



## **Alliance Oil Company Ltd: Interim report for the quarter and nine months ended 30 September 2011**

### ***Quarter ended 30 September 2011***

- Total revenue amounted to MUSD 794.4 (Q3 2010: MUSD 581.0).
- EBITDA amounted to MUSD 173.9 (Q3 2010: MUSD 129.7).
- Profit before tax amounted to MUSD 84.1 (Q3 2010: MUSD 105.7).
- Foreign currency swap revaluation loss of MUSD 18.9 negatively affected profit before tax.
- Net profit amounted to MUSD 63.1 (Q3 2010: MUSD 85.4).
- Basic and diluted earnings per share amounted to USD 0.36 and USD 0.33, respectively (Q3 2010: USD 0.49 and USD 0.45, respectively).
- 7.1 mbbl (Q3 2010: 6.5 mbbl) of oil were refined and 4.2 mbbl (Q3 2010: 4.3 mbbl) produced.
- Production at the Kolvinskoye oil field was launched.

### ***Nine months ended 30 September 2011***

- Total revenue amounted to MUSD 2,257.3 (nine months 2010: MUSD 1,613.6).
- EBITDA amounted to MUSD 454.2 (nine months 2010: MUSD 319.9).
- Profit before tax amounted to MUSD 274.1 (nine months 2010: MUSD 211.0).
- Foreign currency swap revaluation loss of MUSD 19.1 negatively affected profit before tax.
- Net profit amounted to MUSD 209.1 (nine months 2010: MUSD 165.0).
- Basic and diluted earnings per share amounted to USD 1.18 and USD 1.11, respectively (nine months 2010: USD 0.94 and USD 0.89, respectively).
- 20.2 mbbl (nine months 2010: 18.1 mbbl) of oil were refined and 12.1 mbbl (nine months 2010: 11.9 mbbl) produced.
- Rouble bond offerings raised MUSD 530 in February and June 2011.
- Repsol and Alliance Oil to form an exploration and production joint venture in the Russian Federation.

### ***Outlook 2011***

- Upstream production is currently 64,000 barrels per day and downstream run-rate is 75,000 barrels per day
- Downstream refining volume forecast of 26.5 mbbl (target 25 mbbl) and upstream production volume forecast of 18.0 mbbl (target 20 mbbl).

---

*Alliance Oil Company Ltd is a leading independent oil company with vertically integrated operations in Russia and Kazakhstan. Alliance Oil has proved and probable oil reserves of 638 million barrels and downstream operations that include the Khabarovsk refinery and a 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,

Market conditions remained favourable during the third quarter of 2011. The Urals was trading above 100 USD per barrel with minor decreases quarter-on-quarter. The Russian Rouble depreciated against the US Dollar. The financial results in the upstream segment were up due to increased production. In the third quarter, the downstream segment enjoyed strong seasonal demand for oil products. Segment economics improved as the Company effectively could benefit from the lower cost of crude oil.

We significantly improved our efficiency. Alliance Oil Company produced 4.2 mbbl and refined 7.1 mbbl of oil in the third quarter of 2011. The Company's EBITDA and Operating cash flow before changes in working capital were up by more than 40% quarter-on-quarter and 35% year-on-year respectively. Consolidated net income increased by 13% compared to the second quarter of 2011, despite negative non-cash financial items - currency exchange loss and revaluation of swap agreements.

In the upstream segment, revenues increased compared to the second quarter of 2011 primarily as a result of higher sales volumes. Segment EBITDA improved by 3% quarter-on-quarter. The Company drilled 11 new wells in the third quarter of 2011.

We launched production at the Kolvinskoye oil field in September. To date, 18 production wells have been put on stream at the Kolvinskoye with current production of around 24,000 bpd. This field contributed 0.4 mbbl to the third quarter production.

In the downstream segment, demand for oil products stabilized and capacity utilization at the Khabarovsk refinery remained high. Lower export prices and depreciation of the Rouble led to the segment's revenue decline by 8% quarter-on-quarter. EBITDA almost doubled compared to the second quarter of 2011.

#### Outlook

We have a positive view on market developments in coming quarters. Following the launch of the Kolvinskoye oil field, we expect significant growth of revenues and operating cash flow driven by higher volumes, lower taxes and a favorable pricing environment in the upstream segment. In the downstream segment we see continued strong demand for oil products and further fiscal pressure to economic performance due to higher export duties applied from 1 October 2011.

Today the Company produces about 64,000 bopd, which is 40% higher than the average production in the third quarter of 2011. We forecast to produce approximately 18 mbbl of crude oil in 2011, which is more than last year volumes but short of our target of 20 mbbl, primarily due to the start of the Kolvinskoye oil field later in the third quarter and our decision to stabilize production in order to review the initial wells' performance and update the geological model of this field. In the downstream segment, capacity utilization at the Khabarovsk refinery remains high despite low season with a current run-rate of 75,000 bopd. We forecast to refine approximately 26.5 mbbl in 2011 compared to the current target of 25 mbbl.

The joint venture agreement with Repsol is expected to be signed before year-end, which will further facilitate M&A driven growth.

In coming quarters, the Company's main focus is revenue and cash flow growth and further improvements in operational efficiency.

Arsen Idrisov, Managing Director

## Financial Highlights

(Expressed in USD thousands)	Quarter ended 30 September 2011	Quarter ended 30 June 2011	Nine months ended 30 September 2011	Nine months ended 30 September 2010
Revenue	794,368	784,238	2,257,287	1,613,564
Cost of sales	-560,894	-591,537	-1,614,211	-1,159,636
Operating income	133,925	86,159	337,593	225,439
Finance costs, net	-31,421	-8,962	-47,592	-15,337
Currency exchange (loss)/gain, net	-18,401	-253	-15,902	873
Income tax expense	-21,031	-20,917	-64,957	-45,980
Profit for the period	63,072	56,027	209,142	164,995
EBITDA	173,865	124,073	454,232	319,863
Operating cash flows before changes in working capital	177,862	125,379	462,004	321,496
Total cash flows from operations	220,533	-747	311,181	48,557
Total debt (at the end of the period)	1,567,314	1,664,991	1,567,314	992,945
Liquidity position (including restricted cash) (at the end of the period)	243,627	283,330	243,627	270,295
Net debt (at the end of the period)	1,323,687	1,381,661	1,323,687	722,650
Total equity (at the end of the period)	1,903,882	2,149,158	1,903,882	1,749,823

Revenue for the quarter ended 30 September 2011 amounted to MUSD 794.37 (Q3 2010: MUSD 580.99) and MUSD 2,257.29 for the nine months period (nine months 2010: 1,613.56). Revenue includes sales of crude oil, oil products and other income.

Cost of sales for the quarter amounted to MUSD 560.89 (Q3 2010: MUSD 407.53) and MUSD 1,614.21 for the nine months period (nine months 2010: MUSD 1,159.64). Cost of sales includes production costs for crude oil and oil products, depreciation, depletion and amortisation ("D,D&A") and cost of other sales.

Net finance costs for the quarter, including foreign currency swap revaluation effects of MUSD 18.87, amounted to MUSD 31.42 (Q3 2010: MUSD 1.46) and MUSD 47.59 for the nine months period (nine months 2010: MUSD 15.34), including foreign currency swap revaluation effects of MUSD 19.11 (Note 10). Currency exchange loss for the quarter amounted to MUSD 18.40 (Q3 2010: gain of MUSD 11.43) and MUSD 15.90 for the nine months period (nine months 2010: gain of MUSD 0.87). Currency exchange loss, related to intercompany loans, amounted to MUSD 34.70 net of tax for the nine months period (nine months 2010: MUSD 10.88) and were recorded in the statement of comprehensive income.

