



Invitation to subscribe for Preference  
Shares represented by SDRs in  
Alliance Oil Company Ltd.

GLOBAL COORDINATOR  
AND JOINT BOOKRUNNER



JOINT BOOKRUNNER



## **CERTAIN DEFINITIONS**

References to the "Company" or "Alliance Oil" in this Prospectus means Alliance Oil Company Ltd. and the "Group" means the Company and each of its subsidiaries. The "Board of Directors" or the "Board" means the Board of Directors of the Company. References to the "Prospectus" means this prospectus which has been prepared in relation to the offering to subscribe for preference shares represented by SDRs in Alliance Oil. The terms the "New Share Issuance" or the "Offering" when used in this Prospectus means the offering to subscribe for Preference Shares represented by SDRs ("Preference Shares") in Alliance Oil in accordance with the terms of the Prospectus. The term "Special Rights" means paid interim shares issued at payment of the Subscription Price (as defined below) prior to the issuance of the Preference Shares. "Subscription Price" means the subscription price of the Preference Shares in the New Share Issuance, amounting to SEK 250-300 per Preference Share. "Carnegie" means Carnegie Investment Bank AB (publ) and "Swedbank" means Swedbank First Securities, the Norwegian branch of Swedbank AB (publ), the Company's financial advisors in the New Share Issuance.

## **IMPORTANT INFORMATION**

This Prospectus has been approved by and registered with the Swedish Financial Supervisory Authority (Sw. *Finansinspektionen*) (the "SFSA") in accordance with Ch. 2 §§ 25-26 of the Financial Instruments Trading Act (Sw. *lagen (1991:980) om handel med finansiella instrument*) in relation to the New Share Issuance and the subsequent listing of the Preference Shares on NASDAQ OMX Stockholm. The approval and registration does not imply that the SFSA guarantees that factual information in this Prospectus is correct or complete. Any dispute in connection with the New Share Issuance, the contents of this Prospectus or any legal relationship connected therewith shall be exclusively settled under Swedish law and by Swedish courts. Stockholm City Court (Sw. *Stockholms tingsrätt*) shall be the court of first instance.

This Prospectus will be available at the website of Alliance Oil, [www.allianceoilco.com](http://www.allianceoilco.com), the website of Carnegie, [www.carnegie.se](http://www.carnegie.se), the website of Swedbank, [www.swedbank.se](http://www.swedbank.se) and the website of the SFSA, [www.fi.se](http://www.fi.se).

Distribution of this Prospectus may constitute a violation of law in certain jurisdictions. The materials relating to the Offering do not constitute, and may not be used in connection with, an offer or solicitation in any place where offers or solicitations are not permitted by law or to any person to whom such offers or solicitations would constitute a violation of law. No action has been taken or will be taken to register or approve Special Rights the Preference Shares or the New Share Issuance or otherwise permit a public offering of Preference Shares, in any jurisdiction other than Sweden and the United Kingdom. Neither Special Rights nor Preference Shares may be offered, sold, resold, transferred or delivered, directly or indirectly, in or to Australia, Hong Kong, Japan, Canada, Switzerland, South Africa, the United States of America (the "US"), or any other jurisdiction if such distribution would not be permitted under relevant laws, regulations or rules. An acquisition of Special Rights or Preference Shares in violation of the restrictions above may be invalid and/or constitute violation of applicable securities law. Neither Alliance Oil, nor Carnegie or Swedbank accept any legal responsibility for any violation of these restrictions, regardless of whether such violation has been committed by a potential investor in Preference Shares or not.

No Special Right or Preference Share has been registered, or will be registered under the United States Securities Act of 1933 as amended (the "US Securities Act"), nor under any corresponding legislation in any state or other jurisdiction in the US. Consequently, no Special Rights or Preference Share may at any time be publicly offered for sale, transferred, exercised, or delivered, whether directly or indirectly, in or to the US, unless an exemption from registration under the US Securities Act is applicable. A notification for subscription of Preference Shares in violation of the above may be invalid.

The Special Rights or the Preference Shares have not been approved by the "United States Securities and Exchange Commission", any state securities committee or other authority in the US. Alliance Oil has prepared this Prospectus based on Alliance Oil's internal information and third party information which Alliance Oil considers reliable. Carnegie and Swedbank make no guarantee, whether explicit or implicit as to the correctness or completeness of the information in this Prospectus. Nothing in this Prospectus shall be construed as a representation or warranty, regardless of whether it concerns the past or the future.

In making an investment decision, each investor must make its own assessment of Alliance Oil and the New Share Issuance, including present facts and risks. Any investment decisions must be based solely on the information in this Prospectus and any supplements to this Prospectus approved by the SFSA. No person has been authorised to give any information or to make any representation other than those contained in this Prospectus and any information or representation not so contained must not be relied upon as having been authorised by or on behalf of the Company. Neither the delivery of this Prospectus nor any sale made in connection herewith shall, under any circumstances, create any implication that there has been no change in the affairs of the Company or the Group since the date hereof or that there has been no adverse change in the financial position of the Company or the Group since the date hereof or that the information contained in it or any other information supplied in connection with the New Share Issuance is correct as of any time subsequent to the date on which it is supplied or, if different, the date indicated in the document containing the same. Neither the Company nor any other person assumes any obligation (and expressly declares that it has no such obligation) to update or amend any information contained in this Prospectus once there is no longer a requirement for the Prospectus to be updated. The Company reserves the right in its sole discretion to decline any request for subscription of Preference Shares which the Company or its advisors consider could give rise to a breach of any laws, rules or regulations.

The permission of the Bermuda Monetary Authority is required, pursuant to the provisions of the Exchange Control Act 1972 and related regulations, for all issuances and transfers of shares (which includes the Preference Shares) of Bermuda companies to or from a non-resident of Bermuda for exchange control purposes, other than in cases where the Bermuda Monetary Authority has granted a general permission. The Bermuda Monetary Authority, in its notice to the public dated June 1, 2005, has granted a general permission for the issue and subsequent transfer of any

securities of a Bermuda company from and/or to a non-resident of Bermuda for exchange control purposes for so long as the "Equity Securities" of the Company (which would include the Ordinary Shares and the Preference Shares) are listed on an "Appointed Stock Exchange" (which includes NASDAQ OMX Stockholm). This Prospectus will be filed with the Registrar of Companies in Bermuda in accordance with Bermuda law. In granting the general permission and in accepting this Prospectus for filing, neither the Bermuda Monetary Authority nor the Registrar of Companies in Bermuda accepts any responsibility for the Company's financial soundness or the correctness of any of the statements made or opinions expressed in this Prospectus.

### **THIRD PARTY INFORMATION**

This Prospectus contains third party information. Such information has been correctly reflected and to the best of the knowledge of the Company, and as far as the Company has been able to ensure by comparison with other information made available by relevant third parties, no information has been omitted such that it would make the information stated herein inaccurate or misleading. This Prospectus contains market data, industry forecasts, and other information made available by third parties, including information on the size of markets where the Company operates. Such information has been obtained from a number of sources. The Company has estimated market shares using both internal data and external sources. The Company considers such sources reliable. However, the information has not been independently verified and consequently, the Company cannot guarantee the correctness of, or assume any responsibility for, data, calculations or other information obtained from public sources. In addition, this Prospectus contains estimates of market data and information which cannot be obtained from independent sources. Such information is based on the Company's own assessments and may deviate from the assessment of any competitor or future statistics from independent sources. In making its assessments, the Company has used internal knowledge of local markets as well as public information from competitors of the Company.

### **FORWARD-LOOKING STATEMENTS**

Certain statements in this Prospectus are not historical facts and are forward-looking statements. This Prospectus contains certain forward-looking statements in various locations, including, without limitation, under the headings "Summary", "Risk Factors", "Market Overview", "Operations", "Comments to Financial Developments in Brief" and "Legal Matters and Miscellaneous Information". Examples of such forward-looking statements include, but are not limited to statements of the Group's strategy, plans, objectives or goals; statements of future economic performance; and statements of assumptions underlying such statements.

Words such as "believes", "anticipates", "expects", "estimates", "intends" and "plans" and similar expressions, including the negative of these terms, are intended to identify forward-looking statements but are not the exclusive means of identifying such statements.

By their very nature, forward-looking statements involve inherent risks and uncertainties, both general and specific, and risks exist that the predictions, forecasts, projections and other forward-looking statements will not be achieved. Investors should be aware that a number of important factors could cause actual results to differ materially from the plans, objectives, expectations, estimates and intentions expressed in such forward-looking statements. This list of important factors and the other factors described in this Prospectus (in the section "Risk Factors") are not necessarily all of the important factors that could cause actual results to differ materially from those expressed in any of forward-looking statements. Other unknown or unpredictable factors also could harm the Group's future results. When relying on forward-looking statements, investors should carefully consider the foregoing factors and other uncertainties and events, especially in light of the political, economic, social and legal environment in which the Group operates. Such forward-looking statements speak only as at the date on which they were made and the Group does not undertake any obligation to update or revise any of them, whether as a result of new information, future events or otherwise. The Group does not make any representation, warranty or prediction that the results anticipated by such forward-looking statements will be achieved, and such forward-looking statements represent, in each case, only one of many possible scenarios and should not be viewed as the most likely or standard scenario.

### **MISCELLANEOUS**

Certain financial and other information in this Prospectus has been rounded off for the convenience of readers. Consequently, in certain tables, the sum of numbers stated in a column or row may not exactly correspond to the total number stated.

The functional currency of the Company is the U.S. dollar ("U.S. dollars", "dollars", "\$", "US\$" or "USD"). The functional currency of the Company's major subsidiaries is the Russian ruble ("rubles" or "RUR"). The Alliance Oil shares are publicly traded as Swedish Depository Receipts ("SDRs") on NASDAQ OMX Stockholm in Swedish "kronas" or "SEK". The Company uses the U.S. dollar as its presentation currency. Items included in the financial statements of each of the Group's (and prior to the Merger, each of West Siberian Resources Ltd.'s ("WSR") and NK Alliance's (all terms as defined herein)) Russian entities are measured using the RUR, Kazakh entities, the Kazakhstan tenge, Cypriot entities, the U.S. dollar and are subsequently translated into U.S. dollars for purposes of presentation of the Group's consolidated historical financial information in accordance with the requirements of IAS 21 "The Effects of Changes in Foreign Exchange Rates". Certain consolidated financial statements referred to in this Prospectus are available on Alliance Oil's website. Notwithstanding the preceding sentence, no other part of Alliance Oil's website or any other website forms part of this Prospectus and potential investors should not rely on such information when making a decision on whether or not to invest in Preference Shares.

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# Summary of terms and conditions of the Preference Shares

## Number of Preference Shares

The Offering comprises a minimum number of 2.7 million and a maximum number of 5.3 million Preference Shares represented by SDRs.

## Subscription Price

SEK 250 – 300 per new Preference Share. The price will be determined in a book building process with institutional investors and announced by the Company on 17 December 2012. No commission is payable.

## Right to subscribe for Preference Shares represented by SDRs

On 28 November 2012, the Board of Directors proposed that the special general meeting on 14 December 2012 resolves to amend the Company's Bye-Laws and authorises the Board of Directors to resolve to offer Swedish and international institutional investors as well as the general public in Sweden, including the Company's existing shareholders, holders of convertible bonds and interest bearing bonds, to subscribe for Preference Shares represented by SDRs.

## Important dates

Subscription period	3 – 14 December 2012
Special General Meeting	14 December 2012
Announcement of subscription outcome	17 December 2012
Distribution of contract notes	17 December 2012
Settlement date	20 December 2012
Preliminary first day of trading	28 December 2012

## Other information

Marketplace	NASDAQ OMX Stockholm, where the Preference Shares will be represented by and traded as SDRs	
Tickers	SDRs	AOIL SDB PREF
ISIN codes	SDRs	SE0004949691
	Special Rights	SE0004949683

## Financial calendar

Twelve months report (Jan – Dec 2012)	21 February 2013
Annual general meeting 2013	22 May 2013

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## Summary

*This summary consists of items which shall contain certain specific information and which are listed in the Sections A – E (A.1 – E.7). The items are required in a summary regarding an issue of new shares. Due to the fact that information with respect to certain items is not required, there are gaps in the numbering of the listed items. Even though an item is required to be listed in the summary, relevant information with respect to the item may be unavailable. In such cases, the summary will contain a brief description of the information requirement and the statement "Not applicable".*

*If there is any inconsistency or ambiguity between this English language version of the summary and the Swedish language version of the summary (starting on page 15), the Swedish language version shall prevail.*

<b>Section A – Introduction and Disclaimer</b>		
A.1	Introduction and disclaimer	This summary is not complete and should be considered as an introduction to the Prospectus. Each decision to invest in the Company/the Preference Shares must be based on an assessment of the Prospectus as a whole. An investor who brings an action to court based on information in this Prospectus may have to bear the costs of translation of the Prospectus before legal proceedings are initiated. A person may be held responsible for information included in or omitted from the summary only if the summary is misleading, inaccurate or inconsistent with other parts of the Prospectus or if the summary does not, when read together with other parts of the Prospectus, provide key information to investors in their assessment of whether or not to invest in Preference Shares.
A.2	Financial intermediaries	Not applicable; there are no financial intermediaries.
<b>Section B – The Issuer</b>		
B.1	Company name and trade name	The Company's registered name is Alliance Oil Company Ltd. The Company's Ordinary Shares are publicly traded as SDRs on NASDAQ OMX Stockholm under the trading symbol AOIL SDB.
B.2	Registered office and entity type	The Company is a limited liability company incorporated and conducting business under the laws of Bermuda, with its registered office located at Clarendon House, 2 Church Street, Hamilton HM11, Bermuda. The Company was incorporated in Bermuda on 1 September 1998 for an unlimited duration with registration number 25413.
B.3	The business in brief	<p>The Group is an independent vertically integrated oil and gas business with upstream and downstream operations in Russia and upstream operations in Kazakhstan. Alliance Oil's integrated oil and gas operations range from Moscow in the West to Vladivostok in the Far East.</p> <p>In the upstream segment, Alliance Oil's proven and probable oil reserves are estimated at 648 million barrels of oil equivalents ("mboe") (as of 31 December 2011). Through the acquisition of the entity SN-Gazdobycha in 2012, the Group's proven and probable reserves will increase by 17 percent</p>

		<p>to 760 mboe. In 2011, the Company's average oil production rate was approximately 49,000 barrels per day. For the year ended 31 December 2011, the Group's consolidated revenues amounted to USD 3,083 million, of which USD 540 million was attributed to upstream operations and USD 2,543 million was attributed to downstream operations.</p> <p>The Group's upstream operations include crude oil and gas exploration, extraction and production in the operating regions Timano-Pechora, Volga-Urals and Tomsk in Russia and the Atyrau region in Kazakhstan.</p> <p>In the downstream segment, the Company controls the Khabarovsk Refinery and a large network of wholesale and retail outlets in the oil products markets of the Khabarovsk, Primorsk, Amur regions, the Jewish Autonomous District and in the Republic of Buryatia in Russia.</p> <p>In 2008, the Group launched a significant modernisation program at the Khabarovsk Refinery to widen its production processes for a higher degree of oil refining, in order to produce lighter and higher value oil products, primarily diesel fuel. The modernisation program is still on-going and contemplates addition of new refinery facilities to the existing ones without suspending on-going operations.</p> <p>The Group currently refines more crude oil at its facilities than it produces. As a result hereof, the Group enters into swap arrangements with various companies when market conditions are favourable, and sells the balance on the domestic, CIS and international markets.</p> <p>The Group's strategy is to seek to capitalise on its composition as an integrated oil and gas company, increase financing capacity and cash flows to further strengthen its position within the upstream- and refined products industry.</p>
B.4a	Trends in the industry of the Group	<p>Oil production is estimated to 514 million tons for 2012, compared to 509 million tons in 2011 (source: Russia's Economy Ministry). Annual production levels between 2013 and 2015 are estimated by the Economy Ministry to remain fairly constant at approximately 500 to 515 million tons per year.</p> <p>Gas production is estimated to 676 billion cubic metres for 2012, compared to 607 billion cubic metres for 2011 (source: Russia's Economy Ministry). Annual production levels between 2013 and 2015 are estimated by the Economy Ministry to increase slightly and amount to approximately 675 to 730 billion cubic metres per year.</p>
B.5	The Group	The Company is the parent company of the Group, which consists of 43 companies (including the Company).
B.6	Large shareholders	As of 31 October 2012, the 15 largest shareholders of the Company represented approximately 64.1 percent of the share capital. The four largest shareholders of the Company as of the same date were Betino Investments Limited (Cyprus) (37,890,000 Ordinary Shares corresponding to 22.1 percent), Alliance Group OJSC (30,816,997 Ordinary Shares corresponding to 18.0

