Alliance Oil Company Ltd:
Interim report for the quarter and six months ended 30 June 2012

Quarter ended 30 June 2012

- **Revenue of MUSD 817.1, up 4% from Q2 2011.**
- **EBITDA of MUSD 133.1, up 7% from Q2 2011.**
- **Profit before tax of MUSD 29.3, down 62% from Q2 2011.**
- **Foreign currency swap revaluation loss of MUSD 10.8 and currency exchange loss of MUSD 25.9 negatively affected profit before tax.**
- **Profit for the period of MUSD 19.2, down 66% from Q2 2011.**

Six months ended 30 June 2012

- **Revenue of MUSD 1,632.3, up 12% from six months 2011.**
- **EBITDA of MUSD 350.9, up 25% from six months 2011.**
- **Profit before tax of MUSD 206.8, up 9% from six months 2011.**
- **Profit for the period of MUSD 158.9, up 9% from six months 2011.**
- **Cash flows from operations of MUSD 305.0, up 122% from six months 2011.**

Subsequent events

- **Alliance Oil acquires oil license in Timano-Pechora.**
- **Repsol and Alliance Oil complete the first phase of exploration and production joint venture in Russia.**

	Quarter ended 30 June 2012	Quarter ended 30 June 2011	Six months ended 30 June 2012	Six months ended 30 June 2011
Crude oil production, bopd	53,546	41,901	54,968	43,892
Refining volume, bopd	78,404	76,256	76,673	72,132
Revenue, MUSD	817.1	784.2	1,632.3	1,462.9
EBITDA, MUSD	133.1	124.1	350.9	280.4
Profit before tax, MUSD	29.3	76.9	206.8	190.0
Profit for the period, MUSD	19.2	56.0	158.9	146.1
Basic earnings per share, USD	0.11	0.31	0.91	0.83
Diluted earnings per share, USD	0.11	0.29	0.85	0.77

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 648 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,

The volatility in oil markets in the second quarter of 2012 affected the Company's financial performance in both segments. The average price of Urals decreased by 9.0% quarter-on-quarter, with significant price movements for crude and oil products within the second quarter. The Russian Rouble weakened against the US Dollar by 2.5%. Overall, the operational performance of the Company's downstream segment improved further and upstream crude production stabilized in the second quarter of 2012.

The Company's average daily oil production amounted to 53,546 barrels and the refinery's daily throughput was 78,404 barrels in the second quarter. EBITDA continued to increase year-on-year but decreased quarter-on-quarter, primarily due to lower export netbacks for crude and oil products, and lower refining margins caused by higher prices for domestic crude oil and lagging sales prices. Net income was negatively affected by foreign currency swap revaluation and currency exchange losses.

In the upstream segment, lower oil prices and higher export duties resulted in crude oil revenue and EBITDA declining despite stable sales volumes. The Company drilled a total of 32 new wells in the quarter, including 5 wells at the Kolvinskoye oil field. The production volumes from the Kolvinskoye field have been stable for the last 4 months, as well workover activity and recent addition of new wells have compensated natural decline. We continue to increase the resource base in Timano-Pechora and extend the reach of the Kolvinskoye field operations. In July 2012, the Company acquired the West-Osoveyskoe license block east of the Kolvinskoye oil field with significant prospective resources.

In the downstream segment, oil product revenues increased quarter-on-quarter due to record high sales volumes. Meanwhile segment EBITDA decreased as a result of declining net export prices and increasing cost of domestic crude supplies. The rate of progression towards the launch of the modernized Khabarovsk refinery next year has increased in recent months, with 60% of construction works completed to date.

In the first half of this year, cash flow from operations increased by 122% compared to the first half last year. The balance sheet position of the Company remained solid. The total debt to EBITDA ratio remained at the same level as last quarter - 2.3.

Outlook

The macro environment remains volatile. The recent recovery in crude prices is supportive for the upstream segment, while downstream market conditions continue to present challenges.

In the upstream segment, production is stable while the new license block in Timano-Pechora provides opportunities for further reserve and production growth and for realizing synergies with existing operations. Our current objective is to explore the relevant areas of the block to determine recoverable reserves to be incorporated into the development plan for the Kolvinskoye field.

The first phase of the joint venture with Repsol has been completed. The contribution of Tatnefteotdacha by Alliance Oil and the contribution of Eurotek and cash by Repsol to the joint venture are expected to be completed in the fourth quarter of 2012.

In the downstream segment, we are looking forward towards the launch of the modernised Khabarovsk refinery next year followed by the connection of the refinery to the ESPO pipeline. The completion of these projects in the coming year will provide for increased deliveries of high quality oil products in Far East markets with improvements in efficiency and economics. Oil product demand remains firm with the refinery continuing to process record volumes of oil.

Planned 2012 upstream capital expenditures for existing assets will be further reduced as we continue the revision of drilling plans and implementation of CAPEX efficiency improvements. Downstream capital expenditures remain subject to the actual refinery modernisation progress and are projected at the lower end of the planned range for 2012. We are increasingly evaluating acquisition opportunities to further expand the Company's oil and gas resource base.

The upstream guidance for 2012 remains an average daily production of 55,000-60,000 barrels. The downstream volume guidance is to refine an average of 72,000-77,000 barrels per day in 2012.

Arsen Idrisov, Managing Director

Financial Highlights

(Expressed in USD thousands)	**Quarter ended 30 June 2012**	**Quarter ended 31 March 2012**	**Six months ended 30 June 2012**	**Six months ended 30 June 2011**
Revenue	817,139	815,120	1,632,259	1,462,919
Cost of sales	-619,512	-540,636	-1,160,148	-1,062,027
Operating income	85,769	165,411	251,180	203,668
Finance costs	-23,245	-22,137	-45,382	-20,479
Profit for the period	19,209	139,661	158,870	146,070
EBITDA	133,101	217,827	350,928	280,367
Operating cash flows before changes in working capital	137,664	227,468	365,132	284,142
Total cash generated from operating activities	53,551	150,648	204,199	90,648
Total debt (at the end of the period)	1,747,953	1,688,795	1,747,953	1,664,991
Liquidity position (including restricted cash) (at the end of the period)	122,422	161,924	122,422	283,330
Net debt (at the end of the period)	1,625,531	1,526,871	1,625,531	1,381,661
Total equity (at the end of the period)	2,091,563	2,368,647	2,091,563	2,149,158

Revenue for the quarter ended 30 June 2012 amounted to MUSD 817.14 (Q2 2011: MUSD 784.24) and MUSD 1,632.26 for the six months period (six months 2011: MUSD 1,462.92). Revenue includes sales of crude oil, oil products and other income.