	Average for the quarter ended 30 September 2011	Average for the quarter ended 30 September 2010	Average for the nine months ended 30 September 2011	Average for the nine months ended 30 September 2010	At 30 September 2011	At 31 December 2010
Exchange rates of the Russian Rouble (RUB) to the USD	29.05	30.62	28.77	30.25	31.88	30.48

For the quarter ended 30 September 2011, the Group's profit attributable to the owners of the parent company amounted to MUSD 61.16 corresponding to USD 0.36 per share (Q3 2010: MUSD 84.02 and USD 0.49 per share). The profit attributable to the owners of the parent company for the nine months period amounted to MUSD 202.72 corresponding to USD 1.18 per share (nine months 2010: MUSD 161.40 and USD 0.94 per share).

## 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 132.10, representing a 48% increase in comparison with the third quarter of 2010 (Q3 2010: MUSD 89.37). The increase of revenue from sales of crude oil was due to increased sales volumes and higher net prices. For the nine months period the consolidated revenue increased by 35% from MUSD 278.21 in 2010 to MUSD 376.13 in 2011. The increase of revenue from sales of crude oil was due to higher net prices. Compared to the second quarter of 2011 (Q2 2011: MUSD 120.92) the consolidated revenue from sales of crude oil increased by 9%, which was primarily due to the increase in the volume of exported oil which compensated lower net oil prices.

In the third quarter, 63% of crude oil was exported (Q3 2010: 54%), 2% was sold in the CIS market (Q3 2010: 6%) and 35% was sold in the domestic market (Q3 2010: 40%).

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

Quarter ended 30 September 2011				
	Export	CIS	Domestic	Total
Sold volume (barrels)	1,610,580	53,948	887,866	2,552,394
Gross price (USD/barrel)	109.64	62.06	57.23	90.40
Net price (USD/barrel)	53.21	62.06	48.50	51.76
Selling expenses (USD/barrel)	6.74	12.29	3.05	5.57
Netback price (USD/barrel)	46.47	49.77	45.45	46.19
Revenue from sales of crude oil (TUSD)	85,694	3,348	43,062	132,104

Quarter ended 30 September 2010				
	Export	CIS	Domestic	Total
Sold volume (barrels)	1,198,343	141,463	893,882	2,233,688
Gross price (USD/barrel)	73.73	78.78	42.07	61.38
Net price (USD/barrel)	43.44	38.47	35.65	40.01
Selling expenses (USD/barrel)	5.69	4.75	4.55	5.17
Netback price (USD/barrel)	37.75	33.72	31.10	34.84
Revenue from sales of crude oil (TUSD)	52,056	5,442	31,870	89,368

Nine months ended 30 September 2011				
	Export	CIS	Domestic	Total
Sold volume (barrels)	4,076,088	280,952	2,457,900	6,814,940
Gross price (USD/barrel)	108.95	60.37	59.63	89.16
Net price (USD/barrel)	57.64	60.37	50.53	55.19
Selling expenses (USD/barrel)	6.76	14.51	3.38	5.86
Netback price (USD/barrel)	50.88	45.86	47.15	49.33
Revenue from sales of crude oil (TUSD)	234,962	16,962	124,206	376,130

Nine months ended 30 September 2010				
	Export	CIS	Domestic	Total
Sold volume (barrels)	3,887,529	667,159	2,826,344	7,381,032
Gross price (USD/barrel)	74.59	71.73	39.44	60.87
Net price (USD/barrel)	40.82	37.61	33.42	37.69
Selling expenses (USD/barrel)	5.67	6.42	3.40	4.87
Netback price (USD/barrel)	35.15	31.19	30.02	32.82
Revenue from sales of crude oil (TUSD)	158,670	25,095	94,445	278,210

*The net prices are calculated by deducting VAT (for Russian domestic sales) or export duty (for export and 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 MUS\$ 86.34, which represented 29% increase compared to the third quarter of 2010 (Q3 2010: MUS\$ 66.85). Consolidated oil production costs for the nine months period amounted to MUS\$ 258.36, an increase of 35% (nine months 2010: MUS\$ 191.55). The increase of costs was mostly due to higher production-related taxes in the period and the launch of production at the Kolvinskoye oil field. Production and other taxes increased from MUS\$ 130.31 in the nine months period of 2010 (Q3 2010: MUS\$ 45.53) to MUS\$ 171.29 in the nine months period of 2011 (Q3 2011: MUS\$ 59.15) due to higher crude oil prices. Consolidated oil production costs for the third quarter were in line with the second quarter of 2011 (Q2 2011: MUS\$ 83.94).

The depletion charge for upstream assets for the quarter amounted to MUS\$ 29.49 (Q3 2010: MUS\$ 25.51) and MUS\$ 85.92 for the nine months period (nine months 2010: MUS\$ 71.93). Oil and gas assets are depleted based on proved and probable reserves; the base for depletion includes management's best estimates of future development costs. The increase in the depletion charge resulted from the updated estimation of the future capital expenditures at the end of 2010 and the launch of production at the Kolvinskoye oil field.

The upstream segment operational data is presented below:

	Quarter ended 30 September 2011	Quarter ended 30 September 2010	Nine months ended 30 September 2011	Nine months ended 30 September 2010
Sales volume (barrels)	3,975,831	4,238,020	11,708,386	11,760,048
to external customers	2,552,394	2,233,688	6,814,940	7,381,032
to intragroup companies	1,423,437	2,004,332	4,893,446	4,379,016
Revenue per barrel sold (USD/barrel)	48.57	36.25	50.96	35.30
Total production costs of crude oil per barrel sold (USD/barrel)	29.14	21.79	29.41	22.41
Production costs	6.81	5.03	7.43	5.21
Production and other taxes	14.88	10.74	14.63	11.08
Cost of purchased oil	0.03	-	0.01	-
Depreciation, depletion and amortisation	7.42	6.02	7.34	6.12
Selling, administrative and other income/expenses, net (USD/barrel)	6.24	4.80	6.58	5.02
EBITDA per barrel sold (USD/barrel)	20.61	15.68	22.31	13.99

*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 MUS\$ 53.93 (Q3 2010: MUS\$ 40.86) and MUS\$ 176.91 for the nine months period (nine months 2010: MUS\$ 92.25).

The Group's crude oil reserves and production by regions are presented in the table below:

	Proved and probable oil reserves		Crude oil production		
	31 December 2010	Quarter ended 30 September 2011	Quarter ended 30 September 2010	Nine months ended 30 September 2011	Nine months ended 30 September 2010
<i>(Expressed in barrels)</i>					
Timano-Pechora region	394,757,000	1,461,695	1,467,658	4,135,619	3,700,963
Volga-Urals region	171,480,000	1,827,650	1,855,713	5,294,891	5,549,076
Tomsk region	56,105,000	732,222	774,454	2,231,491	2,231,908
Kazakhstan	15,922,000	170,149	155,534	474,080	425,481
<b>Total</b>	<b>638,264,000</b>	<b>4,191,716</b>	<b>4,253,359</b>	<b>12,136,081</b>	<b>11,907,428</b>

The average daily production for the quarter amounted to 45,562 barrels per day (Q3 2010: 46,232 barrels per day) and 44,455 barrels per day for the nine months period (nine months 2010: 43,617 barrels per day).

