
The Board of Directors	Conclusion of a supplementary agreement to a loan agreement	«SIVIERA INVEST LTD»	Up to US\$ 10,700,000	OJSC JSFC Sistema OJSC Sistema-Invest
The Board of Directors	Conclusion of a supplementary agreement to a loan agreement	OJSC Sistema-Invest	RUB 4,089,102,102.78	OJSC JSFC Sistema
The Board of Directors	Agency contract	OJSC Bashkirenergo	RUB 3,956.14	OJSC JSFC Sistema OJSC Sistema-Invest A.V.Abugov F.V.Evtushenkov
The Board of Directors	Agreement on change of parties to contracts	LLC Bashneft-Polyus, parties	RUB 1,108,388,269	OJSC JSFC Sistema OJSC Sistema-Invest Y.A.Brusilova A.V.Dashevsky M.Y.Stavsky
The Board of Directors	Purchase and sale of property	LLC Bashneft-Polyus	RUB 1,725,421,000	OJSC JSFC Sistema OJSC Sistema-Invest Y.A.Brusilova A.V.Dashevsky M.Y.Stavsky
The Board of Directors	Conclusion of a provisional sale and purchase contract for real estate	LLC Bashneft-Polyus	Up to RUB 750,000,000	OJSC JSFC Sistema OJSC Sistema-Invest Y.A.Brusilova A.V.Dashevsky M.Y.Stavsky

GLOSSARY OF TERMS AND ABBREVIATIONS

A

ACIDIZING

Matrix acidizing.

ADDITIVES

Substances, very small amounts of which are added to fuels, oils, lubricants and special fluids in order to improve their natural properties or to add new properties necessary for the conditions of their production, transportation, storage and use.

AFFILIATED PERSONS

Individuals and legal entities who can influence activities of the legal entities and/or individuals involved in entrepreneurship.

APPLICATION OF ALKALINE AND SILICATE

The use of chemicals based on an alkaline silicate solution.

AROMATIC HYDROCARBONS

Hydrocarbons containing benzene rings which can be fused and have saturated side chains. The main aromatic hydrocarbons are benzene (C₆H₆) and its homologues.

ASCEM

Automatic system of commercial energy metering.

ASDM

Automatic system of dispatch management.

ASSOCIATED GAS

Hydrocarbon gases (ethane, propane, butane, etc.) which are associated with the produced oil and extracted from it during separation. The gases are a valuable raw material for the petrochemical and chemical industry.

ASTEM

Automatic system of technical energy metering.

B

BENZENE

An organic compound, a colourless liquid with a pleasant sweetish smell. An aromatic hydrocarbon. Benzene is a component of gasoline. It is widely used in industry, as a raw material for production of medicines, various types of plastic, synthetic rubber and dyes.

BITUMEN

A general term for viscous solid and liquid substances which are soluble in organic solvents and

which consist of hydrocarbons and their heteroatomic derivatives. There are two types of bitumen: petroleum bitumen and natural bitumen. Petroleum bitumen is a product of refining oil and oil residue. Bitumen is used in building and road construction, roofing, etc. Natural bitumen (or bituminous rocks) is an organic and mineral mixture which contains up to 15%-20% by weight of heavy oils from bituminous rocks which are used as raw materials in traditional oil refining after extraction and upgrading. Bitumen contains asphaltenes, resins and oils.

C

C₁ HYDROCARBON RESERVES

Oil or gas reserves detected in individual wells, when there are favourable production and geological data on other wells.

C₂ HYDROCARBON RESERVES

Oil and gas reserves which are expected to exist within the known oil districts according to geological and geophysical data.

CATALYTIC CRACKING

Catalytic thermal treatment of crude oil in order to produce substances with a smaller molecular mass, such as components of high-octane gasoline, light gas oil, valuable unsaturated hydrocarbon gases C₃-C₄ and isobutane (the raw material for alkylation). Catalytic cracking is one of the most important processes that ensures deep oil refining. The main advantage of the process is the possibility to refine practically any oil fractions and their mixtures with residue, converting them into high quality products. Further, it is comparatively easy to combine catalytic cracking with other processes, such as alkylation, hydrocracking, hydrotreatment, deasphalting, etc.