Cost of sales for the quarter amounted to MUSD 619.51 (Q2 2011: MUSD 595.01) and MUSD 1,160.15 for the six months period (six months 2011: 1,062.03). 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 23.25 (Q2 2011: MUSD 11.33) and MUSD 45.38 for the six months period (six months 2011: MUSD 20.48). Foreign currency swap revaluation loss for the quarter amounted to MUSD 10.77 (Q2 2011: MUSD 0.23) and gain of MUSD 1.07 for the six months period (six months 2011: loss of MUSD 0.23). Currency exchange loss for the quarter amounted to MUSD 25.89 (Q2 2011: MUSD 0.25) and MUSD 6.97 for the six months period (six months 2011: gain of MUSD 2.50).

	Average for the quarter ended 30 June 2012	**Average for the quarter ended 30 June 2011**	**Average for the six months ended 30 June 2012**	**Average for the six months ended 30 June 2011**	**At 30 June 2012**	**At 31 December 2011**
Exchange rates of the Russian Rouble (RUB) to the USD	31.01	27.99	30.64	28.62	32.82	32.20

For the quarter ended 30 June 2012, the Group's profit attributable to the owners of the parent company amounted to MUSD 18.34 corresponding to basic earnings per share of USD 0.11 (Q2 2011: MUSD 53.75 and USD 0.31 per share). The profit attributable to the owners of the parent company for the six months period amounted to MUSD 155.53 corresponding to basic earnings per share of USD 0.91 (six months 2011: MUSD 141.56 and USD 0.83 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 142.08, representing a 17% increase in comparison with the second quarter of 2011 (Q2 2011: MUSD 120.92). For the six months period the consolidated revenue increased by 25% and amounted to MUSD 305.74 (six months 2011: MUSD 244.03). The increase of revenue from sales of crude oil was due to increased sales volumes from the Kolvinskoye oil field. Consolidated revenue from sales of crude oil for the quarter decreased by 13% in comparison with the first quarter of 2012 (Q1 2012: MUSD 163.66) due to lower net prices.

Crude oil sales volumes, excluding intragroup crude oil sales, in the second quarter are presented as follows: 70% of crude oil was exported (Q2 2011: 56%), 3% was sold in the CIS market (Q2 2011: 3%) and 27% was sold in the domestic market (Q2 2011: 41%).

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 June 2012
	Export	**CIS**	**Domestic**	**Total**
Sold volume (barrels)	2,089,256	80,501	804,856	2,974,613
Gross price (USD/barrel)	103.03	43.64	59.09	89.53
Net price (USD/barrel)	47.03	43.64	50.08	47.76
Selling expenses (USD/barrel)	6.55	12.55	5.84	6.52
Netback price (USD/barrel)	40.48	31.09	44.24	41.24
Revenue from sales of crude oil (TUSD)	98,256	3,513	40,307	142,076

				Quarter ended 30 June 2011
	Export	**CIS**	**Domestic**	**Total**
Sold volume (barrels)	1,173,966	72,102	850,951	2,097,019
Gross price (USD/barrel)	113.62	65.77	64.41	92.01
Net price (USD/barrel)	59.40	65.67	54.58	57.66
Selling expenses (USD/barrel)	6.94	15.85	3.83	5.98
Netback price (USD/barrel)	52.46	49.82	50.75	51.68
Revenue from sales of crude oil (TUSD)	69,735	4,735	46,449	120,919

				Six months ended 30 June 2012
	Export	**CIS**	**Domestic**	**Total**
Sold volume (barrels)	3,868,343	95,818	1,656,886	5,621,047
Gross price (USD/barrel)	108.70	46.79	62.98	94.17
Net price (USD/barrel)	55.02	46.79	53.37	54.39
Selling expenses (USD/barrel)	6.91	12.75	5.44	6.57
Netback price (USD/barrel)	48.11	34.04	47.93	47.82
Revenue from sales of crude oil (TUSD)	212,825	4,483	88,428	305,736

				Six months ended 30 June 2011
	Export	**CIS**	**Domestic**	**Total**
Sold volume (barrels)	2,465,508	227,004	1,570,034	4,262,546
Gross price (USD/barrel)	108.50	60.37	60.99	88.44
Net price (USD/barrel)	60.54	59.97	51.68	57.25
Selling expenses (USD/barrel)	6.77	15.04	3.56	6.03
Netback price (USD/barrel)	53.77	44.93	48.12	51.22
Revenue from sales of crude oil (TUSD)	149,268	13,614	81,144	244,026

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 88.48, which was in line with the second quarter of 2011 (Q2 2011: MUSD 83.94). Consolidated oil production costs for the six months period amounted to MUSD 179.38, which was in line with the six months 2011 (six months 2011: MUSD 172.02). 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. Consolidated oil production costs for the quarter were in line with the first quarter of 2012 (Q1 2012: MUSD 90.90).

Production and other taxes for the quarter amounted to MUSD 57.60 (Q2 2011: MUSD 59.46) and MUSD 115.16 for the six months period (six months 2011: MUSD 112.14).

The depletion charge for upstream assets for the quarter amounted to MUSD 36.18 (Q2 2011: MUSD 27.44) and MUSD 78.18 for the six months period (six months 2011: MUSD 56.44). 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 higher production volumes at the Kolvinskoye oil field and the updated estimation of the anticipated future development costs at the end of 2011.