		<p>percent), CJSC Investment Co Alliance Capital (6,637,129 Ordinary Shares corresponding to 3.9 percent) and Repsol Exploration S.A. (5,495,136 Ordinary Shares corresponding to 3.2 percent). All holders of existing Ordinary Shares have equal voting rights.</p> <p>To the best of the Company's knowledge, no person directly or indirectly holds capital or voting rights which is subject to notification under the laws of Bermuda.</p>																																																																																			
B.7	History and financial information	<p>Summary of consolidated financial statements</p> <p>SUMMARY OF CONSOLIDATED INCOME STATEMENT</p> <table border="1"> <thead> <tr> <th rowspan="2">USD million</th> <th colspan="2">1 Jan - 30 Sep</th> <th colspan="3">1 Dec - 31 Dec</th> </tr> <tr> <th>2012</th> <th>2011</th> <th>2011</th> <th>2010</th> <th>2009</th> </tr> </thead> <tbody> <tr> <td><b>Total revenue</b></td> <td><b>2,536.6</b></td> <td><b>2,257.3</b></td> <td><b>3,082.7</b></td> <td><b>2,195.8</b></td> <td><b>1,726.4</b></td> </tr> <tr> <td>Production costs and depletion and depreciation of oil and gas and refining assets</td> <td>-1,779.3</td> <td>-1,614.2</td> <td>-2,165.1</td> <td>-1,575.7</td> <td>-982.6</td> </tr> <tr> <td><b>Gross profit</b></td> <td><b>757.2</b></td> <td><b>643.1</b></td> <td><b>917.6</b></td> <td><b>620.1</b></td> <td><b>743.8</b></td> </tr> <tr> <td>Operating expenses</td> <td>-336.8</td> <td>-305.5</td> <td>-404.3</td> <td>-312.8</td> <td>-290.2</td> </tr> <tr> <td><b>Operating income</b></td> <td><b>420.4</b></td> <td><b>337.6</b></td> <td><b>513.3</b></td> <td><b>307.3</b></td> <td><b>453.6</b></td> </tr> <tr> <td>Financial items</td> <td>-43.8</td> <td>-63.5</td> <td>-80.5</td> <td>-17.6</td> <td>-35.6</td> </tr> <tr> <td><b>Profit before tax</b></td> <td><b>376.7</b></td> <td><b>274.1</b></td> <td><b>432.8</b></td> <td><b>289.7</b></td> <td><b>418.1</b></td> </tr> <tr> <td>Income tax expense</td> <td>-85.8</td> <td>-65.0</td> <td>-104.5</td> <td>-63.3</td> <td>-73.1</td> </tr> <tr> <td><b>Profit for the period</b></td> <td><b>290.8</b></td> <td><b>209.1</b></td> <td><b>328.3</b></td> <td><b>226.3</b></td> <td><b>345.0</b></td> </tr> <tr> <td>Attributable to:</td> <td></td> <td></td> <td></td> <td></td> <td></td> </tr> <tr> <td>Owners of the Company</td> <td>278.4</td> <td>202.7</td> <td>318.9</td> <td>222.2</td> <td>343.8</td> </tr> <tr> <td>Non-controlling interests</td> <td>12.4</td> <td>6.4</td> <td>9.4</td> <td>4.1</td> <td>1.2</td> </tr> </tbody> </table>	USD million	1 Jan - 30 Sep		1 Dec - 31 Dec			2012	2011	2011	2010	2009	<b>Total revenue</b>	<b>2,536.6</b>	<b>2,257.3</b>	<b>3,082.7</b>	<b>2,195.8</b>	<b>1,726.4</b>	Production costs and depletion and depreciation of oil and gas and refining assets	-1,779.3	-1,614.2	-2,165.1	-1,575.7	-982.6	<b>Gross profit</b>	<b>757.2</b>	<b>643.1</b>	<b>917.6</b>	<b>620.1</b>	<b>743.8</b>	Operating expenses	-336.8	-305.5	-404.3	-312.8	-290.2	<b>Operating income</b>	<b>420.4</b>	<b>337.6</b>	<b>513.3</b>	<b>307.3</b>	<b>453.6</b>	Financial items	-43.8	-63.5	-80.5	-17.6	-35.6	<b>Profit before tax</b>	<b>376.7</b>	<b>274.1</b>	<b>432.8</b>	<b>289.7</b>	<b>418.1</b>	Income tax expense	-85.8	-65.0	-104.5	-63.3	-73.1	<b>Profit for the period</b>	<b>290.8</b>	<b>209.1</b>	<b>328.3</b>	<b>226.3</b>	<b>345.0</b>	Attributable to:						Owners of the Company	278.4	202.7	318.9	222.2	343.8	Non-controlling interests	12.4	6.4	9.4	4.1	1.2
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SUMMARY OF CONSOLIDATED STATEMENT OF FINANCIAL POSITION					
	30 Sep		31 Dec		
USD million	2012	2011	2011	2010	2009
Property, plant and equipment	3,799.7	3,048.8	3,223.8	2,528.2	1,957.3
Other non-current assets	69.8	87.8	99.4	89.3	41.1
Current assets	1,222.6	923.8	902.0	729.8	728.6
<b>Total assets</b>	<b>5,120.5</b>	<b>4,060.4</b>	<b>4,225.2</b>	<b>3,347.4</b>	<b>2,727.0</b>
Total equity	2,434.5	1,903.9	1,993.4	1,805.3	1,606.8
Non-current liabilities	1,888.7	1,737.8	1,731.5	1,106.5	536.7
Current liabilities	797.3	418.7	500.3	435.7	583.5
<b>Total equity and liabilities</b>	<b>5,120.5</b>	<b>4,060.4</b>	<b>4,225.5</b>	<b>3,347.4</b>	<b>2,727.0</b>
SUMMARY OF CONSOLIDATED STATEMENT OF CASH FLOWS					
	1 Jan - 30 Sep		1 Jan - 31 Dec		
USD million	2012	2011	2011	2010	2009
<b>Total cash generated from operating activities</b>	<b>414.3</b>	<b>311.2</b>	<b>462.5</b>	<b>203.8</b>	<b>315.4</b>
<b>Total cash used in investing activities</b>	<b>-623.1</b>	<b>-809.8</b>	<b>-1,070.7</b>	<b>-704.5</b>	<b>-237.8</b>
<b>Total cash generated from financing activities</b>	<b>336.6</b>	<b>578.2</b>	<b>630.7</b>	<b>301.5</b>	<b>-18.7</b>
Effects of exchange rate changes on	7.1	-14.0	-12.8	-14.7	-2.2

		cash balances					
		<b>Change in cash, cash equivalents and restricted cash</b>	<b>134.5</b>	<b>65.5</b>	<b>9.7</b>	<b>-214.0</b>	<b>56.7</b>
		Cash, cash equivalents and restricted cash at beginning of the period	187.8	178.1	178.1	329.1	335.4
		<b>Cash, cash equivalents and restricted cash at the end of the period</b>	<b>322.3</b>	<b>243.6</b>	<b>187.8</b>	<b>178.1</b>	<b>392.1</b>

#### Brief comments to financial development

During the first nine months of 2012, consolidated revenues increased to USD 2,536.6 million from USD 2,257.3 million in the first nine months of 2011. The increase was mainly driven by increased sales volumes from the Kolvinskoye oil field and increased sales volumes of oil products. During the period from 2009 to 2011 consolidated revenues almost doubled from USD 1,726.4 million to USD 3,082.7 million. The increase was largely driven by the increased revenues from oil products which increased as a result of both increased volumes and increased market prices.

During the first nine months of 2012, consolidated operating income increased to USD 420.4 million from USD 337.6 million in the first nine months of 2011. The increase was mainly driven by higher revenues. During the period from 2009 to 2011, consolidated operating income increased by 13 percent from USD 453.6 million to USD 513.3 million (or by 60 percent excluding the Reversal of impairment of oil and gas assets of USD 170.3 million in 2009). The increase was mainly driven by the increased revenues.

The Company's property, plant and equipment increased from USD 3,048.8 million as per 30 September 2011 to USD 3,799.7 million as per 30 September 2012. From 31 December 2009 to 31 December 2011, property, plant and equipment increased from USD 1,957.3 million to USD 3,223.8 million. The increase during the periods above was mainly driven by significant investments in the Khabarovsk Refinery and to Kolvinskoye oil field, the major development project.

For more detailed comments regarding the financial development, please see "*Comments to financial developments in brief*".

B.8	Pro forma	Not applicable; the Prospectus includes no proforma financials.
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	financials	
B.9	Result of operations forecast	Not applicable; the Prospectus includes no result of operations forecast.
B.10	Audit remarks	Not applicable; no audit remarks exist.
B.11	Sufficient working capital	In the opinion of Alliance Oil, working capital is sufficient to finance operations for the next twelve months as of the date of this Prospectus.
<b>Section C – The Securities</b>		
C.1	The securities offered	Preferences Shares in Alliance Oil, represented by SDRs.
C.2	Denomination	The Preference Shares will be denominated in USD.
C.3	Number of issued share and nominal value of a share	As of the date of this Prospectus, the issued share capital of the Company amounts to USD 171,528,414.00, divided into 171,528,414 Ordinary Shares, each with a nominal value of USD 1. All shares are paid up in full.
C.4	Rights connected with the securities	<p>Each Preference Share carries one-tenth (1/10) of a vote at a general meeting of Alliance Oil, whereas each Ordinary Share carries one vote. Under the Bye-Laws, Preference Shares have priority over Ordinary Shares to an annual dividend of SEK 30 per Preference Share ("Preference Distribution") as of the time of issuance. Dividend payments are subject to resolution by the general meeting. Preference Distribution shall be paid quarterly to the holders of Preference Shares, in an amount of 25 percent of the Preference Distribution, corresponding to SEK 7.50 per quarter per Preference Share. Other than that, Preference Shares shall have no right to dividend.</p> <p>If no Preference Distribution is paid on Preference Shares, or if dividend is paid in an amount less than the Preference Distribution, the holders of Preference Shares shall, in addition to future Preference Distribution, be entitled to receive an amount constituting the difference between what should have been paid as dividend and the actual amount paid (equally divided on each Preference Share) ("Outstanding Amount") before dividend or any other distribution is paid on Ordinary Shares. The Outstanding Amount shall be increased with an annual interest rate corresponding to fourteen (14) percent calculated from the quarterly date on which the dividend payment should have been made, where no or insufficient dividend was paid, to the date of payment.</p> <p>No dividend or other distribution to holders of Ordinary Shares may be declared and/or paid prior to the declaration/ full payment, as applicable,</p>

		<p>of any Preference Distribution due, including any Outstanding Amount.</p> <p>With the prior resolution of the general meeting, the Company may at any time redeem some of or all Preference Share at a redemption price per Preference Share equal to 130 percent of the Subscription Price plus any Outstanding Amount and Additional Amount (the "Redemption Price"). "Additional Amount" means such dividend accrued for the period beginning (but excluding) on the latest record date constituting the basis for calculation of an Outstanding Amount, if applicable, and ending on (and including) the day for payment of the proceeds of the day of redemption. The number of days shall be calculated on the basis of the actual number of days in that period divided by 90.</p> <p>In the event the Company becomes subject to Liquidation (as defined in the Bye-Laws), the holders of Preference Shares shall be entitled in priority to any payment to the holders of Ordinary Shares, to receive an amount per Preference Share corresponding to the Redemption Price from the liquidation proceeds.</p>
C.5	Transfer restrictions	The Preference Shares, represented by SDRs, are not subject to any transfer restrictions.
C.6	Listing	The Preference Shares, represented by SDRs, are expected to be listed on NASDAQ OMX Stockholm.
C.7	Dividend policy	<p>Alliance Oil has historically reinvested cash flows from operations through its capital expenditure programme aimed at increasing oil reserves and production and upgrading the Khabarovsk Refinery. The Company has not paid any dividends to holders of Ordinary Shares since it was listed in 2000.</p> <p>Holders of Preference Shares are entitled to an annual dividend of SEK 30 per Preference Share and have priority over dividends on Ordinary Shares. Such annual dividend shall be paid quarterly in an amount of SEK 7.50. Upon completion of the current capital expenditures programme, the Board intends to review the dividend policy in order to facilitate dividends to all shareholders.</p>
<b>Section D – Risks</b>		
D.1	Principal risks specific to the Group and its industry	An investment in Alliance Oil and the Preference Shares is subject to several risk factors. Principal risks specific to the Group and its industry which investors need to consider when making an investment decision include, but are not limited to, crude oil and refined products prices, global economic development and Russian market conditions, the Khabarovsk Refinery, transportation of crude oil and oil products, licenses and contracts, legal restrictions, crude oil reserves estimates, development and exploration projects, competition, significant shareholdings, insufficient insurance, key personnel, the development of the Russian Federation and Kazakhstan markets, political and economic risks, poor infrastructure, exchange rate fluctuations, weaknesses in the Russian legal system and legislation, the Russian tax system, market dominating subsidiaries, lack of possibility in

		<p>enforcing judgments, ownership in privatised companies and financial risks.</p> <p>There may be other risks related to the Group and its industry that the Company is currently not aware of.</p>
D.3	Principal risks specific to the securities	<p>Risks related to the Preference Shares include, but are not limited to delisting of the SDRs with the underlying Preference Shares, illiquidity in the SDRs and no or limited dividend on the Preference Shares.</p> <p>There may be other risks related to the Preference Shares that the Company is currently not aware of.</p>
<b>Section E – The Offering</b>		
E.1	Issuance proceeds costs	If the minimum amount of 2.7 million Preference Shares is subscribed for, the Company will receive issuance proceeds of SEK 675 million – 810 million in total before deduction of the costs for the Offering amounting to approximately SEK 17 million – 22 million.
E.2a	Reasons and use of the issuance proceeds	Alliance Oil has in recent years focused on expanding oil reserves and production in Timano-Pechora and strengthening the position on oil product markets in the Russian Far East, which includes the modernisation of the Khabarovsk Refinery. The market for preference shares in Sweden has grown and become more sophisticated during 2011 and 2012 and the Company believes that issuing preference shares, on terms attractive to both investors and the Company, could complement its existing financing sources well. The Company intends to use the proceeds for the long term funding of the recently acquired gas licenses in the Tomsk region (through the acquisition of SN-Gazdobycha) and exploration licenses in the Timano-Pechora region in Russia, as well as for general corporate purposes.
E.3	Form and terms of the Offering	<p>On 28 November 2012, the Board of Directors proposed that the special general meeting on 14 December 2012 resolves to amend the Company's Bye-Laws and authorises the Board of Directors to resolve to offer Swedish and international institutional investors as well as the general public in Sweden, including the Company's existing shareholders, holders of convertible bonds and interest bearing bonds, to subscribe for a minimum of 2.7 million and a maximum of 5.3 million Preference Shares, represented by SDRs, at a subscription price of SEK 250 – 300 per Preference Share. If the minimum number of Preference Shares is subscribed for, the Company will receive issuance proceeds of SEK 675 – 810 million in total. If the New Share Issuance is carried out and is subscribed for in full, the number of shares in the Company will increase by 2.7 – 5.3 million shares to 174.3 – 176.8 million shares.</p> <p>The subscription period runs from 3 – 14 December 2012. The Board of Directors may, in its sole discretion, decide to extend the subscription period.</p>
E.4	Interests and conflicts of	No director or member of the senior management of the Company has any family relationships with other directors or members of the senior

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	interest	<p>management.</p> <p>No conflicts of interest exist in respect of any of the directors or members of senior management, their duties to the Company, their personal interests or other duties.</p> <p>In the Company's opinion, there are no interests of importance for the Offering.</p>
E.5	Lock-up agreements	Not applicable; there are no lock-up agreements in connection with the New Share Issuance.
E.6	Dilution effect	If the New Share Issuance is carried out and is subscribed for in full, the number of shares in the Company will increase by 2.7 million shares to 5.3 million shares corresponding to a dilution effect of 1.6 – 3.1 percent of the capital and 0.2 – 0.3 percent of the votes.
E.7	Costs imposed on the investor	Not applicable; the Company will not impose any costs on investors.

## Sammanfattning

Prospektsammanfattningen består av punkter som ska innehålla viss information. Dessa punkter är numrerade i avsnitt A – E (A.1 – E.7). Denna sammanfattning innehåller de punkter som ska ingå i en sammanfattning avseende en nyemission av aktier. Eftersom information avseende några punkter inte behöver ingå, finns det luckor i numreringen av punkterna. Även om en punkt i och för sig ska ingå i nu aktuell sammanfattning, kan det förekomma att relevant information beträffande sådan punkt saknas. I dessa fall innehåller sammanfattningen en kort beskrivning av informationskravet tillsammans med angivelsen "Ej tillämplig".

Om det skulle vara någon diskrepans eller tvetydighet mellan denna svenskspråkiga version av sammanfattningen och den engelskspråkiga sammanfattningen (som börjar på sid 6) skall den svenskspråkiga versionen äga företräde.

<b>Avsnitt A – Introduktion och varningar</b>		
A.1	Introduktion och varningar	Denna sammanfattning gör inte anspråk på att vara fullständig och bör betraktas som en introduktion till Prospektet. Varje beslut att investera i Bolaget/Preferensaktierna måste baseras på en bedömning av Prospektet i dess helhet. Om yrkande avseende uppgifter i Prospektet framställs i domstol, kan den investerare som är kärande i målet bli tvungen att svara för översättning av Prospektet innan de rättsliga förfarandena inleds. Ansvar kan åläggas de personer som tagit fram sammanfattningen, inklusive översättningar därav, endast om sammanfattningen är vilseledande, felaktig eller oförenlig med de andra delarna av Prospektet, eller om den inte, tillsammans med andra delar av Prospektet, ger nyckelinformation för att hjälpa investerare när de överväger att investera i värdepapperen.
A.2	Finansiella mellanhänder	Ej tillämpligt; det finns inga finansiella mellanhänder.
<b>Avsnitt B – Emittent</b>		
B.1	Firma- och handelsbe-teckning	Bolagets registrerade firma är Alliance Oil Company Ltd. Bolagets befintliga aktier ("Stamaktier") handlas som depåbevis på NASDAQ OMX Stockholm under symbolen AOIL SDB.
B.2	Säte och bolagsform	Bolaget är ett motsvarande aktiebolag som är bildat och bedriver verksamhet enligt Bermudas lag, med säte och registrerad adress Clarendon House, 2 Church Street, Hamilton HM11, Bermuda. Bolaget bildades på Bermuda den 1 september 1998 för en obegränsad period under registreringsnummer 25413.
B.3	Huvudsaklig verksamhet	Koncernen bedriver en oberoende vertikalt integrerad olje- och gasverksamhet inom upstream- och downstream-segmenten i Ryssland och upstream-segmentet i Kazakstan. Alliance Oil integrerade olje- och gasverksamhet sträcker sig från Moskva i väst till Vladivostok i Fjärran Östern.  Inom upstream-segmentet har Alliance Oil bevisade och sannolika oljereserver (2P) beräknade till 648 miljoner fat (per den 31 december

		<p>2011). Genom förvärvet av SN-Gazdobycha kommer Koncernens bevisade och sannolika reserver öka med 17 procent till 760 miljoner fat. Under 2011 var Bolagets uppskattade oljeproduktion ca 49 000 fat per dag. För räkenskapsåret 2011 uppgick Koncernens sammanslagna intäkter till USD 3 083 miljoner, varav USD 540 miljoner var hänförliga till upstream-segmentet och USD 2 543 miljoner var hänförliga till downstream-segmentet.</p> <p>Koncernens upstream-segment inkluderar råolje- och gasexploatering i regionerna Timano-Pechora, Volga-Urals and Tomsk i Ryssland samt Atyrauregionen i Kazakstan.</p> <p>Inom downstream-segmentet kontrollerar Bolaget Khabarovsk oljeraffinaderi och ett stort nätverk av återförsäljare och detaljhandelsstationer inom oljeproduktmarknaden i regionerna Khabarovsk, Primorsk, Amur och Judiska Autonoma Distriktet samt i republiken Burjatien i Ryssland.</p> <p>År 2008 inledde Koncernen ett omfattande moderniseringsprogram för raffinaderiet i Khabarovsk för att bredda sin produktionsprocess för att uppnå en högre oljeraffineringsnivå, i syfte att tillverka lättare och mer värdefulla oljeprodukter, främst diesel. Moderniseringen pågår fortfarande och innefattar upprättande av nya raffinaderianläggningar utan att avbryta den pågående verksamheten.</p> <p>Koncernen raffinerar för närvarande mer råolja i sina anläggningar än vad som produceras. Till följd av detta ingår Koncernen swap-överenskommelser med olika bolag när marknadsvillkoren är fördelaktiga och säljer produkterna på den nationella, CIS och internationella marknaden.</p> <p>Gruppens strategi är att eftersträva kapitalisering avseende sin sammansättning som ett integrerat olje- och gasbolag, att öka sin finansiella förmåga samt kassaflöde för att ytterligare stärka sin position inom upstream- och raffinaderiproduktindustrin.</p>
B.4a	Tendenser i Koncernens bransch	<p>Oljeproduktionen beräknas till 514 miljoner ton för 2012 jämfört med 509 miljoner ton för 2011 (källa: Rysslands finansdepartement). Rysslands finansdepartement beräknar den årliga produktionsnivån för åren 2013 till 2015 till cirka 500 till 515 miljoner ton per år.</p> <p>Gasproduktionen beräknas till 676 miljarder kubikmeter för 2012 jämfört med 607 miljarder kubikmeter för 2011 (källa: Rysslands finansdepartement). Rysslands finansdepartement beräknar den årliga produktionsnivån för åren 2013 till 2015 att öka något och uppgå till ca 675 till 730 miljarder kubikmeter per år.</p>
B.5	Koncern	<p>Bolaget är moderbolag i Koncernen, som består av 43 bolag (inklusive Bolaget).</p>