CDU TEK

Central Dispatching Department of the Fuel and Energy Complex.

CEMENT SHEATH

A stone which is formed by cement slurry pumped into the space between the formation and casing string of a well. It separates the rocks through which the well passes.

COILED TUBING

A technology that employs continuous tubes instead of strings of jointed metallic tubes. Coiled tubing technologies are based on the use of long (up to 3-5 km) flexible pipes with flush joints, usually made of steel, which are wound on a reel and repeatedly lowered into a well. Such technologies reduce the workover time two- to fivefold and reduce the cost of maintenance and repair work.

COKING

High-temperature refining of heavy petroleum residue aimed at producing oil coke and additional amount of "light" fractions boiling off at no more than 350°C and used for producing engine fuel components.

COMMERCIAL GASOLINE

A complex mixture of technological intermediate products of direct distillation, reforming, cracking, isomerization, alkylation, etc., that consists of hydrocarbons and heteroatomic compounds of various structures (mainly C₄-C₁₂), to which a batch of various additives is added to improve their operational qualities.

CONSTRUCTION OF FIELD FACILITIES

A package of special construction and installation works, as well as administrative and engineering measures that ensure efficient and safe production at the oilfield.

CONVERGED NETWORK

A network that integrates five types of telecommunications networks: telephone network (local and urban), mobile telephone network, video transmission network, local computer network (Intranet) and global computer network (Internet). Integration of these networks usually makes it possible to use universal devices, interfaces, systems and software.

CORE SAMPLE

A cylindrical piece of rock obtained when drilling a well. It is lifted to the surface by drilling fluid or compressed air that is pumped into the well by a circulating pump or compressor.

CORE SAMPLE ANALYSIS

Analysis of rock samples obtained from the borehole and brought to the surface for examination.

CORE SAMPLING

A method of reservoir where rock samples that have been removed from the well are analysed at the surface.

CORPORATE RESTRUCTURING

A major one-time change in the structure of capital or property of the company.

CRACKING

A method of high-temperature refining of oil fractions and residue in order to produce, first and foremost, components of engine fuels, as well as petrochemical raw materials. Cracking is performed either by heating crude oil or by both high temperature and catalysts.

CREDIT RATING

An assessment of the credit worthiness of an individual, company, region, or country. It is based on the history of borrowing and repayment, as well as on

the amount of assets and financial liabilities (debts). The main purpose of such evaluations is to enable potential creditors/investors to assess the likelihood of a timely repayment of financial liabilities.

CRUDE OIL

Unrefined and unstabilized oil, i.e., as produced from the well.

CRUDE OIL STABILIZATION

A technological process in which the removal (distillation) of hydrocarbon and heteroatomic gases (carbon dioxide, sulphur-containing, etc.) dissolved in oil and light liquid fractions which remained after initial degasification reduces their loss during transportation and storage as well as to maintain oil vapour pressure. It is carried out at integrated units at oilfields together with dehydration and desalting.

D

D₁ HYDROCARBON RESERVES

Reserves calculated on the basis of the results of regional geological, geophysical and geochemical surveys in a way similar to those that have been used at explored oilfields within the region under evaluation. D₁ hydrocarbon reserves are undiscovered oil and gas reserves of lithostratigraphic zones. They are evaluated within large regional structures that contain commercial reserves of oil and gas.

D_{1L} HYDROCARBON RESERVES

Undiscovered localized resources of traps detected as a result of an exploratory geological and geophysical survey and situated within the regions that contain proved or possible oil and gas reserves.