37% of oil production for the quarter (Q3 2010: 25%) and 35% of oil production for the nine months period (nine months 2010: 23%) was exempt from production tax.

#### Timano-Pechora region

2 production wells were placed into production at the North Kharyaga oil field, one of which was drilled in the third quarter of 2011.

At the Kolvinskoye oil field 3 wells were drilled and 17 wells were placed into production. Drilling of 5 more wells commenced and is expected to be completed in the fourth quarter of 2011.

In September 2011, infrastructure development was completed and production launched at the Kolvinskoye oil field. LLC Kolvinskoye filled up a 146-kilometer pipeline from the Kolvinskoye oil field to the Kharyaga terminal where it joins the Transneft trunk pipeline via the existing Lukoil transportation facilities. Daily oil production at the Kolvinskoye oil field amounted to 22,126 barrels per day in September. In the third quarter 2011, the Kolvinskoye oil field contributed 431,791 barrels to the total oil production.

#### Volga-Urals region

5 production wells were drilled: 2 wells at the Novo-Kiyevskoe oil field, 1 well at the Solnechnoye oil field, 1 well at the Kovalevskoye oil field and 1 well at the Kulturnenskoye oil field. 8 wells were placed into production. Drilling of 5 more wells commenced in the region and is expected to be completed in the fourth quarter of 2011.

#### Kazakhstan

2 production wells at the Zhanatalap oil field were drilled and placed into production.

#### Joint venture with Repsol

In June 2011, Alliance Oil Company Ltd ("Alliance") and Repsol Exploracion, S.A. ("Repsol") signed a Memorandum of Understanding to form an exploration and production joint venture operating on the territory of the Russian Federation. Repsol will have a 49% stake and Alliance 51%. The transaction is subject to final negotiations of the terms and on securing the corresponding regulatory and corporate approvals. Final binding agreements are expected to be signed by the end of 2011.

## Refining and marketing (Downstream)

The Group operates the Khabarovsk Oil Refinery, the Alliance Oil gas stations 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 647.06 for the quarter, representing a 35% increase in comparison with the third quarter of 2010 (Q3 2010: MUSD 478.40), and was in line with the second quarter of 2011 (Q2 2011: MUSD 648.07). During the nine months of 2011, the consolidated revenue from sales of oil products increased by 41% and amounted to MUSD 1,838.89 (nine months 2010: MUSD 1,302.93). The increase was due to higher market prices and volumes.

In the third quarter, 42% of oil products were exported (Q3 2010: 31%), 40% of products were sold in the domestic wholesale market (Q3 2010: 55%) and 18% were sold through the Group's retail network (Q3 2010: 14%).

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

Quarter ended 30 September 2011				
	Export	Wholesale market	Retail market	Total
Sold volume (barrels)	2,987,928	2,835,856	1,226,819	7,050,603
Net price (USD/barrel)	67.07	101.63	129.14	91.77
Revenue from sales of oil products (TUSD)	200,402	288,222	158,436	647,060

Quarter ended 30 September 2010				
	Export	Wholesale market	Retail market	Total
Sold volume (barrels)	2,097,242	3,685,678	964,212	6,747,132
Net price (USD/barrel)	51.42	71.90	109.45	70.90
Revenue from sales of oil products (TUSD)	107,849	265,012	105,536	478,397

Nine months ended 30 September 2011				
	Export	Wholesale market	Retail market	Total
Sold volume (barrels)	9,073,053	7,982,777	3,264,813	20,320,643
Net price (USD/barrel)	70.12	99.42	125.30	90.49
Revenue from sales of oil products (TUSD)	636,169	793,644	409,074	1,838,887

Nine months ended 30 September 2010				
	Export	Wholesale market	Retail market	Total
Sold volume (barrels)	7,157,058	8,686,059	2,698,446	18,541,563
Net price (USD/barrel)	53.07	72.57	108.51	70.27
Revenue from sales of oil products (TUSD)	379,801	630,312	292,817	1,302,930

Refining volumes at the Khabarovsk Oil Refinery amounted to 7.13 million barrels for the quarter (Q3 2010: 6.51 million barrels) and 20.18 million barrels for the nine months period (nine months 2010: 18.11 million barrels).

Consolidated production costs for oil products for the quarter amounted to MUSD 433.05, representing a 43% increase in comparison with the third quarter of 2010 (Q3 2010: MUSD 303.05). Consolidated production costs for the nine months period increased from MUSD 867.19 in 2010 to MUSD 1,234.63 in 2011. The main cost drivers were increased crude oil prices and higher transportation tariffs, regulated by the state-owned transportation company. Consolidated production costs for oil products for the third quarter were 7% lower than in the second quarter of 2011 (MUSD 467.63). The decrease was primarily due to lower crude oil prices.

Purchases of crude oil from third parties, included in the consolidated production costs, amounted to MUSD 206.87 for the quarter (Q3 2010: MUSD 147.97) and MUSD 609.89 for the nine months period (nine months 2010: MUSD 409.93). Total downstream segment purchases of crude oil from third parties and from the upstream segment amounted to MUSD 266.25 for the quarter (Q3 2010: MUSD 200.63) and MUSD 825.68 for the nine months period (nine months 2010: MUSD 545.66).

Transportation costs for the quarter amounted to MUSD 131.80 (Q3 2010: MUSD 113.44) and MUSD 389.21 for the nine months period (nine months 2010: MUSD 305.40). Higher tariffs were the primary reason for the increased transportation costs.

The cost of oil refining for the quarter amounted to MUSD 20.39 (Q3 2010: MUSD 12.06) and MUSD 52.71 for the nine months period (nine months 2010: MUSD 35.48). The increase was primarily due to higher refining volumes and changes in the production mix in favour of light oil products.

The depreciation charge for refining assets for the quarter amounted to MUSD 5.58 (Q3 2010: MUSD 4.84) and MUSD 17.04 for the nine months period (nine months 2010: MUSD 12.00). The depreciation charge for marketing and other non-production assets for the quarter amounted to MUSD 4.89 (Q3 2010: MUSD 3.62) and MUSD 13.69 for the nine months period (nine months 2010: MUSD 10.60).

The downstream segment operating income for the quarter amounted to MUSD 89.62 (Q3 2010: MUSD 60.10) and MUSD 191.26 for the nine months period (nine months 2010: MUSD 148.46).

The downstream segment operational data is presented below:

	Quarter ended 30 September 2011	Quarter ended 30 September 2010	Nine months ended 30 September 2011	Nine months ended 30 September 2010
Sales volume (barrels)	7,050,603	6,747,132	20,320,643	18,661,887
to external customers	7,050,603	6,747,132	20,320,643	18,541,563
to intragroup companies	-	-	-	120,324
Revenue per barrel sold (USD/barrel)	91.77	70.90	90.49	70.34
Production costs per barrel sold (USD/barrel)	70.63	54.88	72.20	54.88
Cost of refining	2.89	1.79	2.59	1.90
Transportation of crude oil for refining	18.69	16.81	19.15	16.36
Cost of crude oil purchased for refining	37.76	29.74	40.63	29.23
Cost of oil products purchased for re-sale	6.25	2.94	4.38	4.02
Taxes	4.25	2.88	4.61	2.73
Depreciation of refining assets	0.79	0.72	0.84	0.64
Selling, administrative and other income/expenses, net (USD/barrel)	7.96	6.62	8.33	6.99
EBITDA per barrel sold (USD/barrel)	13.97	10.12	10.80	9.11

*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.*

The modernisation of the Khabarovsk refinery progressed further. At 30 September 2011, estimated progress of the project under Técnicas Reunidas control was almost 78%. Designing works and contracting of equipment were completed by about 90%, while construction works were done by more than 30%. Hydrocracker and hydrotreater general engineering works were being finalized. Construction of 13 tanks and an administrative building also proceeded to completion in the reporting period.