The upstream segment operational data is presented below:

	Quarter ended 30 June 2012	**Quarter ended 30 June 2011**	**Six months ended 30 June 2012**	**Six months ended 30 June 2011**
Sales volume (barrels)	4,831,258	3,570,074	9,712,933	7,732,555
to external customers	2,974,613	2,097,019	5,621,047	4,262,546
to intragroup companies	1,856,645	1,473,055	4,091,886	3,470,009
Revenue per barrel sold (USD/barrel)	46.77	53.38	51.92	52.19
Total production costs of crude oil per barrel sold (USD/barrel)	25.80	31.20	26.52	29.54
Production costs	6.39	6.86	6.61	7.74
Production and other taxes	11.92	16.65	11.86	14.50
Depreciation, depletion and amortisation	7.49	7.69	8.05	7.30
Selling, administrative and other income/expenses, net (USD/barrel)	6.39	7.12	6.51	6.77
EBITDA per barrel sold (USD/barrel)	22.07	22.75	26.94	23.18

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 72.24 (Q2 2011: MUSD 53.41) and MUSD 186.43 for the six months period (six months 2011: MUSD 122.99).

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

	Proved and probable oil reserves	**Crude oil production**			
(Expressed in barrels)	**31 December 2011**	**Quarter ended 30 June 2012**	**Quarter ended 30 June 2011**	**Six months ended 30 June 2012**	**Six months ended 30 June 2011**
Timano-Pechora region	408,986,000	2,057,481	1,099,187	4,523,123	2,673,924
Volga-Urals region	170,731,000	1,861,792	1,772,124	3,637,811	3,467,241
Tomsk region	57,361,000	772,050	785,292	1,496,033	1,499,269
Kazakhstan	10,776,000	181,403	156,343	347,136	303,931
Total	**647,854,000**	**4,872,726**	**3,812,946**	**10,004,103**	**7,944,365**

The average daily production for the quarter amounted to 53,546 barrels per day (Q2 2011: 41,901 barrels per day) and 54,968 barrels per day for the six months period (six months 2011: 43,892 barrels per day).

50% of oil production for the quarter (Q2 2011: 28%) and 52% of oil production for the six months period (six months 2011: 33%) was exempt from production tax. The increase in tax exempt production was primarily due to increased production at the Kolvinskoye oil field.

Timano-Pechora region

2 production and 1 exploration wells were drilled and placed into production at the North Kharyaga oil field.

At the Kolvinskoye oil field 5 wells were drilled. 3 production wells were placed into production. Drilling of 3 more wells commenced. At 30 June 2012, the well stock of the field consisted of 33 production wells and 1 exploration well. 17 wells were in operation, 16 wells were not producing due to testing and workover operations and 1 well was transferred to an injection well.

In July 2012, Alliance Oil Company signed an agreement to acquire LLC "GeoInvestService" for MUSD 30. LLC "GeoInvestService" holds an exploration license for the West-Osoveiskoye block in the Timano-Pechora region in Northern Russia. The license will be integrated into the Kolvinskoye oil field operations and development plans.

Volga-Urals region

11 production wells were drilled: 1 well at the West Kochevnenskoye oil filed, 1 well at the Novo-Kiyevskoye oil field, 4 wells at the Stepnoozerskoye oil field and 5 wells at the Elginskoye oil field. 10 wells were placed into production. Drilling of 2 more wells commenced.

2 exploration wells were drilled: 1 well at the Solnechnoye oil filed and 1 well at the Gusikhinskoye oil field. 1 well was placed into production, drilling of 1 more well commenced.

Tomsk region

6 production wells were drilled at the Puglalymskoye oil field. 6 production wells were placed into production. Drilling of 1 more well commenced.

Kazakhstan

5 production wells were drilled at the Zhanatalap oil field. 5 production wells were placed into production. Drilling of 1 more well commenced.

The average daily production for July 2012 amounted to 53,730 barrels per day.

Joint venture with Repsol

In August 2012, Repsol and Alliance Oil completed the first phase of their joint hydrocarbon exploration and production venture with the integration of Alliance assets and the acquisition of shares by Repsol.

Alliance Oil contributed its Saneco subsidiary, with brownfield upstream assets located in Samara in the Volga-Urals region with total production of 1.1 million barrels of oil in the second quarter of 2012 and 2P reserves of 38 million barrels at 31 December 2011. Repsol acquired shares in the joint venture from Alliance Oil for MUSD 36 and subscribed MUSD 37 in new shares to reach a 49% stake in the joint venture company.

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 660.15 for the quarter, which was in line with the second quarter of 2011 (Q2 2011: MUSD 648.07). Consolidated revenue from sales of oil products for the six months period amounted to MUSD 1,299.92 which was in line with the six months 2011 (six months 2011: MUSD 1,191.83). Despite increased sales volumes, consolidated revenue from sales of oil products for the quarter was in line with the first quarter of 2012 (Q1 2012: MUSD 639.78) primarily due to lower net export prices.

External oil products sales volumes in the second quarter are presented as follows: 51% of oil products were exported (Q2 2011: 46%), 33% of products were sold in the domestic wholesale market (Q2 2011: 39%) and 16% were sold through the Group’s retail network (Q2 2011: 15%).

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

Quarter ended 30 June 2012

	Export	Wholesale market	Retail market	Total
Sold volume (barrels)	3,827,713	2,529,707	1,199,474	7,556,894
Net price (USD/barrel)	65.18	102.35	126.51	87.36
Revenue from sales of oil products (TUSD)	249,501	258,904	151,743	660,148

Quarter ended 30 June 2011

	Export	Wholesale market	Retail market	Total
Sold volume (barrels)	3,221,270	2,715,449	1,067,155	7,003,874
Net price (USD/barrel)	71.00	104.73	126.47	92.53
Revenue from sales of oil products (TUSD)	228,711	284,392	134,967	648,070

Six months ended 30 June 2012

	Export	Wholesale market	Retail market	Total
Sold volume (barrels)	7,279,957	4,220,953	2,499,824	14,000,734
Net price (USD/barrel)	74.90	103.43	127.24	92.85
Revenue from sales of oil products (TUSD)	545,275	436,576	318,072	1,299,923

Six months ended 30 June 2011

	Export	Wholesale market	Retail market	Total
Sold volume (barrels)	6,085,125	5,146,921	2,037,994	13,270,040
Net price (USD/barrel)	71.61	98.20	122.98	89.81
Revenue from sales of oil products (TUSD)	435,767	505,422	250,638	1,191,827

Refining volumes at the Khabarovsk Oil Refinery amounted to 7.13 million barrels for the quarter (Q2 2011: 6.94 million barrels) and 13.95 million barrels for the six months period (six months 2011: 13.06 million barrels).