B.6	Större aktieägare	<p>De 15 största aktieägarna i Bolaget per den 31 oktober 2012 representerade cirka 64,1 procent av aktiekapitalet. De fyra största aktieägarna per samma datum var Betino Investments Limited (Cypern) (37 890 000 Stamaktier motsvarande 22,1 procent), Alliance Group OJSC (30 816 997 Stamaktier motsvarande 18,0 procent), CJSC Investment Co Alliance Capital (6 637 129 Stamaktier motsvarande 3,9 procent) och Repsol Exploration S.A. (5 495 136 Stamaktier motsvarande 3,2 procent). Samtliga Stamaktier har samma röststyrka.</p> <p>Såvitt Bolaget känner till innehar ingen person direkt eller indirekt kapitalandelar eller rösträtt som är anmälningspliktiga enligt Bermudas lagstiftning.</p>																																																																																																						
B.7	Utvald historisk finansiell information	<p>Finansiell information för koncernen i sammandrag</p> <p>RESULTATRÄKNING I SAMMANDRAG</p> <table border="1" data-bbox="539 882 1362 1749"> <thead> <tr> <th></th> <th colspan="2">1 Jan - 30 Sep</th> <th colspan="3">1 Jan - 31 Dec</th> </tr> <tr> <th>MUSD</th> <th>2012</th> <th>2011</th> <th>2011</th> <th>2010</th> <th>2009</th> </tr> </thead> <tbody> <tr> <td><b>Infäkter</b></td> <td><b>2,536.6</b></td> <td><b>2,257.3</b></td> <td><b>3,082.7</b></td> <td><b>2,195.8</b></td> <td><b>1,726.4</b></td> </tr> <tr> <td>Produktionskostnader samt av- och nedskrivningar av olje-, gas- och raffineringstillgångar</td> <td>-1,779.3</td> <td>-1,614.2</td> <td>-2,165.1</td> <td>-1,575.7</td> <td>-982.6</td> </tr> <tr> <td><b>Bruttovinst</b></td> <td><b>757.2</b></td> <td><b>643.1</b></td> <td><b>917.6</b></td> <td><b>620.1</b></td> <td><b>743.8</b></td> </tr> <tr> <td>Rörelsekostnader</td> <td>-336.8</td> <td>-305.5</td> <td>-404.3</td> <td>-312.8</td> <td>-290.2</td> </tr> <tr> <td><b>Rörelseresultat</b></td> <td><b>420.4</b></td> <td><b>337.6</b></td> <td><b>513.3</b></td> <td><b>307.3</b></td> <td><b>453.6</b></td> </tr> <tr> <td>Finansnetto</td> <td>-43.8</td> <td>-63.5</td> <td>-80.5</td> <td>-17.6</td> <td>-35.6</td> </tr> <tr> <td><b>Resultat före skatt</b></td> <td><b>376.7</b></td> <td><b>274.1</b></td> <td><b>432.8</b></td> <td><b>289.7</b></td> <td><b>418.1</b></td> </tr> <tr> <td>Skattekostnader</td> <td>-85.8</td> <td>-65.0</td> <td>-104.5</td> <td>-63.3</td> <td>-73.1</td> </tr> <tr> <td><b>Periodens resultat</b></td> <td><b>290.8</b></td> <td><b>209.1</b></td> <td><b>328.3</b></td> <td><b>226.3</b></td> <td><b>345.0</b></td> </tr> <tr> <td>Hänförligt till:</td> <td></td> <td></td> <td></td> <td></td> <td></td> </tr> <tr> <td>Aktieägare i moderbolaget</td> <td>278.4</td> <td>202.7</td> <td>318.9</td> <td>222.2</td> <td>343.8</td> </tr> <tr> <td>Minoritetsintressen</td> <td>12.4</td> <td>6.4</td> <td>9.4</td> <td>4.1</td> <td>1.2</td> </tr> </tbody> </table> <p>BALANSRÄKNING I SAMMANDRAG</p> <table border="1" data-bbox="539 1839 1331 2022"> <thead> <tr> <th></th> <th colspan="2">30 Sep</th> <th colspan="3">31 Dec</th> </tr> <tr> <th>MUSD</th> <th>2012</th> <th>2011</th> <th>2011</th> <th>2010</th> <th>2009</th> </tr> </thead> <tbody> <tr> <td>Materiella anläggningstillgångar</td> <td>3,799.7</td> <td>3,048.8</td> <td>3,223.8</td> <td>2,528.2</td> <td>1,957.3</td> </tr> </tbody> </table>		1 Jan - 30 Sep		1 Jan - 31 Dec			MUSD	2012	2011	2011	2010	2009	<b>Infäkter</b>	<b>2,536.6</b>	<b>2,257.3</b>	<b>3,082.7</b>	<b>2,195.8</b>	<b>1,726.4</b>	Produktionskostnader samt av- och nedskrivningar av olje-, gas- och raffineringstillgångar	-1,779.3	-1,614.2	-2,165.1	-1,575.7	-982.6	<b>Bruttovinst</b>	<b>757.2</b>	<b>643.1</b>	<b>917.6</b>	<b>620.1</b>	<b>743.8</b>	Rörelsekostnader	-336.8	-305.5	-404.3	-312.8	-290.2	<b>Rörelseresultat</b>	<b>420.4</b>	<b>337.6</b>	<b>513.3</b>	<b>307.3</b>	<b>453.6</b>	Finansnetto	-43.8	-63.5	-80.5	-17.6	-35.6	<b>Resultat före skatt</b>	<b>376.7</b>	<b>274.1</b>	<b>432.8</b>	<b>289.7</b>	<b>418.1</b>	Skattekostnader	-85.8	-65.0	-104.5	-63.3	-73.1	<b>Periodens resultat</b>	<b>290.8</b>	<b>209.1</b>	<b>328.3</b>	<b>226.3</b>	<b>345.0</b>	Hänförligt till:						Aktieägare i moderbolaget	278.4	202.7	318.9	222.2	343.8	Minoritetsintressen	12.4	6.4	9.4	4.1	1.2		30 Sep		31 Dec			MUSD	2012	2011	2011	2010	2009	Materiella anläggningstillgångar	3,799.7	3,048.8	3,223.8	2,528.2	1,957.3
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	Övriga anläggningstillgångar	69.8	87.8	99.4	89.3	41.1
	Omsättningstillgångar	1,222.6	923.8	902.0	729.8	728.6
	<b>Summa tillgångar</b>	<b>5,120.5</b>	<b>4,060.4</b>	<b>4,225.2</b>	<b>3,347.4</b>	<b>2,727.0</b>
	Eget kapital	2,434.5	1,903.9	1,993.4	1,805.3	1,606.8
	Långfristiga skulder	1,888.7	1,737.8	1,731.5	1,106.5	536.7
	Kortfristiga skulder	797.3	418.7	500.3	435.7	583.5
	<b>Summa eget kapital och skulder</b>	<b>5,120.5</b>	<b>4,060.4</b>	<b>4,225.2</b>	<b>3,347.4</b>	<b>2,727.0</b>
KASSAFLÖDESANALYSER I SAMMANDRAG						
		1 Jan -30 Sep		1 Jan -31 Dec		
	MUSD	2012	2011	2011	2010	2009
	<b>Kassaflöde från den löpande verksamheten</b>	<b>414.3</b>	<b>311.2</b>	<b>462.5</b>	<b>203.8</b>	<b>315.4</b>
	<b>Kassaflöde från investerings- verksamheten</b>	<b>-623.1</b>	<b>-809.8</b>	<b>-1,070.7</b>	<b>-704.5</b>	<b>-237.8</b>
	<b>Kassaflöde från finansierings- verksamheten</b>	<b>336.6</b>	<b>578.8</b>	<b>630.7</b>	<b>301.5</b>	<b>-18.7</b>
	Valutakurs- förändringar	7.1	-14.0	-12.8	-14.7	-2.2
	<b>Förändringar i likvida och spärrade medel</b>	<b>134.5</b>	<b>65.5</b>	<b>9.7</b>	<b>-214.0</b>	<b>56.7</b>
	Likvida och spärrade medel vid periodens början	187.8	178.1	178.1	329.1	335.4
	<b>Likvida och spärrade medel vid periodens slut</b>	<b>322.3</b>	<b>243.6</b>	<b>187.8</b>	<b>178.1</b>	<b>392.1</b>
Sammanfattande kommentarer till den finansiella utvecklingen						
Under de nio första månaderna 2012 ökade intäkterna till USD 2 536,6 miljoner från USD 2 257,3 miljoner de nio första månaderna 2011. Ökningen						

		<p>var främst hänförlig till försäljning från Kolvinskoyes oljefält och högre försäljningsvolym av förädlade oljeprodukter. Under perioden ifrån 2009 till 2011 fördubblades nästan intäkterna ifrån USD 1 726,4 miljoner till USD 3 082,7 miljoner. Ökningen berodde främst på ökade intäkter från oljeprodukter som ökade på grund av ökade volymer och ökade marknadspriser.</p> <p>Under de nio första månaderna 2012 ökade rörelseresultat till USD 420,4 miljoner från USD 337,6 miljoner under de nio första månaderna 2011. Ökningen var främst hänförlig till ökade intäkter. Under perioden ifrån 2009 till 2011 ökade rörelseresultatet med 13 procent ifrån USD 453,6 miljoner till USD 513,3 miljoner (eller med 81 procent exklusive återföring av tidigare nedskrivningar av olje- och gastillgångar om USD 170,3 miljoner). Ökningen berodde främst på ökade intäkter.</p> <p>Bolagets materiella anläggningstillgångar ökade från USD 3 048,8 miljoner per den 30 september 2011 till USD 3 799,7 miljoner per den 30 september 2012. Under perioden från den 31 december 2009 till den 31 december 2011 ökade Bolagets materiella anläggningstillgångar från USD 1 957,3 miljoner till USD 3 223,8 miljoner. Ökningarna under perioderna ovan var främst hänförliga till omfattande investeringar i oljeraffinaderiet i Khabarovsk och oljefältet i Kolvinskoye, Bolagets huvudsakliga utvecklingsprojekt.</p> <p>För ytterligare detaljerad information avseende den finansiella utvecklingen, se "<i>Comments to financial developments in brief</i>".</p>
B.8	Utvald proforma-redovisning	Ej tillämplig; Prospektet innehåller inte <i>proforma</i> redovisning.
B.9	Resultatprognos	Ej tillämplig; Prospektet innehåller ingen resultatprognos eller beräkning av förväntat resultat.
B.10	Revisions-anmärkning	Ej tillämplig; Revisionsanmärkningar saknas.
B.11	Tillräckligt rörelsekapital	Det är Alliance Oils bedömning att det befintliga rörelsekapitalet är tillräckligt för de aktuella behoven den närmaste tolv månadersperioden från datumet för detta Prospekt.
<b>Avsnitt C – Värdepapper</b>		
C.1	Värdepapper som erbjuds	Preferensaktier i Alliance Oil, representerade av depåbevis.
C.2	Denominering	Preferensaktierna är denominerade i USD.
C.3	Antal emitterade aktier och nominellt värde	Aktiekapitalet i Bolaget uppgår per dagen för detta Prospekt till USD 171 528 414 fördelat på 171 528 414 aktier, vardera aktie med ett nominellt värde om USD 1. Samtliga befintliga aktier är Stamaktier. Samtliga aktier är

	per aktie.	fullt inbetalda.
C.4	Rättigheter som sammanhänger med värdepapperen	<p>Varje Preferensaktie berättigar till en tiondels (1/10) röst, medan varje Stamaktie berättigar till en röst. Enligt Bolagsordningen har Preferensaktier förtur framför Stamaktierna till en årlig vinstutdelning om SEK 30 per Preferensaktie ("Preferensutdelningen") vid tidpunkten för emissionen. Bolagsstämman beslutar om vinstutdelning. Preferensutdelning sker kvartalsvis till innehavare av Preferensaktier, om ett belopp om 25 procent om Preferensutdelningen, motsvarande SEK 7,50 per kvartal och Preferensaktie. Därutöver har Preferensaktier ingen rätt till vinstutdelning.</p> <p>Om utdelning inte lämnas eller lämnas med ett belopp som understiger Preferensutdelningen, skall innehavare av Preferensaktier, utöver kommande Preferensutdelning, ha rätt till ett belopp motsvarande skillnaden mellan det belopp som skulle delats ut och det belopp som faktiskt delades ut (jämnt fördelat mellan Preferensaktierna) (det "Utestående Beloppet") innan utdelning eller annan värdeöverföring sker till Stamaktier. Det Utestående Beloppet skall räknas upp med årlig ränta om fjorton (14) procent räknat från det datum då den kvartalsvisa utdelningen skulle ha utbetalats, eller, vid ofullständig utdelning, från betalningsdagen.</p> <p>Ingen utdelning eller annan värdeöverföring får beslutas/lämnas till innehavare av Stamaktier förrän beslut/utbetalning, såsom tillämpligt, av Preferensutdelning och Utestående Belopp skett till innehavarna av Preferensaktierna.</p> <p>Om bolagsstämman så beslutar får Bolaget när som helst lösa in samtliga eller några av Preferensaktierna till ett lösenpris motsvarande 130 procent av Teckningskursen plus eventuellt Utestående Belopp och "Tillkommande Belopp" ("Lösenpriset"). Tillkommande Belopp" avser upplupen utdelning under perioden från och med (men exklusive) den senaste avstämningsdagen som utgjort grund för beräkning av det Utestående Beloppet, om tillämpligt, till och med (och inklusive) dagen för inlösen. Antalet dagar skall beräknas grundat på det faktiska antalet dagar under perioden dividerat med 90.</p> <p>För det fall Bolaget träder i likvidation har innehavare av Preferensaktier förtur framför innehavare av Stamaktier att erhålla ett belopp ur likvidationsbehållningen motsvarande Lösenpriset plus eventuellt Tillkommande Belopp.</p>
C.5	Inskränkningar i den fria överlåtbarheten	Preferensaktierna, genom depåbevis, är inte föremål för några begränsningar i rätten att överlåta dem.
C.6	Upptagande till handel	Preferensaktierna avses att upptas till handel som depåbevis på NASDAQ OMX Stockholm.
C.7	Utdelningspolicy	Alliance Oil har historiskt återinvesterat sitt kassaflöde från verksamheten genom sitt program avseende investeringskostnader som är ägnat att öka

		<p>oljereserverna och produktionen samt uppgradera Khabarovsk Raffinaderiet. Bolaget har inte lämnat någon utdelning till Stamaktieägarna sedan Bolaget noterades år 2000.</p> <p>Innehavare av Preferensaktier är berättigade till en årlig utdelning om SEK 30 per Preferensaktie och har förtur till utdelning i förhållande till innehavare av Stamaktier. Den årliga utdelningen skall utbetalas kvartalsvis med ett belopp om SEK 7,50. Efter genomförandet av programmet avseende investeringskostnader avser styrelsen att ompröva utdelningspolicyn för att möjliggöra utdelning till samtliga aktieägare.</p>
<b>Avsnitt D – Risker</b>		
D.1	Huvudsakliga risker som är specifika för Koncernen och dess branscher	<p>En investering i Alliance Oil och Preferensaktierna är förenad med ett flertal risker. Huvudsakliga risker som är specifika för Koncernen och dess branscher och som investerare måste beakta innan ett investeringsbeslut fattas, inkluderar men är inte begränsade till, råoljepris och pris på raffinerade produkter, den globala ekonomiska utvecklingen och marknadsförhållanden i Ryssland, raffinaderiet i Khabarovsk, transporter för råolja och oljeprodukter, licenser och avtal, legala restriktioner, uppskattningar av råoljereserver, utvecklings – och exploateringsprojekt, konkurrens, väsentliga aktieinnehav, otillräckliga försäkringar, nyckelpersonal, utvecklingen av marknaderna avseende Ryssland och Kazakstan, politiska och ekonomiska risker, svag infrastruktur, valutakursförändringar, brister i det ryska rättssystemet och den ryska lagstiftningen, det ryska skattesystemet, marknadsdominerande dotterbolag, svårigheter att verkställa domar, ägande i privatiserade bolag samt finansiella risker.</p> <p>Det kan även finnas andra risker som är relaterade till Koncernen och dess branscher som Bolaget inte är medvetet om.</p>
D.3	Huvudsakliga risker som är specifika för värdepapperen	<p>Risker som relaterar till Preferensaktierna inkluderar, men är inte begränsade till avnotering av depåbevisen med de underliggande Preferensaktierna, illikviditet i depåbevisen och att ingen eller begränsad utdelning lämnas avseende Preferensaktierna.</p> <p>Det kan finnas andra risker som är relaterade till Preferensaktierna som Bolaget inte är medvetet om.</p>
<b>Avsnitt E – Erbjudande</b>		
E.1	Emissionsbelopp och emissionskostnader	Om det minimala antalet om 2,7 miljoner Preferensaktier tecknas kommer Bolaget att tillföras en emissionslikvid om totalt SEK 675 miljoner – 810 miljoner före avdrag för emissionskostnader som beräknas uppgå till cirka SEK 17 miljoner – 22 miljoner. Bolaget ålägger inte investerarna några kostnader i samband med erbjudandet av Preferensaktierna.
E.2a	Motiv och användning av	Alliance Oils operationella strategi har de senaste åren innefattat fokus på expansion av oljereserver och produktion i Timano-Pechora regionen samt att stärka positionen inom marknaden för oljeprodukter i ryska Fjärran

	emissionslikviden	Östern, inklusive en modernisering av Khabarovsk-raffinaderiet. Marknaden för preferensaktier i Sverige har växt och blivit mer sofistikerad under 2011 och 2012 och Bolagets uppfattning är att en nyemission av preferensaktier på villkor som är attraktiva såväl för investerare som för Bolaget, skulle kunna komplettera dess befintliga finansiering väl. Bolaget avser primärt att använda de tillförda medlen för den långsiktiga finansieringen av de nyligen förvärvade licenserna för gasutvinning i Tomskregionen (genom förvärv av bolaget SN-Gazdobycha) och för prospekteringslicenser i Timano-Pechoraregionen i Ryssland samt för Bolagets löpande verksamhet.
E.3	Erbjudandets former och villkor	<p>Den 28 november 2012 föreslog styrelsen att den extra bolagstämman, planerad till den 14 december 2012, beslutar att ändra Bolagets bolagsordning samt bemyndigar styrelsen att besluta om att erbjuda svenska och internationella institutionella investerare och allmänheten i Sverige, inklusive Bolagets befintliga aktieägare, innehavare av konvertibler samt obligationsinnehavare, att teckna minst 2,7 miljoner och högst 5,3 miljoner Preferensaktier, genom depåbevis, till en teckningskurs om 250 – 300 kronor per Preferensaktie. Teckningskursen kommer att fastställas i ett anbudsörfarande med institutionella investerare och offentliggöras av Bolaget den 17 december 2012.</p> <p>Om det minimala antalet Preferensaktier tecknas kommer Bolaget att tillföras en emissionslikvid om totalt SEK 675 – 810 miljoner. Om emissionen genomförs och blir fulltecknad kommer antalet aktier i Bolaget att öka med 2,7 – 5,3 miljoner aktier till 174,3 – 176,8 aktier.</p> <p>Teckningsperioden löper från och med den 3 till och med den 14 december 2012. Styrelsen kan komma att besluta att teckningsperioden skall förlängas.</p>
E.4	Intressen och intressekonflikter	<p>Ingen av bolagets styrelseledamöter eller ledande befattningshavare har någon familjerelation med annan styrelseledamot eller ledande befattningshavare.</p> <p>Det föreligger ingen intressekonflikt mellan någon av styrelseledamöterna eller de ledande befattningshavarnas förpliktelser i förhållande till Bolaget, deras privata intressen och/eller andra förpliktelser.</p> <p>Bolaget bedömer inte att det finns några sådana intressen av betydelse för erbjudandet av Preferensaktier.</p>
E.5	Lock-up avtal	Ej tillämplig; några lock-up avtal föreligger inte i samband med erbjudandet av Preferensaktier.
E.6	Utspädningseffekt	Förutsatt att emissionen av Preferensaktier genomförs och att emissionen fulltecknas kommer antalet aktier i Bolaget att öka med 2,7 miljoner aktier - 5,3 miljoner aktier, vilket motsvarar en utspädning om 1,6 – 3,1 procent av kapitalet och 0,2 – 0,3 procent av rösterna.

