Alliance Oil Company Ltd:
Report for the quarter and year ended 31 December 2012

Quarter ended 31 December 2012

- **Revenue of MUSD 908.7, up 10% from Q4 2011.**
- **EBITDA of MUSD 169.2, down 28% from Q4 2011.**
- **Profit before tax of MUSD 167.8, up 6% from Q4 2011.**
- **Profit for the period of MUSD 129.9, up 9% from Q4 2011.**

Year ended 31 December 2012

- **Revenue of MUSD 3,445.2, up 12% from 2011.**
- **EBITDA of MUSD 734.1, up 6% from 2011.**
- **Profit before tax of MUSD 544.4, up 26% from 2011.**
- **Profit for the period of MUSD 420.8, up 28% from 2011.**

- **The profit before tax for the quarter and the year was positively affected by a MUSD 58.7 reversal of impairment of oil and gas assets.**

- **Acquisition of gas reserves and launch of gas production in Tomsk region.**
- **7 oil and gas licenses added in Timano-Pechora.**
- **2P[1] oil and gas reserves increased to 733 mboe[2], up 13% from 2011.**
- **Transactions completed to form joint venture with Repsol.**
- **Preference share issue raised MUSD 202.**
- **The board proposes a dividend of SEK 30 per share for preference shares and no dividend for ordinary shares.**

	Quarter ended 31 December 2012	Quarter ended 31 December 2011	Year ended 31 December 2012	Year ended 31 December 2011
Crude oil production, bopd	52,500	62,427	53,932	48,984
Refining volume, bopd	82,494	72,834	80,122	73,650
Revenue, MUSD	908.7	825.4	3,445.2	3,082.7
EBITDA, MUSD	169.2	236.1	734.1	690.3
Profit before tax, MUSD	167.8	158.7	544.4	432.8
Profit for the period, MUSD	129.9	119.1	420.8	328.3
Basic earnings per share, USD	0.69	0.68	2.31	1.86
Diluted earnings per share, USD	0.64	0.62	2.18	1.74

[1] Proved and probable.
[2] Million barrels of oil equivalent.

Alliance Oil Company Ltd is a leading independent oil company with vertically integrated operations in Russia and Kazakhstan. Alliance Oil has substantial oil and gas reserves and downstream operations that include the Khabarovsk refinery and the leading network of gas stations and wholesale oil products terminals in the Russian Far East. Alliance Oil's depository receipts are traded on the NASDAQ OMX Nordic under the symbol AOIL.

Dear Shareholders,

In 2012, Alliance Oil Company demonstrated great performance with the highest operational and financial results in the Company's history. The macro environment supported our operations with the Urals price around USD 110 per barrel and improved oil product prices both domestically and internationally. In the fiscal system, MET and excise taxes were up while export duties remained within the 60-66-90 framework.

Alliance Oil's crude oil production increased by 10% year-on-year to 19.7 million barrels, and refining throughput increased by 9% year-on-year to 29.3 million barrels. Consolidated Revenue and EBITDA grew by 12% and 6% respectively, compared to 2011. The consolidated EBITDA reached all-time high USD 734 million for the year, and the profit before tax exceeded USD 500 million.

In the upstream segment, production growth resulted in higher sales at 19.3 mbbl (17.5 mbbl in 2011). Segment EBITDA improved by 25% year-on-year, partially due to increased MET exempt production. The upstream segment generated positive free cash flow to fully cover the capital expenditures for the year. The Company drilled 89 production and 4 exploration wells in 2012.

In the fourth quarter, the Company expanded into the Russian gas business through the strategic acquisition of two licenses with sizable gas and condensate reserves and attractive resource potential in the Tomsk region. Gas production commenced in February 2013 with the initial 4,500 boepd.

As of December 31, 2012 Alliance Oil's 1P reserves increased to 331 mboe, 2P reserves - to 733 mboe and total 3P reserves - to 1,206 mboe. Moreover, in 2012 the Company added 7 new exploration and production licenses in the Timano-Pechora region with prospective resources of about 560 mboe under Russian classification system (D1+D2).

Alliance Oil and Repsol have completed the transactions to form the upstream joint venture AR Oil and Gas BV (AROG) with a total asset base of approximately USD 885 million and 278 mboe of 2P reserves. Alliance Oil has contributed Volga-Urals upstream subsidiaries to obtain a 51% participation in AROG and received net cash of USD 117 million. Repsol has contributed EuroTEK gas fields and paid in cash to Alliance Oil for 49% participation in AROG.

In the downstream segment, consolidated revenue increased by 12% year-on-year on the back of sales volume growth. The Company sold 29.9 million barrels of oil products in 2012 compared to 27.6 million barrels in 2011.

The refinery capacity utilization was record high in 2012 due to strong demand for oil products both domestically and internationally. The refining capacity was extended to 90,000 bopd, and 7 new units with upgraded utilities and infrastructure were launched at the Khabarovsk refinery. Bunkering and retail segment performance improved further.

Late in 2012, the Company introduced a new class of dividend paying preference shares which were successfully placed to raise equity of SEK 1,350 million (USD 202 million) before transaction costs. The Company's debt portfolio remained well balanced and primarily long-term. Net Debt remained stable with cash on balance exceeding USD 400 million as of December 31, 2012.

Outlook

For 2013, upstream CAPEX are expected at USD 250-290 million, fully funded from the segment's positive free cash flow. The Company plans to drill 64 production and 4 exploration wells.

In the downstream segment, a new hydroprocessing complex will be launched into test operations in the third quarter of 2013. Currently, the project progress is estimated at above 95% in engineering and procurement, and 83% in construction works. Refining capacity is planned to reach 100,000 bopd.

The Company has started constructing a connection from the East Siberia Pacific Ocean (ESPO) to the Khabarovsk refinery. The first crude oil supplies to the refinery by ESPO-pipeline are scheduled for early 2014 with 40,000 bopd capacity, and then will gradually extend to 100,000 bopd by 2015. Total downstream capital expenditures are planned at USD 430-490 million and will be funded from the segment's operating cash flow, existing cash and debt sources.

Upon completion of the modernization project, adding new refining capacity and ESPO connection in 2013, we expect significantly reduced capital expenditures and improved operational performance of the refinery with better oil product quality, better yields and better profitability.

Alliance Oil Company's strategic target for the upstream segment is to maintain double digit growth in hydrocarbon production and reserves in coming years. Upstream segment economics continue to benefit from rising netbacks, MET exemptions and new gas production. The solid hydrocarbon reserve and resource base support our growth oriented targets in the upstream segment. The Company aims at realizing exploration and development potential in Timano-Pechora, expanding in the highly attractive Russian gas industry and progressing the upstream joint venture with Repsol.

Arsen Idrisov, Managing Director

Financial Highlights (unaudited)

(Expressed in USD thousands)	**Quarter ended 31 December 2012**	**Quarter ended 30 September 2012**	**Year ended 31 December 2012**	**Year ended 31 December 2011**
Revenue	908,660	904,320	3,445,239	3,082,660
Cost of sales	-666,240	-627,479	-2,462,866	-2,168,390
Operating income	174,684	169,243	595,107	513,256
Finance costs	-24,862	-24,790	-95,034	-59,134
Profit for the period	129,928	131,972	420,770	328,290
EBITDA[3]	169,158	214,010	734,096	690,345
Operating cash flows before changes in working capital	174,190	222,177	761,499	694,659
Total cash generated from operating activities	142,403	223,274	569,876	462,500
Total debt (at the end of the period)	2,070,620	1,949,636	2,070,620	1,621,092
Liquidity position (including restricted cash) (at the end of the period)	411,820	322,343	411,820	187,801
Net debt (at the end of the period)	1,658,800	1,627,293	1,658,800	1,433,291
Total equity (at the end of the period)	3,033,010	2,434,536	3,033,010	1,993,433

Revenue for the quarter ended 31 December 2012 amounted to MUSD 908.66 (Q4 2011: MUSD 825.37) and MUSD 3,445.24 for the year (2011: MUSD 3,082.66). Revenue includes sales of crude oil, oil products and other income.

Cost of sales for the quarter amounted to MUSD 666.24 (Q4 2011: MUSD 539.78) and MUSD 2,462.87 for the year (2011: MUSD 2,168.39). Cost of sales includes production costs for crude oil and oil products, depreciation, depletion and amortisation ("D,D&A") and cost of other sales.

Finance costs for the quarter amounted to MUSD 24.86 (Q4 2011: MUSD 21.95) and MUSD 95.03 for the year (2011: MUSD 59.13). Foreign currency swap revaluation gain for the quarter amounted to MUSD 2.65 (Q4 2011: MUSD 3.66) and MUSD 7.68 for the year (2011: loss of MUSD 15.44). Currency exchange gain for the quarter amounted to MUSD 11.22 (Q4 2011: loss of MUSD 2.27) and MUSD 21.69 for the year (2011: loss of MUSD 18.18).

	Average for the quarter ended 31 December 2012	**Average for the quarter ended 31 December 2011**	**Average for the year ended 31 December 2012**	**Average for the year ended 31 December 2011**	**At 31 December 2012**	**At 31 December 2011**
Exchange rates of the Russian Rouble (RUB) to the USD	31.08	31.23	31.09	29.39	30.37	32.20

For the quarter ended 31 December 2012, the Group's profit attributable to the owners of the parent company amounted to MUSD 124.43 corresponding to basic earnings per share of USD 0.69 (Q4 2011: MUSD 116.16 and USD 0.68 per share). The profit attributable to the owners of the parent company for the year amounted to MUSD 402.83 corresponding to basic earnings per share of USD 2.31 (2011: MUSD 318.87 and USD 1.86 per share).

The Board of directors proposes to pay a dividend on preference shares of SEK 30 (to be paid through four quarterly payments of 7.5 each) and that no dividends shall be paid on ordinary shares for the year ended 31 December 2012.

[3] In its own analysis of the Group's results, the Group uses EBITDA as a key performance indicator which is not measure determined in accordance with IFRS. Please refer to section "Key financial ratios and data definitions" for details of EBITDA calculation.

Exploration and Production (Upstream)

The Group operates upstream assets in three Russian regions: Timano-Pechora, Volga-Urals, Tomsk and in Kazakhstan.

Consolidated revenue from sales of crude oil for the quarter amounted to MUSD 152.12, which was in line with the fourth quarter of 2011 (Q4 2011: MUSD 155.53) and the third quarter of 2012 (Q3 2012: MUSD 144.49). Consolidated revenue from sales of crude oil for the year increased by 13% and amounted to MUSD 602.35 (2011: MUSD 531.66), primarily due to increased sales volumes from the Kolvinskoye oil field.

Crude oil sales volumes, excluding intragroup crude oil sales, in the fourth quarter are presented as follows: 64% of crude oil was exported (Q4 2011: 70%), 1% was sold in the CIS market (Q4 2011: 1%) and 35% was sold in the domestic market (Q4 2011: 29%).