The average daily refining volumes amounted to 78,404 barrels per day for the quarter (Q2 2011: 76,256 barrels per day) and 76,673 barrels per day for the six months period (six months 2011: 72,132 barrels per day).

Consolidated production costs for oil products for the quarter amounted to MUSD 481.52, which was in line with the second quarter of 2011 (Q2 2011: MUSD 471.10). Consolidated production costs for the six months period amounted to MUSD 878.82, which was in line with the six months 2011 (six months 2011: MUSD 810.29). Compared to the first quarter of 2012 (MUSD 397.30), consolidated production costs for oil products increased by 21%, primarily due to higher sales volumes.

Purchases of crude oil from third parties, included in the consolidated production costs, amounted to MUSD 240.34 for the quarter (Q2 2011: MUSD 258.77) and MUSD 412.71 for the six months period (six months 2011: MUSD 414.68). Total downstream segment purchases of crude oil from third parties and from the upstream segment amounted to MUSD 326.19 for the quarter (Q2 2011: MUSD 325.28) and MUSD 599.26 for the six months period (six months 2011: MUSD 559.43).

Transportation costs for the quarter amounted to MUSD 130.48 (Q2 2011: MUSD 139.76) and MUSD 244.39 for the six months period (six months 2011: MUSD 257.41).

The cost of oil refining for the quarter amounted to MUSD 16.72 (Q2 2011: MUSD 17.12) and MUSD 33.40 for the six months period (six months 2011: MUSD 32.32).

The depreciation charge for refining assets for the quarter amounted to MUSD 6.47 (Q2 2011: MUSD 5.90) and MUSD 12.27 for the six months period (six months 2011: MUSD 11.46). The depreciation charge for marketing and other assets for the quarter amounted to MUSD 4.68 (Q2 2011: MUSD 4.55) and MUSD 9.29 for the six months period (six months 2011: MUSD 8.80).

The downstream segment operating income for the quarter amounted to MUSD 16.98 (Q2 2011: MUSD 40.10) and MUSD 86.92 for the six months period (six months 2011: MUSD 101.64).

The downstream segment operational data is presented below:

	Quarter ended 30 June 2012	**Quarter ended 30 June 2011**	**Six months ended 30 June 2012**	**Six months ended 30 June 2011**
Sales volume (barrels)	7,556,894	7,003,874	14,000,734	13,270,040
to external customers	7,556,894	7,003,874	14,000,734	13,270,040
to intragroup companies	-	-	-	-
Revenue per barrel sold (USD/barrel)	87.36	92.53	92.85	89.81
Production costs per barrel sold (USD/barrel)	75.88	77.90	76.95	73.06
Cost of refining	2.21	2.44	2.39	2.44
Transportation of crude oil for refining	17.27	19.95	17.46	19.40
Cost of crude oil purchased for refining	43.16	46.44	42.80	42.16
Cost of oil products purchased for re-sale	8.05	2.56	8.88	3.39
Taxes	4.33	5.67	4.54	4.81
Depreciation of refining assets	0.86	0.84	0.88	0.86
Selling, administrative and other income/expenses, net (USD/barrel)	8.63	8.32	9.03	8.50
EBITDA per barrel sold (USD/barrel)	3.71	7.15	7.75	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. Designing works and contracting of equipment were almost completed, while construction works were done by 56% at the end of the quarter and more than 60% at the reporting date.

The average daily refining volumes for July 2012 amounted to 83,643 barrels per day.

Investments, Financing and Liquidity

Investments

Investments in oil and gas assets for the quarter amounted to MUSD 89.82 (Q2 2011: MUSD 153.36) and were split by regions as follows: Timano-Pechora – MUSD 69.63 (Q2 2011: MUSD 133.87), Tomsk – MUSD 7.26 (Q2 2011: MUSD 3.06), Volga-Urals – MUSD 9.85 (Q2 2011: MUSD 13.83) and Kazakhstan – MUSD 3.08 (Q2 2011: MUSD 2.60). For the six months period total investments in oil and gas assets amounted to MUSD 202.43 (six months 2011: MUSD 317.06).

Investments in refining assets for the quarter amounted to MUSD 92.87 (Q2 2011: MUSD 57.26) and MUSD 123.84 for the six months period (six months 2011: MUSD 183.20). Investments in marketing and other assets for the quarter amounted to MUSD 20.65 (Q2 2011: MUSD 5.78) and MUSD 28.26 for the six months period (six months 2011: MUSD 8.28).

Capitalised and paid interest on loans and borrowings for the quarter amounted to MUSD 2.96 (Q2 2011: MUSD 3.64) and MUSD 35.89 for the six months period (six months 2011: MUSD 31.35).

Financing

In 2011, 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 cash inflows from export sales denominated in USD with cash outflows on interest payments denominated in RUB and obtain a lower interest rate. The impact from the cross currency swap valuation for the quarter ended 30 June 2012 was recorded in the consolidated income statement and represented loss of MUSD 10.77 before income tax due to the strengthening of USD to RUB. The impact from the cross currency swap valuation for the six months period represented gain of MUSD 1.07 before income tax due to the gain from netting position on swap periodical payments offset by effect of strengthening of USD to RUB. Foreign exchange gain\loss does not arise on RUB denominated bonds, accordingly no corresponding gain was recorded.

Liquidity

At 30 June 2012 and 31 December 2011, the Group's liquidity position amounted to MUSD 122.42 and MUSD 187.80, including restricted cash of MUSD 27.04 and MUSD 27.32, respectively.

At 21 August 2012, the Group's liquidity position amounted to MUSD 216.58, including restricted cash of MUSD 26.30.

During the quarter ended 30 June 2012, the Group repaid loans in the amount of MUSD 183.65.

At 30 June 2012, the Group had access to financing facilities, the total unused amount of which was MUSD 568.36.