In February, the Group acquired CJSC Gavanbunker, a sea terminal located in the Khabarovsk region to support its expanding bunkering activity. The acquired assets include railway discharge facilities and storage tanks with a total capacity of 23,000 cubic meters for light and heavy oil products. The annual turnover of CJSC Gavanbunker amounts to about 250 thousand tonnes of oil products.



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., a related party of the Group, for a cash consideration of MUSD 20. The acquisition was financed in 2010.

## **Investments, Financing and Liquidity**

### **Investments**

Investments in oil and gas assets for the quarter amounted to MUSD 129.11 (Q3 2010: MUSD 60.93) and were splitted by regions as follows: Timano-Pechora – MUSD 102.32 (Q3 2010: MUSD 34.84), Tomsk – MUSD 1.35 (Q3 2010: MUSD 2.67), Volga-Urals – MUSD 23.50 (Q3 2010: MUSD 17.33) and Kazakhstan – MUSD 1.94 (Q3 2010: MUSD 6.09). For the nine months period total investments in oil and gas assets amounted to MUSD 446.17 (nine months 2010: MUSD 216.05).

Investments in refining assets for the quarter amounted to MUSD 46.76 (Q3 2010: MUSD 48.73) and MUSD 229.96 for the nine months period (nine months 2010: MUSD 126.79). Investments in marketing and other non-production assets for the quarter amounted to MUSD 9.08 (Q3 2010: MUSD 14.01) and MUSD 17.36 for the nine months period (nine months 2010: MUSD 19.68).

Capitalised and paid interest on loans and borrowings for the quarter amounted to MUSD 41.39 (Q3 2010: MUSD 23.21) and MUSD 72.74 for the nine months period (nine months 2010: MUSD 42.04).

### **Financing**

In February 2011, OJSC “Alliance” Oil Company, a wholly owned subsidiary of the Group, issued MRUB 5,000 (approximately MUSD 170 at the exchange rate on the date of the transaction) of three-year bonds with a fixed coupon of 9.25% per annum maturing in February 2014.

In June 2011, OJSC “Alliance” Oil Company issued MRUB 10,000 (approximately MUSD 360 at the exchange rate on the date of the transaction) of ten-year bonds with a five-year put option and a fixed coupon for the five-year period of 8.85% per annum.

Bonds with a notional amount of MRUB 3,000 have been swapped to USD through a cross currency interest swap contract in order to balance export income and obtain a lower interest rate. The impact from the cross currency swap valuation at 30 September 2011 was recorded in the consolidated income statement as finance costs and represented a loss of MUSD 19.11 before income tax due to the strengthening of USD to RUB. The corresponding RUB bonds were not revalued, thus no corresponding gain was recorded.

### **Liquidity**

At 30 September 2011 and 31 December 2010, the Group’s liquidity position amounted to MUSD 243.63 and MUSD 178.10, including restricted cash of MUSD 53.68 and MUSD 79.32, respectively.

At 22 November 2011, the Group’s liquidity position amounted to MUSD 197.17, including restricted cash of MUSD 30.11.

During the quarter ended 30 September 2011, the Group repaid loans in the amount of MUSD 31.87.

At 30 September 2011, the Group had access to financing facilities, the total unused amount of which was MUSD 657.09.

## Key financial ratios

	30 September 2011	30 September 2010
EBITDA <sup>1</sup> for the last twelve months, TUSD	572,760	410,022
Return on shareholders' equity <sup>2</sup>	14%	20%
Return on capital employed <sup>3</sup>	14%	19%
Debt/equity ratio <sup>4</sup>	82%	57%
Equity ratio <sup>5</sup>	47%	55%
Risk-bearing capital <sup>6</sup>	51%	60%
Interest-coverage ratio <sup>7</sup>	3.17	5.16
Debt coverage ratio <sup>8</sup>	4.22	4.52
Debt/EBITDA <sup>9</sup>	2.74	2.42

*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 128.62 (Q3 2010: income of MUSD 8.26) and net income of MUSD 459.58 for the nine months period (nine months 2010: loss of MUSD 10.07).

At 30 September 2011 and 31 December 2010, the liquidity position of the parent company amounted to MUSD 3.10 and MUSD 0.32, 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 Liefoghe and Mr. Isa Bazhaev.

At 30 September 2011 and 31 December 2010, the paid-in share capital of the parent company amounted to MUSD 171.5 represented by 171,528,414 issued and outstanding shares with a par value of USD 1 per share.

## Key financial ratio 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) and other significant one-off items in the income statement.
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 income statement).
8. Debt-coverage ratio is defined as the Group's EBITDA divided by interest expense (both capitalised and expensed in the income statement).
9. Debt/EBITDA ratio is defined as loans and borrowings, as shown in the consolidated statement of financial position, divided by EBITDA.

## 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.
- Depletion charges were calculated based on DeGolyer and MacNaughton's (D&M) PRMS classification of the Group's recoverable proved and probable reserves and estimates of future capital expenditures.

### 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 interim financial information

### INCOME STATEMENT

<i>(Expressed in USD thousands)</i>	<b>Note</b>	Quarter ended 30 September 2011	Quarter ended 30 September 2010	Nine months ended 30 September 2011	Nine months ended 30 September 2010
<b>Revenue</b>					
Revenue from sales of crude oil		132,104	89,368	376,130	278,210
Revenue from sales of oil products		647,060	478,397	1,838,887	1,302,930
Other income		15,204	13,225	42,270	32,424
		<b>794,368</b>	<b>580,990</b>	<b>2,257,287</b>	<b>1,613,564</b>
<b>Cost of sales</b>					
Production costs of crude oil		-86,337	-66,846	-258,355	-191,554
Production costs of oil products		-433,050	-303,048	-1,234,625	-867,188
Cost of other sales		-6,445	-7,283	-18,269	-16,957
Depletion and depreciation of oil and gas and refining assets		-35,062	-30,351	-102,962	-83,937
		<b>233,474</b>	<b>173,462</b>	<b>643,076</b>	<b>453,928</b>
<b>Gross profit</b>					
Selling expenses		-73,878	-57,619	-224,616	-171,868
Administrative expenses		-16,599	-14,486	-54,568	-40,059
Depreciation and amortisation of marketing and other non-production assets		-4,888	-3,624	-13,687	-10,596
Other operating expenses, net		-4,184	-1,961	-12,612	-5,966
		<b>133,925</b>	<b>95,772</b>	<b>337,593</b>	<b>225,439</b>
<b>Operating income</b>					
Finance costs, net	10	-31,421	-1,463	-47,592	-15,337
Currency exchange (loss)/gain, net		-18,401	11,429	-15,902	873
		<b>84,103</b>	<b>105,738</b>	<b>274,099</b>	<b>210,975</b>
<b>Profit before tax</b>					
Income tax expense	3	-21,031	-20,350	-64,957	-45,980
		<b>63,072</b>	<b>85,388</b>	<b>209,142</b>	<b>164,995</b>
<b>Profit for the period</b>					
<b>Attributable to:</b>					
Owners of the Company		61,156	84,024	202,717	161,399
Non-controlling interests		1,916	1,364	6,425	3,596
<b>Earnings per share (USD per share)</b>					
Basic	4	0.36	0.49	1.18	0.94
Diluted	4	0.33	0.45	1.11	0.89