Crude oil sales volumes and prices for export and domestic markets, excluding intragroup crude oil sales, are presented in the tables below:

				Quarter ended 31 December 2012
	Export	**CIS**	**Domestic**	**Total**
Sold volume (barrels)	1,788,874	24,486	986,338	2,799,698
Gross price (USD/barrel)	106.48	51.84	61.80	90.26
Net price (USD/barrel)	55.45	51.84	52.37	54.34
Selling expenses (USD/barrel)	6.83	0.05	5.25	6.21
Netback price (USD/barrel)	48.62	51.79	47.12	48.13
Revenue from sales of crude oil (TUSD)	99,198	1,269	51,657	152,124

				Quarter ended 31 December 2011
	Export	**CIS**	**Domestic**	**Total**
Sold volume (barrels)	2,095,460	40,382	876,166	3,012,008
Gross price (USD/barrel)	104.38	58.40	57.83	90.22
Net price (USD/barrel)	52.60	58.40	49.01	51.64
Selling expenses (USD/barrel)	6.70	12.26	3.48	5.83
Netback price (USD/barrel)	45.90	46.14	45.53	45.81
Revenue from sales of crude oil (TUSD)	110,230	2,358	42,938	155,526

				Year ended 31 December 2012
	Export	**CIS**	**Domestic**	**Total**
Sold volume (barrels)	7,171,483	265,678	3,501,102	10,938,263
Gross price (USD/barrel)	107.61	51.41	61.53	91.49
Net price (USD/barrel)	56.63	51.41	52.14	55.07
Selling expenses (USD/barrel)	6.85	11.39	5.20	6.43
Netback price (USD/barrel)	49.78	40.02	46.94	48.64
Revenue from sales of crude oil (TUSD)	406,132	13,658	182,564	602,354

				Year ended 31 December 2011
	Export	**CIS**	**Domestic**	**Total**
Sold volume (barrels)	6,171,548	321,334	3,334,066	9,826,948
Gross price (USD/barrel)	107.40	60.12	59.16	89.49
Net price (USD/barrel)	55.93	60.12	50.13	54.10
Selling expenses (USD/barrel)	6.74	14.22	3.40	5.85
Netback price (USD/barrel)	49.19	45.90	46.73	48.25
Revenue from sales of crude oil (TUSD)	345,192	19,320	167,144	531,656

The net prices are calculated by deducting VAT (for Russian domestic sales) or export duty (for export and certain CIS countries sales) from the gross prices. The netback prices are calculated by deducting VAT, railway and pipeline transportation costs (for Russian domestic sales) or transportation, export duty, brokers' commission and certain other costs (for export sales) or transportation, brokers' commission and certain other costs (for CIS countries sales) from the gross price.

Consolidated oil production costs for the quarter amounted to MUSD 93.83, which was in line with the fourth quarter of 2011 (Q4 2011: MUSD 94.69) and the third quarter of 2012 (Q3 2012: MUSD 92.67). Consolidated oil production costs for the year amounted to MUSD 365.88, which was in line with 2011 (2011: MUSD 353.05). Despite increased sales volumes, oil production costs remained stable primarily due to decreased cost of transportation from the Kolvinskoye oil field upon completion of the pipeline to the Kharyaga terminal.

Production and other taxes for the quarter amounted to MUSD 61.61 (Q4 2011: MUSD 59.98) and MUSD 240.43 for the year (2011: MUSD 231.27).

The depletion charge for upstream assets for the quarter amounted to MUSD 35.90 (Q4 2011: MUSD 47.77) and MUSD 148.36 for the year (2011: MUSD 133.70). Oil and gas assets are depleted based on 2P reserves; the base for depletion includes management's best estimates of future development costs. The increase in depletion charge for the year resulted from higher production volumes at the Kolvinskoye oil field and the updated estimation of future development costs as at 31 December 2011.

The upstream segment operational data is presented below:

	Quarter ended 31 December 2012	**Quarter ended 31 December 2011**	**Year ended 31 December 2012**	**Year ended 31 December 2011**
Sales volume (barrels)	4,684,132	5,779,151	19,273,479	17,487,537
to external customers	2,799,698	3,012,008	10,938,263	9,826,948
to intragroup companies	1,884,434	2,767,143	8,335,216	7,660,589
Revenue per barrel sold (USD/barrel)	51.94	48.09	51.80	50.01
Total production costs of crude oil per barrel sold (USD/barrel)	27.69	24.66	26.68	27.84
Production costs	6.88	6.01	6.51	6.96
Production and other taxes	13.15	10.38	12.47	13.22
Cost of purchased oil	-	-	-	0.01
Depreciation, depletion and amortisation	7.66	8.27	7.70	7.65
Selling, administrative and other income/expenses, net (USD/barrel)	5.27	5.82	6.13	6.33
EBITDA per barrel sold (USD/barrel)	26.64	25.88	26.69	23.49

The upstream segment operational data is calculated on the basis of total volume of oil sold both to external customers and intragroup companies.

EBITDA per barrel sold is based on IFRS financial information.

The upstream segment operating income for the quarter amounted to MUSD 145.69 (Q4 2011: MUSD 102.24) and MUSD 428.47 for the year (2011: MUSD 279.16).

The Group's oil and gas reserves and production by regions are presented in the table below (unaudited):

	2P oil and gas reserves		**Crude oil production**			
(Expressed in barrels of oil equivalent)	**31 December 2012**	**31 December 2011**	**Quarter ended 31 December 2012**	**Quarter ended 31 December 2011**	**Year ended 31 December 2012**	**Year ended 31 December 2011**
Timano-Pechora region	394,885,000	408,986,000	1,899,413	3,041,984	8,353,955	7,177,603
Volga-Urals region	162,824,000	170,731,000	1,865,668	1,824,946	7,408,115	7,119,837
Tomsk region	166,779,000	57,361,000	855,364	708,358	3,213,740	2,939,849
Kazakhstan	8,148,000	10,776,000	209,585	167,965	763,340	642,045
Total	**732,636,000**	**647,854,000**	**4,830,030**	**5,743,253**	**19,739,150**	**17,879,334**

Consolidated 2P reserves increased by 13% year-on-year from 647.9 to 732.6 mboe. The reserves-to-production ratio amounted to 37.1 years. 2P reserves at the Kolvinskoye oil field decreased by 6% from 253.3 to 238.1 million barrels following revision of the Devonian formation and was partially compensated by newly discovered Silurian and Permian formations.

The Group replaced 530% of the total 2012 production by adding 2P hydrocarbon reserves of 84.8 mboe (net of 19.7 million barrels produced in 2012) primarily through acquisition of Tomsk gas assets, exploration and development.

The Group's equity interest in non-consolidated 2P oil and gas reserves held in joint venture amounts to approximately 59 mboe.

The average production for the quarter amounted to 52,500 barrels of oil per day (Q4 2011: 62,427 barrels per day) and 53,932 barrels of oil per day for the year (2011: 48,984 barrels per day).

48% of oil production for the quarter (Q4 2011: 56%) and 50% of oil production for the year (2011: 42%) was exempt from production tax. The increase in tax exempt production for the year was primarily due to increased production at the Kolvinskoye oil field.

Timano-Pechora region

1 production well was drilled and placed into production at the North Kharyaga oil field.

At the Kolvinskoye oil field, 4 production wells were drilled. 3 production wells were placed into production. Drilling of 3 more production wells was in progress at the end of the fourth quarter.

Volga-Urals region

7 production wells were drilled at the Stepnoozerskoye oil field. 6 production wells were placed into production. Drilling of 3 more production and 3 exploration wells was in progress at the end of the fourth quarter.

Tomsk region

6 production wells were drilled at the Puglalymskoye oil field. 2 production wells were placed into production. Drilling of 1 more production well was in progress at the end of the fourth quarter.

Kazakhstan

4 production wells were drilled at the Zhanatalap oil field.

The average oil production for January 2013 amounted to 51,982 barrels per day.

Oil licenses in Timano-Pechora

In August 2012, Alliance Oil Company acquired 100% of the shares in CAP Agro S.A. and its subsidiary, LLC GeoInvestService, for MUSD 30. LLC GeoInvestService holds an exploration license for the West-Osoveiskoye block in the Timano-Pechora region in Northern Russia. At the time of the license issuance oil resources were estimated at 87.7 million barrels under Russian reserve classification (D1+D2). The license will be integrated into the Kolvinskoye oil field operations and development plans.

In November 2012, Alliance Oil Company won five exploration licenses located in the Timano-Pechora region nearby the Group's existing operations through a tender process. Total resources are estimated at 325 million barrels of oil and 14.6 bln cubic meters of gas (86 mboe) under Russian reserve classification (D1+D2).

In December 2012, Alliance Oil Company won the Alfinski exploration and production license located in the Timano-Pechora region nearby the Group's existing operations through a tender process. The license block's resources are estimated at approximately 61.1 million barrels of oil under Russian reserve classification (D1+D2). At 31 December 2012, the official licensing process had not been completed. Winning bid amounted to MUSD 0.5.

Acquisition of a gas company

In October 2012, Alliance Oil Company acquired 100% of the shares in Polonio Holdings Limited and its subsidiary, LLC SN-Gazdobycha (SNGD), for MUSD 128. SNGD has two gas licenses in the Tomsk region which facilitate synergies with Alliance Oil Company's regional operations. 2P gas reserves are estimated at 111 mboe at 31 December 2012. Gas production commenced in February 2013 with initial daily gas production of approximately 700 thousand cubic metres (about 4,500 barrels of oil equivalent).

Joint venture with Repsol

In August 2012, Repsol and Alliance Oil Company completed the first phase of the formation and capitalisation of the joint venture company AR Oil and Gaz BV (AROG) in which Alliance Oil Company holds 51% and Repsol 49%.

Alliance Oil Company contributed its Saneco subsidiary, with brownfield upstream assets located in Samara in the Volga-Urals region with total production of 4.2 million barrels of oil in 2012 and 2P reserves of 25 million barrels at 31 December 2012. Repsol acquired shares in the joint venture from Alliance Oil Company for MUSD 36 and purchased additional new shares for MUSD 37 to reach a 49% stake in the joint venture.

In January 2013, Repsol and Alliance Oil Company completed the formation of AROG.

Alliance Oil Company contributed its Tatnefteotdacha subsidiary, with brownfield upstream assets located in the Tatarstan region with total production of 3.3 million barrels of oil in 2012 and 2P reserves of 138 million barrels at 31 December 2012. Repsol contributed its Eurotek subsidiary, which comprises 2 gas exploration and production licenses with 2P gas reserves of 115 mboe[4], and also paid MUSD 81 in cash to Alliance Oil Company.

Following the transactions, AROG has a total asset base of approximately MUSD 885 with 2P oil and gas reserves of approximately 278 mboe, out of which 163 mboe are included in the Group's consolidated oil and gas reserves and equity interest amounts to approximately 59 mboe.

Refining and marketing (Downstream)

The Group operates the Khabarovsk Oil Refinery, the Alliance Oil Company gas station network, a network of wholesale oil products terminals and a sea terminal, all located in the Russian Far East and Eastern Siberia.