Key financial ratios

	30 June 2012	30 June 2011
EBITDA[1] for the last twelve months,TUSD	760,906	528,587
Return on shareholders' equity[2]	16%	14%
Return on capital employed[3]	15%	12%
Debt/equity ratio[4]	84%	77%
Equity ratio[5]	47%	49%
Risk-bearing capital[6]	51%	54%
Interest-coverage ratio[7]	3.38	3.32
Debt coverage ratio[8]	4.47	4.50
Debt/EBITDA[9]	2.30	3.15

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 15.35 (Q2 2011: income of MUSD 588.85) and MUSD 22.34 for the six months period (six months 2011: income of MUSD 588.20).

At 30 June 2012 and 31 December 2011, the liquidity position of the parent company amounted to MUSD 1.41 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 30 June 2012 and 31 December 2011, the paid-in share capital of the parent company amounted to MUSD 171.5 represented by 171,528,414 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

(Expressed in USD thousands)	Note	Quarter ended 30 June 2012	Quarter ended 30 June 2011	Six months ended 30 June 2012	Six months ended 30 June 2011
Revenue					
Revenue from sales of crude oil		142,076	120,919	305,736	244,026
Revenue from sales of oil products		660,148	648,070	1,299,923	1,191,827
Other income		14,915	15,249	26,600	27,066
		817,139	**784,238**	**1,632,259**	**1,462,919**
Cost of sales					
Production costs of crude oil		-88,480	-83,939	-179,382	-172,018
Production costs of oil products		-481,518	-471,104	-878,817	-810,285
Cost of other sales		-6,865	-6,634	-11,495	-11,824
Depletion and depreciation of oil and gas and refining assets		-42,649	-33,333	-90,454	-67,900
Gross profit		**197,627**	**189,228**	**472,111**	**400,892**
Selling expenses		-83,084	-72,827	-163,183	-142,028
Administrative expenses		-20,870	-20,365	-43,865	-37,969
Depreciation and amortisation of marketing and other assets		-4,683	-4,551	-9,294	-8,799
Other operating expenses, net		-3,306	-5,250	-4,619	-8,382
Share of profit/(loss) of associates		85	-76	30	-46
Operating income		**85,769**	**86,159**	**251,180**	**203,668**
Interest income		3,442	2,601	6,855	4,542
Finance costs	6	-23,245	-11,329	-45,382	-20,479
(Loss)/gain on derivatives classified as held for trading, net	6	-10,767	-234	1,070	-234
Currency exchange (loss)/gain, net		-25,891	-253	-6,966	2,499
Profit before tax		**29,308**	**76,944**	**206,757**	**189,996**
Current tax expense		-7,530	-21,954	-44,029	-44,359
Deferred tax (expense)/benefit		-2,569	1,037	-3,858	433
Profit for the period		**19,209**	**56,027**	**158,870**	**146,070**
Attributable to:					
Owners of the Company		18,336	53,746	155,526	141,561
Non-controlling interests		873	2,281	3,344	4,509
Earnings per share (USD per share)					
Basic	3	0.11	0.31	0.91	0.83
Diluted	3	0.11	0.29	0.85	0.77

STATEMENT OF COMPREHENSIVE INCOME

(Expressed in USD thousands)	**Quarter ended 30 June 2012**	**Quarter ended 30 June 2011**	**Six months ended 30 June 2012**	**Six months ended 30 June 2011**
Profit for the period	19,209	56,027	158,870	146,070
Other comprehensive (loss)/income				
Items that may be reclassified to profit or loss:				
Currency exchange (loss)/gain on intercompany loans	-83,361	11,578	-233	78,276
Exchange (loss)/gain on translating foreign operations	-225,143	21,089	-60,366	130,658
Income tax relating to currency exchange differences on intercompany loans	11,803	-1,546	-961	-11,244
Other comprehensive (loss)/income for the period, net of tax	-296,701	31,121	-61,560	197,690
Total comprehensive (loss)/income for the period	**-277,492**	**87,148**	**97,310**	**343,760**
Attributable to:				
Owners of the Company	-274,934	84,867	94,649	339,251
Non-controlling interests	-2,558	2,281	2,661	4,509

STATEMENT OF FINANCIAL POSITION

(Expressed in USD thousands)	Note	30 June 2012	31 December 2011
ASSETS			
Non-current assets:			
Property, plant and equipment	4	3,437,369	3,223,798
Intangible assets		952	1,917
Goodwill		18,875	19,239
Investments in associates		22,112	21,826
Deferred tax assets		27,010	26,439
Other financial assets		104	167
Other assets		36,515	29,878
		3,542,937	**3,323,264**
Current assets:			
Inventories		195,560	145,029
Trade and other accounts receivable		133,107	113,605
Value added tax and other taxes receivable		228,642	224,552
Income tax receivable		27,146	11,814
Advances paid and prepaid expenses		104,934	125,907
Other financial assets		103,131	93,263
Restricted cash		27,037	27,318
Cash and cash equivalents		95,385	160,483
		914,942	**901,971**
TOTAL ASSETS		**4,457,879**	**4,225,235**
EQUITY AND LIABILITIES			
Capital and reserves:			
Share capital	5	171,528	171,528
Additional paid-in capital		1,104,357	1,104,355
Other reserves		-541,256	-480,379
Retained earnings		1,316,294	1,159,946
Equity attributable to owners of the Company		**2,050,923**	**1,955,450**
Non-controlling interests		40,640	37,983
TOTAL EQUITY		**2,091,563**	**1,993,433**
Non-current liabilities:			
Loans and borrowings	6	1,533,520	1,514,263
Deferred tax liabilities		190,986	187,998
Provision for decommissioning and site restoration costs	7	28,937	15,440
Retirement benefit obligation		7,540	2,669
Derivatives classified as held for trading		11,791	11,114
		1,772,774	**1,731,484**
Current liabilities:			
Loans and borrowings	6	214,433	106,829
Trade and other accounts payable		105,556	144,184
Advances received and accrued expenses		202,259	170,466
Income tax payable		2,937	5,524
Other taxes payable		63,461	68,408
Derivatives classified as held for trading		4,896	4,907
		593,542	**500,318**
TOTAL LIABILITIES		**2,366,316**	**2,231,802**
TOTAL EQUITY AND LIABILITIES		**4,457,879**	**4,225,235**