## STATEMENT OF COMPREHENSIVE INCOME

<i>(Expressed in USD thousands)</i>	Quarter ended 30 September 2011	Quarter ended 30 September 2010	Nine months ended 30 September 2011	Nine months ended 30 September 2010
<b>Profit for the period</b>	63,072	85,388	209,142	164,995
<b>Other comprehensive (loss)/income</b>				
Currency exchange (loss)/gain on intercompany loans	-119,954	21,605	-41,678	-12,025
Exchange differences on translating foreign operations	-206,774	33,503	-76,116	-7,667
Income tax relating to components of other comprehensive income	18,224	-2,036	6,980	1,145
Other comprehensive (loss)/income for the period, net of tax	-308,504	53,072	-110,814	-18,547
<b>Total comprehensive (loss)/income for the period</b>	<b>-245,432</b>	<b>138,460</b>	<b>98,328</b>	<b>146,448</b>
<b>Attributable to:</b>				
Owners of the Company	-250,033	137,096	89,218	142,852
Non-controlling interests	4,601	1,364	9,110	3,596

## CONDENSED STATEMENT OF FINANCIAL POSITION

<i>(Expressed in USD thousands)</i>	<b>Note</b>	30 September 2011	31 December 2010
<b>ASSETS</b>			
<b>Non-current assets:</b>			
Property, plant and equipment	5	3,048,765	2,528,244
Intangible assets		2,145	3,840
Goodwill		11,213	11,728
Deferred tax assets		28,912	25,319
Other non-current assets		45,605	48,453
		<b>3,136,640</b>	<b>2,617,584</b>
<b>Current assets:</b>			
Inventories		180,645	141,316
Trade and other accounts receivable		93,333	117,135
Value added tax and other taxes receivable	7	208,011	135,766
Income tax receivable		14,605	9,876
Advances paid and prepaid expenses		89,236	98,003
Other financial assets		94,300	49,629
Restricted cash	8	53,682	79,322
Cash and cash equivalents		189,945	98,777
		<b>923,757</b>	<b>729,824</b>
<b>TOTAL ASSETS</b>		<b>4,060,397</b>	<b>3,347,408</b>
<b>EQUITY AND LIABILITIES</b>			
<b>Capital and reserves:</b>			
Share capital	9	171,528	171,528
Additional paid-in capital		1,104,035	1,103,845
Other reserves		-454,599	-341,100
Retained earnings		1,043,354	839,716
		<b>1,864,318</b>	<b>1,773,989</b>
Non-controlling interests		39,564	31,307
		<b>1,903,882</b>	<b>1,805,296</b>
<b>Non-current liabilities:</b>			
Loans and borrowings	10	1,512,458	912,471
Deferred tax liabilities		180,344	178,031
Provision for decommissioning and site restoration costs		29,601	15,960
Other long-term liabilities		15,384	-
		<b>1,737,787</b>	<b>1,106,462</b>
<b>Current liabilities:</b>			
Loans and borrowings	10	54,856	127,134
Payables and accrued expenses		299,187	248,281
Income tax payable		4,439	1,607
Other taxes payable		60,246	58,628
		<b>418,728</b>	<b>435,650</b>
<b>TOTAL LIABILITIES</b>		<b>2,156,515</b>	<b>1,542,112</b>
<b>TOTAL EQUITY AND LIABILITIES</b>		<b>4,060,397</b>	<b>3,347,408</b>

## CONDENSED STATEMENT OF CASH FLOWS

<i>(Expressed in USD thousands)</i>	Nine months ended 30 September 2011	Nine months ended 30 September 2010
<b>Operating activities</b>		
Profit before tax	<b>274,099</b>	<b>210,975</b>
<b>Adjustments for:</b>		
Depreciation, depletion and amortisation	116,649	94,533
Finance costs, net	47,592	15,337
Currency exchange loss/(gain), net	15,902	-873
Other non-cash items	7,762	1,524
Operating cash flows before changes in working capital	462,004	321,496
Changes in working capital	-71,907	-227,126
Cash generated from operations	390,097	94,370
Interest paid	-26,089	-15,355
Income tax paid	-52,827	-30,458
<b>Total cash generated from operating activities</b>	<b>311,181</b>	<b>48,557</b>
<b>Investing activities</b>		
Investments in property, plant and equipment	-766,230	-404,565
Acquisition of investments in subsidiaries	-11,706	-
Loans provided to third parties	-40,000	-67
Short-term placed deposits	-30,015	-29,787
Proceeds from closed deposits	30,076	-
Other investing activities, net	8,040	6,217
<b>Total cash used in investing activities</b>	<b>-809,835</b>	<b>-428,202</b>
<b>Financing activities</b>		
Proceeds from financing raised, net of issue costs	1,055,538	738,167
Repayment of loans and borrowings	-476,149	-464,910
Acquisition of non-controlling interest in subsidiaries	-1,217	-3,963
Dividends paid to shareholders by subsidiaries	-	-6
<b>Total cash generated from financing activities</b>	<b>578,172</b>	<b>269,288</b>
Effects of exchange rate changes on cash balances held in foreign currencies and translation difference	-13,990	-11,418
<b>Change in cash, cash equivalents and restricted cash</b>	<b>65,528</b>	<b>-121,775</b>
Cash, cash equivalents and restricted cash at the beginning of the period	178,099	392,070
<b>Cash, cash equivalents and restricted cash at the end of the period</b>	<b>243,627</b>	<b>270,295</b>