Consolidated revenue from sales of oil products amounted to MUSD 742.92 for the quarter, representing a 13% increase in comparison with the fourth quarter of 2011 (Q4 2011: MUSD 657.33). During 2012, consolidated revenue from sales of oil products increased by 12% and amounted to MUSD 2,787.76 (2011: MUSD 2,496.22). The increase was due to higher volumes and market prices. Consolidated revenue from sales of oil products for the quarter was in line with the third quarter of 2012 (Q3 2012: MUSD 744.92).

External oil products sales volumes in the fourth quarter are presented as follows: 53% of oil products were exported (Q4 2011: 46%), 29% of products were sold in the domestic wholesale market (Q4 2011: 35%) and 18% were sold through the Group's retail network (Q4 2011: 19%).

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[4] Evaluated by Repsol as of November 2011, not adjusted for 2012 revisions.

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External sales volumes and prices for oil products for export and domestic markets are presented in the tables below:

				Quarter ended 31 December 2012
	Export	Wholesale market	Retail market	Total
Sold volume (barrels)	4,102,306	2,280,475	1,400,165	7,782,946
Net price (USD/barrel)	73.56	109.67	136.46	95.45
Revenue from sales of oil products (TUSD)	301,757	250,100	191,063	742,920

				Quarter ended 31 December 2011
	Export	Wholesale market	Retail market	Total
Sold volume (barrels)	3,369,677	2,579,038	1,379,010	7,327,725
Net price (USD/barrel)	69.67	98.37	122.45	89.70
Revenue from sales of oil products (TUSD)	234,781	253,690	168,860	657,331

				Year ended 31 December 2012
	Export	Wholesale market	Retail market	Total
Sold volume (barrels)	15,550,656	9,211,498	5,154,195	29,916,349
Net price (USD/barrel)	74.61	104.32	129.32	93.19
Revenue from sales of oil products (TUSD)	1,160,255	960,975	666,531	2,787,761

				Year ended 31 December 2011
	Export	Wholesale market	Retail market	Total
Sold volume (barrels)	12,442,730	10,561,815	4,643,823	27,648,368
Net price (USD/barrel)	70.00	99.16	124.45	90.28
Revenue from sales of oil products (TUSD)	870,950	1,047,334	577,934	2,496,218

Refining volumes at the Khabarovsk Oil Refinery amounted to 7.59 million barrels for the quarter (Q4 2011: 6.70 million barrels) and 29.32 million barrels for the year (2011: 26.88 million barrels).

The average refining volumes amounted to 82,494 barrels per day for the quarter (Q4 2011: 72,834 barrels per day) and 80,122 barrels per day for the year (2011: 73,650 barrels per day).

Consolidated production costs for oil products for the quarter amounted to MUSD 523.39, representing a 36% increase in comparison with the fourth quarter of 2011 (Q4 2011: MUSD 386.24). Consolidated production costs for the year increased from MUSD 1,635.26 in 2011 to MUSD 1,898.78 in 2012. The main cost drivers were increased volumes and crude oil prices. Consolidated production costs for oil products for the fourth quarter were in line with the third quarter of 2012 (Q3 2012: MUSD 487.58).

Purchases of crude oil from third parties, included in the consolidated production costs, amounted to MUSD 271.32 for the quarter (Q4 2011: MUSD 174.44) and MUSD 913.32 for the year (2011: MUSD 799.66). Total downstream segment purchases of crude oil from third parties and from the upstream segment amounted to MUSD 350.84 for the quarter (Q4 2011: MUSD 284.04) and MUSD 1,275.04 for the year (2011: MUSD 1,109.72).

The cost of oil products purchased for re-sale, included in the production costs for oil products, for the quarter amounted to MUSD 48.72 (Q4 2011: MUSD 41.13) and MUSD 244.82 for the year (2011: MUSD 132.88). The increase was primarily due to increase of purchases of diesel fuel in order to prevent shortages caused by the temporary cease of diesel fuel production until the completion of Khabarovsk Refinery reconstruction.

Taxes other than income tax, included in the production costs for oil products, for the quarter amounted to MUSD 41.17 (Q4 2011: MUSD 27.29) and MUSD 141.54 for the year (2011: MUSD 121.04). The increase was primarily due to higher excise taxes rates.

Transportation costs, included in the production costs for oil products, for the quarter amounted to MUSD 143.79 (Q4 2011: MUSD 127.91) and MUSD 530.86 for the year (2011: MUSD 517.12). Higher sales volumes and tariffs were the primary reasons for the increased transportation costs for the quarter.

The cost of oil refining, excluding depreciation, for the quarter amounted to MUSD 19.70 (Q4 2011: MUSD 15.54) and MUSD 70.13 for the year (2011: MUSD 68.25). The increase for the quarter was primarily due to higher material and fuel expenses.

The depreciation charge for refining assets for the quarter amounted to MUSD 7.06 (Q4 2011: MUSD 5.44) and MUSD 25.52 for the year (2011: MUSD 22.48). The depreciation charge for marketing and other assets for the quarter amounted to MUSD 4.89 (Q4 2011: MUSD 4.34) and MUSD 18.48 for the year (2011: MUSD 18.03).

The downstream segment operating income for the quarter amounted to MUSD 58.69 (Q4 2011: MUSD 83.61) and MUSD 234.43 for the year (2011: MUSD 274.87).

The downstream segment operational data is presented below:

	Quarter ended 31 December 2012	**Quarter ended 31 December 2011**	**Year ended 31 December 2012**	**Year ended 31 December 2011**
Sales volume (barrels)	7,782,946	7,327,725	29,916,349	27,648,368
to external customers	7,782,946	7,327,725	29,916,349	27,648,368
to intragroup companies	-	-	-	-
Revenue per barrel sold (USD/barrel)	95.45	89.70	93.19	90.28
Production costs per barrel sold (USD/barrel)	78.54	68.41	76.46	71.30
Cost of refining	2.53	2.12	2.34	2.47
Transportation of crude oil for refining	18.47	17.46	17.74	18.70
Cost of crude oil purchased for refining	45.08	38.76	42.62	40.14
Cost of oil products purchased for re-sale	6.26	5.61	8.18	4.80
Taxes	5.29	3.72	4.73	4.38
Depreciation of refining assets	0.91	0.74	0.85	0.81
Selling, administrative and other income/expenses, net (USD/barrel)	8.79	8.95	8.28	8.39
EBITDA per barrel sold (USD/barrel)	9.03	13.08	9.30	11.40

The downstream segment operational data is calculated on the basis of total volume of oil products sold both to external customers and intragroup companies.

EBITDA per barrel sold is based on IFRS financial information.

In 2009-2012, the Khabarovsk refinery launched 7 new units with upgraded utilities, infrastructure and offsites. The capacity has been increased to 90,000 barrels per day, while average refining volumes for January 2013 amounted to 84,081 barrels per day. At completion, the Khabarovsk refining capacity will rise to 100,000 barrels per day (previously planned 90,000 bopd) with improved product yields allowing for significantly better refining margins.

A new hydrocracker and other hydroprocessing units are expected to be launched into test operations in the third quarter of 2013, marking the finalisation of the present modernisation phase. Currently, the project progress is estimated at above 95% in engineering and procurement, and 83% in construction works.

In order to facilitate increased and efficient supplies of crude oil to the refinery, the Group started construction of a new transfer unit and 28 kilometers pipeline from the designated East Siberian Pacific Ocean (ESPO) connection point to the Khabarovsk refinery. The first crude supplies to the refinery by ESPO pipeline are expected in the beginning of 2014 with 40,000 bopd switched from railway shipments. The pipeline supply capacity is scheduled to gradually increase to reach 100,000 bopd by 2015.

Investments, Financing and Liquidity

Investments

Investments in oil and gas assets for the quarter amounted to MUSD 87.51 (Q4 2011: MUSD 157.58) and were split by regions as follows: Timano-Pechora – MUSD 41.46 (Q4 2011: MUSD 139.88), Tomsk – MUSD 22.60 (Q4 2011: MUSD 3.59), Volga-Urals – MUSD 20.32 (Q4 2011: MUSD 13.31) and Kazakhstan – MUSD 3.13 (Q4 2011: MUSD 0.80). For the year total investments in oil and gas assets amounted to MUSD 359.84 (2011: MUSD 603.74).

Investments in refining assets for the quarter amounted to MUSD 125.52 (Q4 2011: MUSD 84.95) and MUSD 328.27 for the year (2011: MUSD 314.91). Investments in marketing and other assets for the quarter amounted to MUSD 4.75 (Q4 2011: MUSD 10.83) and MUSD 40.72 for the year (2011: MUSD 28.19).

Capitalised and paid interest on loans and borrowings for the quarter amounted to MUSD 6.74 (Q4 2011: MUSD 5.53) and MUSD 77.75 for the year (2011: MUSD 78.27).

In August 2012, investments in shares of LLC GeoInvestService, net of cash acquired amounted to MUSD 30.03. In October 2012, investments in shares of LLC SN-Gazdobycha, net of cash acquired amounted to MUSD 125.73.

Financing

In 2011, bonds with a notional amount of MRUB 3,000 were swapped to USD through a cross currency interest swap contract in order to balance cash inflows from export sales denominated in USD with cash outflows on interest payments denominated in RUB and obtain a lower interest rate. In July 2012, the Group settled a cross currency swap with notional amount of MRUB 1,000. The impact from the cross currency swap valuation for the quarter ended 31 December 2012 was recorded in the consolidated statement of profit or loss and represented gain of MUSD 2.65 before income tax due to the weakening of USD to RUB at 31 December 2012 compared to 30 September 2012. Foreign exchange gain\loss does not arise on RUB denominated bonds, accordingly no corresponding loss was recorded.

In December 2012, 5,000,000 preference shares (Swedish Depository Receipts) were issued with a subscription price of SEK 270 raising MSEK 1,350.00 (MUSD 202.33 before issue costs as of settlement date). The financing raised after issue costs amounted to MSEK 1,309.59 (MUSD 196.27 as of settlement date and MUSD 200.89 as of the date of cash transfer). Preference share dividends were set SEK 30 per share per year. The preference shares have 1/10 vote each and can be redeemed by the Group at any time at a fixed redemption price of 130% of the subscription price. Following the transaction the total number of shares amounts to 176,528,414.

Liquidity

At 31 December 2012 and 2011, the Group’s liquidity position amounted to MUSD 411.82 and MUSD 187.80, including restricted cash of MUSD 26.89 and MUSD 27.32, respectively.

At 21 February 2013, the Group’s liquidity position amounted to MUSD 360.14, including restricted cash of nil due to letters of credit on a special account with OJSC Bank VTB in relation to agreements for the reconstruction of OJSC Khabarovsk Oil Refinery were closed.

During the quarter ended 31 December 2012, the Group repaid loans in the amount of MUSD 37.32.

At 31 December 2012, the Group had access to financing facilities, the total unused amount of which was MUSD 444.02.