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E.7	Kostnader som åläggs investeraren	Ej tillämplig; Bolaget ålägger inte investerarna några kostnader i samband med erbjudandet av Preferensaktierna.
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## Risk factors

*Investment in shares always entails a risk and Alliance Oil is not an exception in this respect. Potential investors should give careful consideration to all the information provided in the Prospectus and in particular assess the specific factors mentioned below which describe certain risks inherent in any investment in the Preference Shares. Each of the risks below and other risks and uncertainties mentioned in the Prospectus could, if they are realised, have a material negative effect on the Group's business, results, financial position or outlook, or result in a reduction in the value of the Company's shares, which can lead to investors losing all or part of their invested capital. The risks and uncertainties described below are not stated in order of significance and do not represent the only risks and uncertainties faced by Alliance Oil. Further risks and uncertainties of which the Group is currently not aware or perceives as being insignificant could also develop into factors that could have a material negative effect on the Group's business, results, financial position or outlook.*

### Risks related to the Group's business and industry

#### **A SUBSTANTIAL OR EXTENDED DECLINE IN CRUDE OIL OR REFINED PRODUCTS PRICES COULD HAVE A MATERIAL ADVERSE EFFECT ON THE GROUP'S BUSINESS, FINANCIAL CONDITION AND RESULTS OF OPERATIONS**

*The Group's business, financial condition and results of operations depend substantially upon prevailing prices of crude oil and refined products. Historically, prices for oil and refined products have fluctuated widely in response to even relatively minor changes in many various factors. The Group does not, and will not, have control over certain factors affecting prices for crude oil and refined products. Such factors include, but are not limited to, global and regional supply and demand, the cost of exploring for, developing, producing and refining crude oil and marketing oil products, weather and climate conditions, as well as natural disasters, Russian and foreign governmental regulations and actions, including export restrictions and taxes on crude oil and refined products and prices and availability of alternative and competing fuels.*

Future crude oil and refined products price movements cannot be predicted with certainty. International prices for refined products, which typically follow changes in international oil prices, have also fluctuated considerably in recent years. Such fluctuations can significantly affect the price differential between the price of oil product and the price of crude oil used for refining which, once direct costs are subtracted, constitutes the refining margin and, therefore, lead to changes in the refining margins that can in turn affect the Group's profitability. The Group's revenues, operating results and future rate of growth are highly dependent on the prices received for its crude oil and refined products.

These and other factors could also have either a short-term or a long-term impact on the Group's revenue and refining margins, a decline in which could have a material adverse effect on the Group's business, financial condition, results of operations and prospects.

#### **GLOBAL ECONOMIC DEVELOPMENTS AND RUSSIAN MARKET CONDITIONS MAY ADVERSELY AFFECT THE GROUP'S BUSINESS, FINANCIAL CONDITION AND RESULTS OF OPERATIONS**

The Group's results of operations are significantly influenced by general economic conditions, in particular in countries in which it operates and those in which it makes sales. The economic situation in these markets has in various ways been adversely affected by weakening economic conditions and the turmoil in the global financial markets. Volatility and market disruption have continued throughout 2010, 2011 and into 2012. In particular, global financial markets have experienced increased volatility since the second half of 2011, a period which has seen the sovereign rating downgrades of, amongst others, the United States, France, Japan, Austria, Greece, Ireland, Portugal, Spain and Italy and continued concerns over the stability of the European monetary system and the stability of certain European economies, notably Greece, Ireland, Portugal, Spain and Italy. There can be no assurance that a further economic downturn or financial crisis will not occur. The countries in which the Group operates, particularly Russia, and most of the countries in which the Group's products are sold, have experienced declining gross domestic product, reduced industrial production, increasing rates of unemployment and decreasing asset values. For example, in January 2012, Fitch Ratings Ltd. lowered



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its credit outlook for the Russian Federation from positive to stable based on perceived increased political uncertainty and the global economic outlook.

Adverse economic developments of the kind described above have negatively affected and may continue to negatively affect the Group's business in a number of ways and could have a material adverse effect on the Group's business, financial condition and result of operations, as well as the value of the Preference Shares.

**THE GROUP REFINING BUSINESS IS SUBSTANTIALLY DEPENDENT ON ITS OPERATIONS AT THE Khabarovsk Refinery**

The Group's refining business is largely dependent on the Khabarovsk Refinery, which produces substantially all of the oil products the Group sells. Refining, transportation and storage of crude oil and oil products involve significant hazards that could result in fires, explosions, spills and other unexpected or dangerous conditions or accidents. No assurance can be given that accidents on the Khabarovsk Refinery will not occur in the future. In addition, the Group occasionally needs to cease operations for maintenance purposes. Although the management of the Group believes that the Group is adequately insured and the Group aims to ensure that any interruptions are short and do not materially affect results, there can be no assurance that any interruptions will not last longer than expected or that emergency interruptions will not occur. Any such occurrence could have a material adverse effect on the Group's business, financial condition, results of operations and prospects.

**THE GROUP IS DEPENDENT ON THIRD PARTIES FOR SUPPLIES OF CRUDE OIL TO THE Khabarovsk Refinery AND THE COST AND AVAILABILITY OF SUCH SUPPLIES ARE LARGELY BEYOND THE GROUP'S CONTROL**

The Group's oil production fields are located in regions of Russia that are far from the Khabarovsk Refinery, making it impractical from a transportation costs perspective to transport all of the Group's crude oil to the refinery. The Group, hence, currently does not refine all of its crude oil through the Khabarovsk Refinery. Therefore, in order to utilize the Khabarovsk Refinery's capacity, the Group is dependent on purchases of crude oil from third party producers in Russia. Failure to secure sufficient supplies of crude oil to the Khabarovsk Refinery or an increase in the price of the Group's crude oil supplies could decrease the Group's refining margin and could have a material adverse effect on the Group's business, financial condition, results of operations and prospects.

**THE GROUP MAY BE UNABLE TO FINANCE ITS PLANNED CAPITAL EXPENDITURES OR SUCH FINANCING MAY RESTRICT ITS OPERATIONAL FLEXIBILITY**

The Group's business requires significant capital expenditures, including in exploration and development, production, transport, refining and marketing and to meet its obligations under environmental laws and regulations. The Group expects to finance these capital expenditures mainly through net cash provided by operations and debt financing. There can be no assurance, however, that the Group will be able to generate and raise sufficient funds to meet such capital requirements in the future or to do so at a reasonable cost.

If the Group is unable to raise the necessary financing, it may have to reduce planned capital expenditures, which could include the capital expenditures necessary to complete the modernisation of the Khabarovsk Refinery, which could materially and adversely affect its business, results of operations (through penalties and capitalised costs write off in the near future as well as a lower margin after the modernisation completion date), financial condition and prospects.

Additionally, some of the Group's financing documents contain cross default clauses, which, in the event of a default under a single facility, could lead to a default under other credit facilities and, potentially, to acceleration of the Group's obligations to repay all or a significant part of the debt, which could have a material adverse effect on the Group's business, financial condition, results of operations and prospects.

**THE GROUP IS DEPENDENT ON A FEW ALTERNATIVES ON TRANSPORTING CRUDE OIL AND OIL PRODUCTS AND HAS NO CONTROL OVER ITS TRANSPORTATION INFRASTRUCTURE OR FEES**

The Group depends on a few transport providers of crude oil and oil products. The Russian Ministry of Energy, based on information provided by Transneft (a state-owned oil pipeline monopoly) and oil

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producers, allocates access to Transneft's pipeline network and sea terminal capacity to oil producers on a quarterly basis, generally in proportion to the amount of crude oil produced and delivered by Transneft's pipeline network in the prior quarter.

The Group also uses its rail and water transshipment oil terminal in Vladivostok to transship its oil products. Operations at the Vladivostok oil terminal may be adversely affected as a result of hazards inherent in transshipment of oil products which may cause unexpected or dangerous conditions or accidents. Operations at the Vladivostok oil terminal may also be adversely affected by climat conditions.

Any one of these factors could materially adversely affect the Group's business, financial condition, results of operations and prospects.

#### **INCREASE OF EXPORT DUTIES MAY ADVERSELY AFFECT THE GROUP'S BUSINESS AND OPERATIONS.**

On 1 October 2011, the first stage of a new tax regime for the Russian oil industry took effect (the "60-66 Amendments"). Although, the 60-66 Amendments reduced the marginal export duty rate on crude oil from 65 percent to 60 percent these amendments unified export duties for light and dark oil products at 66 percent of the export duty on crude oil. This resulted, *inter alia*, in an increase of the export duty on fuel oil from 46.7 percent to 66 percent. Further tax amendments aimed at improving the profitability of upstream operations while incentivising Russian oil companies to invest in upgrading their refineries are expected to be passed in the future, and there can be no assurance that such further amendments will positively affect the Group. The Group has no control over changes to Russian customs law and other relevant regulations. The Russian Government may institute changes in export duties in an attempt to promote macroeconomic goals, while at the same time altering profitability dynamics of the Group's operations negatively, including in ways that could have a material adverse effect on the Group's business, financial condition or prospects and results of operations.

#### **THE GROUP'S LICENSES, PERMITS AND CONTRACTS, INCLUDING LICENSES FOR EXPLORATION AND PRODUCTION, MAY BE SUSPENDED, AMENDED OR TERMINATED PRIOR TO THE END OF THEIR TERMS, AND THE GROUP MAY BE UNABLE TO OBTAIN OR MAINTAIN NECESSARY PERMITS AND AUTHORISATIONS**

The Group must obtain and maintain licenses, including licenses for certain types of operations (such as exploitation of hazardous facilities) as well as licenses for exploration and production, permits, authorisations, land use rights and approvals under Russian law and regulations to develop its oil and gas fields. Failure to do so may lead to significant adverse effects for the Group, including the suspension of operations or liquidation of the Company's subsidiaries as well as the premature termination of its exploration and production licenses or criminal responsibility for the Group's personnel. Any operations without the required licenses or permits and any suspension, restriction or termination of the Group's licenses or contracts could lead to significant losses, increased expenses and costs which could have a material adverse effect on the Group's business, financial condition, results of operations and prospects.

The production license for the Kolvinskoye oil field expires in October 2013, whereas the production license for the Khvoynoye oil field expires in 2014. Additionally, the exploration licenses for Pushkarikhinskiy and Cheremushskiy oil fields expire in December 2013. Russian law does not provide for an automatic extension of a subsoil license. However, it allows the holder of the license to apply for an extension provided that the holder has complied with the terms of the license. The Group is currently working on the extension of the Kolvinskoye, Pushkarikhinskiy and Cheremushskiy licences and will be applying for the extension of the Khvoynoye license pursuant to current legislation. However, there is no assurance that the licenses will be extended.

#### **STRATEGIC PLOTS**

There are certain restrictions on the ability of Foreign Investors (as defined in the Federal Act No. 57-FZ dated April 29, 2008 "On the Procedure for Making Foreign Investments in Business Entities of Strategic Significance for the National Defence and Security of the Russian Federation", as amended (the "Strategic Investment Act")) to acquire control over Russian companies developing the Strategic Plots (as defined below) or to operate such plots. The legal regime of Strategic Plots is established by the Russian Federal Act No. 2395-1 "On Subsoil" dated 21 February 1992, as amended (the "Subsoil Act") and the Strategic Investment Act, which regulate the control and operation of such plots

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involving certain restrictions on transfers and acquisitions of subsoil rights to Strategic Plots as well as other legal restrictions.

Under the Subsoil Act, Russian hydrocarbon subsoil plots of federal significance ("Strategic Plots") may be licensed only to legal entities established in Russia. Further, the Russian Government, in its own discretion, may also impose restrictions on the ability of a Russian entity that is under direct or indirect control of a non-Russian investor or that has a non-Russian shareholder to participate in an auction or tender for a subsoil license to use a Strategic Plot.

Consequently, all new Strategic Plots that may be discovered by Group under its exploration licenses will be subject to the aforementioned provisions of the Subsoil Act. In addition, the Group's combined exploration and production licenses under which Strategic Plots may be discovered will be subject to these restrictions as well. If an issuance of a production license or an exploration and production license is denied, or a combined exploration and production license is terminated under the restrictions imposed by the Subsoil Act, this could have a material adverse effect on the Group's business, financial condition, results of operations and prospects.

**CRUDE OIL RESERVES DATA ARE ONLY ESTIMATES AND ARE INHERENTLY UNCERTAIN, AND THE ACTUAL SIZE OF DEPOSITS MAY DIFFER MATERIALLY FROM THESE ESTIMATES**

The crude oil reserves data set forth in this Prospectus is estimated based primarily on internal engineering data that has been sourced and then independently verified by an independent reservoir engineer.

Petroleum engineering is a subjective process of estimating underground accumulations of crude oil that cannot be measured in an exact manner. Estimates of the value and quantity of economically recoverable crude oil reserves, rates of production, net present value of future cash flows and the timing of development expenditures necessarily depend upon several variables and assumptions including but not limited to (i) historical production from the area compared with production from other comparable producing areas, (ii) interpretation of geological and geophysical data, (iii) assumed effects of regulations adopted by governmental agencies and (iv) capital expenditures.

Because all reserves estimates are subjective, the quantities and qualities of crude oil, the production and operating costs incurred and the amount and timing of additional exploration and future development expenditures may differ materially from those assumed in estimating the Group's reserves.

Published reserves estimates may also be subject to correction due to the application of published rules and guidance. The Group's crude oil reserves are currently annually audited by DeGolyer and McNaughton ("D&M") in accordance with the standards of the Petroleum Resources Management System as prepared by the Oil and Gas Reserves Committee of the Society of Petroleum Engineers, Inc. ("PRMS"). PRMS standards take into account not only the probability that hydrocarbons are physically present in a given geological formation but also the economic viability of recovering the reserves.

Should the actual size of deposits differ materially from the estimates, it could have a material adverse effect on the Group's business, financial condition, results of operations and prospects.

**THE GROUP'S DEVELOPMENT AND EXPLORATION PROJECTS INVOLVE NUMEROUS UNCERTAINTIES AND OPERATING RISKS AND THE GROUP MAY FAIL TO YIELD COMMERCIALY PRODUCTIVE CRUDE OIL OR RESERVES**

The Group's decision to undertake an exploration or development project depends upon a number of factors, including availability and cost of capital, current and projected oil prices, receipt of government approvals, access to the property, the costs and availability of drilling rigs and other equipment supplies and personnel necessary to conduct these operations, success or failure of activities in similar areas and changes in the estimates to complete the projects. The Group's development and exploration projects may be delayed or unsuccessful for many reasons, including cost overruns, lower oil prices, equipment shortages and mechanical difficulties.

Oil exploration may involve unprofitable efforts both from dry wells and from wells that are productive but do not produce sufficient net revenues to return a profit after drilling, operating and other costs. Completion of a well does not assure a profit on the investment or recovery of drilling, completion and operating costs. The cost of drilling, completing and operating wells is often uncertain. As a result, the

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Group may incur cost overruns or may be required to curtail, delay or cancel drilling operations because of many factors, including unexpected drilling conditions, pressure or irregularities in geological formations, equipment failures or accidents, adverse weather conditions, compliance with environmental regulations, governmental requirements and shortages or delays in the availability of drilling rigs and the delivery of equipment. In particular, a significant portion of the Group's exploration and development projects may involve production from challenging reservoirs.

In addition, a shortage of power could affect production growth. There is a regional lack of sufficient power-generating capabilities to meet the growing demand for extra power from a wide range of oil producers in Western Siberia.

Any one of the above factors could materially adversely affect the Group's business, financial condition, results of operations and prospects.

### **THE GROUP OPERATES IN HIGHLY COMPETITIVE BUSINESSES**

The oil and gas industry in Russia is highly competitive. In refining, the Group competes primarily with the Komsomolsk oil refinery owned by Rosneft.

Given that other Russian oil and gas companies, as well as foreign oil and gas companies, are permitted to compete for licenses and to offer services in Russia, while the quantity of unexploited and unallocated oil and gas reserves is limited, the Group may face a further increase of competition on the Russian oil and gas market.

The Group's principal competitors in the oil products retail sector include other leading Russian oil companies, such as Rosneft and Vostokneft where Rosneft is larger than the Group.

Further, the retail sale of petroleum and non-fuel goods in Russia through filling stations is highly competitive and changing demographics and consumer preferences in individual geographic locations may greatly impact the operations of filling stations in those locations. The Group's business strategy depends in part on its ability to compete by assessing locations and successfully opening filling stations in new locations or remodelling existing filling stations to add facilities for non-fuel sales, such as shops and car wash facilities.

As a result of these influences and other factors, the Group expects that competition will continue to intensify. Any failure by the Group to compete effectively could materially and adversely affect the Group's business, financial condition, results of operations.

### **THE GROUP MAY INCUR MATERIAL COSTS TO COMPLY WITH, OR AS A RESULT OF, HEALTH, SAFETY AND ENVIRONMENTAL LAWS AND REGULATIONS**

The Group incurs, and expects to continue to incur, substantial capital and operating costs in order to comply with increasingly complex health, safety and environmental laws and regulations. See "*Legal matters and miscellaneous information — Health, safety and environment*".

New laws and regulations, the imposition of tougher license requirements, stricter enforcement of, or new interpretations of, existing laws, regulations and licenses, or the discovery of previously made contamination may require further expenditures to modify operations, install pollution control equipment, perform site clean-ups or payment of fees, fines or other charges for pollution, discharges or other breaches of environmental requirements.