## STATEMENT OF CHANGES IN EQUITY

(Expressed in USD thousands)	Attributable to owners of the Company								Total equity
	Share capital	Additional paid-in capital	Currency exchange differences on intercompany loans, net of tax	Exchange differences on translating foreign operations	Option premium on convertible bonds	Retained earnings	Total	Non-controlling interests	
<b>Balance at 1 January 2010</b>	<b>171,528</b>	<b>1,105,848</b>	<b>-114,970</b>	<b>-224,214</b>	<b>22,271</b>	<b>616,644</b>	<b>1,577,107</b>	<b>29,651</b>	<b>1,606,758</b>
Profit for the period	-	-	-	-	-	161,399	161,399	3,596	164,995
Other comprehensive loss	-	-	-10,880	-7,667	-	-	-18,547	-	-18,547
<b>Total comprehensive (loss)/income for the period</b>	<b>-</b>	<b>-</b>	<b>-10,880</b>	<b>-7,667</b>	<b>-</b>	<b>161,399</b>	<b>142,852</b>	<b>3,596</b>	<b>146,448</b>
Changes in ownership of subsidiaries	-	-1,686	-	-	-	-	-1,686	-2,138	-3,824
Disposal of subsidiaries	-	-	-	-	-	-	-	-51	-51
Share option plan	-	-	-	-	-	492	492	-	492
<b>Balance at 30 September 2010</b>	<b>171,528</b>	<b>1,104,162</b>	<b>-125,850</b>	<b>-231,881</b>	<b>22,271</b>	<b>778,535</b>	<b>1,718,765</b>	<b>31,058</b>	<b>1,749,823</b>
Profit for the period	-	-	-	-	-	60,822	60,822	515	61,337
Other comprehensive loss	-	-	-2,856	-2,784	-	-	-5,640	-	-5,640
<b>Total comprehensive (loss)/income for the period</b>	<b>-</b>	<b>-</b>	<b>-2,856</b>	<b>-2,784</b>	<b>-</b>	<b>60,822</b>	<b>55,182</b>	<b>515</b>	<b>55,697</b>
Changes in ownership of subsidiaries	-	-317	-	-	-	-	-317	-266	-583
Share option plan	-	-	-	-	-	359	359	-	359
<b>Balance at 31 December 2010</b>	<b>171,528</b>	<b>1,103,845</b>	<b>-128,706</b>	<b>-234,665</b>	<b>22,271</b>	<b>839,716</b>	<b>1,773,989</b>	<b>31,307</b>	<b>1,805,296</b>
Profit for the period	-	-	-	-	-	202,717	202,717	6,425	209,142
Other comprehensive (loss)/income	-	-	-34,698	-78,801	-	-	-113,499	2,685	-110,814
<b>Total comprehensive (loss)/income for the period</b>	<b>-</b>	<b>-</b>	<b>-34,698</b>	<b>-78,801</b>	<b>-</b>	<b>202,717</b>	<b>89,218</b>	<b>9,110</b>	<b>98,328</b>
Changes in ownership of subsidiaries	-	190	-	-	-	-	190	-362	-172
Dividends paid by subsidiaries	-	-	-	-	-	-	-	-491	-491
Share option plan	-	-	-	-	-	921	921	-	921
<b>Balance at 30 September 2011</b>	<b>171,528</b>	<b>1,104,035</b>	<b>-163,404</b>	<b>-313,466</b>	<b>22,271</b>	<b>1,043,354</b>	<b>1,864,318</b>	<b>39,564</b>	<b>1,903,882</b>



## SELECTED NOTES

### Note 1 Accounting principles

The condensed consolidated interim financial information for the nine months ended 30 September 2011 was prepared in accordance with IAS 34 "Interim Financial Reporting". The condensed consolidated interim financial information does not include all the information and disclosures required in the annual financial statements and should be read in conjunction with the Group's annual financial statements for the year ended 31 December 2010, which have been prepared in accordance with International Financial Reporting Standards ("IFRS"). The accounting principles used in this condensed consolidated financial information were the same as those used in the annual consolidated financial statements for the year ended 31 December 2010.

A number of revised and amended Standards and Interpretations from IFRIC became effective for the reporting period and have been adopted in this condensed consolidated interim financial information. The impact of adoption of these Standards and Interpretations in the preparation of condensed consolidated financial information was assessed by management as insignificant.

### Note 2 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 exploration, extraction and production, and the downstream segment which includes oil refining, transportation and sales of oil products. The Group's management reviews and evaluates the performance of these segments on a regular basis. All other subsidiaries are combined into one segment "Other companies" and include operations of the parent company and subsidiaries involved in non-core activities. Reconciliation of management accounts to the condensed consolidated financial information is presented below:

	Quarter ended 30 September 2011					
<i>(Expressed in USD thousands)</i>	Upstream	Downstream	Other companies	Eliminations	Reconciling items	Total
Total segment revenue	194,968	714,644	10,036	-125,270	-10	794,368
Less inter-segment revenue	-61,052	-54,182	-10,036	125,270	-	-
Revenue from external customers	133,916	660,462	-	-	-10	794,368
<b>Segment operating income/(loss)</b>	<b>53,926</b>	<b>89,622</b>	<b>-4,198</b>	<b>-216</b>	<b>-5,209</b>	<b>133,925</b>
Net financial items	-2,404	-97,171	-3,583	-5,315	58,651	-49,822
<b>Profit before tax</b>	<b>51,522</b>	<b>-7,549</b>	<b>-7,781</b>	<b>-5,531</b>	<b>53,442</b>	<b>84,103</b>
Income tax expense	-12,852	-579	-2,438	-	-5,162	-21,031
<b>Profit for the period</b>	<b>38,670</b>	<b>-8,128</b>	<b>-10,219</b>	<b>-5,531</b>	<b>48,280</b>	<b>63,072</b>
<b>Segment EBITDA</b>	<b>83,501</b>	<b>99,486</b>	<b>-3,942</b>	<b>-215</b>	<b>-4,965</b>	<b>173,865</b>

Quarter ended 30 September 2010

<i>(Expressed in USD thousands)</i>	Upstream	Downstream	Other companies	Eliminations	Reconciling items	Total
Total segment revenue	154,122	500,682	8,584	-82,863	465	580,990
Less inter-segment revenue	-64,134	-10,343	-8,401	82,863	15	-
Revenue from external customers	89,988	490,339	183	-	480	580,990
<b>Segment operating income/(loss)</b>	<b>40,861</b>	<b>60,102</b>	<b>-3,201</b>	<b>-</b>	<b>-1,990</b>	<b>95,772</b>
Net financial items	-4,565	10,924	10,224	-	-6,617	9,966
<b>Profit before tax</b>	<b>36,296</b>	<b>71,026</b>	<b>7,023</b>	<b>-</b>	<b>-8,607</b>	<b>105,738</b>
Income tax expense	-8,302	-12,435	-860	-	1,247	-20,350
<b>Profit for the period</b>	<b>27,994</b>	<b>58,591</b>	<b>6,163</b>	<b>-</b>	<b>-7,360</b>	<b>85,388</b>
<b>Segment EBITDA</b>	<b>66,561</b>	<b>68,076</b>	<b>-3,048</b>	<b>-</b>	<b>-1,897</b>	<b>129,692</b>

Nine months ended 30 September 2011

<i>(Expressed in USD thousands)</i>	Upstream	Downstream	Other companies	Eliminations	Reconciling items	Total
Total segment revenue	602,683	2,117,775	30,845	-493,032	-984	2,257,287
Less inter-segment revenue	-220,432	-241,755	-30,845	493,032	-	-
Revenue from external customers	382,251	1,876,020	-	-	-984	2,257,287
<b>Segment operating income/(loss)</b>	<b>176,913</b>	<b>191,260</b>	<b>-18,365</b>	<b>-205</b>	<b>-12,010</b>	<b>337,593</b>
Net financial items	-17,614	-79,599	5,498	-15,040	43,261	-63,494
<b>Profit before tax</b>	<b>159,299</b>	<b>111,661</b>	<b>-12,867</b>	<b>-15,245</b>	<b>31,251</b>	<b>274,099</b>
Income tax expense	-37,176	-21,385	-4,234	-	-2,162	-64,957
<b>Profit for the period</b>	<b>122,123</b>	<b>90,276</b>	<b>-17,101</b>	<b>-15,245</b>	<b>29,089</b>	<b>209,142</b>
<b>Segment EBITDA</b>	<b>263,653</b>	<b>220,319</b>	<b>-17,895</b>	<b>-204</b>	<b>-11,641</b>	<b>454,232</b>