Key financial ratios

	31 December 2012	31 December 2011
EBITDA[1] for the last twelve months,TUSD	734,096	690,345
Return on shareholders' equity[2]	14%	16%
Return on capital employed[3]	14%	16%
Debt/equity ratio[4]	68%	81%
Equity ratio[5]	51%	47%
Risk-bearing capital[6]	55%	52%
Interest-coverage ratio[7]	3.29	3.49
Debt coverage ratio[8]	3.96	4.59
Debt/EBITDA[9]	2.82	2.35

EBITDA, net profit and interest expenses for the last twelve months are used for calculation of the key financial ratios.

Parent company

The parent company's net loss for the quarter amounted to MUSD 17.09 (Q4 2011: MUSD 11.33) and MUSD 48.59 for the year (2011: income of MUSD 448.25). Income received in 2011 related to income from transfer of shares in subsidiaries within the Group.

At 31 December 2012 and 2011, the liquidity position of the parent company amounted to MUSD 208.39 and MUSD 7.25, respectively.

Organisation

The Board of directors consists of Mr. Eric Forss (Chairman), Mr. Arsen Idrisov (Managing Director), Mr. Claes Levin, Mr. Fred Boling, Mr. Fernando Martinez-Fresneda, Mr. Raymond Liefooghe and Mr. Isa Bazhaev.

Share capital

At 31 December 2012, the paid-in share capital of the parent company amounted to MUSD 176.5 represented by 171,528,414 common shares and 5,000,000 preference shares with a par value of USD 1 per share (31 December 2011: MUSD 171.5 represented by 171,528,414 common shares with a par value of USD 1 per share).

Key financial ratios and data definitions

1. Earnings before interest, tax, depreciation and amortisation (“EBITDA”) is defined as the Group’s operating result plus D,D&A, impairment of oil and gas assets and goodwill (if applicable), and less gain on disposal of shares in subsidiaries (if applicable), reversal of impairment (if applicable) and other significant one-off items in the statement of profit or loss.
2. Return on shareholders’ equity is defined as the Group’s result divided by the shareholders’ equity at the end of the financial period.
3. Return on capital employed is defined as result before tax plus interest expenses, plus/less currency exchange gain/loss, divided by average total capital employed (the average total assets less non-interest bearing liabilities over the financial period).
4. Debt/equity ratio is defined as loans and borrowings, as shown in the consolidated statement of financial position, in relation to the shareholders’ equity.
5. Equity ratio is defined as the proportion of the Group’s shareholders’ equity (including non-controlling interests) to total assets.
6. The percentage of risk-bearing capital is defined as the sum of shareholders’ equity (including non-controlling interests) and deferred tax liabilities, divided by total assets.
7. Interest-coverage ratio is defined as result before tax plus interest expenses, plus/less currency exchange gain/loss, divided by interest expense (both capitalised and expensed in the statement of profit or loss).
8. Debt-coverage ratio is defined as the Group’s EBITDA divided by interest expense (both capitalised and expensed in the statement of profit or loss).
9. Debt/EBITDA ratio is defined as loans and borrowings, as shown in the consolidated statement of financial position, divided by EBITDA.
10. Liquidity position is defined as the sum of cash, cash equivalents and restricted cash.

Operational data definitions

Crude oil

- Revenue per barrel is defined as revenue from sale of crude oil divided by volume of crude oil sold both intragroup and to external customers.
- Production costs per barrel are based on volume of crude oil sold both intragroup and to the external customers excluding crude oil purchased for re-sale.
- Selling, administrative and other income/expenses, net per barrel include transportation costs and other selling expenses, administrative expenses and other operating income/expenses divided by volumes of crude oil sold both intragroup and to external customers.

Oil products

- Revenue per barrel is defined as revenue from sale of oil products divided by volume of oil products sold both intragroup and to external customers.
- Production costs per barrel are defined as operating costs (including purchases of crude oil and other services from intragroup companies) divided by volume of oil products sold both intragroup and to external customers.
- Selling, administrative and other income/expenses, net per barrel include transportation cost for oil products and other selling expenses, administrative expenses and other operating income/expenses divided by volume of oil products sold both intragroup and to external customers.

Condensed consolidated financial information (unaudited)

STATEMENT OF PROFIT OR LOSS

(Expressed in USD thousands)	Note	Quarter ended 31 December 2012	Quarter ended 31 December 2011	Year ended 31 December 2012	Year ended 31 December 2011
Revenue					
Revenue from sales of crude oil		152,124	155,526	602,354	531,656
Revenue from sales of oil products		742,920	657,331	2,787,761	2,496,218
Other income		13,616	12,516	55,124	54,786
		908,660	**825,373**	**3,445,239**	**3,082,660**
Cost of sales					
Production costs of crude oil		-93,827	-94,692	-365,881	-353,047
Production costs of oil products		-523,387	-386,238	-1,898,780	-1,635,262
Cost of other sales		-6,060	-5,642	-24,315	-23,911
Depletion and depreciation of oil and gas and refining assets		-42,966	-53,208	-173,890	-156,170
Reversal of impairment of oil and gas assets	5	58,721	-	58,721	-
Gross profit		**301,141**	**285,593**	**1,041,094**	**914,270**
Selling expenses		-86,436	-76,354	-314,587	-286,571
Administrative expenses		-28,648	-22,889	-95,740	-77,457
Depreciation and amortisation of marketing and other assets		-4,893	-4,338	-18,484	-18,025
Other operating expenses, net		-8,965	-4,490	-19,485	-18,220
Share of profit of associates and joint venture		2,485	1,045	2,309	2,153
Loss on disposal of shares in subsidiaries		-	-2,904	-	-2,894
Operating income		**174,684**	**175,663**	**595,107**	**513,256**
Interest income		4,066	3,563	14,977	12,259
Finance costs	11	-24,862	-21,951	-95,034	-59,134
Gain/(loss) on derivatives classified as held for trading, net	11	2,650	3,661	7,678	-15,444
Currency exchange gain/(loss), net		11,224	-2,274	21,688	-18,176
Profit before tax		**167,762**	**158,662**	**544,416**	**432,761**
Current tax expense		-23,212	-25,780	-95,676	-83,246
Deferred tax expense		-14,622	-13,734	-27,970	-21,225
Profit for the period		**129,928**	**119,148**	**420,770**	**328,290**
Attributable to:					
Owners of the Company		124,430	116,156	402,833	318,873
Non-controlling interests	7,10	5,498	2,992	17,937	9,417
Earnings per share (USD per share)					
Basic	4	0.69	0.68	2.31	1.86
Diluted	4	0.64	0.62	2.18	1.74

STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

(Expressed in USD thousands)	**Quarter ended 31 December 2012**	**Quarter ended 31 December 2011**	**Year ended 31 December 2012**	**Year ended 31 December 2011**
Profit for the period	129,928	119,148	420,770	328,290
Other comprehensive income/(loss)				
Items that may be reclassified subsequently to profit or loss:				
Currency exchange gain/(loss) on intercompany loans	11,198	-7,538	48,160	-49,216
Exchange gain/(loss) on translating foreign operations	44,264	-19,108	107,277	-95,224
Income tax relating to currency exchange differences on intercompany loans	-1,295	594	-7,308	7,574
Other comprehensive income/(loss) for the period, net of tax	54,167	-26,052	148,129	-136,866
Total comprehensive income for the period	**184,095**	**93,096**	**568,899**	**191,424**
Attributable to:				
Owners of the Company	175,535	90,376	543,686	179,594
Non-controlling interests	8,560	2,720	25,213	11,830

STATEMENT OF FINANCIAL POSITION

(Expressed in USD thousands)	Note	31 December 2012	31 December 2011
ASSETS			
Non-current assets:			
Property, plant and equipment	5	4,474,599	3,223,798
Intangible assets		871	1,917
Goodwill		20,394	19,239
Investments in associates and joint venture	7	187,191	21,826
Deferred tax assets		28,531	26,439
Other financial assets		121	167
Other assets	8	2,870	29,878
		4,714,577	**3,323,264**
Current assets:			
Inventories		227,991	145,029
Trade and other accounts receivable		116,368	113,605
Value added tax and other taxes receivable		296,236	224,552
Income tax receivable		13,811	11,814
Advances paid and prepaid expenses		161,262	125,907
Other financial assets		49,821	93,263
Restricted cash		26,887	27,318
Cash and cash equivalents		384,933	160,483
		1,277,309	**901,971**
TOTAL ASSETS		**5,991,886**	**4,225,235**
EQUITY AND LIABILITIES			
Capital and reserves:			
Share capital	9	176,528	171,528
Additional paid-in capital		1,296,210	1,104,355
Other reserves		-339,526	-480,379
Retained earnings		1,654,099	1,159,946
Equity attributable to owners of the Company		**2,787,311**	**1,955,450**
Non-controlling interests	7,10	245,699	37,983
TOTAL EQUITY		**3,033,010**	**1,993,433**
Non-current liabilities:			
Loans and borrowings	11	1,669,014	1,514,263
Deferred tax liabilities		265,002	187,998
Provision for decommissioning and site restoration costs	12	73,195	15,440
Other accounts payable		153	-
Advances received	13	26,156	-
Retirement benefit obligation		8,728	2,669
Derivatives classified as held for trading		-	11,114
		2,042,248	**1,731,484**
Current liabilities:			
Loans and borrowings	11	401,606	106,829
Trade and other accounts payable		129,864	144,184
Advances received and accrued expenses	13	296,065	170,466
Income tax payable		10,199	5,524
Other taxes payable		72,913	68,408
Derivatives classified as held for trading		5,981	4,907
		916,628	**500,318**
TOTAL LIABILITIES		**2,958,876**	**2,231,802**
TOTAL EQUITY AND LIABILITIES		**5,991,886**	**4,225,235**

STATEMENT OF CASH FLOWS

(Expressed in USD thousands)	Year ended 31 December 2012	Year ended 31 December 2011
Operating activities		
Profit before tax	544,416	432,761
Adjustments for:		
Depreciation, depletion and amortisation	192,374	174,195
Reversal of impairment of oil and gas assets	-58,721	-
Interest income	-14,977	-12,259
Finance costs	95,034	59,134
(Gain)/loss on derivatives classified as held for trading, net	-7,678	15,444
Currency exchange (gain)/loss, net	-21,688	18,176
Share of profit of associates and joint venture	-2,309	-2,153
Loss on disposal of shares in subsidiaries	-	2,894
Loss on disposal of assets	5,948	3,196
Other non-cash items	29,100	3,271
Operating cash flows before changes in working capital	**761,499**	**694,659**
Movements in working capital		
Increase in inventories	-72,905	-13,832
Increase in accounts receivable, advances paid and prepaid expenses	-56,235	-144,624
Increase in accounts payable, advances received and accrued expenses	115,482	40,078
Cash generated from operations	**747,841**	**576,281**
Interest paid	-82,136	-42,106
Income tax paid	-95,829	-71,675
Total cash generated from operating activities	**569,876**	**462,500**
Investing activities		
Investments in oil and gas assets	-359,843	-603,744
Investments in refining assets	-328,267	-314,912
Investments in marketing and other assets	-40,719	-28,194
Interest capitalised and paid	-77,751	-78,268
Acquisition of controlling interest in subsidiaries, net of cash acquired	-155,758	-15,636
Proceeds from disposal of assets	2,963	1,683
Interest received	8,984	5,582
Payments on settlement of swap contract, net of interest received	-2,130	188
Loans provided	-56,417	-56,588
Loans repaid	57,903	19,169
Investments in promissory notes	-15,621	-
Proceeds from sale of promissory notes	7,209	-
Short-term deposits placed	-30,320	-30,015
Proceeds from deposits withdrawn	27,030	30,076
Total cash used in investing activities	**-962,737**	**-1,070,659**