Compliance with new and existing requirements may be costly and time consuming and may result in delays in the commencement or continuation of the Group's operations. Moreover, any failure by the Group to comply with such requirements may result in the imposition of sanctions, including civil and administrative penalties, upon the Company and criminal and administrative penalties applicable to officers of the Company. There can be no assurance that the Group will be able to comply with new requirements and, as a result, the Group may be required to cease certain of its business activities and/or to remedy past infringements. Any such decisions, requirements or sanctions may restrict the Group's ability to conduct its operations or to do so profitably, which could have a material adverse effect on the Group's business, financial condition, results of operations and prospects.

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## **THE BAZHAEV FAMILY OWNS A SIGNIFICANT STAKE IN THE GROUP AND ITS INTERESTS MAY CONFLICT WITH THOSE OF OTHER SHAREHOLDERS**

Mr. Musa Yusupovich Bazhaev, Mr. Mavlit Yusupovich Bazhaev and Mr. Deni Ziyaudinovich Bazhaev (together, the "Bazhaev Family") control a significant stake interest in the Company via various companies. As of the date of this Prospectus, the Bazhaev Family's significant stake amounts to approximately 44.2 percent. As a result of its significant interest, the Bazhaev Family has the ability to influence the Group's operations through its ownership and its representation on the Board of Directors. The Bazhaev Family may cause the Group to take actions that may be contrary to the interests of other shareholders. Any such conflict could have a material adverse effect on the Group's business, financial condition, results of operations and prospects and may also have a negative impact on other shareholders' interests.

## **THE GROUP DOES NOT CARRY INSURANCE AGAINST ALL POTENTIAL RISKS AND LOSSES AND ITS INSURANCE MIGHT BE INADEQUATE TO COVER ALL OF ITS LOSSES OR LIABILITIES**

The market for insurance in Russia is relatively undeveloped and, accordingly, the available local coverage is relatively limited and may be offered by companies with poor claims-paying ability. The Group's insurance policies cover expenses and losses that may arise in connection with property damage, work related accidents, business interruption for refining and occupational disease, environmental damages and natural disasters. However, in Russia, many types of insurance protection used in more economically developed countries are unavailable on terms common in such countries. As a result, losses or liabilities arising from damages not covered by the Group's insurances could increase the Group's costs and could materially adversely affect its business, financial condition, results of operations and prospects. Furthermore, the Group has no insurance coverage for loss of profits or other losses caused by the death or incapacitation of the Group's senior management that would normally be held by similar companies in Western countries. Accordingly, losses or liabilities arising from such events could increase the Group's costs and could materially adversely affect its business, financial condition, results of operations and prospects.

## **THE GROUP DEPENDS ON GROUP SENIOR MANAGEMENT AND OTHER KEY PERSONNEL**

The Group depends on the continued services and performance of its senior management (please see "Board of Directors, senior management and auditors") and other key personnel. If it loses the services of its senior management or if any of its other executive officers or key employees should cease to take an active role in managing its affairs, the Group may not be able to operate its business as effectively as it anticipates and its operating results may suffer. In particular, the Group is heavily dependent upon Mr. Arsen Idrisov (Managing Director), Ms. Angelika Adieva (Chief Financial Officer), Mr. Yevgeny Vorobeichik (Chief Operating Officer), Mr. Sergey Brezitsky (CEO Upstream) and Mr. Alexander Sutyagin (CEO Downstream) and certain other key managers. The Group cannot assure that their services, or those of other key managers, will continue to be available to the Group, or that, if their services were lost to the Group, they could be replaced with comparable quality personnel. Accordingly, the loss of any one of these individuals could materially adversely affect its business, results of operations, financial condition and prospects.

## **THE GROUP'S BUSINESS REQUIRES HIGHLY SKILLED PERSONNEL**

Many of the Group's facilities and operations require highly skilled personnel. In certain regions, such as the Khabarovsk region, there may be a limited supply of such personnel and there is intense competition to attract and retain the services of such persons. As a result, the Group may face shortages of qualified labour to manage and operate its facilities or an inability to monitor, motivate and retain qualified personnel, failings which could decrease productivity in its operations. Competition for skilled employees could require the Group to pay higher wages, which could also result in higher labour costs. Local government initiatives to manage labour conditions, including wage controls, may affect the Group's ability to attract qualified labour and increase its labour costs. The Group may also be forced to modernise production in order to reduce its dependence on its labour force. In case the Group is unable to attract and retain highly skilled personnel or have to incur additional costs to attract or retain such personnel, it could have a material adverse effect on the Group's business, results of operations, financial condition and prospects.

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## **FINANCIAL RISKS**

### **COMMODITY PRICE RISK**

The Group's current or future earnings may be adversely impacted by changes in world market crude oil prices and oil product prices. A decline in crude oil and oil products prices may result in a decrease in profit and negatively affect cash flows.

### **FOREIGN CURRENCY RISK**

The Group undertakes certain transactions denominated in foreign currencies, including the contemplated dividend payments in SEK to the holders of Preference Shares, which will be accounted for in USD. Further, the proceeds from the New Share Issuance will be paid in SEK but accounted for in USD. Historically, during 2001 to 2007 the ruble appreciated each year in relation to the U.S. dollar. However, during the last year the ruble has been subject to significant depreciation against the U.S. dollar. The Russian Government and the Central Bank of Russia's ability to prevent further depreciation of the ruble against the major currencies depends on many political and economic factors, including their ability to control inflation and the availability of foreign currency reserves.

A resumption in weakness of the ruble against the U.S. dollar and other major currencies could negatively affect the Group in a number of ways, including, *inter alia*, by increasing the actual cost to the Group of financing its foreign currency-denominated liabilities and by making it more difficult for Russian borrowers to service their foreign currency-denominated loans. A further depreciation of the ruble against the U.S. dollar as well as currency fluctuations in relation to the SEK dividend payments could have a material adverse effect on the Group's business, financial condition, results of operations and prospects.

### **INTEREST RATE RISK**

The Group is exposed to interest rate risk as Group entities borrow a portion of funds at floating interest rates. At 31 December 2011 and 2010, 24 percent and 30 percent, respectively, of the Group's borrowings were at floating interest rates. As a result of interest rate mismatches between the Group's assets and its liabilities, there is an exposure to interest rate risk and such movements may have an adverse effect on the Group's net income.

### **CREDIT RISK**

The Group has adopted a policy of only dealing with creditworthy counterparties. The Group takes into account all available quantitative and qualitative information and its own trading records to mitigate the risk of financial loss from defaults. Nevertheless, a customer may default or not meet its obligations to the Group on a timely basis, involving financial losses. Credit risk of the Group arises from cash, cash equivalents and restricted cash, loans and receivables and other financial assets, and has maximum exposure equal to the carrying value of these instruments. In addition, the Group is exposed to credit risk in relation to investments in loans. The counterparty's business activities, financial resources and business risk management processes are taken into account in the assessment of their respective creditworthiness. In case customers become subject to default or do not meet their obligations in relation to the Group, it could have a material adverse effect on the Group's financial condition and results of operations.

### **LIQUIDITY RISK**

The net cash flow position of the Group is monitored on a frequent basis by the central treasury function with weekly cash movements and cash balances being reported to the Group's management. Significant part of crude oil and oil products sale contracts is executed on advance basis and the Group believes that its management of the liquidity risks, which includes maintaining and monitoring its cash and liquid securities portfolio is sufficient to meet current demands. However, a deterioration of the Russian economy, an inability to access alternative sources of funds in the international capital market and bank loans may have a material adverse effect on the Group's business, results of operations or financial condition.

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## Risk related to business operations in emerging markets

### **EMERGING MARKETS SUCH AS THE RUSSIAN FEDERATION AND KAZAKHSTAN ARE SUBJECT TO GREATER RISKS THAN MORE DEVELOPED MARKETS**

Generally, investments in emerging markets are only suitable for sophisticated investors who fully appreciate the significance of the risks involved in, and are familiar with, investing in emerging markets. Investors should also note that emerging markets such as the Russian Federation and Kazakhstan are subject to rapid change and that the information set out in this Prospectus may become outdated relatively quickly. Moreover, financial turmoil in any emerging market country tends to adversely affect prices in debt and equity markets of other emerging market countries, as investors move their money to more stable, developed markets. Financial problems or an increase in the perceived risks associated with investing in emerging economies could dampen foreign investments in the Russian Federation and Kazakhstan, and adversely affect their economies. In addition, during crises, companies operating in emerging markets can face particularly severe liquidity constraints as foreign funding sources are withdrawn.

## Risks relating to the countries in which the Group operates

The Group is a vertically integrated oil company and substantially all of its assets are located in, and a significant portion of its revenues are derived from, the Russian Federation. Set out below is a description of some of the material risks relevant to an investment linked to a business operating in the Russian Federation.

### **POLITICAL AND ECONOMIC RISKS**

#### **POLITICAL AND GOVERNMENTAL INSTABILITY IN THE RUSSIAN FEDERATION MAY HAVE A MATERIAL ADVERSE EFFECT ON THE GROUP'S BUSINESS, RESULTS OF OPERATIONS, FINANCIAL CONDITION AND PROSPECTS**

Shifts in governmental policy and regulation in the Russian Federation are less predictable than in many Western democracies and could disrupt or reverse political, economic and regulatory reforms. Any significant change in the government's program of reform in Russia could lead to a deterioration in Russia's investment climate that might limit the ability of the Group to obtain financing in the international capital markets or otherwise have a material adverse effect on its business, financial condition, results of operations and prospects.

In addition, actions of the Russian legislative, executive and judicial authorities may affect the Russian securities market. In particular, the events surrounding claims brought by the Russian authorities against several major Russian and foreign companies have raised questions regarding the actual progress of market and political reforms in Russia and have resulted in significant fluctuations in the market price of Russian securities and a negative impact on foreign direct and portfolio investments in the Russian economy. Any further similar actions by Russian authorities that result in a negative effect on investors' confidence in Russia's business or legal environment could have a material adverse effect on the Russian securities market and prices of Russian securities or securities issued or backed by Russian entities.

#### **RUSSIA'S PHYSICAL INFRASTRUCTURE IS IN POOR CONDITION, WHICH COULD DISRUPT NORMAL BUSINESS ACTIVITY**

Russia's physical infrastructure is in poor condition and largely dates back to the Soviet era. It has not been adequately funded and maintained over the past decade and may cause disruptions in normal business activities. Particularly affected are pipeline, rail and road networks, power generation, transmission systems and communication systems. There is uncertainty in the current economic environment as to the extent infrastructure reform programs will be realised. Such reforms, if realised, are likely to result in increased charges and tariffs, but may fail to generate the anticipated capital investments needed to repair, maintain and improve these systems. The continued deterioration of Russia's physical infrastructure may harm the national economy, disrupt the transportation of goods and supplies, increase the costs of doing business in the Russian Federation and may interrupt business operations, any of which could have a material adverse effect on the Group's business, results of operations, financial condition and prospects.

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## LEGAL RISKS

### **WEAKNESSES RELATED TO THE RUSSIAN LEGAL SYSTEM AND RUSSIAN LEGISLATION, INCLUDING CHANGES IN RUSSIAN LAW AND REGULATIONS AND UNLAWFUL OR ARBITRARY GOVERNMENT ACTIONS, COULD HAVE A MATERIAL ADVERSE EFFECT ON THE GROUP'S BUSINESS, FINANCIAL CONDITION, RESULTS OF OPERATIONS AND PROSPECTS**

The Russian Federation is still developing an adequate legal framework to facilitate the proper functioning of a market economy. Several fundamental Russian laws have only recently become effective and are constantly being amended. The recent nature of much of Russian legislation and the rapid evolution of the Russian legal system place the enforceability and underlying constitutionality of laws in doubt, resulting in ambiguities and inconsistencies in their application.

The independence of the judicial system and its immunity from economic, political and nationalistic influences in the Russian Federation remains largely untested. The court system is understaffed and underfunded. Judges and courts in the Russian Federation are generally inexperienced in business and corporate law. In addition, most court decisions are not readily available to the public. Enforcement of court judgments can, in practice, be very difficult in the Russian Federation. All of these factors make judicial decisions in the Russian Federation difficult to predict and effective redress uncertain. Court claims are often used to further political aims. The Group may be subject to such claims and may not be able to receive a fair hearing. In addition, court judgments are not always enforced or followed by law enforcement agencies.

In addition, the Russian legal system and the body of laws on private enterprises continue to experience frequent changes, including unlawful or arbitrary state actions in respect of withdrawal of exploration and production licenses and other permits, sudden and unexpected tax audits, criminal prosecutions and civil actions. There can be no assurance that the legislature, federal or local regulators, or the President will not issue new edicts, decrees, laws or regulations adversely affecting the Group's business and unlawful or arbitrary state action, if directed at the Group, could have a material adverse effect on its business, financial condition, results of operations and prospects.

### **THE RUSSIAN TAXATION SYSTEM IS RELATIVELY UNDEVELOPED**

The discussion below provides general information regarding Russian taxes and is not intended to be inclusive of all issues. Investors should seek advice from their own tax advisors as to these tax matters before investing in Preference Shares. See also "*Tax issues in Sweden*".

Russian companies are subject to a range of taxes and other compulsory payments imposed at the federal, regional and local levels, including, but not limited to, profits tax, export duties, VAT, mineral extraction tax, property tax and social contributions. Tax laws, such as the Russian Tax Code have been in force for a short period relative to tax laws in more developed market economies and there are few precedents available. The implementation of these tax laws is often unclear or inconsistent both at the level of the Russian tax authorities and the Russian courts, resulting in continuous and contradictory changes to the interpretation of existing laws. Although the quality of Russian tax legislation has generally improved with the introduction of the Russian Tax Code which itself has been subject to frequent amendments, the possibility exists that Russia may impose arbitrary or onerous taxes (including an increase in tax rates) and penalties in the future or introduce new or expand existing anti-abuse tax concepts.

In 2006, a new judicial practice was adopted with respect to "unjustified tax benefits". The tax authorities and courts often exercise significant discretion in interpreting this concept in a manner that is unfavourable to taxpayers and it has often been used to impose additional liabilities on taxpayers and reject taxpayers' right to rely on the letter of the tax law.

Over recent years, the mineral extraction tax rate has been gradually increased by introducing a higher fixed base rate (currently RUR 446 per ton of crude oil; RUR 470 as of 1 January 2013) which is further multiplied on coefficients which fluctuate based on the international market price of Urals blend crude oil and the ruble to the U.S. Dollar exchange rate. There can be no assurance that the Russian Tax Code or a practice of application of its provisions will not be changed in the future (including with retroactive effect) in a manner adverse to the stability and predictability of the tax system. These factors, together with potential state budget deficits, increase the risk of the imposition of additional taxes on the Group. There can be no assurance that the Group will not be required to make



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substantially larger tax payments in the future, which may adversely affect its financial results. In addition to creating a substantial tax burden, these risks and uncertainties complicate the Group's tax planning and related business decisions, potentially exposing it and its Russian subsidiaries to significant fines and penalties and enforcement measures.

New Russian transfer pricing legislation came into effect on 1 January 2012. Although largely based on the OECD transfer pricing guidelines, they can apply to a wider number of transactions beyond just related parties and can apply to domestic transactions and impose onerous new reporting and documentation requirements and penalties. Currently, the new transfer pricing rules may be subject to arbitrary interpretation by the Russian tax authorities. There are neither any official clarifications nor established administrative and court practices of how to apply the new transfer pricing rules. Adoption of the new transfer pricing rules may expose the Group to significant fines and penalties and enforcement measures and could have a material adverse effect on the Group's business, financial condition and prospects, and the trading price of the Preference Shares.

The Company, Vostok Oil Limited and certain other companies of the Group may be deemed to have a permanent establishment subject to tax in Russia because most of the Group's assets are located in Russia and some senior managers of these foreign companies reside in Russia and are employed by a Russian management company of the Group, which could reduce the tax efficiency of the Group's structure.

Certain operating companies of the Group enjoy preferential tax treatment with respect to the Russian mineral extraction tax that is applicable to crude oil extraction in Russia and with respect to profit tax and property tax as a result of applying regional tax allowances.

The value of these preferential tax items to the Group varies from period to period dependent on how much crude oil each field produces, the variable calculations of the mineral extraction tax as prescribed by Russian law, the Company's operating subsidiaries' profits and the value of the property to which the property tax reduction applies, as well as on other criteria (e.g. location of an oil field, crude oil quality, performance of investment programs approved by the regional authorities etc.). The Group considers these benefits to be material to the Group's profitability and cash flows.

There is a risk that the preferential tax treatment with respect to the taxes that the Group benefits from are changed or is abolished (e.g. by amendments to Russian legislation, adoption of new regulations by the Russian tax authorities) in such way that the relevant operating subsidiaries become subject to higher tax rates.

Each of the above circumstances could have a material adverse effect on the Group's business, financial condition, results of operations and prospects.

#### **A NUMBER OF THE COMPANY'S SUBSIDIARIES ARE OFFICIALLY REGISTERED AS MARKET DOMINATING COMPANIES**

In Russia, companies having a market share of more than 35 percent in a relevant market segment are considered to be market dominating and such companies are, across a large number of industry sectors, included in a special register maintained by Russia's antimonopoly authorities.

Similar to EU competition rules, there exists a general prohibition for market dominating companies to abuse their dominating position. This means that market dominating companies are subject to special regulations and certain restrictions thereby apply.

The level of market dominance of some of the Company's material subsidiaries, in particular Khabarovsknefteprodukt and Amurnefteprodukt, at certain markets exceed 35, 55 and 65 percent. In such cases, the special regulations and restrictions becomes applicable which may restrain the Group's business manoeuvrability.

In addition, Khabarovsknefteprodukt, has been sanctioned by the Russian antimonopoly authority for abuse of its dominant position and for concerted actions. Administrative fines have been imposed on Khabarovsknefteprodukt in 2012 and further abuse of its dominant position (or acting in concert) may lead to fines amounting up to 15 percent of the company's turnover in the relevant market.

In case Khabarovsknefteprodukt is imposed with additional fines, it could have a material adverse effect on the Group's business, financial condition, results of operations.

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**CERTAIN TRANSACTIONS BETWEEN THE GROUP AND INTERESTED PARTIES REQUIRE THE APPROVAL OF DISINTERESTED DIRECTORS OR SHAREHOLDERS AND THE GROUP'S FAILURE TO OBTAIN APPROVALS COULD RESULT IN THE INVALIDATION OF THESE TRANSACTIONS**

The Group owns less than 100 percent of the shares in some of its subsidiaries, including, in particular, OJSC Khabarovsk Oil Refinery, Tatnefteotdacha, Amurnefteprodukt and Khabarovsknefteprodukt. Some of the Group's subsidiaries have in the past carried out, and continue to carry out, transactions with other subsidiaries and affiliates, which may be considered "interested party transactions" under Russian law, requiring approval by disinterested directors, disinterested independent directors or disinterested shareholders. The provisions of Russian law defining which transactions must be approved as "interested party transactions" are subject to different interpretations.

Although the minority shareholders of the Company's subsidiaries have never initiated, or participated in, any lawsuit against the Group, under Russian law, minority shareholders may file claims against the Group to invalidate certain corporate decisions or transactions if they were made in violation of the Russian law requirements. There can be no assurance that the Group's application of these concepts will not be subject to challenge by former and current shareholders. Any such challenges, if successful, could result in the invalidation of transactions, which could have a material adverse effect on the Group's business, financial condition, results of operations and prospects.