STATEMENT OF CASH FLOWS

(Expressed in USD thousands)	**Six months ended 30 June 2012**	**Six months ended 30 June 2011**
Operating activities		
Profit before tax	206,757	189,996
Adjustments for:		
Depreciation, depletion and amortisation	99,748	76,699
Interest income	-6,855	-4,542
Finance costs	45,382	20,479
(Gain)/loss on derivatives classified as held for trading, net	-1,070	234
Currency exchange loss/(gain), net	6,966	-2,499
Share of (profit)/loss of associates	-30	46
Loss on disposal of assets	1,874	1,859
Other non-cash items	12,360	1,870
Operating cash flows before changes in working capital	**365,132**	**284,142**
Changes in working capital		
Increase in inventories	-56,568	-1,159
Increase in accounts receivable	-16,434	-69,096
Increase/(decrease) in accounts payable	12,828	-76,391
Cash generated from operations	**304,958**	**137,496**
Interest paid	-39,855	-12,615
Income tax paid	-60,904	-34,233
Total cash generated from operating activities	**204,199**	**90,648**
Investing activities		
Investments in oil and gas assets	-202,425	-317,057
Investments in refining assets	-123,841	-183,199
Investments in marketing and other assets	-28,258	-8,281
Interest capitalised and paid	-35,892	-31,346
Investments in shares in subsidiaries	-	-11,706
Proceeds from disposal of assets	1,325	656
Interest received	5,755	2,295
Loans provided	-15,605	-34,194
Loans repaid	11,608	6,620
Investments in promissory notes	-15,621	-
Short-term deposits placed	-	-30,015
Proceeds from deposits withdrawn	-	30,076
Total cash used in investing activities	**-402,954**	**-576,151**

STATEMENT OF CASH FLOWS (CONTINUED)

(Expressed in USD thousands)	**Six months ended 30 June 2012**	**Six months ended 30 June 2011**
Financing activities		
Proceeds from financing raised, net of issue costs	431,232	1,026,968
Repayment of loans and borrowings	-295,034	-444,281
Acquisition of non-controlling interest in subsidiaries	-1,069	-743
Total cash generated from financing activities	**135,129**	**581,944**
Effect of exchange rate changes on cash balances held in foreign currencies	-2,799	-1,956
Translation difference	1,046	10,746
Change in cash, cash equivalents and restricted cash	**-65,379**	**105,231**
Cash, cash equivalents and restricted cash at beginning of the period	**187,801**	**178,099**
Cash, cash equivalents and restricted cash at end of the period	**122,422**	**283,330**

STATEMENT OF CHANGES IN EQUITY

(Expressed in USD thousands)	Attributable to owners of the Company **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 period	-	-	-	-	-	141,561	141,561	4,509	146,070
Other comprehensive income	-	-	67,032	130,658	-	-	197,690	-	197,690
Total comprehensive income for the period	**-**	**-**	**67,032**	**130,658**	**-**	**141,561**	**339,251**	**4,509**	**343,760**
Changes in ownership of subsidiaries	-	18	-	-	-	-	18	-79	-61
Dividends to shareholders of non-controlling interests	-	-	-	-	-	-	-	-489	-489
Share option plan	-	-	-	-	-	652	652	-	652
Balance at 30 June 2011	**171,528**	**1,103,863**	**-61,674**	**-104,007**	**22,271**	**981,929**	**2,113,910**	**35,248**	**2,149,158**
Profit for the period	-	-	-	-	-	177,312	177,312	4,908	182,220
Other comprehensive (loss)/income	-	-	-108,674	-228,295	-	-	-336,969	2,413	-334,556
Total comprehensive (loss)/income for the period	**-**	**-**	**-108,674**	**-228,295**	**-**	**177,312**	**-159,657**	**7,321**	**-152,336**
Changes in ownership of subsidiaries	-	492	-	-	-	-	492	-1,785	-1,293
Disposal of subsidiaries	-	-	-	-	-	-	-	-2,799	-2,799
Dividends to shareholders of non-controlling interests	-	-	-	-	-	-	-	-2	-2
Share option plan	-	-	-	-	-	705	705	-	705
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 period	-	-	-	-	-	155,526	155,526	3,344	158,870
Other comprehensive loss	-	-	-1,194	-59,683	-	-	-60,877	-683	-61,560
Total comprehensive (loss)/income for the period	**-**	**-**	**-1,194**	**-59,683**	**-**	**155,526**	**94,649**	**2,661**	**97,310**
Changes in ownership of subsidiaries	-	2	-	-	-	-	2	-4	-2
Share option plan	-	-	-	-	-	822	822	-	822
Balance at 30 June 2012	**171,528**	**1,104,357**	**-171,542**	**-391,985**	**22,271**	**1,316,294**	**2,050,923**	**40,640**	**2,091,563**

SELECTED NOTES

Note 1 Accounting principles

The condensed consolidated interim financial information for the six months ended 30 June 2012 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 2011, which have been prepared in accordance with International Financial Reporting Standards ("IFRS"). The accounting principles used in this condensed consolidated interim financial information 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 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 interim financial information was assessed by management as insignificant.

The following new and reissued IFRSs have been early adopted in the current period ("5 standards pack"): 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". The impact of adoption of these Standards was assessed by management as insignificant to the Group's operations except for IFRS 10 and IFRS 11:

IFRS 10 "Consolidated Financial Statements"

The new standard will affect the Group's accounting policy regarding determination of investor control over subsidiaries transferred to the joint venture.

IFRS 11 "Joint Arrangements"

IFRS 11 replaces IAS 31 with new accounting requirements for joint arrangements by classifying them as either joint operations or joint ventures. Joint ventures shall be accounted for using the equity method.

Reclassifications

Certain comparative information presented in the consolidated interim financial information for the quarter and six months ended 30 June 2011 has been reclassified. Reclassifications were based upon management's decision to enhance elimination of intersegment sales of crude oil through presentation of transportation costs in accordance with their substance.