STATEMENT OF CASH FLOWS (CONTINUED)

(Expressed in USD thousands)	**Year ended 31 December 2012**	**Year ended 31 December 2011**
Financing activities		
Proceeds from loans and borrowings, net of issue costs	758,151	1,111,272
Repayment of loans and borrowings	-466,696	-478,913
Proceeds from issue of preference shares, net of issue costs (Note 9)	201,527	-
Proceeds on contribution of shares to a joint venture (Note 7)	116,728	-
Acquisition of non-controlling interest in subsidiaries	-1,551	-1,267
Dividends paid by subsidiaries	-	-397
Total cash generated from financing activities	**608,159**	**630,695**
Effect of exchange rate changes on cash balances held in foreign currencies	-7,166	4,148
Translation difference	15,887	-16,982
Change in cash, cash equivalents and restricted cash	**224,019**	**9,702**
Cash, cash equivalents and restricted cash at beginning of the year	**187,801**	**178,099**
Cash, cash equivalents and restricted cash at end of the year	**411,820**	**187,801**

STATEMENT OF CHANGES IN EQUITY

	Attributable to owners of the Company								
(Expressed in USD thousands)	**Share capital**	**Additional paid-in capital**	**Translation reserve on intercompany loans**	**Translation reserve on foreign operations**	**Option premium on convertible bonds**	**Retained earnings**	**Total**	**Non-controlling interests**	**Total equity**
Balance at 1 January 2011	**171,528**	**1,103,845**	**-128,706**	**-234,665**	**22,271**	**839,716**	**1,773,989**	**31,307**	**1,805,296**
Profit for the year	-	-	-	-	-	318,873	318,873	9,417	328,290
Other comprehensive (loss)/income, net of tax	-	-	-41,642	-97,637	-	-	-139,279	2,413	-136,866
Total comprehensive (loss)/income for the year	**-**	**-**	**-41,642**	**-97,637**	**-**	**318,873**	**179,594**	**11,830**	**191,424**
Changes in ownership of subsidiaries	-	510	-	-	-	-	510	-1,864	-1,354
Disposal of subsidiaries	-	-	-	-	-	-	-	-2,799	-2,799
Dividends to shareholders of non-controlling interests	-	-	-	-	-	-	-	-491	-491
Share option plan	-	-	-	-	-	1,357	1,357	-	1,357
Balance at 31 December 2011	**171,528**	**1,104,355**	**-170,348**	**-332,302**	**22,271**	**1,159,946**	**1,955,450**	**37,983**	**1,993,433**
Profit for the year	-	-	-	-	-	402,833	402,833	17,937	420,770
Other comprehensive income, net of tax	-	-	40,852	100,001	-	-	140,853	7,276	148,129
Total comprehensive income for the year	**-**	**-**	**40,852**	**100,001**	**-**	**402,833**	**543,686**	**25,213**	**568,899**
Issue of preference shares, net of issue costs (Note 9)	5,000	191,272	-	-	-	-	196,272	-	196,272
Disposal of non-controlling interests (Note 7)	-	-	-	-	-	95,421	95,421	183,572	278,993
Dividends on preference shares (Note 9)	-	-	-	-	-	-5,768	-5,768	-	-5,768
Changes in ownership of subsidiaries	-	583	-	-	-	-	583	-1,069	-486
Share option plan	-	-	-	-	-	1,667	1,667	-	1,667
Balance at 31 December 2012	**176,528**	**1,296,210**	**-129,496**	**-232,301**	**22,271**	**1,654,099**	**2,787,311**	**245,699**	**3,033,010**

SELECTED NOTES

Note 1 Accounting policies

The accounting policies applied in the condensed consolidated financial information for the year ended 31 December 2012 were the same as those used in the annual consolidated financial statements for the year ended 31 December 2011, except as indicated in the following paragraphs.

A number of revised and amended Standards and Interpretations which became effective or available for early adoption on 1 January 2012, have been applied for the preparation of the condensed consolidated financial information.

New and revised Standards on consolidation, joint arrangements, associates and disclosures

In May 2011, a package of five standards on consolidation, joint arrangements, associates and disclosures were issued, including IFRS 10 “Consolidated Financial Statements”, IFRS 11 “Joint Arrangements”, IFRS 12 “Disclosure of Interests in Other Entities”, IAS 27 “Separate Financial Statements” and IAS 28 “Investments in Associates and Joint Ventures”. In 2012, the Group adopted these five standards in advance of their effective dates (annual periods beginning on or after 1 January 2013). The impact of adoption of these Standards was assessed by management as insignificant to the Group’s operations except for IFRS 10, IFRS 11 and IFRS 12.

Impact of the application of IFRS 10

IFRS 10 replaces the parts of IAS 27 “Consolidated and Separate Financial Statements” that deals with consolidated financial statements. Under IFRS 10, there is only one basis for consolidation, that is control. In addition, IFRS 10 includes a new definition of control that contains three elements: (a) power over investee, (b) exposure, or rights, to variable returns from its involvement with the investee, and (c) the ability to use its power over investee to affect the amount of the investor’s returns.

Impact of the application of IFRS 11

IFRS 11 replaces IAS 31 “Interests in Joint Ventures” and SIC 13 “Jointly Controlled Entities – Non-Monetary Contributions by Venturers”. IFRS 11 deals with how a joint arrangement of which two or more parties have joint control should be classified. Under IFRS 11, joint arrangements are classified as joint operations or joint ventures, depending on the rights and obligations of the parties to the arrangement, and required to be accounted for using equity method of accounting.

Impact of the application of IFRS 12

IFRS 12 requires enhanced disclosures of financial and non-financial data about subsidiaries with non-controlling interests that are material to the Group.

Amendments to IAS 1 “Presentation of Financial Statements” – Presentation of Items of Other Comprehensive Income

The Group has adopted the amendments to IAS 1 in advance of the effective date (annual periods beginning on or after 1 July 2012). The amendments introduce new terminology for the statement of comprehensive income and income statement. Under the amendments to IAS 1, the “statement of comprehensive income” is renamed to the “statement of profit or loss and other comprehensive income” and the “income statement” is renamed to the “statement of profit or loss”. The amendments to IAS 1 retain the option to present profit or loss and other comprehensive income in either a single statement or in two separate but consecutive statements. However, the amendments to IAS 1 require items of other comprehensive income to be grouped into two categories in the other comprehensive income section: (a) items that will not be reclassified subsequently to profit or loss and (b) items that will be reclassified subsequently to profit or loss when specific conditions are met. Income tax on items of other comprehensive income is required to be allocated on the same basis.

Amendments to IAS 19 “Employee Benefits”

The Group early adopted amendments to IAS 19 “Employee Benefits” in advance of the effective date (annual period beginning on or after 1 January 2013). The most significant change relates to accounting for changes in defined benefit obligations and plan assets. The amendments require the recognition of changes in defined benefit obligations and in fair value of plan assets when they occur, and hence eliminate the ‘corridor approach’ permitted under the previous version of IAS 19 and accelerate the recognition of past service costs. All actuarial gains and losses must be recognised immediately through other comprehensive income in order for the net pension asset or liability recognised in the consolidated statement of financial position to reflect the full value of the plan deficit or surplus.

Previously, the past service costs at the introduction of the plans were deferred and amortised on a straight-line basis over the expected average remaining working lives of the employees participating in the plans. After adoption of the amended standard, the Group recognised the past service costs in the amount of TUSD 4,718 in the consolidated statement of profit or loss. Due to immateriality, the amendments were not applied retrospectively.

The following accounting policies are applicable to the Group’s consolidated financial statements starting from 1 January 2012:

Basis of consolidation

The consolidated financial statements incorporate the financial statements of the Company and entities controlled by the Company (its subsidiaries). Control is achieved where the Company is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee. Specifically, the Company controls an investee if and only if the Company has all the following:

- power over the investee (i.e. existing rights that give it the current ability to direct the relevant activities of the investee);
- exposure, or rights, to variable returns from its involvement with the investee; and
- the ability to use its power over the investee to affect the amount of its returns.

When the Company has less than a majority of the voting rights of an investee, it has a power over the investee when the voting rights are sufficient to give it the practical ability to direct the relevant activities of the investee unilaterally. The Company considers all relevant facts and circumstances in assessing whether or not the Company’s voting rights in an investee are sufficient to give it power, including:

- the size of the Company’s holding of voting rights relative to the size and dispersion of holdings of the other vote holders;
- potential voting rights held by the Company, other vote holders or other parties;
- rights arising from other contractual arrangements; and
- any additional facts and circumstances that indicate the Company has, or does not have, the current ability to direct the relevant activities at the time that decisions need to be made, including voting patterns at previous shareholders’ meetings.

The Company reassesses wheather or not it controls an investee if facts and circumstances indicate that there are changes to one or more of the three elements of control list above.

Consolidation of a subsidiary begins when the Company obtains control over the subsidiary and ceases when the Company loses control of the subsidiary. Specifically, income and expenses of subsidiaries acquired or disposed of during the year are included in the consolidated statement of profit or loss from the date the Company obtains control until the date when the Company ceases to control the subsidiary.

Profit or loss and each component of other comprehensive income are attributed to the owners of the Company and to the non-controlling interests. 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 the Group's accounting policies.

All intragroup assets and liabilities, equity, income, expenses and cash flows relating to transactions between members of the Group are eliminated in full on consolidation.

Changes in the Group's ownership interests in subsidiaries that do not result in the Group losing control over the subsidiaries are accounted for as equity transactions. The carrying amounts of the Group's interests and the non-controlling interests are adjusted to reflect the changes in their relative interests 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 of a subsidiary, the profit or loss on disposal is calculated as the difference between (i) the aggregate of the fair value of the consideration received and the fair value of any retained interest and (ii) the previous carrying amount of the assets (including goodwill), and liabilities of the subsidiary and any non-controlling interests. Amounts previously recognised in other comprehensive income in relation to the subsidiary's assets or liabilities are accounted for (i.e. reclassified to the statement of profit or loss or transferred directly 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 an investment in an associate.

Investments in associates and joint ventures

An associate is an entity over which the investor has significant influence. Significant influence is the power to participate in the financial and operating policy decisions of the investee but is not control or joint control of those policies.