D₂ HYDROCARBON RESERVES

Reserves calculated on the basis of assumed parameters according to general geological concepts and similar to other, better explored regions where proved reserves of oil exist. D₂ hydrocarbon reserves are undiscovered oil and gas reserves of lithostratigraphic zones, evaluated within large regional structures which have not yet been found to contain commercial reserves of oil and gas. The oil and gas potential of these zones is predicted on the basis of geological, geophysical and geochemical studies.

DEASPHALTING

The removal of high-molecular-weight resinous substances and asphaltenes dispersed or dissolved in residual products of oil distillation (fuel oil, tar).

DEMULSIFIERS

Chemicals which decrease the probability of emulsification during the contact of formation fluid and reactants.

DEPLETION RATE

An indicator characterizing the degree of depletion of reserves at a specific subsoil area. The calculating procedure is stipulated by the Tax Code of the Russian Federation.

DEPOSIT

A mineral accumulation in the earth's crust or on the ground surface in the form of strata, strings, lenses or nests, the size of which may reach dozens of kilometres. This can be illustrated by an oil deposit in a trap under an impermeable formation.

DERRICK

A structure built at the oilfield to install drilling equipment and a mast for lifting and lowering the drill string and casing string.

DEVELOPMENT LICENCE

Under legislation on mineral resources, this is a special government permission (licence) granting mineral rights. It is a set form of letterhead with the National Emblem of the Russian Federation, as well as textual, graphic and other appendixes which are an integral part of a licence and stipulate the main conditions of mineral exploitation.

DEVONIAN OIL

Oil that is associated with sedimentary rocks which formed 350-400 million years ago on the territory of the Republic of Bashkortostan and are deposited at the depth of about 2000 metres.

DEW

Design and exploration work.

DIESEL FUEL

Liquid petroleum fuel which boils off at 180-350°C and is used in diesel engines. One of the main indicators of diesel fuel quality is its cetane number that shows how flammable the fuel is when compressed in a combustion chamber. There are three types of diesel fuel: "summer", "winter" and "arctic". They differ in fractional composition, in the amount and type of additives, cold filter plugging points, cloud and pour points, etc.

DIRECTIONAL WELL PROFILE

Trajectory (coordinates) of a directional (allegedly vertical) well. The data obtained in the process of drilling by constantly tracking the position of a drill bit.

DP/DI(DUAL PRODUCTION/DUAL INJECTION)

A mechanism for operation of a well, where fluids are delivered to the surface from several separate reservoirs simultaneously (DP) or when water is simultaneously injected into several separate formations (DI).

DRILLING (OF OIL WELLS)

A method of mineral exploration and extraction of raw materials. Depending on the depth, various types of drilling are used, such as cable-tool drilling, rotary drilling, turbodrilling, water jet drilling, thermal drilling and others.

DRILLING FLUIDS

A water-based solution to which chemical additives are added (if necessary) that reduce damage caused by a drilling fluid to the reservoir. They are used before and after workover to clean the wellbore.

DRILLING TOOL

Equipment used for well development. According to the purpose of use, it can be a rock-cutting tool, or a technical, auxiliary and emergency drilling tool. Technical drilling tools are tools used for well drilling proper; they include drill pipes, core barrels, well casings, transition pipes, core bits, etc. Auxiliary drilling tools are used for operating technical drilling tools in the process of drilling. Emergency drilling tools are used for eliminating accidents in a borehole.

E

ECOLOGY

Science of the relations of living organisms and their communities to each other and to the environment. Human (social) ecology studies the mechanisms of interaction between society and the environment, as well as the practical issues of protecting the environment from harmful emissions, industrial waste (large amounts of solid and gaseous substances and heat) and other adverse impacts of human activity.

ENHANCED OIL RECOVERY

The use of various technologies to increase the amount of extracted oil.

EXPLORATION DRILLING

A method of prospecting and exploration of mineral deposits by drilling wells, also used in engineering, geological and hydrogeological research.

F

FEC

Fuel and energy complex.

FFMS, FSFR

Federal Financial Markets Service.