	Before reclassification	After reclassification	Effect
Quarter ended 30 June 2011			
Production costs of oil products	-467,631	-471,104	-3,473
Selling expenses	-76,300	-72,827	3,473
Six months ended 30 June 2011			
Production costs of oil products	-801,575	-810,285	-8,710
Selling expenses	-150,738	-142,028	8,710
			-

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. Management reviews and evaluates the 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 30 June 2012

(Expressed in USD thousands)	**Upstream**	**Downstream**	**Other companies**	**Inter-segment eliminations**	**Reconciling items**	**Total**
Total segment revenue	230,115	703,807	11,321	-124,871	-3,233	817,139
Less inter-segment revenue	-83,989	-29,561	-11,321	124,871	-	-
Revenue from external customers	146,126	674,246	-	-	-3,233	817,139
Segment operating income	**72,240**	**16,976**	**-8,188**	**37**	**4,704**	**85,769**
Interest income	1,399	12,337	19,737	-30,002	-29	3,442
Finance costs	-17,695	-18,359	-16,239	21,824	7,224	-23,245
Loss on derivatives classified as held for trading, net	-	-10,767	-	-	-	-10,767
Currency exchange gain/(loss), net	852	-70,031	-3,554	-76	46,918	-25,891
Profit before tax	**56,796**	**-69,844**	**-8,244**	**-8,217**	**58,817**	**29,308**
Income tax expense	-13,500	12,026	-643	-41	-7,941	-10,099
Profit for the period	**43,296**	**-57,818**	**-8,887**	**-8,258**	**50,876**	**19,209**
Segment EBITDA	**108,499**	**27,608**	**-8,104**	**37**	**5,061**	**133,101**

Quarter ended 30 June 2011

(Expressed in USD thousands)	**Upstream**	**Downstream**	**Other companies**	**Inter-segment eliminations**	**Reconciling items**	**Total**
Total segment revenue	192,565	776,641	10,416	-195,573	189	784,238
Less inter-segment revenue	-69,539	-115,618	-10,416	195,573	-	-
Revenue from external customers	123,026	661,023	-	-	189	784,238
Segment operating income	**53,408**	**40,102**	**-8,461**	**243**	**867**	**86,159**
Interest income	1,242	553	25,330	-24,531	7	2,601
Finance costs	-10,428	-7,011	-26,195	19,230	13,075	-11,329
Loss on derivatives classified as held for trading, net	-	-234	-	-	-	-234
Currency exchange (loss)/gain, net	-257	4,162	189	37	-4,384	-253
Profit before tax	**43,965**	**37,572**	**-9,137**	**-5,021**	**9,565**	**76,944**
Income tax expense	-10,187	-7,260	-2,153	-	-1,317	-20,917
Profit for the period	**33,778**	**30,312**	**-11,290**	**-5,021**	**8,248**	**56,027**
Segment EBITDA	**81,181**	**49,978**	**-8,353**	**243**	**1,024**	**124,073**

Six months ended 30 June 2012

(Expressed in USD thousands)	**Upstream**	**Downstream**	**Other companies**	**Inter-segment eliminations**	**Reconciling items**	**Total**
Total segment revenue	513,610	1,440,254	23,010	-337,639	-6,976	1,632,259
Less inter-segment revenue	-198,770	-115,859	-23,010	337,639	-	-
Revenue from external customers	314,840	1,324,395	-	-	-6,976	1,632,259
Segment operating income	**186,427**	**86,915**	**-18,065**	**-516**	**-3,581**	**251,180**
Interest income	2,941	25,408	42,580	-64,175	101	6,855
Finance costs	-37,924	-36,461	-32,509	46,870	14,642	-45,382
Gain on derivatives classified as held for trading, net	-	1,070	-	-	-	1,070
Currency exchange gain/(loss), net	2,404	-16,844	-867	47	8,294	-6,966
Profit before tax	**153,848**	**60,088**	**-8,861**	**-17,774**	**19,456**	**206,757**
Income tax expense	-36,109	-10,142	-1,169	-	-467	-47,887
Profit for the period	**117,739**	**49,946**	**-10,030**	**-17,774**	**18,989**	**158,870**
Segment EBITDA	**265,170**	**107,467**	**-17,905**	**-516**	**-3,288**	**350,928**

Six months ended 30 June 2011

(Expressed in USD thousands)	**Upstream**	**Downstream**	**Other companies**	**Inter-segment eliminations**	**Reconciling items**	**Total**
Total segment revenue	407,715	1,403,131	20,809	-367,762	-974	1,462,919
Less inter-segment revenue	-159,380	-187,573	-20,809	367,762	-	-
Revenue from external customers	248,335	1,215,558	-	-	-974	1,462,919
Segment operating income	**122,987**	**101,638**	**-14,167**	**11**	**-6,801**	**203,668**
Interest income	2,476	2,777	47,914	-48,599	-26	4,542
Finance costs	-20,157	-16,999	-38,218	38,721	16,174	-20,479
Loss on derivatives classified as held for trading, net	-	-234	-	-	-	-234
Currency exchange gain/(loss), net	2,471	32,028	-615	153	-31,538	2,499
Profit before tax	**107,777**	**119,210**	**-5,086**	**-9,714**	**-22,191**	**189,996**
Income tax expense	-24,324	-20,806	-1,796	-	3,000	-43,926
Profit for the period	**83,453**	**98,404**	**-6,882**	**-9,714**	**-19,191**	**146,070**
Segment EBITDA	**180,152**	**120,833**	**-13,953**	**11**	**-6,676**	**280,367**

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;
- tax effect on the above mentioned adjustments.

Note 3 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 June 2012	Quarter ended 30 June 2011	Six months ended 30 June 2012	Six months ended 30 June 2011
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)	188,153,205	188,272,983	188,153,205	188,276,178
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 and share options.

For the quarter and six months ended 30 June 2012, convertible bonds with a conversion price of SEK 121.13 (USD 15.94 at fixed exchange rate) were the only instruments included in the calculation of diluted earnings per share.

Note 4 Property, plant and equipment

During the six months ended 30 June 2012, additions in the construction and acquisition of production and other assets amounted to TUSD 396,812 (six months 2011: TUSD 686,365), including TUSD 165,783 (six months 2011: TUSD 222,965) related to OJSC Khabarovsk Oil Refinery and TUSD 212,503 (six months 2011: TUSD 455,022) related to the development of oil fields.

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

Note 5 Share capital and share option plan

There were no movements in the issued capital of the parent company during the six months ended 30 June 2012.