Nine months ended 30 September 2010

<i>(Expressed in USD thousands)</i>	Upstream	Downstream	Other companies	Eliminations	Reconciling items	Total
Total segment revenue	417,320	1,419,040	24,677	-247,837	364	1,613,564
Less inter-segment revenue	-136,914	-86,608	-24,315	247,837	-	-
Revenue from external customers	280,406	1,332,432	362	-	364	1,613,564
<b>Segment operating income/(loss)</b>	<b>92,254</b>	<b>148,456</b>	<b>-11,420</b>	<b>-</b>	<b>-3,851</b>	<b>225,439</b>
Net financial items	-24,633	-20,442	22,448	-	8,163	-14,464
<b>Profit before tax</b>	<b>67,621</b>	<b>128,014</b>	<b>11,028</b>	<b>-</b>	<b>4,312</b>	<b>210,975</b>
Income tax expense	-17,912	-24,528	-1,748	-	-1,792	-45,980
<b>Profit for the period</b>	<b>49,709</b>	<b>103,486</b>	<b>9,280</b>	<b>-</b>	<b>2,520</b>	<b>164,995</b>
<b>Segment EBITDA</b>	<b>164,803</b>	<b>169,688</b>	<b>-10,920</b>	<b>-</b>	<b>-3,708</b>	<b>319,863</b>

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 comprehensive income;
- Capitalised interest on loans and borrowings;
- Deferred tax accrued for the above mentioned adjustments.

### Note 3 Income tax

<i>(Expressed in USD thousands)</i>	Quarter ended 30 September 2011	Quarter ended 30 September 2010	Nine months ended 30 September 2011	Nine months ended 30 September 2010
Current tax expense	13,107	10,907	57,466	33,037
Deferred tax expense	7,924	9,443	7,491	12,943
<b>Total</b>	<b>21,031</b>	<b>20,350</b>	<b>64,957</b>	<b>45,980</b>

### Note 4 Earnings per share

Earnings per share are calculated by dividing profit for the period attributable to owners of the Company by the weighted average number of shares for the reporting period.

Numbers of shares for the period are presented below:

	Quarter ended 30 September 2011	Quarter ended 30 September 2010	Nine months ended 30 September 2011	Nine months ended 30 September 2010
Weighted average number of shares for the period	171,528,414	171,528,414	171,528,414	171,528,414
Weighted average number of shares for the period (diluted)	188,194,163	188,212,227	188,250,897	188,270,460
Number of shares at the period end	171,528,414	171,528,414	171,528,414	171,528,414

The Company has the following categories of dilutive potential ordinary shares: convertible bonds, share options and warrants. For the quarter and nine months ended 30 September 2011, convertible bonds and 437,700 share options with an exercise price of SEK 81.80 (USD 12.05) were the only financial instruments that were included in the calculation of diluted earnings per share.

### Note 5 Property, plant and equipment

During the nine months ended 30 September 2011, additions in the construction and acquisition of production and other assets amounted to TUSD 914,366 (nine months 2010: TUSD 474,616), including TUSD 305,022 (nine months 2010: TUSD 150,352) related to OJSC Khabarovsk Oil Refinery and TUSD 589,985 (nine months 2010: TUSD 244,936) related to the development of oil fields.

## Note 6 Acquisition of subsidiaries and associates

On 16 February 2011, the Group acquired 100% shares in CJSC Gavanbunker, a sea terminal in the Sovetskaya Gavan port located in the Khabarovsk region of the Russian Federation, for a cash consideration of TUSD 14,000. The net assets recognised at 30 September 2011 were based on a provisional assessment of fair value as the Group had sought an independent valuation for acquired assets, liabilities and contingent liabilities in accordance with IFRS 3 "Business Combinations". The results of this valuation had not been finalised at the date this condensed consolidated interim financial information was approved for issue by management.

The net assets acquired at the date of transaction were as follows:

<i>(Expressed in USD thousands)</i>	Provisional values
Property, plant and equipment	17,080
Deferred tax assets	124
Cash and cash equivalents	805
Other assets	2,080
Loans and borrowings	-3,926
Payables and accrued expenses	-2,163
<b>Net assets</b>	<b>14,000</b>
<b>Total consideration, satisfied by cash</b>	<b>14,000</b>

Net cash outflow on acquisition of CJSC Gavanbunker:

Consideration paid in cash	14,000
Less cash and cash equivalents balances acquired	-805
	<b>13,195</b>

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., a related party of the Group, for a cash consideration of TUSD 20,000. Acquisition was financed in 2010. From the acquisition, Lia Oil S.A. is treated as an associate of the Group and accounted for using the equity method. At the date of acquisition the Group's share in the net assets of Lia Oil S.A amounted to TUSD 17,524.

## Note 7 Value added tax and other taxes receivable

At 30 September 2011, value added tax and other taxes receivable increased by TUSD 72,245 compared to 31 December 2010 primarily due to the increase of value added tax reimbursable relating to the export sales and capital advances paid.

## Note 8 Restricted cash

Restricted cash is represented by letters of credit on a special account with OJSC Bank VTB in relation to agreements for the reconstruction of OJSC Khabarovsk Oil Refinery.

## Note 9 Share capital and share option plan

The shares of the Company are represented by SDRs listed on the NASDAQ OMX Nordic in Stockholm. Each share carries one vote.

No dividends were proposed during the quarter ended 30 September 2011.

At 30 September 2011 and the date of authorisation of the condensed consolidated interim financial information, the number of outstanding options amounted to 2,001,462. Each option gives the right to

subscribe for 1 share of common stock at exercise prices ranging from SEK 81.80 to SEK 124.00. None of the 1,066,550 exercisable options have been exercised during 2011.

For the quarters ended 30 September 2011 and 2010, the share options charges amounted to TUSD 269 and TUSD 211, respectively. For the nine months ended 30 September 2011 and 2010, the charges amounted to TUSD 921 and TUSD 492, respectively.

#### Note 10 Loans and borrowings

			30 September 2011		
<i>(Expressed in USD thousands)</i>	Currency	Interest rate	Principal	Interest	Total
Non-convertible interest bearing bonds	RUB	8.85-9.75%	621,935	12,641	634,576
Non-convertible interest bearing Eurobonds	USD	9.88%	345,498	1,920	347,418
Convertible interest bearing bonds	USD	7.25%	237,960	12,884	250,844
Bank loans nominated in USD	USD	Libor 3m + 3.85%-Libor 6m+5.5%	199,909	1,043	200,952
Bank loans nominated in EUR	EUR	Euribor 6m+5.5%	132,239	1,285	133,524
<b>Total loans and borrowings</b>			<b>1,537,541</b>	<b>29,773</b>	<b>1,567,314</b>
Current portion repayable within one year					54,856
<b>Long-term loans and borrowings</b>					<b>1,512,458</b>

  

			31 December 2010		
<i>(Expressed in USD thousands)</i>	Currency	Interest rate	Principal	Interest	Total
Non-convertible interest bearing Eurobonds	USD	9.88%	344,697	10,561	355,258
Convertible interest bearing bonds	USD	7.25%	237,064	9,691	246,755
Bank loans nominated in USD	USD	Libor 3m + 2.3%-14%	228,852	1,604	230,456
Non-convertible interest bearing bonds	RUB	9.75-14%	171,317	6,942	178,259
Bank loans nominated in EUR	EUR	Euribor 6m+5.5%	27,750	1,127	28,877
<b>Total loans and borrowings</b>			<b>1,009,680</b>	<b>29,925</b>	<b>1,039,605</b>
Current portion repayable within one year					127,134
<b>Long-term loans and borrowings</b>					<b>912,471</b>

At 30 September 2011, the loans and borrowings were collateralised by:

- 98.16% of the Group's shareholding in OJSC Khabarovsk Oil Refinery;
- Property rights equal to TUSD 330,000 of the Group's holding in OJSC Vostochnaya Transnationalnaya Kompaniya;
- Property, plant and equipment with a carrying value of TUSD 126,754.