FIELD DISCOVERY

A positive result of exploration activities during geological studies as a type of subsoil use. An entirely independent decision on field discovery is made by

a licence holder on the basis of his own calculations, evaluations and development prospects of the discovered mineral deposits. After the announcement of field discovery, the licence holder proceeds to conducting upstream operations. He notifies the government, namely the authority which has granted the licence. If the licence holder has a development licence only for geological studies, such notification means the termination of the licence holder's right to survey and evaluate the field. In this case, the discovered field is put up for auction. The former licence holder does not have any privileges and may participate in the auction under the standard procedure.

Discovery of a field which has a commercial value, according to an evaluation by a federal regulatory body of state subsurface resources, also falls into the category of "field discovery".

FLOOD STARTING POINT

A term denoting a group of wells comprising several producing wells situated "around" an injection well. The injection into the injection well has an obvious impact on operating conditions of producing wells.

FORMATION EVALUATION

Evaluation of the potential content of hydrocarbons and the composition of a geological formation which involves the following activities: analysis of the drilling fluid, rock cuttings and core samples; use of logging tools lowered into the well on wireline or drillpipe; sidewall sampling, analysis of the formation using instruments lowered on cables or drill pipes.

FORMATION PRESSURE

Pressure of formation fluids on rocks that contain them. It is a very important indicator that characterizes the energy of oil and gas bearing formations.

FRACTIONATION

A process of staged separation of a mixture into fractions according to boiling points.

FS

Feasibility study.

FUEL

Carbon-based flammable substances used for producing heat by combustion. Fuel can be classified by its origin into fossil (oil, coal, natural gas, shale, peat, timber) and synthetic (coke, engine fuels, producer gases, etc.)

FUEL OIL

A dark viscous fluid that is a residue after the extraction of oil fractions boiling off at 350-360°C. The main consumers of fuel oil include industry and public utilities. Fuel oil is used for further refining or as fuel for boilers, steam generators and industrial furnaces.

G

GAS CONDENSATE

A mixture of liquid hydrocarbons of various structures with the final boiling point of usually no more than 350°C. It is condensed from flammable natural gases while producing them at gas condensate fields. Gas condensate is used for producing components of engine fuel.

GAS OIL

A mixture of hydrocarbons and heteroatomic organic compounds (mainly sulphur-, nitrogen- and oxygen-containing compounds) boiling off at 180-350°C (light gas oil) in the process of atmospheric distillation of oil or at 350-520°C (heavy gas oil) in the process of the vacuum distillation of fuel oil. Gas oil is mainly used as raw material for catalytic cracking or as a component of diesel or boiler fuel. Vacuum gas oil is produced by straight-run distillation of oil at a pressure of 10-15 KPa (0.09-0.15 Atm).

GE

Geological exploration.

GEO

Geological and engineering operations.

GFPP

Gas-fired power plant.

H

HEDGING

Insurance, reduction of risk from losses caused by unfavourable changes in market prices for goods, as compared to the prices considered when signing a contract.

HIGHLY CRITICAL (ABOUT A COMPONENT OF INFRASTRUCTURE)

A component whose breakdown due to the cessation of its operation, loss of data, etc. will result in heavy losses for a company.

HORIZONTAL WELL

A well, where the end of the borehole (that directly targets the producing formation) is parallel to surface of the Earth.

HYDRAULIC FRACTURING (HF)

A stimulation treatment when cracks are created in rock in order to increase its permeability.

HYDROCARBONS

Compounds which consist of hydrogen and carbon. The ratio of carbon to hydrogen may vary significantly (10%-90%). Depending on the composition and structure, hydrocarbons can be saturated, or paraffin, with the general formula C_nH_{2n+2} (alkanes),

unsaturated C_nH_{2n} (alkenes) and C_nH_{2n-6} (arenes), as well as polymethylene, or naphthenic, C_nH_{2n} (cycloalkanes).