A joint venture is a joint arrangement whereby the parties that have joint control of the arrangement have rights to the net assets of the arrangement. Joint control is the contractually agreed sharing of control of an arrangement, which exists only when decisions about the relevant activities require the unanimous consent of the parties sharing control.

The results and assets and liabilities of associates or joint ventures are incorporated in this consolidated financial information using the equity method of accounting, except when the investment is classified as held for sale, in which case it is accounted for in accordance with IFRS 5 "Non-current Assets Held for Sale and Discontinued Operations". Under the equity method, an investment in an associate or a joint venture 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 or joint venture.

When the Group's share of losses of an associate or a joint venture exceeds the Group's interest in that associate or joint venture (which includes any long-term interests that, in substance, form part of the Group's net investment in the associate or joint venture), 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 or joint venture.

An investment is accounted for using the equity method from the date on which the investee becomes an associate or a joint venture. On acquisition of the investment in an associate or a joint venture, any excess of the cost of the investment over the Group's share of the net fair value of the identifiable assets and liabilities of the investee 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 and liabilities over the cost of the investment, 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 or a joint venture. 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.

The Group discontinues the use of the equity method from the date when the investment ceases to be an associate or a joint venture. When the Group retains an interest in the former associate or joint venture and the retained interest is a financial asset, the Group measures the retained interest at fair value at that date and the fair value is regarded as its fair value on initial recognition in accordance with IAS 39. The difference between the carrying amount of the associate or joint venture at the date the equity method was discontinued, and the fair value of any retained interest and any proceeds from disposing of a part interest in the associate or joint venture is included in the determination of the gain or loss on disposal of the associate or joint venture. In addition, the Group accounts for all amounts previously recognised in other comprehensive income in relation to that associate or joint venture on the same basis as would be required if that associate or joint venture had directly disposed of the related assets or liabilities. Therefore, if a gain or loss previously recognised in other comprehensive income by that associate or joint venture would be reclassified to profit or loss on the disposal of the related assets or liabilities, the Group reclassifies the gain or loss from equity to profit or loss (as a reclassification adjustment) when the equity method is discontinued.

The Group continues to use the equity method when an investment in an associate becomes an investment in a joint venture or an investment in a joint venture becomes an investment in an associate. There is no remeasurement to fair value upon such changes in ownership interests.

When the Group reduces its ownership interest in an associate or a joint venture but the Group continues to use the equity method, the Group reclassifies to profit or loss the proportion of the gain or loss that had previously been recognised in other comprehensive income relating to that reduction in ownership interest if that gain or loss would be reclassified to profit or loss on the disposal of the related assets or liabilities.

When a group entity transacts with an associate or a joint venture of the Group, profits and losses resulting from the transactions with the associate or joint venture are recognised in the Group's consolidated financial statements only to the extent of interests in the associate or joint venture that are not related to the Group.

Defined benefit plans

The Group has defined benefits plans, which are unfunded. The cost of providing benefits under these defined benefit plans is determined separately for each plan using the projected unit credit method. The past service costs are recognised as an expense at the earlier of the following dates:

- when the plan amendment or curtailment occurs;
- when the entity recognises related restructuring costs or termination benefits.

Note 2 Reclassifications

Certain comparative information presented in the consolidated financial information for the quarter and year ended 31 December 2011 has been reclassified. Reclassifications were based upon management's decision to enhance disclosure of the Group's results of operations through presentation of transportation costs related to oil products purchased for resale in accordance with their substance.

	Before reclassification	After reclassification	Effect
Quarter ended 31 December 2011			
Production costs of oil products	-385,559	-386,238	-679
Selling expenses	-77,033	-76,354	679
Year ended 31 December 2011			
Production costs of oil products	-1,631,909	-1,635,262	-3,353
Selling expenses	-289,924	-286,571	3,353
			-

Note 3 Segment information

Management determines its reporting segments based on the nature of operations of the Group's entities. As a result, two business segments are presented: the upstream segment which includes crude oil and gas exploration, extraction and production, and the downstream segment which includes oil refining, transportation and sales of oil products. Management reviews and evaluates performance of these segments on a regular basis. Operations of the parent company and subsidiaries involved in non-core activities are combined into one segment "Other companies".

Reconciliation of management accounts to the condensed consolidated financial information is presented below:

Quarter ended 31 December 2012

(Expressed in USD thousands)	Upstream	Downstream	Other companies	Inter-segment eliminations	Reconciling items	Total
Total segment revenue	247,827	771,417	11,563	-119,517	-2,630	908,660
Less inter-segment revenue	-91,156	-16,798	-11,563	119,517	-	-
Revenue from external customers	156,671	754,619	-	-	-2,630	908,660
Segment operating income	**145,694**	**58,687**	**-18,798**	**4**	**-10,903**	**174,684**
Interest income	2,250	13,641	15,126	-27,066	115	4,066
Finance costs	-15,554	-18,933	-16,588	19,050	7,163	-24,862
Gain on derivatives classified as held for trading, net	-	2,650	-	-	-	2,650
Currency exchange gain/(loss), net	2,924	8,387	6,774	-8	-6,853	11,224
Profit before tax	**135,314**	**64,432**	**-13,486**	**-8,020**	**-10,478**	**167,762**
Income tax expense	-29,157	-11,487	-1,945	-	4,755	-37,834
Profit for the period	**106,157**	**52,945**	**-15,431**	**-8,020**	**-5,723**	**129,928**
Segment EBITDA	**122,594**	**70,031**	**-18,711**	**4**	**-4,760**	**169,158**

Quarter ended 31 December 2011

(Expressed in USD thousands)	**Upstream**	**Downstream**	**Other companies**	**Inter-segment eliminations**	**Reconciling items**	**Total**
Total segment revenue	280,391	725,350	9,587	-190,457	502	825,373
Less inter-segment revenue	-122,512	-58,358	-9,587	190,457	-	-
Revenue from external customers	157,879	666,992	-	-	502	825,373
Segment operating income	**102,244**	**83,614**	**-5,200**	**-24**	**-4,971**	**175,663**
Interest income	1,509	1,904	29,258	-29,046	-62	3,563
Finance costs	-20,109	-3,819	-26,421	30,780	-2,382	-21,951
Gain on derivatives classified as held for trading, net	-	3,661	-	-	-	3,661
Currency exchange (loss)/gain, net	-2,203	-1,521	90	34	1,326	-2,274
Profit before tax	**81,441**	**83,839**	**-2,273**	**1,744**	**-6,089**	**158,662**
Income tax expense	-21,900	-17,725	-487	-	598	-39,514
Profit for the period	**59,541**	**66,114**	**-2,760**	**1,744**	**-5,491**	**119,148**
Segment EBITDA	**150,204**	**95,636**	**-5,221**	**-26**	**-4,480**	**236,113**

Year ended 31 December 2012

(Expressed in USD thousands)	**Upstream**	**Downstream**	**Other companies**	**Inter-segment eliminations**	**Reconciling items**	**Total**
Total segment revenue	1,017,934	2,984,585	45,611	-589,383	-13,508	3,445,239
Less inter-segment revenue	-396,290	-147,482	-45,611	589,383	-	-
Revenue from external customers	621,644	2,837,103	-	-	-13,508	3,445,239
Segment operating income	**428,472**	**234,426**	**-46,735**	**-537**	**-20,519**	**595,107**
Interest income	7,023	51,801	76,680	-120,447	-80	14,977
Finance costs	-71,957	-73,974	-65,362	86,671	29,588	-95,034
Gain on derivatives classified as held for trading, net	-	7,678	-	-	-	7,678
Currency exchange gain/(loss), net	9,654	29,062	6,545	113	-23,686	21,688
Profit before tax	**373,192**	**248,993**	**-28,872**	**-34,200**	**-14,697**	**544,416**
Income tax expense	-84,889	-44,068	-3,925	-	9,236	-123,646
Profit for the year	**288,303**	**204,925**	**-32,797**	**-34,200**	**-5,461**	**420,770**
Segment EBITDA	**518,638**	**276,348**	**-46,403**	**-537**	**-13,950**	**734,096**

Year ended 31 December 2011

(Expressed in USD thousands)	**Upstream**	**Downstream**	**Other companies**	**Inter-segment eliminations**	**Reconciling items**	**Total**
Total segment revenue	883,074	2,843,125	40,432	-683,489	-482	3,082,660
Less inter-segment revenue	-342,944	-300,113	-40,432	683,489	-	-
Revenue from external customers	540,130	2,543,012	-	-	-482	3,082,660
Segment operating income	**279,157**	**274,874**	**-23,565**	**-229**	**-16,981**	**513,256**
Interest income	5,560	6,927	106,256	-106,389	-95	12,259
Finance costs	-51,088	-28,041	-92,131	93,044	19,082	-59,134
Loss on derivatives classified as held for trading, net	-	-15,444	-	-	-	-15,444
Currency exchange gain/(loss), net	7,111	-42,816	-5,700	73	23,156	-18,176
Profit before tax	**240,740**	**195,500**	**-15,140**	**-13,501**	**25,162**	**432,761**
Income tax expense	-59,076	-39,110	-4,721	-	-1,564	-104,471
Profit for the year	**181,664**	**156,390**	**-19,861**	**-13,501**	**23,598**	**328,290**
Segment EBITDA	**413,857**	**315,955**	**-23,116**	**-230**	**-16,121**	**690,345**

Upstream and downstream segment revenue include revenue from sales of crude oil and oil products, respectively, and income from other non-core activities.

Upstream and downstream segment EBITDA is based on management accounts.

The reconciliation of segment results to the condensed consolidated financial information primarily includes:

- elimination of unrealised gains/losses on intra-segment operations;
- currency exchange gains/losses related to intercompany loans treated as extended investments and classified within the statement of profit or loss and other comprehensive income;
- capitalised interest on loans and borrowings;
- effect of difference in exchange rates applied;
- tax effect on the above mentioned adjustments.