**ENFORCEABILITY OF JUDGMENTS**

Judgments rendered by a court in any jurisdiction outside the Russian Federation will be recognised by courts in Russia only if an international treaty providing for the recognition and enforcement of judgments in civil cases exists between the Russian Federation and the country where the judgment is rendered. Such treaties do not exist between the Russian Federation and many foreign countries. Consequently, judgments against Russian companies of the Group and their officers or directors predicated upon the civil liability provisions of foreign securities laws, may not be enforced against such companies of the Group and such persons in the courts of the Russian Federation without re-examination of the issues by a court in the Russian Federation whether they are brought in original actions or in actions to enforce judgments. Moreover, a court of the Russian Federation may refuse or limit enforcement of a foreign judgment, *inter alia*, on public policy grounds.

**THE GROUP'S OWNERSHIP IN ITS PRIVATISED COMPANIES MAY BE CHALLENGED AND, IF THESE CHALLENGES ARE SUCCESSFUL, THE GROUP COULD LOSE ITS OWNERSHIP INTERESTS IN THESE COMPANIES OR THEIR ASSETS**

The Group's business includes a number of privatised companies, and the Group's business strategy may involve the acquisition of additional privatised companies. Many Russian privatisations are arguably deficient and, therefore, vulnerable to challenge because the relevant privatisation legislation is vague, inconsistent or in conflict with other legislation. The key operating companies of the Group were established in the early 1990s and before the acquisition by the Group there was a series of transactions with the shares in the companies. Therefore, the history of issuance and transfers of the shares in the key companies is not transparent. Thus, it cannot be excluded that the Group's title to the shares may be challenged based on historical grounds, for example due to actual or alleged deficiencies in the formation of the companies, payment of the charter capital or a defect in any previous share transfer.

**A BERMUDA COURT MAY DISREGARD BYE-LAWS MODELLED ON SWEDISH COMPANY LAW OR JURISDICTION OF SWEDISH COURTS**

The Bye-Laws of the Company provide that a number of key provisions of the Bye-Laws are modelled on Swedish company law and that those provisions shall be construed in accordance with Swedish law (taking into account the provisions of the Swedish Companies Act and relevant case law and sources of law). It is not certain that a Bermuda Court would apply Swedish law to the construction of the Bye-Laws of a Bermuda company, notwithstanding such a Bye-Law. The Bye-Laws of the Company also provide that any dispute, controversy or claim between the Company and any director or shareholder or between any director and any shareholder shall be finally settled by the Stockholm City Court in accordance with the Swedish Code of Judicial Procedure. It is likely that a Bermuda Court would assume jurisdiction in relation to a Bermuda company, notwithstanding such a Bye-Law.

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## **SOCIAL RISKS**

### **CRIME, CORRUPTION AND SOCIAL INSTABILITY COULD DISRUPT THE GROUP'S ABILITY TO CONDUCT BUSINESS AND COULD MATERIALLY ADVERSELY AFFECT ITS BUSINESS, FINANCIAL CONDITION, RESULTS OF OPERATIONS AND PROSPECTS**

Levels of organised criminal activity continue to be significant in Russia. The Russian and international press have reported high levels of corruption in the Russian Federation, including the bribing of officials for the purpose of initiating investigations by government agencies. The Group's business, financial condition, results of operation and prospects could be materially adversely affected by illegal activities, corruption or by claims implicating the Group in illegal activities.

## **Risks related to the Preference Shares and the New Share Issuance**

### **PREFERENCE SHARES MAY BE DE-LISTED IN THE FUTURE**

The Company has filed an application for admission to trading of the Preference Shares represented by SDRs on NASDAQ OMX Stockholm. NASDAQ OMX Stockholm applies a set of regulations including *inter alia* provisions that there must be sufficient availability and demand for an issuer's shares to achieve a functional price formation mechanism. These provisions imply that a sufficient number of the issuer's shares must be held by the general public and that an issuer must have a sufficient number of shareholders. This requirement is considered fulfilled if 25 percent of the shares of a series are held by the general public. A share is considered held by the general public if held by a person who directly or indirectly holds less than 10 percent of the shares and votes of the issuer. Under normal circumstances, the requirement regarding minimum number of shareholders is considered fulfilled where the issuer has not less than 500 shareholders and each shareholder holds shares of a value of approximately EUR 1,000 in total. Unless these requirements are met and the conditions for a liquid and well-functioning trade are considered fulfilled, the New Share Issuance will not be carried out. It cannot be guaranteed that these requirements will be fulfilled in the future, and it therefore cannot be guaranteed that the Preference Shares will remain listed on NASDAQ OMX Stockholm.

### **THE LIQUIDITY OF PREFERENCE SHARES MAY BE LOW AND THE TRADING PRICE MAY FLUCTUATE**

The SDRs with the underlying Preference Shares are new, not previously listed instruments. Low liquidity in the SDRs may make it difficult for a holder to dispose of the SDRs at a time desired by the holder, or at price levels that would prevail had the liquidity been high. It cannot be guaranteed that the SDRs with the underlying Preference Shares will have high liquidity.

The trading price may fluctuate as a consequence of the capital market's view of Preference Shares or similar securities, or as a consequence of various circumstances and events including changes of laws and other regulations which have an effect on the Company's operations, or changes in the Group's financial result and business development. Stock markets may from time to time fluctuate materially with respect to price and volume and such fluctuations are not necessarily related to the Company's operations or prospects. Furthermore, the Company's financial result and prospects may from time to time fail to meet the expectations of capital markets, analysts and investors. Any of these factors may result in the trading price of the Preference Share falling below the Subscription Price.

### **DIVIDEND ON PREFERENCE SHARES CANNOT BE GUARANTEED**

According to the Company's Bye-Laws subject to approval, Preference Shares entitle holders to an annual dividend and have priority over dividends on Ordinary Shares, please see "Bye-Laws". According to the Bye-Laws, the general meeting is to resolve on dividend by simple majority. Holders of Preference Shares have limited influence over such resolutions, as each Preference Share carries one tenth (1/10) of a vote, whereas each Ordinary Share carries one vote. Holders of Ordinary Shares have not undertaken to vote in favour of dividends. Consequently, it cannot be guaranteed that the general meeting of the Company will resolve on dividends to holders of Preference Shares.

Dividend payments may only be made where such appears to be justified taking into consideration the demands with respect to size of shareholders' equity which are imposed by the nature, scope and risks associated with the operations of the Company and the Group, and the Company's and the Group's need to strengthen its balance sheet, liquidity and financial position in general. Future dividend payments and the amount of dividend payments are therefore dependent *inter alia* on the

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Company's future operations and results. A variety of risks may have an adverse effect on the Company's future operations and it cannot be guaranteed that the Company will be able to achieve results which enable dividend payments to be made to Preference Shares in the future.

**HOLDING COMPANY STRUCTURE AND DEPENDENCE ON SUBSIDIARIES**

The Company's ability to make dividend payments to Preference Shares will depend upon the level of distributions, interest payments and loan repayments, if any, received from the Company's operating subsidiaries and associated undertakings, any amounts received on disposals of assets and equity holdings and the level of cash balances.

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## Offering to subscribe for Preference Shares represented by SDRs in Alliance Oil

On 28 November 2012, the Board of Directors proposed that the special general meeting on 14 December 2012 resolves to amend the Company's Bye-Laws and authorises the Board of Directors to resolve to offer a minimum of 2.7 million and a maximum of 5.3 million Preference Shares, represented by SDRs, at a subscription price of SEK 250 – 300 per Preference Share. The price will be determined in a book building process with institutional investors and announced by the Company on 17 December 2012. If the minimum amount of 2.7 million Preference Shares are subscribed for, the Company will receive issuance proceeds of SEK 675 million – 810 million in total before deduction of the costs for the Offering amounting to approximately SEK 17 million – 22 million.

The Preference Shares entitle holders to an annual dividend of SEK 30 per Preference Share, paid quarterly with SEK 7.50 per Preference Share, and have priority over dividends on Ordinary Shares.

The New Share Issuance is, with deviation from the Company's shareholders' preferential rights, directed to Swedish and international institutional investors as well as the general public in Sweden, including the Company's existing shareholders, holders of convertible bonds and interest bearing bonds. The reason for the deviation from the shareholders' preferential rights is to enable the Company to attract institutional investors, who are expected to be particularly interested in the Preference Shares' characteristics, while at the same time being able to offer shareholders, including holders of convertible bonds, interest bearing bonds and the general public the opportunity to subscribe for Preference Shares represented by SDRs, and to seek to enable a well-functioning, regular and liquid trade on NASDAQ OMX Stockholm.

If the New Share Issuance is carried out, the number of shares in the Company will increase by 2.7 – 5.3 million shares to 174.3 – 176.8 million shares corresponding to a dilution effect of 1.6 – 3.1 percent of the capital and 0.2 – 0.3 percent of the votes.

In case of over-subscription in the Offering, holders of Ordinary Shares, interest bearing bonds and convertible bonds in the Company who have subscribed for Preference Shares will be given special consideration in allocations.

The Preference Shares are, according to their terms, of dividend paying character. However, the Company may at any time redeem all or part of the Preference Shares subject to a resolution by the general meeting.

The New Share Issuance will not be carried out if the Board of Directors, after having consulted Carnegie, Swedbank and NASDAQ OMX Stockholm, and after having considered NASDAQ OMX Stockholm's listing and dispersion requirements, is of the opinion that the Preference Shares cannot be listed on NASDAQ OMX Stockholm.

The subscription period runs from 3 – 14 December 2012. The Board of Directors may, in its sole discretion, decide to extend the subscription period.

Investors are hereby invited to subscribe for Preference Shares in accordance with the terms of this Prospectus.

Moscow, 30 November 2012

**Alliance Oil Company Ltd.**  
The Board of Directors

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## Background and reasons

Alliance Oil is a leading independent oil and gas company with vertically integrated operations in Russia and Kazakhstan. Following the recently announced acquisition of SN-Gazdobycha, Alliance Oil's upstream-operations have proven and probable reserves of 760 million barrels of oil equivalent<sup>1</sup>, and the Company's downstream operations include the Khabarovsk Refinery and the leading network of gas stations and wholesale oil products terminals in the Russian Far East and in the Republic of Buryatia in Russia.

In 2007, Alliance Oil's (under its previous name WSR) Ordinary Shares, represented by SDRs, were listed on NASDAQ OMX Stockholm.

In addition to its NASDAQ OMX Stockholm listed SDRs, the Company has also financed its operations with bank loans, ruble and U.S. dollar denominated bonds and U.S. dollar denominated convertible bonds. The market for preference shares in Sweden has grown and become more sophisticated during 2011 and 2012 and the Company believes that issuing Preference Shares, on terms attractive to both investors and the Company, could complement its existing financing sources well. The Preference Shares will constitute a new share class in the Company.

Through the contemplated transaction, the Company aims to raise at least SEK 675 million (equivalent to approximately USD 100 million<sup>2</sup>). The Company intends to use the proceeds for the long term funding of the recently acquired gas licenses in the Tomsk region (owned by the acquired company SN-Gazdobycha) and exploration licences in the Timano-Pechora region in Russia, as well as for general corporate purposes.

On 28 November 2012, the Board of Directors proposed that the special general meeting on 14 December 2012 resolves to amend the Company's Bye-Laws and authorises the Board of Directors to resolve to offer a minimum of 2.7 million and a maximum of 5.3 million Preference Shares, represented by SDRs, at a subscription price of SEK 250 – 300 per Preference Share. The Preference Shares, represented by SDRs are expected to be traded on NASDAQ OMX Stockholm on 28 December 2012.

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*Responsibility for the content of the Prospectus rests with the Board of Directors of Alliance Oil, consisting of Eric Forss (Chairman), Arsen E Idrisov (Managing Director) and Raymond Liefvooghe, Fred Boling, Fernando Martinez-Fresneda, Isa Bazhaev and Claes Levin. The Board of Directors hereby confirms that it has taken all reasonable care to ensure that the information contained in the Prospectus, to the best of the Board's knowledge, is in accordance with the facts and contains no omission likely to affect its overall meaning.*

Moscow, 30 November 2012

**Alliance Oil Company Ltd.**  
The Board of Directors

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<sup>1</sup> As evaluated by DeGolyer and MacNoughton under SPE standards as of 31 December 2011 and 29 February 2012.

<sup>2</sup> Based on a SEK/USD rate of 6.70

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## Alliance Oil's Preference Shares in brief

Summary of terms and conditions of the Preference Shares represented by SDRs:

### **RIGHT TO SUBSCRIBE FOR PREFERENCE SHARES REPRESENTED BY SDRS**

The New Share Issuance will, with deviation from the Company's shareholders' preferential rights, be directed to Swedish and international institutional investors as well as the general public in Sweden, including the Company's existing shareholders, holders of convertible bonds and interest bearing bonds.

### **SUBSCRIPTION PRICE**

SEK 250 – 300 per Preference Share represented by SDRs. The price will be determined in a book building process with institutional investors and announced by the Company on 17 December 2012. No commission is payable.

### **DIVIDEND**

Preference Shares entitle the holder to an annual dividend of SEK 30 per Preference Share ("Preference Distribution") and have priority over dividends on Ordinary Shares as of the time of issuance. Dividend payments are subject to resolution by the general meeting, normally the annual general meeting. Preference Distribution shall be paid quarterly to the holders of Preference Shares, in an amount of 25 percent of the Preference Distribution, corresponding to SEK 7.50 per quarter per Preference Share.

The record dates for dividend payments shall be 28 February, 31 May, 31 August and 30 November. If such a record date is not a banking day, *i.e.*, a day that is not a Saturday, Sunday or a public holiday in Sweden, the record date shall be the closest preceding banking day. Dividend payments shall be made on the third banking day after the record date. The first record date for dividend payment is expected to be 28 February 2013.

If no Preference Distribution is paid on Preference Shares with respect to any quarter, or if dividend is paid in an amount less than the Preference Distribution, the holders of Preference Shares shall, conditioned upon the general meeting resolving to pay dividend, in addition to future Preference Distribution, be entitled to receive an amount constituting the difference between what should have been paid as Preference Distribution and the actual amount paid (equally divided on each Preference Share) ("Outstanding Amount") before dividend or any other distribution is paid on Ordinary Shares. The Outstanding Amount shall be increased with an annual interest rate corresponding to fourteen (14) percent calculated from the quarterly date on which the dividend payment should have been made, where no or insufficient dividend was paid, to the date of payment. Other than as set out in this section, Preference Shares shall have no right to dividend.

No dividend or other distribution to holders of Ordinary Shares may be paid until Preference Shares have received full payment of any Preference Distribution due, plus any Outstanding Amount.

### **VOTING RIGHTS**

Each Preference Share carries one-tenth (1/10) of a vote at general meetings of the Company.

### **REDEMPTION**

The Company may at any time redeem some of or all Preference Share at a redemption price per Preference Share equal to 130 percent of the Subscription Price plus any Outstanding Amount and Additional Amount (the "Redemption Price").

"Additional Amount" means such dividend accrued for the period beginning (but excluding) on the latest record date constituting the basis for calculation of an Outstanding Amount, if applicable, and ending on (and including) the day for payment of the proceeds of the day of redemption. The number of days shall be calculated on the basis of the actual number of days in that period divided by 90.

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**LIQUIDATION**

In the event the Company becomes subject to Liquidation (as defined in the Bye-Laws), holders of Preference Shares shall have priority to any payment over holders of Ordinary Shares, to receive an amount per Preference Share corresponding to the Redemption Price from the liquidation proceeds.

**MARKETPLACE**

The Preference Shares, represented by SDRs, are expected to be listed on NASDAQ OMX Stockholm.

*For further details on the terms and conditions that apply to Preference Shares, please see "Bye-Laws".*



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## Terms and conditions

### The Offering

The Offering comprises a minimum of 2.7 million and a maximum of 5.3 million Preference Shares represented by SDRs. The Offering includes an offering to Swedish and international institutional investors as well as the general public in Sweden, including the Company's existing shareholders, holders of convertible bonds and interest bearing bonds.

### Offering price

The Preference Shares in the Offering will be issued at Subscription Price of SEK 250 – 300 per Preference Share. No commission will be charged. The Subscription Price will be determined in a book building process with institutional investors and announced by the Company on 17 December 2012.

### Application

#### THE INSTITUTIONAL OFFERING

Applications to acquire Preference Shares within the framework of the institutional offering shall comprise no less than 3,500 Preference Shares and should be subscribed for in blocks of 100 Preference Shares. Applications should be submitted to Carnegie or Swedbank during the period 3 – 14 December 2012 in accordance with specific instructions. Such application must be received by Carnegie or Swedbank no later than 17.00 on 14 December 2012. The Board of Directors reserves the right to extend the subscription- and payment period, which, if applicable, will be announced no later than 14 December 2012.

#### THE OFFERING TO THE GENERAL PUBLIC

##### Investors with a VP account

Applications to acquire Preference Shares within the framework of the offering to the general public must comprise no less than 50 Preference Shares in blocks of 10 shares. Please note if an application comprises more than 500 Preference Shares, a certified copy of valid identification must be attached to the application form. All applications must be made using the specific application form for the Offering, which can be obtained from Carnegie or Alliance Oil. Please note that applications from existing holders of SDRs in Alliance Oil should be made on specific application forms. Applications are to be submitted during the period 3 – 14 December 2012 to:

Carnegie Investment Bank AB  
Transaction Support  
SE-103 38 Stockholm  
Sweden

**Applications must be received by Carnegie no later than 12.00 CET on 14 December 2012. The Board of Directors reserves the right to extend the application- and payment period. Such extension will be announced by the Company no later than 14 December 2012. Please note that applications are binding. Only one application per person is permitted. Incomplete or incorrectly completed application forms may be disregarded. No changes or additions may be made to the printed text on the form.**

Those who apply to acquire Preference Shares represented by SDRs in the Offering must have a Swedish VP-account or custodian account with a Swedish bank or securities institution to which delivery of an SDR representing the Preference Share can be made. Parties who do not have a VP account or a securities deposit account must open such an account with a bank or a Swedish securities institution before submitting an application. Please note that opening a VP account or securities deposit account may take some time.

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The application form may be obtained from Carnegie Investment Bank AB (visiting address: Regeringsgatan 56, 103 38 Stockholm, Sweden; telephone +46 8 588 686 60), or by any of Carnegie's branches in Sweden, or from [www.carnegie.se](http://www.carnegie.se).

Investors with a nominee account (Sw. "värdepappersdepå")

**Parties intending to subscribe for Preference Shares via its nominee, regardless whether they are holders of the Company's SDRs or not, should contact its nominee for instructions on how to proceed.**

Swedbank customers

Swedbank customers should contact Swedbank for instructions on how to proceed with their applications.

## Allocation

The decision regarding allocation of Preference Shares will be taken by the Board of Directors after consultation with Carnegie and Swedbank. The aim will be to achieve a strong institutional ownership base and a broad distribution of the Preference Shares among the general public in Sweden to enable regular and liquid trading on NASDAQ OMX Stockholm.