HYDRODESULPHURIZATION

A process of removing sulphurous, nitrous and oxygen-containing components from distillate fractions or residue using hydrogen in the presence of catalysts at elevated temperatures.

HYDRODYNAMIC DEVELOPMENT OF OPENHOLES

A method of developing (achievement of a productive flow) individual sections of an openhole (i.e. the hole completed according to the drilling program, with no cement casing), with the use of packer systems to isolate the remaining part of borehole.

HYDROTREATMENT

A process of removing sulphur-, nitrogen- and oxygen-containing compounds in the course of high-temperature refining of petroleum products using alumina-cobalt- or alumina-nickel-molybdenum catalysts under the pressure of hydrogen (hydrogen-containing gas) up to 4 MPa. As a result of hydrotreatment, the quality of petroleum products increases, their corrosiveness and atmospheric emissions from fuel combustion decrease. Hydrotreatment of lubricating oils used instead of clay contacting improves their colour and odour, and decreases the acidity and coking ability of oils. Hydrotreatment has become very important due to increasing refining of sour and high sulphur (more than 1.9 % of sulphur) types of oil.

I

IAS

International Accounting Standards.

IFRS

International Financial Reporting Standards.

INFRASTRUCTURE

The complex of structures, buildings, systems and services necessary for the functioning of manufacturing industries and for creating the necessary living conditions for society.

INJECTIVITY PROFILE

The difference between individual layers uncovered by an injection well in terms of their ability to "take in" water injected to maintain reservoir pressure.

IT

Information technology.

K

KPI

Key performance indicator.

L

LA

Licence area.

LAYERS

Parts of a formation.

LEADED GASOLINE

Gasoline to which ethyl fluid containing tetraethyl lead is added to increase the octane rating, i.e. performance characteristics of gasoline. At present, production of leaded gasoline is prohibited in the Russian Federation and the majority of other countries due to environmental reasons.

LIBOR

Weighted average interest rate on interbank borrowings from banks that provide funds in various currencies and with various maturities (from one day to 12 months) in the London interbank market.

LNG

Liquefied natural gas.

LOG (DIAGRAM)

Information on the geological structure, formation types and hydrocarbon content obtained when exploring a well using various instruments and methods.

LUBRICATING OILS

Fluids used for decreasing friction and preventing wear and deformation of automotive equipment. In most cases, mineral oils are used as lubricating oils. They can be classified by composition into petroleum-based and synthetic or by purpose, into engine, gear, industrial and other lubricating oils.

M

MARGINAL WELL

A well that produces a limited amount of oil, for example, no more than 10 barrels per day (1.6 cubic metres per day).

MET

Mineral extraction tax.

MICEX

Moscow Interbank Currency Exchange.

MNR

Ministry of Natural Resources.

MOTOR GASOLINE

Light fraction oil which boils off at 40-205°C. MG may be leaded (ethyl fluid containing tetraethyl lead is added to increase the octane rating) and

unleaded (without tetraethyl lead). MG is given an octane rating.

MULTILATERAL WELL (MW)

A well in which, approximately in the middle of the distance between the wellhead and the bottom of the well, several entry points to the producing formation are created; so the well has several branches and one wellhead.

N

NET DEBT

Total debt less cash and cash equivalents, as well as short-term investments.

NWA

Near-wellbore area.

NWAT

Near-wellbore-area treatment.

O

OCTANE RATING

A measure of the antiknock value of fuel for internal combustion engines. It is equal to content (percent by volume) of isooctane (2,2,4-trimethylpentane) in its mixture with n-heptane; such a composition makes the mixture equivalent to the fuel under analysis in terms of the antiknock value under standard testing conditions.

OFFSET VERTICAL SEISMIC PROFILE

A method of studying oilfields where transmitters placed inside the well are employed to conduct a seismic survey.

OGPC

Oil and gas production company.

OGPD

Oil and gas production department.

OIBDA

Operating income before depreciation and amortization.