Reconciliation of the segments' EBITDA to profit before tax is presented below:

(Expressed in USD thousands)	**Quarter ended 31 December 2012**	**Quarter ended 31 December 2011**	**Year ended 31 December 2012**	**Year ended 31 December 2011**
EBITDA of reportable segments	192,625	245,840	794,986	729,812
EBITDA of other companies	-18,711	-5,221	-46,403	-23,116
Inter-segment eliminations	4	-26	-537	-230
Effect of reconciling items	-4,760	-4,480	-13,950	-16,121
Total EBITDA	**169,158**	**236,113**	**734,096**	**690,345**
Depreciation, depletion and amortisation	-47,859	-57,546	-192,374	-174,195
Reversal of impairment of oil and gas assets	58,721	-	58,721	-
Interest income	4,066	3,563	14,977	12,259
Finance costs	-24,862	-21,951	-95,034	-59,134
Gain/(loss) on derivatives classified as held for trading, net	2,650	3,661	7,678	-15,444
Currency exchange gain/(loss), net	11,224	-2,274	21,688	-18,176
Loss on disposal of shares in subsidiaries	-	-2,904	-	-2,894
Other	-5,336	-	-5,336	-
Profit before tax	**167,762**	**158,662**	**544,416**	**432,761**

Note 4 Earnings per share

Basic earnings per share

The earnings and weighted average number of ordinary shares used in the calculation of basic earnings per share are as follows:

	Quarter ended 31 December 2012	**Quarter ended 31 December 2011**	**Year ended 31 December 2012**	**Year ended 31 December 2011**
Profit attributable to owners of the Company	124,430	116,156	402,833	318,873
Preference dividends for cumulative preference shares required for the period	-5,768	-	-5,768	-
	118,662	**116,156**	**397,065**	**318,873**
Weighted average number of ordinary shares in issue	171,528,414	171,528,414	171,528,414	171,528,414
Basic earnings per share	**0.69**	**0.68**	**2.31**	**1.86**

Diluted earnings per share

Diluted earnings per share are calculated by adjusting the weighted average number of ordinary shares outstanding to assume conversion of dilutive potential ordinary shares. The Company has the following categories of dilutive potential ordinary shares: convertible bonds and share options.

For the quarter and year ended 31 December 2012, convertible bonds with a conversion price of SEK 121.13 (USD 15.94 at fixed exchange rate) were the only instruments which influenced the calculation of diluted earnings per share. Share options had no dilutive effect.

	Quarter ended 31 December 2012	Quarter ended 31 December 2011	Year ended 31 December 2012	Year ended 31 December 2011
Profit attributable to owners of the Company	124,430	116,156	402,833	318,873
Preference dividends for cumulative preference shares required for the period	-5,768	-	-5,768	-
Interest expense on convertible bonds recognised in statement of profit or loss	1,985	1,081	12,251	9,709
	120,647	**117,237**	**409,316**	**328,582**
Weighted average number of ordinary shares in issue	171,528,414	171,528,414	171,528,414	171,528,414
Adjustments for:				
– Assumed conversion of convertible bonds	16,624,791	16,624,791	16,624,791	16,624,791
– Share options	-	-	-	169,883
Weighted average number of ordinary shares used in the calculation of diluted earnings per share	**188,153,205**	**188,153,205**	**188,153,205**	**188,323,088**
Diluted earnings per share	**0.64**	**0.62**	**2.18**	**1.74**

Note 5 Property, plant and equipment

During the year ended 31 December 2012, additions in the construction and acquisition of production and other assets amounted to TUSD 1,178,116 (2011: TUSD 1,084,980), including TUSD 417,753 (2011: TUSD 403,326) related to OJSC Khabarovsk Oil Refinery and TUSD 712,728 (2011: TUSD 651,872) related to the development of oil and gas fields (including acquisition of LLC SN-Gazdobycha and LLC GeoInvestService as described in Note 6 and change in estimate in decommissioning obligation in the amount of TUSD 49,852).

The increase in depletion charge primarily resulted from the launch of production at the Kolvinskoye oil field and the updated estimation of future development costs as at 31 December 2011.

As a result of the impairment test performed for upstream segment assets, the previously recognised impairment loss in the amount of TUSD 58,721 was reversed. The reversal related to the Tomsk cash generating unit and reflected the fact that conditions that gave rise to impairment loss in prior years, have improved. In performing impairment test, management took into consideration significant increase in oil price projections and the relative stability of reserves for the two consecutive years.

Note 6 Acquisition of subsidiaries

Acquisition of oil and gas assets

On 29 August 2012, the Group acquired 100% interest in CAP Agro S.A. and its subsidiary, LLC GeoInvestService, for cash consideration of TUSD 30,026. LLC GeoInvestService holds an exploration license for the West-Osoveiskoye block in the Timano-Pechora region in Northern Russia, on the East side of the Kolvinskoye oil field.

LLC GeoInvestService did not carry out any activity before the date of acquisition. Accordingly, acquisition did not meet the definition of a business combination as stated in IFRS 3 “Business Combinations”, and was treated as acquisition of an asset. Identifiable assets acquired and liabilities assumed were accounted for on an individual basis in the consolidated statement of financial position. The purchase price was allocated to cost of license for West-Osoveiskoye block within the Group’s exploration assets.

Acquisition of a gas company

On 15 October 2012, the Group acquired 100% shares in Polonio Holdings Limited, an ultimate owner of LLC SN-Gazdobycha, an upstream segment company holding two gas licenses in the Tomsk of the Russian Federation, for cash consideration of TUSD 127,768. Field development is at an advanced stage and gas production commenced in February 2013.

The Group engaged independent appraisal to determine fair value of assets and liabilities acquired under IFRS 3 "Business combination". Fair value of assets acquired and liabilities assumed at the date of acquisition were as follows:

Assets	
Property, plant and equipment	303,880
Taxes receivable	7,666
Cash and cash equivalents	2,036
Other assets	2,967
Liabilities	
Loans and borrowings	-147,172
Deferred tax liability	-31,817
Dismantlement provision	-1,871
Payables and accrued expenses	-7,921
Identifiable net assets at the date of acquisition	**127,768**

Net cash outflow on acquisition of Polonio Holdings Limited Group:

Consideration paid in cash	127,768
Less: cash and cash equivalents balances acquired	-2,036
	125,732

Included in the profit for the year is TUSD 328 attributable to the loss generated by Polonio Holdings Limited Group, the acquired Group does not generate revenue. Had the business combination been effected at 1 January 2012, the profit for the year of the Group would have been TUSD 416,964.

Note 7 Investments in associates and joint venture

Details of the Group's associates and joint venture as at 31 December 2012 were as follows:

Operating entity	Activity	Country	Carrying value
AR Oil&Gaz B.V.	Joint Venture - oil production	Netherlands	162,537
Lia Oil S.A.	Trading of crude oil and oil products	Switzerland	23,964
LLC Dalnefteresource	Trading of oil products	Russian Federation	690
			187,191

<u>Establishment of joint venture</u>

On 16 August 2012, the Group contributed to AR Oil & Gas B.V., a joint venture with Repsol Exploracion, S.A. (Repsol), 100% of shares of its subsidiary CJSC Saneco, and Repsol acquired shares in the joint venture from the Group for TUSD 35,660.

On 20 December 2012, the Group contributed to the joint venture 99.54% of shares of its subsidiary OJSC Tatnefteotdacha for a cash consideration of TUSD 81,068 received from Repsol. In January 2013, formation of joint venture was completed as Repsol contributed its subsidiary OJSC Eurotek with the Group's share amounting to TUSD 143,523. As at 31 December 2012 Repsol's undertaking to contribute its subsidiary OJSC Eurotek was recorded in the Group's cost of investment in the joint venture.

Based on the definition of control under IFRS 10 "Consolidated Financial Statements", the Group considers that it retained control over CJSC Saneco and OJSC Tatnefteotdacha and continues to consolidate both entities based on the following factors:

- the Group has a substantive potential voting right in respect of both entities, through existence of a buy-back option, which can be realised at the fair value determined by independent valuators. Management expects to obtain non-monetary benefits from exercise of the option;
- all the assets, liabilities and equity of both entities are ring-fenced from the joint venture.

Following the contribution of CJSC Saneco and OJSC Tatnefteotdacha, a non-controlling interest representing 49% of the CJSC Saneco net assets and 48.78% of the OJSC Tatnefteotdacha net assets was recognised in the consolidated financial statements in the amount of TUSD 183,572 as at the respective dates of contributions.

Under IFRS 11 "Joint Arrangements", the Group's investment in AR Oil & Gas B.V. was accounted for under the equity method, as a 51% share in the joint venture net assets, excluding investment in CJSC Saneco and OJSC Tatnefteotdacha. The Group's share in joint venture's net loss from 16 August to 31 December 2012 of TUSD 89 was recognised in profit and loss.

Net assets, excluding investment in CJSC Saneco and OJSC Tatnefteotdacha, of the joint venture at 31 December 2012 were as follows:

Total assets, represented by cash and cash equivalents	37,284
Total liabilities	-74
	37,210

Note 8 Other non-curent assets

At 31 December 2012, other assets decreased by TUSD 27,008 compared to 31 December 2011 primarily due to reclassification of value added tax (VAT) to the current assets, as management expects to recover this VAT during 12 months after the reporting date in accordance with the schedule of the Khabarovsk refinery modernisation.

Note 9 Share capital and share option plan

Share capital

In December 2012, 5,000,000 preference shares (Swedish Depository Receipts) were issued with a subscription price of SEK 270 and a par value of USD 1 per share raising TSEK 1,350,000 (TUSD 202,329 before issue costs as of settlement date). The financing raised after issue costs amounted to TSEK 1,309,589 (TUSD 196,272 as of settlement date and TUSD 200,891 as of the date of cash transfer). Following the transaction, total number of the Company's shares increased to 176,528,414.

The following terms and conditions apply to the preference shares issued:

- Preference shares dividends were set SEK 30 per share per year and will have a 1/10 vote each.
- Dividend payments are subject to resolution by the annual general meeting.
- If no dividend is paid on preference shares with respect to any quarter, holders of preference shares are entitled to receive in addition to dividends for the current period the full outstanding amount of dividends for the prior periods.
- The outstanding amount shall be increased by an annual interest rate of 14% calculated from the quarterly date on which the dividend payment should have been made, where no or insufficient dividend was paid, to the date of actual payment.
- No dividend or other distribution to holders of ordinary shares may be paid until preference shares have received full payment of any dividend due, plus any outstanding amount.
- The preference shares can be redeemed by the Group at any time at a fixed redemption price of 130% of the subscription price.

As under the terms of the issue the payment of dividends, as well as deferred interest, is subject to the annual general meeting and no contractual obligation to pay dividends quarterly or annually exists, thus the preference shares issued were accounted for as equity instruments and not as liability.

The Board of directors proposes to pay a dividend on preference shares of SEK 30 (to be paid through four quarterly payments of 7.5 each) and that no dividends shall be paid on ordinary shares for the year ended 31 December 2012. On 14 December 2012, at Special General meeting shareholders approved the proposal of the Board of directors to pay a dividend on preference shares of SEK 7.50 (in the total amount of TUSD 5,768) with a record date for the distribution being 28 February 2013.

Share options

In December 2012, the Board of directors approved the issue of 749,522 share options to management with a grant date of 11 December 2012 and an exercise price of SEK 55 (USD 8.46 at the exchange rate on the reporting date). All options are exercisable after 3 years subject to certain conditions and expire after 5 years from issuance.

At 31 December 2012 and the date of authorisation of the condensed consolidated financial information, the number of outstanding options amounted to 2,736,551. Each option gives the right to subscribe for 1 share of common stock at exercise prices ranging from SEK 55 to SEK 115. None of the 437,700 exercisable options were exercised during the year ended 31 December 2012.

For the quarters ended 31 December 2012 and 2011, share option charges amounted to TUSD 425 and TUSD 436, respectively. For the years ended 31 December 2012 and 2011, the charges amounted to TUSD 1,667 and TUSD 1,357, respectively.