The date on which an application was submitted during the application period will not affect the allocation of Preference Shares. In the event the Offering is oversubscribed, an individual application may receive a smaller number of Preference Shares than indicated in the application. Allocations may be made wholly or partly by a random allocation process.

In case of oversubscription in the Offering, holders of Ordinary Shares, interest bearing bonds and convertible bonds in the Company who have subscribed for Preference Shares will be given special consideration in allocations and will be allocated at least 50 Preference Shares.

No allocations will be made with a lower number than 50 Preference Shares per investor.

## Notice of allocation

Allocation is expected to take place on or about 17 December 2012. As soon as possible thereafter, contract notes will be sent to parties receiving an allocation of Preference Shares under the Offering. Parties not being allocated any Preference Shares will not receive a notice.

## Payment

Payment for allocated Preference Shares may be made in accordance with instructions on the contract note received via mail.

**Full payment for allocated shares must be made in cash via bank giro transfer and must be received by Carnegie no later than 20 December 2012 in accordance with instructions on the contract note. Failure to pay on time will result in no Preference Shares being delivered and the subscription becoming void. Payments being received too late by Carnegie will be returned to sender.**

## Delivery of Preference Shares represented by SDRs

The Company's Preference Share, like its Ordinary Shares, will be held by Skandinaviska Enskilda Banken AB (publ) ("SEB"), as custodian in the Company's share register in Bermuda. For each Preference Share to be issued, SEB will issue SDRs in the CSD register maintained by Euroclear Sweden AB. Hence, no share certificates will be issued. Once payment for the allocated Preference Share SDRs have been made and received by Carnegie, Carnegie will deliver Special Rights by registration on the recipient's VP account or securities deposit account with a bank or a Swedish securities firm starting on or about 20 December 2012 (Delivery Versus Payment, DVP).

The shares will be delivered by registration on the recipient's VP account or securities deposit account with a bank or a Swedish securities firm starting on or about 20 December 2012. As confirmation of the

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entry, Euroclear Sweden will send a VP notice indicating the number of Special Rights in Alliance Oil that have been registered on the recipient's VP account. Notice to investors whose holding is registered in the name of a nominee will take place according to the nominee's routines.

Once the Preference Share SDRs have been booked into the Euroclear system, which is expected to take place on 21 December 2012, the Special Rights will automatically be converted into Preference Share SDRs by Euroclear Sweden.

## Conditions regarding completion of the Offering

The Offering is conditional upon a minimum of 2.7 million and a maximum of 5.3 million Preference Shares being subscribed for. However, should the Board of Directors, after advice from Carnegie and Swedbank, conclude that a lower number of Preference Shares will be sufficient for liquid and well-functioning trading on NASDAQ OMX Stockholm, the Offering could be completed at such a lower level.

## Listing on NASDAQ OMX Stockholm

The Board of Directors has applied to have the Preference Shares listed on NASDAQ OMX Stockholm. Under the assumption that the Preference Shares are admitted to trading on NASDAQ OMX Stockholm, subject *inter alia* to a sufficient number of shareholders having been achieved in the Offering, it is expected that trading in the Preference Shares will commence on 28 December 2012.

## Other information

Carnegie is a so called issuer agent which means that Carnegie conducts certain administrative duties in connection with the Offering. It does not mean that a subscriber of Preference Shares in the Offering becomes a client to Carnegie. A subscriber is only considered a client to Carnegie if Carnegie has given advice to the subscriber or otherwise contacted the subscriber directly with regard to the Offering. The fact that a subscriber is not considered a client to Carnegie means that the investor protection rules in the Swedish Securities Act (Sw. *Lag om värdepappersmarknaden*) are not applicable in connection with the subscription. This means, *inter alia*, that neither a client categorisation nor a suitability test will be performed due to the subscription. The subscriber is therefore personally responsible for ensuring that he or she has the sufficient experience and knowledge to understand the risks associated with the subscription.

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## Market overview

*The information in respect of market trends and Alliance Oil's market position in absolute terms or in relation to competitors stated in the Prospectus is the Company's overall assessment, based both on internal and external sources. The Company is not aware of specific, available statistics that could provide a comprehensive and relevant picture of the Company's markets that would permit market shares to be calculated in a reliable manner. The external sources on which the Company has based its assessment primarily involve data from independent research institutions and other industry statistics. This information has been reproduced correctly in the Prospectus and, as far as the Company knows and can ensure through comparisons with other information publicised by third parties, no information has been omitted that could make the reproduced information erroneous or misleading.*

### Introduction

The Russian oil and gas industry is one of the largest in the world. Since 1998, it has been a key source of growth for the Russian economy. According to the Statistical Review of World Energy by BP plc, Russia was the second largest crude oil producing country in 2011 and accounted for approximately 5.3 percent, or 12.1 billion tons, of the total proved world oil reserves, which consist of approximately 234 billion tons. Russia's share of world crude production in 2011 was about 13 percent or 511 million tons.

### Development of the Russian oil industry

Since the dissolution of the Soviet Union, the Russian oil and gas industry has undergone a major transformation. Under the Soviet regime, the state maintained prices for crude oil, gas and oil products at artificially low levels and the maximisation of economic value played little or no part in the production decisions. As a result, producers had little incentive to produce crude oil from which a relatively high percentage of premium products could be refined, and over-production of crude oil and poor maintenance of equipment were widely prevalent.

The privatisation of the Russian oil industry was launched by the Decree of the President of the Russian Federation No. 1403 "On the Specifics of Privatisation and Reorganisation into Joint Stock Companies of the State Enterprises, Industrial and Scientific Units in the Oil and Oil Refining Industries", dated 17 November 1992, which established the federal framework for privatising Russian oil companies and was the basis for the transformation of numerous state-owned exploration, production, refining and distribution enterprises into several major vertically-integrated companies. At the first stage of this privatisation, state oil enterprises were reorganised into corporations. The privatisation of the Russian oil industry continued in 1993-1997. During these years, Russia's first major private oil companies (LUKOIL, Surgutneftegaz, YUKOS, Sibneft, TNK and Sidanco) emerged.

In 2003-2005, the Russian oil industry experienced significant consolidation that involved the sale of Slavneft, a large Russian oil company, to a consortium of shareholders who also controlled TNK and Sibneft (Russia's third and fifth largest oil companies, respectively); establishment of TNK-BP as a strategic joint venture between BP and TNK on the basis of their respective Russian assets; the sale of Yuganskneftegaz, the most significant subsidiary of YUKOS, to Rosneft in December 2004; and the acquisition of Sibneft by Gazprom (later renamed to Gazpromneft).

Today, the Russian oil industry consists of various oil producing companies (including a number of large vertically-integrated oil companies), refineries and entities specialising in transportation and sales of oil and oil products. Russian oil companies differ as to the size of their operations, geographical location and management philosophy.

### Resources

As per the end of 2011, Russia held the eighth largest proved oil reserves globally. Venezuela has following recent large discoveries become the country in the world with largest proved reserves. Out of all countries in the world with proved reserves, the top eight countries represent approximately 80 percent of total reserves.

Proved reserves	Year end figures, billion barrels			Global share 2011
	1991	2001	2011	
	1. Venezuela	62.6	77.7	
2. Saudi Arabia	260.9	262.7	264.5	16.1%
3. Canada	40.1	180.9	175.2	10.6%
4. Iran	92.9	99.1	151.2	9.1%
5. Iraq	100.0	115.0	143.1	8.7%
6. Kuwait	96.5	96.5	101.5	6.1%
7. United Arab Emirates	98.1	97.8	97.8	5.9%
8. Russia	n.a.	73.0	88.2	5.3%
9. United States	32.1	30.4	30.9	1.9%
10. Kazakstan	n.a.	5.4	30.0	1.8%

Source: BP Statistical Review of World Energy, June 2012

## Crude oil production

Russia was in 2011 the second largest crude oil producer after Saudi Arabia. Compared to global oil reserves levels in 2011, concentration to the top ten countries is not as strong. The top ten oil producing countries in 2011 constituted 64 percent of global production. Among the top ten oil producers in the world, the United States was in 2011 the largest producer as a percentage of proved reserves with 9.3 percent.

Production	Figures for 2011		Global share
	Thousand of barrels per day	Change over 2010	
1. Saudi Arabia	11161	12.7%	13.2%
2. Russia	10280	1.2%	12.8%
3. United States	7841	3.6%	8.8%
4. Iran	4321	-0.6%	5.2%
5. China	4090	0.3%	5.1%
6. Canada	3522	5.0%	4.3%
7. United Arab Emirates	3322	14.2%	3.8%
8. Mexico	2938	-0.8%	3.6%
9. Kuwait	2865	14.1%	3.5%
10. Iraq	2798	12.8%	0.0%

Source: BP Statistical Review of World Energy, June 2012

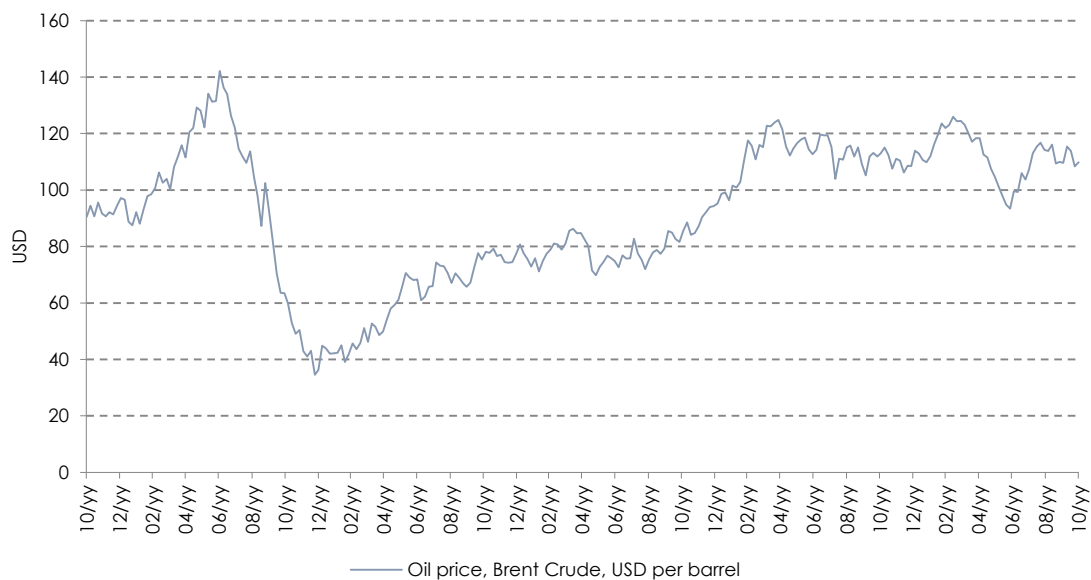
In a forecast released on 31 August 2012, Russia's Ministry of Finance estimates 2012 oil production to 514 million tons, up from 509 million tons in 2011. Annual production levels between 2013 and 2015 are estimated by the Ministry of Finance to remain fairly constant at approximately 500 to 515 million tons per year.

International Energy Agency forecasts similar near term development for Russian oil production at around 10.5 million barrels per day for the period 2012-2016, after which the production rate is expected to slowly decline to 9.7 million barrels per day by 2035.

## Crude oil pricing

Prior to 1995, Russia carried out a policy of controlling domestic crude oil prices and exports in order to ensure a low-cost domestic supply of crude oil. Starting from 1995, crude oil prices have been liberalised by the elimination of these controls. Moreover, there has been substantial liberalisation of the program of mandatory sales at fixed prices to governmental authorities.

In the second quarter of 1998, domestic crude oil prices, which had been previously unaffected by the decline in world market prices, decreased significantly. This decrease reduced the profitability of domestic crude oil sales and had a negative impact on the operations of Russian oil companies. The increase in world and domestic crude oil prices in the second half of 1999 significantly helped Russian oil companies to increase profitability. World crude oil prices have increased significantly since January 1999, when the price was approximately USD 10.33 per barrel, resulting in windfall profits for Russia's major crude oil producers.



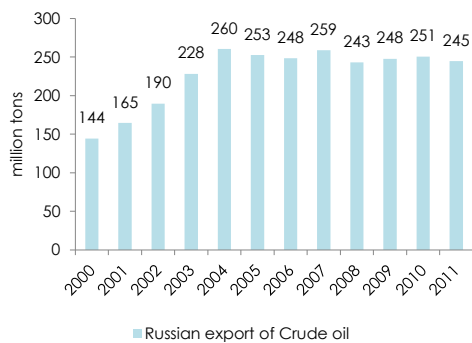
Source: Datastream

Following the significant decline in the oil price (Brent Crude in USD per barrel) from the peak level of around USD 142 per barrel during the summer of 2008, the price fell sharply to around USD 35 per barrel in December 2008 in the wake of the world financial crisis. From there on the price level has increased steadily up until early 2011 when the European and American sovereign debt crises have made the price flatten out and stay in the USD 100 – 120 per barrel trading range.

## Oil exports

Since 1991, Russian oil companies have significantly increased their crude oil exports due to falling domestic demand, a substantial gap between domestic and foreign prices and the elimination of export quotas and licensing requirements.

According to Bank of Russia, from 2000 to 2011 Russia's crude oil exports increased from 144 million tons to 245 million tons per year. The total value of Russia's crude oil export in 2011 totalled USD 182 billion. Russian exports of oil products totalled 132 million tons in 2001 for a total value of USD 96 billion.



Source: Bank of Russia



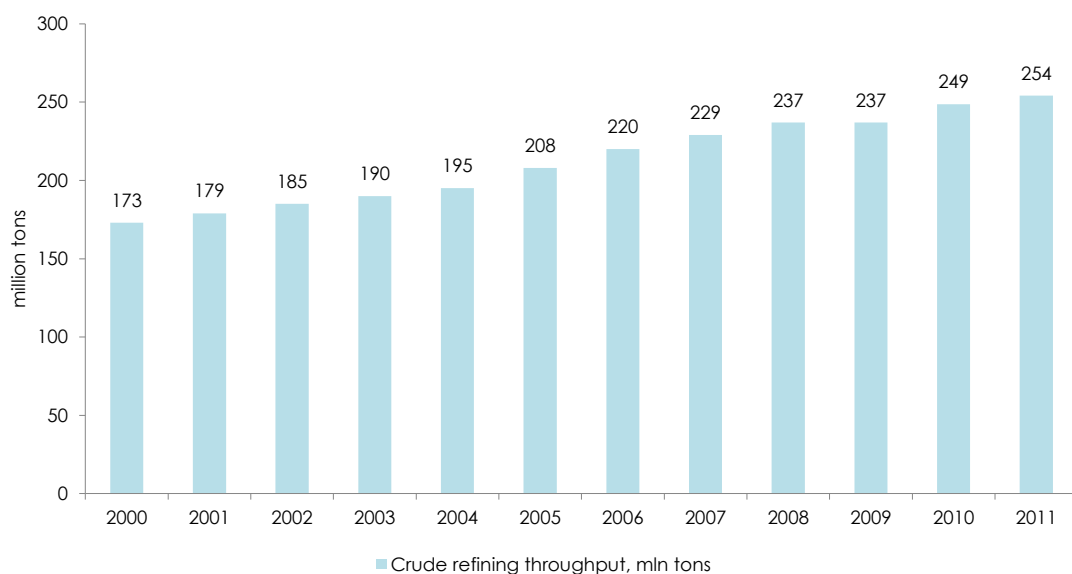
Source: Bank of Russia

Limited access to the Transneft pipeline network traditionally constrained the ability of producers to export crude oil. The Ministry of Energy, based on information provided by Transneft and oil producers, allocates access to Transneft's pipeline network and sea terminal capacity to oil producers on a quarterly basis. Each producer's quarterly export quota via the Transneft system is generally set at about 30-40 percent of the total volume of oil shipped by such producer through the Transneft pipeline in the previous quarter.

In recent years, constraints on access to the export pipelines, the ability of producers to export crude oil and the use of port, shipping and railway facilities have eased. Recent upgrades of ports, increase in the railways' capacity to transport crude oil and the opening of new capacity via the Baltic pipeline and the East Siberian Pacific Ocean trunk pipeline (the "ESPO pipeline") have all enabled oil companies to export crude oil with greater flexibility.

## Oil products markets

According to the Russian Federal State Statistics Service, Russian crude refining output totalled above 250 million tons in 2011.



Source: Russian Federal State Statistics Service

The Russian crude oil refining industry does not meet the demand for deep refining of crude oil (*i.e.*, the production of a greater proportion of lighter and higher-value products) and is behind the United States and the European Union in terms of the complexity of crude oil processing. According to the Ministry of Energy, Russian refining industry consists of approximately 28 large crude oil refineries (capacity more than 1 million tons per year), mini-refineries and certain oil products plants. The majority of Russian crude oil refineries are owned by Russian vertically-integrated oil companies. Refineries located in central Russia are closer to domestic and export markets, but refineries located in more remote regions face less competition.

## Russian natural gas market

Russia holds the largest proved gas reserves in the world, and has done so for more than 10 years. Out of all countries in the world with proved gas reserves, the top four countries represent approximately 60 percent of total reserves. Besides Russia as number one, Iran, Qatar and Turkmenistan have the largest volumes of proved gas reserves. The ten largest countries represent approximately 79 percent of total reserves.

	Trillion cubic metres			Global share 2011
	1991	2001	2011	
1. Russia	n.a.	42.4	44.6	21.4%
2. Iran	19.8	26.1	33.1	15.9%
3. Qatar	6.4	25.8	25.0	12.0%
4. Turkmenistan	n.a.	2.6	24.3	11.7%
5. United States	4.7	5.2	8.5	4.1%
6. Saudi Arabia	5.2	6.5	8.2	3.9%
7. United Arab Emirates	5.8	6.1	6.1	2.9%
8. Venezuela	3.6	4.2	5.5	2.7%
9. Nigeria	3.4	4.6	5.1	2.5%
10. Algeria	3.6	4.5	4.5	1.8%

Source: BP Statistical Review of World Energy, June 2012

Russia was in 2011 the second largest gas producer in the world after the United States. The global gas production market is dominated by these two countries which have a combined market share of 38.5 percent. Compared to global gas reserves levels in 2011, concentration to the top ten countries is not as strong. The top ten gas producing countries in 2011 constituted 66 percent of global production.

	Figures for 2011		
	Billion cubic metres	Change over 2010	Global share
1. US	651.3	7.7%	20.0%
2. Russia	607.0	3.1%	18.5%
3. Canada	160.5	0.3%	4.9%
4. Iran	151.8	3.9%	4.6%
5. Qatar	146.8	25.8%	4.5%
6. China	102.5	8.1%	3.1%
7. Norway	101.4	-4.6%	3.1%
8. Saudi Arabia	99.2	13.2%	3.0%
9. Algeria	78.0	-3.0%	2.4%
10. Indonesia	75.6	-7.8%	2.3%

Source: BP Statistical Review of World Energy, June 2012. In a forecast released on 31 August 2012, Russia's Ministry of Finance estimates 2012 gas production to 676 billion cubic metres, up from 607 billion cubic metres in 2011. Annual production levels between 2013 and 2015 are estimated by the Ministry of Finance to increase slightly and amount to approximately 675 to 730 billion cubic metres per year.