OIL COKE

Solid residue from secondary refining of oil or petroleum products. It is used for producing electrodes and corrosion resistant equipment, as a reducing agent in producing ferroalloys, and for other purposes.

OIL DEHYDRATION

Technological process aimed at removing unnecessary components (such as water and substances dissolved in it) from oil before transportation and refining.

OIL DESALTING

Technological process aimed at removing salts and other corrosive admixtures and dissolved substances from oil.

OIL FRACTION

A component of oil. Separation of oil into fractions during distillation is based on their boiling points.

OIL SLUDGE

Complex physical and chemical mixtures that consist of petroleum products, mechanical admixtures (such as clay, metal oxides and sand) and water. The proportion of components of oil sludge may vary. Oil sludge is formed as a result of industrial processes, such as refining, production and transportation of oil. This type of waste is very dangerous for the environment and should be either buried or recycled.

(OIL WELL) BLOWOUT

Uncontrolled eruption of gas and/or oil from the well.

OILFIELD SERVICE COMPANY

A company that provides a wide range of services connected with oilfield development, such as geological exploration, logging, drilling monitoring, well testing and workover, enhanced oil recovery (including the use of hydraulic fracturing and pumps), well cementing and completion.

OS

Occupational safety.

P

PBUC

Pressure buildup curve.

PERFORATION

A tunnel created in the process of perforating, or connecting the formation with the wellbore. It is used for "transporting" formation fluid from the formation into the well.

PETROCHEMICAL PROCESSING

Production of large amounts of organic and inorganic products based on oil fractions, natural gas and refinery gas. Petrochemical processing includes pyrolysis, dehydrogenation, halogenation, oxidation, hydration, alkylation, ammonolysis, etc.

PETROCHEMISTRY

A branch of chemical engineering related to the study of the chemical composition, properties, chemical transformations and processing of oil and its components in order to produce organic substances, polymers, etc.

PHENOL

Derivatives of benzene with one or several hydroxyl groups. It is used for producing phenol-formaldehyde plastics, synthetic nylon fibre, dyes, pesticides and drugs (such as aspirin and salol).

PLUGGING MATERIAL

In most cases, cement treated, if necessary, by chemical additives. It is used in the drilling process for cementing the space between the casing string and the rock of the formation(s) through which the wellbore passes. It is also used in well operation to eliminate unnecessary flows (crossflows) of formation fluids into the well (between the formations in the annulus).

POLYMERIZATION

A process of synthesizing a high-molecular-weight substance by consecutively adding molecules of a lower-molecular-weight substance to a specific site at the end of a growing chain. The ultimate composition (molecular formulae) of the monomer and the polymer is identical.

POSSIBLE HYDROCARBON RESERVES

Those reserves, the geological data of which is sufficient only for an approximate evaluation of lifting costs or determines approximately the reasonable method of extraction, although the probability is low.

PRIMARY OIL REFINING

The first stage of oil refining, which does not involve chemical changes of oil. It is confined to physical treatment and physical fractionation of oil and includes treatment, atmospheric and vacuum distillation.

PRMS INTERNATIONAL STANDARDS

International classification and evaluation of hydrocarbon reserves using PRMS criteria (Petroleum Resources. Management System). Apart from evaluating the existence of hydrocarbon reserves, the standards are used to assess commercial feasibility of extracting them, as well as prove their existence and determine the term of profitable oilfield development.

PROBABLE HYDROCARBON RESERVES

Those reserves, the engineering and geological data of which has not been sufficiently studied yet as to precisely determine the possibility of development under the existing economic and technical conditions. However, the development may prove economically effective if there is more information about the oilfields in question and the development of production technology.

PROCESS MATURITY

The degree to which a certain process is explicitly defined, managed, measurable, controlled and successful.

PROCESSED CELL

Area of a reservoir formed by one injection well and several producing wells.

PRODUCTION DRILLING

Drilling wells targeting oil pools whose productivity has already been proved.

PROPPANT

A propping agent, such as ceramic "sand" that keeps a fracture created in the reservoir open.