At 31 December 2010, the loans and borrowings were collateralised by:

- 98.18% of the Group's shareholding in OJSC Khabarovsk Oil Refinery;
- 99.98% of the Group's shareholding in OJSC Tatnefteotdacha;
- 50.03% of the Group's shareholding in CJSC Saneco;
- Property, plant and equipment with a carrying value of TUSD 105,711.

The expected future cash outflows for the repayment of loans and borrowings are presented below. The interest payments were calculated based on the interest rates effective at 30 September 2011. The principal and interest payments denominated in RUB were converted into USD using the exchange rate at 30 September 2011.

<i>(Expressed in USD thousands)</i>	30 September 2011		
	Principal	Interest	Total
Within one year from 30 September 2011	25,084	133,660	158,744
Within second year from 30 September 2011	210,352	131,794	342,146
More than two years from 30 September 2011	1,385,237	240,994	1,626,231
<b>Total amount estimated to be repaid</b>	<b>1,620,673</b>	<b>506,448</b>	<b>2,127,121</b>

The currency exchange loss on intercompany loans, which are treated as a part of net investments in subsidiaries, in the amount of TUSD 119,954 for the quarter (Q3 2010: gains of TUSD 21,605) before income tax and TUSD 41,678 for the nine months period (nine months 2010: loss of TUSD 12,025) were recognised in the statement of comprehensive income.

The most significant financing raised for the nine months ended 30 September 2011 included the following:

- TRUB 5,000,000 (approximately TUSD 170,248 at the exchange rate on the date of the transaction) three-year bonds maturing in February 2014;
- TRUB 10,000,000 (approximately TUSD 360,968 at the exchange rate on the date of the transaction) ten-year bonds with a five-year put option;
- TUSD 154,797 under long-term project financing from Vnesheconombank maturing from 2012.

During the nine months ended 30 September 2011, the Group repaid loans in the amount of TUSD 476,149.

Bonds with a notional amount of TRUB 3,000,000 and a fixed coupon of 9.75% have been swapped to USD through a cross currency interest swap contract bearing interest of 5.3-5.8% in order to balance export income and obtain a lower interest rate. Loss before tax from the cross currency swap valuation at 30 September 2011 was recorded in the consolidated income statement and amounted to TUSD 19,105.

Finance costs for the nine months ended 30 September 2011 (TUSD 47,592) significantly increased compared to the same period of 2010 (nine months 2010: TUSD 15,337). The increase was primarily due to interest expenses on ruble bonds issued in 2011 and recognised loss from valuation of cross currency interest swap contract due to the strengthening of USD to RUB.

### Note 11 Related party transactions

Related parties include shareholders, associates and other related parties representing entities under common ownership and control.

Included in the Group's consolidated statement of financial position at 30 September 2011 and 31 December 2010 were the following significant balances with related parties:

<i>(Expressed in USD thousands)</i>	30 September 2011	31 December 2010
<b>Associates</b>		
Trade and other accounts receivable	18,566	-
Payables and accrued expenses	33,671	-
<b>Other related parties</b>		
Other non-current assets	25	20,000
Trade and other accounts receivable	846	869
Advances paid and prepaid expenses	1,905	1,729
Other financial assets	26,481	30,264
Cash and cash equivalents	1,509	546
Payables and accrued expenses	387	74,929

Other financial assets were mostly presented by a bank deposit.

Included in the Group's consolidated income statement for the nine months ended 30 September 2011 and 2010 were the following significant transactions with related parties:

<i>(Expressed in USD thousands)</i>	Nine months ended 30 September 2011	Nine months ended 30 September 2010
<b>Associates</b>		
Revenue	267,993	-
Purchase of oil products	5,901	5,380
<b>Other related parties</b>		
Revenue	398,266	444,828
Purchase of services	31,339	25,989
Charity contributions to the fund named by Z. Bazhaev (for participation in the Russian federal national projects)	7,904	5,232
Interest income	2,188	1,830

### Note 12 Commitments and contingencies

Contractual commitments for the acquisition of property, plant and equipment at 30 September 2011 and 31 December 2010 amounted to TUSD 458,866 and TUSD 610,901, respectively.

## Financial calendar

### Quarterly reports

Twelve months report (January – December 2011) is due on 22 February 2012.

Three months report (January – March 2012) is due on 16 May 2012.

Six months report (January – June 2012) is due on 21 August 2012.

### Operational updates

Update for the fourth quarter 2011 is due on 16 January 2012.

Update for the first quarter 2012 is due on 11 April 2012.

Update for the second quarter 2012 is due on 10 July 2012.

### Annual General Meeting

The Annual general meeting of the shareholders will be held in Stockholm on 16 May 2012.

## Conference call

Date: Tuesday, 22 November 2011

Time: 10.00 CET

To participate by telephone, please dial:

from Sweden +46 8 505 598 53

from Russia +7 499 270 19 65, pin code: 190905#

from other countries +44 203 043 24 36

The presentation will be webcasted live at [www.allianceoilco.com](http://www.allianceoilco.com).

A replay of the presentation will be available at [www.allianceoilco.com](http://www.allianceoilco.com).

## Risks and uncertainties associated with this report

The Group's risk exposure is presented on pages 42-45 of the financial statements part of Alliance Oil Company Ltd's 2010 annual report. There are no general changes to this presentation of risk exposure.

22 November 2011

The Board of directors and the Managing Director certify that the interim 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 Liefoghe  
Director

Fernando Martinez-Fresneda  
Director

Isa Bazhaev  
Director



For further information:

Arsen Idrisov, Managing Director, Alliance Oil Company Ltd, telephone +7 (495) 777 18 08.

Eric Forss, Chairman of the Board, telephone +46 8 611 49 90.

**Alliance Oil Company Limited**

*Registered address:*

Clarendon House

2 Church Street

Hamilton HM 11, Bermuda

Registration Number: EC 25413

Internet: [www.allianceoilco.com](http://www.allianceoilco.com)

# REPORT ON REVIEW OF CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION

To the shareholders and Board of directors of Alliance Oil Company Ltd

## Introduction

We have reviewed the condensed consolidated statement of financial position of Alliance Oil Company Ltd as at 30 September 2011, the related consolidated income statement and the condensed consolidated statements of comprehensive income, changes in equity and cash flows for the nine-month period then ended, and selected explanatory notes (collectively, "the interim financial information"). Management is responsible for the preparation and fair presentation of this interim financial information in accordance with International Accounting Standard 34 *Interim Financial Reporting* ("IAS 34"). Our responsibility is to express a conclusion on this interim financial information based on our review.

## Scope of review

We conducted our review in accordance with the International Standard on Review Engagements 2410, *Review of Interim Financial Information Performed by the Independent Auditor of the Entity*. A review consists of making inquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with International Standards on Auditing and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

## Conclusion

Based on our review, nothing has come to our attention that causes us to believe that the accompanying interim financial information is not prepared, in all material respects, in accordance with IAS 34.

22 November 2011

Deloitte AB

ZAO Deloitte & Touche CIS

Svante Forsberg  
Authorized public accountant

Natalia Golovkina  
Certified auditor