No dividends were approved or paid during the six months ended 30 June 2012.

At 30 June 2012 and the date of authorisation of the condensed consolidated interim financial information, the number of outstanding options amounted to 1,987,029. Each option gives the right to subscribe for 1 share of common stock at exercise prices ranging from SEK 81.80 to SEK 115.00. None of the 1,066,550 exercisable options were exercised during the six months ended 30 June 2012.

For the quarters ended 30 June 2012 and 2011, share option charges amounted to TUSD 408 and TUSD 308, respectively. For the six months ended 30 June 2012 and 2011, the charges amounted to TUSD 822 and TUSD 652, respectively.

Note 6 Loans and borrowings

(Expressed in USD thousands)	Currency	Interest rate	30 June 2012 Principal	Interest	Total
Non-convertible interest bearing bonds	RUB	8.85-9.75%	605,675	12,925	618,600
Non-convertible interest bearing Eurobonds	USD	9.88%	346,355	10,561	356,916
Convertible interest bearing bonds	USD	7.25%	251,223	4,003	255,226
Bank loans nominated in USD	USD	Libor 1m + 4.7%-Libor 6m+5.5%	334,880	3,457	338,337
Bank loans nominated in EUR	EUR	Euribor 6m+5.5%	174,682	4,192	178,874
Total loans and borrowings			**1,712,815**	**35,138**	**1,747,953**
Current portion repayable within one year					214,433
Long-term loans and borrowings					**1,533,520**

(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 30 June 2012 and 31 December 2011, the loans and borrowings were collateralised by:

- 97.90% of the Group's holding in OJSC Khabarovsk Oil Refinery;
- 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;
- property, plant and equipment with a carrying value of TUSD 116,547 (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:

(Expressed in USD thousands)	30 June 2012 Principal	Interest	Total
Within one year from 30 June 2012	180,429	145,032	325,461
Within second year from 30 June 2012	365,149	128,046	493,195
More than two years from 30 June 2012	1,228,145	189,688	1,417,833
Total amount estimated to be repaid	**1,773,723**	**462,766**	**2,236,489**

The interest payments were based on the interest rate effective at 30 June 2012. The principal and interest payments denominated in RUB were converted into USD using the exchange rate at 30 June 2012.

During the six months ended 30 June 2012, the Group raised financing in the amount of TUSD 431,232 and repaid loans in the amount of TUSD 295,034.

In 2011, 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 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 30 June 2012 was recorded in the consolidated income statement in the amount of TUSD 1,070.

Finance costs primarily include interest expenses on loans and borrowings. Finance costs for the six months ended 30 June 2012 amounted to TUSD 45,382 compared to TUSD 20,479 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 7 Provision for decommissioning and site restoration costs

At 30 June 2012, provision for decommissioning and site restoration costs increased by TUSD 13,497 compared to 31 December 2011 primarily due to revised estimates of decommissioning costs per unit.

Note 8 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 30 June 2012 and 31 December 2011:

(Expressed in USD thousands)	**30 June 2012**	**31 December 2011**
Shareholders		
Trade and other accounts receivable	957	886
Associates		
Trade and other accounts receivable	11,337	20,076
Advances paid and prepaid expenses	5,234	-
Advances received and accrued expenses	47,627	79,670
Other related parties		
Trade and other accounts receivable	269	1,400
Advances paid and prepaid expenses	1,645	1,403
Other financial assets	25,597	26,159
Cash and cash equivalents	1,324	399

Significant transactions with related parties for the six months ended 30 June 2012 and 2011:

(Expressed in USD thousands)	**Six months ended 30 June 2012**	**Six months ended 30 June 2011**
Associates		
Revenue	460,045	82,780
Purchase of oil products	21,384	3,774
Loans provided	11,608	4,194
Loans repaid	11,608	4,194
Other related parties		
Revenue	153	384,099
Purchase of services	8,677	21,070
Charity contributions to the Fund named by Z. Bazhaev (for participation in the Russian federal national projects)	4,145	5,291
Interest income	1,622	1,201
Short-term deposits placed	-	30,015
Proceeds from deposits withdrawn	-	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).

Note 9 Commitments and contingencies

Contractual commitments for the acquisition of property, plant and equipment at 30 June 2012 and 31 December 2011 amounted to TUSD 916,494 and TUSD 750,651, respectively.

Note 10 Events after the reporting period

Acquisition of oil license in Timano-Pechora

In July 2012, Alliance Oil Company signed an agreement to acquire LLC "GeoInvestService" for MUSD 30. LLC "GeoInvestService" holds an exploration license for the West-Osoveiskoye block in the Timano-Pechora region in Northern Russia. The license will be integrated into the Kolvinskoye oil field operations and development plans.

Joint venture with Repsol

In August 2012, Repsol and Alliance Oil completed the first phase of their joint hydrocarbon exploration and production venture with the integration of Alliance assets and the acquisition of shares by Repsol.

Alliance Oil contributed its Saneco subsidiary, with brownfield upstream assets located in Samara in the Volga-Urals region with total production of 1.1 million barrels of oil in the second quarter of 2012 and 2P reserves of 38 million barrels at 31 December 2011. Repsol acquired shares in the joint venture from Alliance Oil for MUSD 36 and subscribed MUSD 37 in new shares to reach a 49% stake in the joint venture company.

Financial calendar

Nine months report (January – September 2012) is due on 21 November 2012.

Operational updates are disclosed monthly.

Conference call

Date: Tuesday, 21 August 2012
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	+7 495 580 9543	
Sweden	+46 8505 20278	0200 125 058
United Kingdom	+44 20 7190 1595	0800 358 5263

Conference ID: 4560077

Web

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

To be able to participate in a new format webcast a Unity web-player should be installed on the computer. The player is a harmless software program with a digital signature Developer Unity AG. During installation a digital signature and details of the developer are displayed. It can be downloaded using a direct link:

For Windows: http://webplayer.unity3d.com/download_webplayer-3.x/UnityWebPlayer.exe
For MACOS: http://webplayer.unity3d.com/download_webplayer-3.x/webplayer-i386.dmg
For others: http://unity3d.com/webplayer/

Those who are not willing to install additional software will be able to follow the presentation in slide show format.

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

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 August 2012

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.

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