PROPYLENE

A colourless flammable gas with a faint smell. One of the most important types of industrial chemical raw materials. It is present in gases produced by petroleum product cracking. Propylene is widely used for the production of glycerol, acrolein, acrylonitrile, acryl alcohol, acrylic acid, isopropyl alcohol, acetone, phenol, polypropylene, etc.

PROVED HYDROCARBON RESERVES

Those reserves that will certainly be extracted at developed oilfields considering the existing economic and technical opportunities.

PS

Process safety.

PSMS

Process safety management system.

R

R&D

Research & Development.

RAS

Russian Accounting Standards.

RECTIFICATION

Breaking up liquid homogeneous mixtures into components or groups of components as a result of a countercurrent interaction of the vapour and liquid phases. Rectification is widely used for separating natural compounds of oil, hydrocarbons and synthetic hydrocarbons in order to produce components for engine fuels and lubricating oils and for dividing gas mixtures into individual gases by liquefaction and subsequent rectification of the liquid mixture.

REFINING DEPTH

An output (percentage by weight) of commercial petroleum products at the refinery excluding production volumes of furnace fuel oil and irrecoverable losses.

REFINING DEPTH

A value that characterizes the ratio of the output of petroleum products to the total volume of oil involved in refining.

REFORMING

A method of refining petroleum products, mainly gasoline oil fractions and ligroin, in order to produce high-octane components of motor gasolines, aromatic hydrocarbons and industrial hydrogen. There are two types of reforming: thermal (when raw materials are refined at high temperature in the presence of hydrogen-containing gas to produce high-octane gasolines) and catalytic (when hydrogen-containing gas, high temperature and a catalyst simultaneously affect the raw material).

RESERVOIR

Rock having a high porosity and permeability and containing recoverable amounts of oil and gas. The main classification attributes of a reservoir are the conditions of filtration and accumulation of formation fluids. Reservoirs may be classified by this characteristic into simple (porous and fractured) and complex (fractured-porous and porous-fractured).

RTO

Round trip operations.

S

SEISMIC SURVEYS

Geophysical methods of exploring the earth's crust, based on studying artificially generated elastic waves. Seismic surveys are used for studying deep structures of the Earth, detecting mineral deposits (mainly oil and gas) and solving the tasks of hydrogeology and engineering geology.

SNG

Stable natural gasoline.

STIMULATION

Treatment of a well or reservoir to enhance its productivity, for instance, by hydraulic fracturing, acidizing or by cleanout.

SUBSOIL

Part of the earth's crust situated below the soil layer. In areas where there is no soil layer, it lies below the ground surface and beneath water bodies and streams. The subsoil layer is available for geological studies and development.

T

TAR

Petroleum product characterized by high viscosity and black in colour. It is produced by the vacuum

distillation of fuel oils. Tar contains practically all metal-containing compounds present in oil. It is used as a component of boiler fuel, as raw material for the production of coke, bitumen, residual lubricating oils, as well as raw material for gasification, catalytic and thermal cracking, hydrocracking, etc.

TENDER

A term used in the English language to denote a system of bids. Used in Russian legal regulatory documents.

TERRIGENOUS SEDIMENT

Clastic sediment which consists of rock and mineral fragments carried from dry land to seas and oceans.

THE NELSON INDEX

A measure of the complexity of technological processes at the oil refinery. The higher the index is, the more complex crude oil processing is and the more complex petrochemicals the oil refinery can produce (in addition to common gasoline and diesel fuel).

THERMAL CRACKING

High-temperature refining of oil fractions and residue in order to produce substances whose molecular mass is usually smaller, such as the components of engine and boiler fuels, unsaturated hydrocarbons and residues with a high aromatic content.

THIRD-PARTY RAW MATERIALS

Raw materials provided for processing into finished products, including a subsequent return of products.

TOTAL DEBT

The total amount of long-term and short-term borrowings.