Note 10 Non-controlling interests

	CJSC Saneco	OJSC Tatnefteotdacha	LLP Potential Oil	OJSC Khabarovsk Oil Refinery	OJSC Khabarovsknefte-product	Other subsidiaries	Total
Country of incorporation	Russian Federation	Russian Federation	Kazakhstan	Russian Federation	Russian Federation	Russian Federation	
Ownership held by non-controlling interests, %	49.00%	49.23%	20.36%	2.27%	11.11%	0.34% - 5.22%	
Voting rights held by non-controlling interests, %	49.00%	49.23%	20.00%	2.27%	11.11%	0.34% - 5.22%	
Accumulated non-controlling interests at 31 December 2012, TUSD	100,675	98,122	23,414	12,157	6,439	4,892	**245,699**
Non-controlling interests in net profit for the year ended 31 December 2012, TUSD	8,681	269	7,067	2,606	-669	-17	**17,937**

Details of changes in ownership of CJSC Saneco and OJSC Tatnefteotdacha that do not result in a loss of control are disclosed in Note 7.

Presented below is financial information of CJSC Saneco:

(Expressed in USD thousands)	**31 December 2012**
Non-current assets	199,104
Current assets	48,652
Non-current liabilities	-11,872
Current liabilities	-30,424

	Year ended 31 December 2012	**From 16 August to 31 December 2012**
Revenue	211,211	91,462
Net profit	30,595	17,717
Net cash flows	14,998	2,469

Presented below is financial information of OJSC Tatnefteotdacha:

(Expressed in USD thousands)	**31 December 2012**
Non-current assets	154,253
Current assets	70,433
Non-current liabilities	-12,920
Current liabilities	-12,463

	Year ended 31 December 2012
Revenue	165,940
Net profit	59,114
Net cash flows	16,051

Note 11 Loans and borrowings

(Expressed in USD thousands)	Currency	Interest rate	31 December 2012 Principal	Interest	Total
Non-convertible interest bearing bonds	RUB	8.85-9.75%	655,295	14,296	669,591
Non-convertible interest bearing Eurobonds	USD	9.88%	346,959	10,561	357,520
Convertible interest bearing bonds	USD	7.25%	254,417	4,003	258,420
Bank loans nominated in USD	USD	Libor 3m + 3.85%-Libor 6m+5.5%	329,550	3,924	333,474
Bank loans nominated in EUR	EUR	Euribor 6m+5.5%	175,088	4,548	179,636
Bank loans nominated in RUB	RUB	10.9-12%	267,969	4,010	271,979
Total loans and borrowings			**2,029,278**	**41,342**	**2,070,620**
Current portion repayable within one year					401,606
Long-term loans and borrowings					**1,669,014**

(Expressed in USD thousands)	Currency	Interest rate	31 December 2011 Principal	Interest	Total
Non-convertible interest bearing bonds	RUB	8.85-9.75%	616,579	13,174	629,753
Non-convertible interest bearing Eurobonds	USD	9.88%	345,772	10,561	356,333
Convertible interest bearing bonds	USD	7.25%	248,302	4,003	252,305
Bank loans nominated in USD	USD	Libor 1m + 3.6%-Libor 6m+5.5%	233,601	3,060	236,661
Bank loans nominated in EUR	EUR	Euribor 6m+5.5%	142,077	3,963	146,040
Total loans and borrowings			**1,586,331**	**34,761**	**1,621,092**
Current portion repayable within one year					106,829
Long-term loans and borrowings					**1,514,263**

At 31 December 2012 and 2011, the loans and borrowings were collateralised by:

- 97.73% (31 December 2011: 97.90%) of the Group's holding in OJSC Khabarovsk Oil Refinery;
- 100% of the Group's holding in LLC SN-Gazdobycha;
- proceeds from sale of crude oil under the contract between OJSC Vostochnaya Transnationalnaya Kompaniya and one of its customers in the total amount of TUSD 330,000;
- proceeds from sale of gas under the contract between LLC SN-Gazdobycha and one of its customers in the total amount of TUSD 42,854;
- property, plant and equipment with a carrying value of TUSD 137,540 (31 December 2011: TUSD 123,763).

The maturity profile of the Group's loans and borrowings based on contractual undiscounted payments, including accrued interest, is presented as follows:

	31 December 2012		
(Expressed in USD thousands)	**Principal**	**Interest**	**Total**
Within one year from 31 December 2012	361,050	171,845	532,895
Within second year from 31 December 2012	491,050	136,368	627,418
More than two years from 31 December 2012	1,232,924	251,450	1,484,374
Total amount estimated to be repaid	**2,085,024**	**559,663**	**2,644,687**

The interest payments were based on the interest rate effective at 31 December 2012. The principal and interest payments denominated in RUB were converted into USD using the exchange rate at 31 December 2012.

During the year ended 31 December 2012, the Group raised financing in the amount of TUSD 758,151, net of issue costs and repaid loans in the amount of TUSD 466,696.

In 2011, bonds with a notional amount of TRUB 3,000,000 and a fixed coupon of 9.75% were swapped to USD through a cross currency interest swap contract bearing interest of 5.3-5.8% in order to balance cash inflows from export sales denominated in USD with cash outflows on interest payments denominated in RUB and obtain a lower interest rate. Gain on revaluation of the cross currency swap at 31 December 2012 was recorded in the consolidated statement of profit or loss in the amount of TUSD 7,678. During the year ended 31 December 2012, the Group received interest on swaps in the amount of TUSD 3,414 and settled a cross currency swap with notional amount of TRUB 1,000,000 through cash payment in the amount of TUSD 5,544 resulting in net cash outflow in the amount of TUSD 2,130 presented in the statement of cash flows within "Payments on settlement of swap contract, net of interest received".

Finance costs primarily include interest expenses on loans and borrowings. Finance costs for the year ended 31 December 2012 amounted to TUSD 95,034 compared to TUSD 59,134 in 2011. The increase was due to interest expenses on ruble bonds issued during 2011 and decrease of interest capitalised due to launch of the Kolvinskoye oil field.

Note 12 Provision for decommissioning and site restoration costs

At 31 December 2012, provision for decommissioning and site restoration costs increased by TUSD 57,755 compared to 31 December 2011 primarily due to annual revision of assumptions, in particular discounting rate and decomissioning cost per unit.

Note 13 Advances received

In September 2012, the Group received advance for crude oil shipments during 18 months from the date of payment. Advances received were classified as non-current (TUSD 26,156) and current (TUSD 130,779) according to the agreed delivery schedule.

Note 14 Related party transactions

Related parties include shareholders, associates and other related parties representing entities under common ownership and control with the Group and members of key management personnel.

Significant balances with related parties at 31 December 2012 and 2011:

(Expressed in USD thousands)	**31 December 2012**	**31 December 2011**
Shareholders		
Trade and other accounts receivable	1,153	886
Associates		
Trade and other accounts receivable	19,112	20,076
Advances paid and prepaid expenses	2,002	-
Advances received and accrued expenses	55,057	79,670
Other related parties		
Trade and other accounts receivable	9	1,400
Advances paid and prepaid expenses	1,999	1,403
Other financial assets	-	26,159

Significant transactions with related parties for the years ended 31 December 2012 and 2011:

(Expressed in USD thousands)	**Year ended 31 December 2012**	**Year ended 31 December 2011**
Associates		
Revenue	927,049	482,840
Purchase of oil products	28,052	7,482
Purchase of services	1,531	341
Loans provided	24,786	16,588
Loans repaid	24,786	16,588
Other related parties		
Revenue	253	385,327
Purchase of services	18,583	35,377
Charity contributions to the Fund named by Z. Bazhaev (for participation in the Russian federal national projects)	9,736	10,333
Interest income	3,370	3,111
Short-term deposits placed	-	30,015
Proceeds from deposits withdrawn	27,030	30,076

In May 2011, the Group completed the acquisition of 40% share in the capital of oil and oil products trading company Lia Oil S.A. From the date of acquisition, transactions with Lia Oil S.A. are treated as transactions with an associate (before that date the transactions with Lia Oil S.A. were treated as transactions with other related parties).

Transactions with shareholders, associates and other related parties relate to transactions in the ordinary course of business with terms and conditions, similar to transactions with third parties.

Note 15 Commitments and contingencies

Contractual commitments for the acquisition of property, plant and equipment at 31 December 2012 and 2011 amounted to TUSD 855,011 and TUSD 750,651, respectively.

Note 16 Events after the reporting period

Joint venture with Repsol

In January 2013, Repsol contributed its subsidiary, OJSC Eurotek, to the joint venture. OJSC Eurotek owns two gas exploration and production licenses with 2P gas reserves of 115 mboe[5].

Gas production in Tomsk region

Alliance Oil Company completed infrastructure development and launched gas production at the Ust-Silginskiy field in the Tomsk region. Gas production commenced in February 2013 with initial daily gas production of approximately 700 thousand cubic metres (about 4,500 barrels of oil equivalent).

[5] Evaluated by Repsol as of November 2011, not adjusted for 2012 revisions.

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Risks and uncertainties associated with this report

The Group's risk exposure is presented on pages 49-52 of the financial statements part of Alliance Oil Company Ltd's 2011 annual report. There are no general changes to this presentation of risk exposure.

21 February 2013

The Board of directors and the Managing Director certify that the financial report gives a fair view of the performance of the business, position and profit or loss of the company and the Group, and describes the principal risks and uncertainties that the Company and the companies in the Group are exposed to.

Eric Forss
Chairman

Arsen Idrisov
Director and Managing Director

Claes Levin
Director

Fred Boling
Director

Raymond Liefooghe
Director

Fernando Martinez-Fresneda
Director

Isa Bazhaev
Director

This report has not been subject to an audit or a review by the Company's independent auditors.

For further information:

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Alliance Oil Company Limited

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Internet: www.allianceoilco.com

Financial calendar

Quarterly reports

Three months report (January – March 2013) is due on 22 May 2013.
Six months report (January – June 2013) is due on 21 August 2013.
Nine months report (January – September 2013) is due on 21 November 2013.
Twelve months report (January – December 2013) is due in February 2014.

Operational updates

Monthly operational updates will be published approximately 10 days after the end of each month.

Annual General Meeting

The annual general meeting of the shareholders will be held in Stockholm on 22 May 2013.

Annual Report

The annual report 2012 will be available on Alliance Oil's corporate website in the middle of April 2013.

Conference call

Date: Thursday, 21 February 2013
Time: 10.00 CET

To participate in the conference call you may choose one of the following options:

Telephone

Dial one of the following numbers a few minutes before the conference starts:

Location	Local Number	Toll-Free
Russia		810 8002 198 4011
Sweden	+46 8505 20278	0200 125 058
United Kingdom	+44 20 7190 1596	0800 358 5263

Conference ID: 4600963

Web

The conference call will be webcasted live at www.allianceoilco.com.

A replay of the conference call will be available at www.allianceoilco.com.