V

VACUUM DISTILLATION

High-temperature separation of fuel oils in fractionating columns used for separating VGO or lube cuts. Vacuum distillation reduces the boiling points of the components to avoid decomposition. The residual product of such vacuum separation of fuel oil is tar.

VERTICAL INTEGRATION

Business activity aimed at ensuring participation in successive production processes. This can be illustrated by an oil company which produces, refines, transports and sells its products.

VGO

Vacuum gas oil (see Gas oil).

VIC

Vertically integrated (oil) company.

VISBREAKING

A type of thermal cracking (high-temperature refining) of heavy petroleum residue (for example, tar) which is used mainly for the production of boiler fuels' components.

W

WATERFLOODING

An enhanced oil recovery method involving injection of water with (or without) additives in order to displace reservoir fluids towards the well.

WELL

A cylindrical hole more than 5 metres deep and more than 75 mm in diameter, drilled in the rock or mineral deposit by mechanical or non-mechanical drilling methods. Depending on the purpose, the stage of geological exploration and development of an oilfield, there are several categories and groups (within categories) of wells such as: metrological, appraisal (groups 1 and 2), stratigraphic, structural, exploratory, prospecting, test, production (evaluation; production; injection; observation) and special wells (used for

collecting formation water, eliminating oil and gas blowouts, or supplying water, etc.).

WELL CASING AND CEMENTING

The process of reinforcing the wellbore walls with casing and plugging materials.

WELL DESIGN

A system of casing the borehole with casing strings that ensures the achievement of the planned depth of the well, the possibility to examine it, the isolation of permeable formations, which will ensure the planned operating mode and maximum use of formation energy in oil and gas production. Well design is characterized by the number of casing strings lowered into the wellbore, their size (external diameter and length) and location of cementing points of the annular space.

WELL PRODUCTION RATE

The volume of produced fluid per unit of time. It characterizes the output of oil, gas, gas condensate and water. The well production rate is measured in cubic metres or tonnes per unit of time (cubic metres per hour, cubic metres per day, or tonnes per hour, tonnes per day).

GENERAL INFORMATION

DATE OF THE STATE REGISTRATION OF JOINT-STOCK OIL COMPANY BASHNEFT AND REGISTRATION NUMBER:

- Date of the state registration of the company as a legal entity: January 13, 1995.
- Number of the decision of the state registration: 60
- The date of entry into the Uniform State Register of Legal Entities as a legal entity registered prior to July 1, 2002: October 15, 2002.
- Series and number of the certificate confirming the legal entity is reported in the Uniform State Register of Legal Entities as a legal entity registered prior July 1, 2002: Series 02 No. 004176539
- Primary State Registration Number under which the record on the establishment of the company was made in the Uniform State Register of Legal Entities: 1020202555240.

MAIN TYPES OF THE COMPANY'S OPERATIONS:

- extraction of crude oil and natural gas, provision of related services;
- production of associated gas and gas condensate;
- manganese ore production and processing;
- peat extraction and production of other minerals;
- industrial production of petroleum products, petrochemicals and chemicals;
- oil and natural gas refining, manufacture and sale of petrochemical products;
- procurement and sales (including creation of the Company's own sales outlets) of industrial and technical products (including crude oil, petroleum products and petrochemicals), cars and other motor vehicles, as well as spare parts and components for them;
- organization, maintenance and operation of gas and petrol stations.

CONTACT INFORMATION

FULL NAME OF THE COMPANY:

Joint-Stock Oil Company Bashneft

SHORT NAME:

JSOC Bashneft

LOCATION:

30, Karl Marx Street, Ufa, Republic of Bashkortostan,
450008, Russian Federation

INFORMATION SERVICE OF THE COMPANY:

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CONTACTS IN MOSCOW:

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FOR SHAREHOLDERS:**SHAREHOLDER RELATIONS:**

Corporate Relations Department

T: (495) 228-15-96, (347) 361-61-33

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FOR INSTITUTIONAL INVESTORS:

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