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# Operations

## Description of the business

### OVERVIEW OF THE BUSINESS

The Group is an independent vertically integrated oil and gas business with upstream and downstream operations in Russia and upstream operations in Kazakhstan. Alliance Oil's integrated oil and gas operations range from Moscow in the West to Vladivostok in the Russian Far East.

In the upstream segment, as of 31 December 2011, Alliance Oil's proven and probable oil reserves are estimated at 648 million barrels. Through the acquisition of SN-Gazdobycha, the Group's proven and probable reserves will increase by 17 percent to 760 mboe. In 2011, the Company's average oil production rate was approximately 49,000 barrels per day. The Group's upstream operations include crude oil exploration, extraction and production in the operating regions Timano-Pechora, Volga-Urals and Tomsk in Russia and the Atyrau region in Kazakhstan.

In the downstream segment, the Company controls the Khabarovsk Refinery and a large network of wholesale and retail outlets in the oil products markets in the regions Khabarovsk, Primorsk, Amur, the Jewish Autonomous District and in the Republic of Buryatia in Russia. In 2011, the refinery processed about 74,000 barrels per day, and total annual sales were almost 28 million barrels of oil products.

For the year ended 31 December 2011, the Group's consolidated revenues amounted to USD 3,083 million, of which USD 540 million was attributed to upstream operations and USD 2,543 million was attributed to downstream operations. For the years ended 31 December 2010 and 2009, the Group had revenues of USD 2,196 million and USD 1,726 million, respectively.

### COMPETITIVE STRENGTHS

The Group believes its primary competitive strengths are as follows:

- the Group is a vertically integrated oil and gas business with a diversified upstream and downstream asset mix delivering strategic flexibility in a volatile crude oil price environment. The Group currently expects to increase the refining capacity from 90,000 bopd to 100,000 bopd at the Khabarovsk Refinery by 2013 and to connect to the ESPO pipeline in 2014;
- the Group believes it is optimally positioned to capitalise on growth opportunities along the entire upstream—downstream—marketing value chain. The Group's business model generates strong cash flows from operations, providing flexibility and stability to its development plan and allowing it to capitalise on new investment opportunities as they arise. The Group believes that it is well placed to improve its capital structure and lower its cost of capital by financing capital requirements through a combination of operating cash flow, long-term debt available under existing credit agreements and additional external debt;
- the Group has a balanced portfolio of high quality upstream assets, which are geographically diversified across three major Russian oil producing basins (West Siberia, Timano-Pechora and Volga-Urals (the Samara and the Tatarstan regions)) and in Kazakhstan. The Group's upstream portfolio includes producing assets which support significant production volumes, as well as exploration and development projects which provide the Group with a strong organic reserves growth profile going forward;
- the Group has developed an extensive retail and wholesale oil product network in the Russian Far East and the Republic of Buryatia. The Group enjoys premium brand recognition among its retail and wholesale corporate customers in the Russian Far East and the Republic of Buryatia. The Group believes that its premium brand, quality of facilities and high standard of service have permitted it to achieve a leading position on the retail market in the region;
- the Group operates in a relatively isolated oil products consumption market in the Russian Far East. There are currently only two major refineries operating in this market: the Group's Khabarovsk Refinery and Rosneft's Komsomolsk refinery. The isolated nature of the market contributes to sustained profitability of the Group's marketing operations. The Group's network of filling stations

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and wholesale oil products terminals allow for significant flexibility in the volumes and range of oil products sold. The Group's refining operations are expected to benefit from the proposed connection of the Khabarovsk Refinery to the Transneft ESPO pipeline, resulting in decreased costs, especially related to railway transshipment expenses. Furthermore, the Khabarovsk Refinery is located close to the Russian Federation's borders, which facilitates access to the growing Asia-Pacific oil products consumption markets (China, Japan and South Korea);

- the Group benefits from the extensive upstream and downstream experience of the management team. The management of the Group strives to implement the latest technological innovations as well as industry's best practices. The Group's management is also committed to a high standard of transparency and corporate governance. The Group started the implementation of the Swedish Code of Corporate Governance (the "Code") in 2006. Since 2006, the Group has also developed and implemented an application of the Code that also corresponds to Bermudan law and company practice; and
- the Group maintains high health, safety and environmental protection standards. The Group established a department of environmental protection, industrial safety and labour protection, which is responsible for management and control of health, safety and environment of its facilities. See "*Legal matters and miscellaneous information—Health, safety and environment*".

## STRATEGY

The Group seeks to capitalise on its composition as an integrated oil and gas company, increased financing capacity and strong cash flows to further strengthen its position within the upstream- and refined products industry. In particular, the Group intends to focus on increasing oil and gas reserves and production, as well as producing and providing high-quality oil products and related services in Russia, the CIS, the Asia-Pacific region and other export markets. Some highlights of this strategy are:

- continuing a significant modernisation program for the Khabarovsk Refinery, which is expected to increase the Khabarovsk Refinery's Nelson complexity index (which describes a measure of the secondary conversion capacity of a petroleum refinery relative to the primary distillation capacity). This investment is expected to lead to an increase in the production capacity and a higher share of value-added light oil products in total output to meet a growing demand for light oil products in the Russian Far East, the Republic of Buryatia and in the Asia-Pacific region, and is expected to result in refining margins improving significantly. The Group expects that it will be able to produce Euro-5 gasoline already in 2013 and Euro-5 diesel upon completion of the hydroprocessing complex in the first half of 2014;
- increasing crude oil production by continuing to develop oil fields via investments in exploration activities, improving existing infrastructure and implementing operating efficiencies. It is expected that production can be increased while maintaining control of operating costs by employing proven technologies, such as water injection, horizontal drilling, hydrofracturing and acid treatment, to optimise oil recoveries from producing but under-developed fields. The Group's assets contain a number of significant greenfield exploration and development opportunities that the Group is actively pursuing;
- developing a cost conscious culture with strict financial controls and a daily financial review procedure for all subsidiaries put in place by the Group's senior management team. The Group's strategy is to further improve profitability by a combination of controlling and reducing costs and a focus on improving revenues from existing and newly developed and acquired assets, as well as by improving netbacks by more effectively allocating sales from each region to exports;
- acquiring Russian oil and gas resources with proven developed reserves as well as development and exploration potential that are not sufficiently large to be of primary strategic interest to Russia's larger oil companies but which can be developed profitably. In line herewith, in 2011 the Company entered into an agreement with Repsol Exploración, S.A. ("Repsol") to form and govern a joint venture, AR Oil&Gaz B.V., for exploration and production growth in Russia. As part of the joint venture, Eurotek, an exploration and production company with assets in the Russian Federation will be contributed by Repsol, see "*Legal matters and miscellaneous information*". The Group also continues to review opportunities to participate in future subsoil license auctions and tenders where access to economically attractive development and exploration opportunities with acceptable risk profiles and potential synergies with the Group's existing operations are offered;

- optimising its portfolio of existing filling stations in the Russian Far East with a focus on increasing non-fuel goods sales at these stations. The Group expects to increase its portfolio of retail filling stations in the Russian Far East and the Republic of Buryatia by constructing new filling stations while closing underperforming stations. As part of this process, the Group will seek to substantially increase the number of filling stations that also provide supplemental services and have associated retail shops with a diversified product offering or food kiosks, where appropriate. In addition, the Group is in the process of implementing a client loyalty system. Management expects this optimisation to enable the Group to implement price differentiation strategies according to the local market conditions. As a result, the Group believes it can increase both fuel and non-fuel retail sales in the Russian Far East and the Republic of Buryatia;
- optimising its oil terminal network for increased competitiveness and retention of strong wholesale market shares in the Russian Far East and the Republic of Buryatia. The Group believes it can increase its wholesale market share in the Russian Far East and the Republic of Buryatia by increasing its sales of oil products under federal programs, its sales to airlines, gold mining, coal and road construction companies. The Group plans to optimise its oil terminal network for more efficient storage and delivery of oil products; and
- increasing export sales by capitalizing on the close geographical proximity of the Group's refining operations to growing Asian markets, where demand for oil products is expected to increase in the coming years. The Group plans to increase export sales of the Group's oil products by widening the range of its oil products and increasing sales volumes of diesel fuel and jet fuel through the modernisation of the Khabarovsk Refinery. The Group plans to support this strategy by optimising its transportation and logistics network, including by constructing new logistics infrastructures for export sales.

## OPERATIONS STRUCTURE

Alliance Oil's operations range from Moscow in the West to Vladivostok in the Russian Far East. In the upstream-segment, the operating regions are Timano-Pechora, Volga-Urals and Tomsk in Russia and the Atyrau region in Kazakhstan.

In the downstream-segment, the Company controls the Khabarovsk Refinery and a large network of wholesale and retail outlets in the oil products markets of the Khabarovsk, Primorsk, Amur regions, the Jewish Autonomous District and in the Republic of Buryatia.



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## History

Alliance Oil is an exempted company limited by shares incorporated under the laws of Bermuda with its registered office located at Clarendon House, 2 Church Street, Hamilton HM11, Bermuda. The Company was incorporated on 1 September 1998 for an unlimited duration with registered number 25413.

A brief history of NK Alliance and WSR (including, from 2009, Alliance Oil) is outlined below:

### **NK ALLIANCE**

NK Alliance was formed in November 2001 by OJSC Alliance Group, CJSC Investment Company Alliance Capital and Wincor S.A. OJSC Alliance Group and CJSC Investment Company Alliance Capital contributed to NK Alliance their respective ownership interests in Amurnefteprodukt, Primornefteprodukt and Khabarovsknefteprodukt, marketing and sales companies, and in the Khabarovsk Refinery, which was NK Alliance's primary refining facility.

In order to create a vertically-integrated oil company, NK Alliance acquired a controlling interest in Tatnefteotdacha in July 2005, a company engaged in crude oil exploration and production in Tatarstan, Russia. In November 2006, NK Alliance also acquired a controlling interest in Potential Oil, a company engaged in crude oil exploration and production in Kazakhstan.

### **WSR/ALLIANCE OIL**

WSR was incorporated in 1998 in Bermuda as Vostok Oil Limited. In 1999, it acquired OJSC Vostochnaya Transportnaya Kompaniya ("VTK") that held combined exploration and production licenses for the Middle Nyurola, Klyuchevskoye and Puglalymskoye oil fields in the Tomsk region. Vostok Oil Limited listed SDRs on Nasdaq OMX First North (formerly known as Nya Marknaden) in 2000 and, after restructuring and recapitalisation the company, its name was changed to WSR in 2004.

In 2005, WSR further expanded its oil production by acquiring the Khvoinoye oil field and the Alexandrov Refinery in the Tomsk region, the Middle Kharyaga oil field in the Timano-Pechora region, combined exploration and production licenses for the North and Lek Kharyaga oil fields adjacent to the Middle Kharyaga oil field infrastructure.

In 2006, WSR entered the Volga-Urals region through acquisition of Saneco that at the time held three combined exploration and production licenses and three exploration licenses and further increased its presence in the Timano-Pechora region by acquiring the Kolvinskoye oil field.

In 2007, WSR had its SDRs delisted from NASDAQ OMX First North and listed on NASDAQ OMX Stockholm.

In 2008, the NK Alliance shareholders contributed all of their respective shares in NK Alliance (representing 100 percent of NK Alliance's share capital) in exchange for 1,783.5 million common shares issued by WSR representing approximately 60 percent of WSR's share capital (the "Consideration Shares"). The Consideration Shares were exchanged for SDRs in WSR, which SDRs were listed on NASDAQ OMX Stockholm in March 2008.

In 2009, the merged company changed its name to Alliance Oil Company Ltd.

In 2011, the Kolvinskoye oil field was launched and the Company entered into the joint venture agreement with Repsol to form and govern a joint venture, AR Oil&Gaz B.V. As part of the joint venture, Eurotek, an exploration and production company with assets in the Russian Federation will be contributed by Repsol.

## Upstream operations

Alliance Oil has a diversified portfolio of oil and gas producing assets. Exploration and production of crude oil is conducted in four different regions in two countries - Russia and Kazakhstan. Alliance Oil operates in three of Russia's largest oil basins: Western Siberia, Timano-Pechora and Volga-Urals. As of 31 December 2011, Alliance Oil's proven and probable oil reserves are estimated at 648 mboe. Through

the acquisition of SN-Gazdobycha, the Group's proven and probable reserves will increase by 17 percent to 760 mboe. In 2011, Alliance's crude production increased to 17.9 million barrels (48,984 bopd) from 16.0 million barrels (43,727 bopd) in 2010.

In the upstream segment, growth is primarily achieved by adding and developing oil reserves through drilling within the existing license blocks. In 2011, the Company replaced 153.6 percent of the total 2011 oil production by adding net proven and probable (2P) oil reserves of 9.6 million barrels (net of 17.9 million barrels produced in 2011). The Company continuously reviews acquisition opportunities to add oil and gas production assets where such moves would ensure greater synergies.

The Company's upstream guidance for the full year 2012 is an average daily production of 54,000 barrels.

## RESERVES

For the years ended 31 December 2011, 2010 and 2009 respectively, the Group's reserves were estimated by D&M in accordance with PRMS guidelines. The following table sets out the Group's proven reserves and proven and probable reserves as of these dates in its main production areas.

Location	PRMS Classification of Reserves - as of 31 Dec					
	2011		2010		2009	
	Proven	Proven and Probable	Proven	Proven and Probable	Proven	Proven and Probable
	<i>(in thousand barrels)</i>					
Atyrau, Kazakhstan	5,879	10,776	10,138	15,922	7,869	13,415
Timano-Pechora	166,907	408,986	155,332	394,757	139,406	304,917
Tomsk	28,779	57,361	14,865	56,105	26,424	60,606
Volga-Urals	108,049	170,731	106,080	171,480	101,546	146,989
<b>Total</b>	<b>309,614</b>	<b>647,854</b>	<b>286,415</b>	<b>638,264</b>	<b>275,245</b>	<b>525,927</b>

In 2011, the Company entered into an agreement with Repsol to form and govern a joint venture, AR Oil&Gaz B.V., for exploration and production growth in Russia. As part of the joint venture, Eurotek, an exploration and production company with assets in the Russian Federation will be contributed by Repsol, see "*Legal matters and miscellaneous information*".

In October 2012, the Group acquired SN-Gazdobycha, a company holding two gas licenses located in the Tomsk region in Russia. Proven and Proven and Probable (2P) gas reserves under these licenses are estimated at 43 and 112 mboe respectively (as of 29 February 2012 as evaluated by D&M under SPE (Society of Petroleum Engineers) standards). Through the acquisition, the Company's 2P reserves have increased by 17 percent from 648 mboe to 760 mboe. See "*Legal matters and miscellaneous information*".

The process of estimating oil reserves is complex and inherently uncertain. Certain projections must be made with respect to production rates and timing of development, and available geological, geophysical, production, engineering and economic data for each reservoir must be analysed. The extent, quality and reliability of this data can vary. The accuracy of reserves data is also a function of the quality and quantity of other available data, engineering and geological interpretation and judgment. See "*Risk Factors—Crude oil reserves data are only estimates and are inherently uncertain, and the actual size of deposits may differ materially from these estimates*".

## OIL PRODUCTION

The Group's oil production for the nine months ended 30 September 2012 amounted to 14.9 million barrels (a production rate of nearly 54,400 bopd) while the Group's oil production for the nine months ended 30 September 2011 amounted to 12.1 million barrels (a production rate of nearly 44,500 bopd). The Group's oil production for the year ended 31 December 2011 amounted to 17.9 million barrels (the production rate of nearly 49,000 bopd). The Group's oil production for the year ended 31 December 2010 and for the year ended 31 December 2009 amounted to 16.0 million barrels of oil (a production rate of approximately 44,000 bopd).

The following table sets out oil production data of the Group by oil production region for the nine months ended 30 September 2012 and 2011 and the years ended 31 December 2011, 2010 and 2009, respectively:

Location	9 months ended 30 Sep		Year ended 31 Dec		
	2012	2011	2011	2010	2009
	<i>(in thousand barrels)</i>				
Atyrau, Kazakhstan	554	474	642	582	487
Timano-Pechora	6,455	4,136	7,178	4,964	4,725
Tomsk	2,358	2,231	2,940	3,023	3,555
Volga-Urals	5,542	5,295	7,120	7,391	7,276
<b>Total</b>	<b>14,909</b>	<b>12,136</b>	<b>17,879</b>	<b>15,960</b>	<b>16,043</b>

## LICENSES

The Group must obtain licenses from governmental authorities to explore and produce oil from its fields. As of the date of this Prospectus, the Group holds 31 licenses, of which 14 are production licenses, 8 are combined exploration and production licenses, and 9 are exploration licenses. Exploration licenses give the license holder the non-exclusive right to explore for oil in fields in a defined area and are generally valid for a period of five years and may be extended upon the expiration of such five-year term. These licenses do not give the holder the right to extract any oil which the holder finds. However, if the exploration efforts are successful and the Group finds oil, the Group may apply for a production license without auction or tender. Production licenses have generally been valid for 20 years and give the Group the exclusive right to extract oil from fields in a defined area. Combined exploration and production licenses permit both exploration and production and are generally valid for 25 years. The Group's licenses expire at various times. Legislation, passed after the issuance of many of the Group's licenses, provides that licenses are now granted for a time equal to the economic viability of the relevant field. As long as the Group meets certain conditions, such as compliance with approved development programs and other license requirements, each of the Group's licenses issued prior to this legislation can be extended, upon expiration, for the economic life of the relevant fields.

None of the Group's production licenses expire prior to 2013. The production license for the Kolvinskoye oil field expires in October 2013, whereas the production license for the Khvoynoye oil field expires in 2014. The exploration licenses for Pushkarikhinskiy and Cheremushskiy oil fields expire in December 2013. The Group is currently working on the extension of the Kolvinskoye, Pushkarikhinskiy and Cheremushskiy licenses and will be applying for the extension of the Khvoynoye license pursuant to current legislation. The Group is required to maintain the exploration works and levels of oil production for each field in accordance with the annual work program, which must be approved by the Federal Service on Ecological, Technological and Nuclear Supervision. Furthermore, the Group is obliged to meet various requirements imposed by the licenses, including requirements relating to the exploration activity set forth in its exploration licenses, and ensure that fields are developed in accordance with agreed upon schedules. See "Risk Factors—The Group's licenses, permits and contracts, including licenses for exploration and production, may be suspended, amended or terminated prior to the end of their terms, and the Group may be unable to obtain or maintain necessary permits and authorisations" for more information on the risks relating to the Group's licenses.

## TIMANO-PECHORA REGION

The Timano-Pechora region is located in north-western Russia. The region holds four of Alliance Oil's oil fields: Middle Kharyaga, North Kharyaga, Lek-Kharyaga and Kolvinskoye. The oil wells in the region are at an average depth of 3,800 meters.

One of the Company's main producing oil fields, the Kolvinskoye oil field is located in the Timano-Pechora region and was launched in September 2011.

The Group's production of oil in the Timano-Pechora region accounted for approximately 43 percent of the Group's total oil production in the first nine months of 2012 and 34 percent in the first nine months of 2011. The Timano-Pechora basin, which is Russia's third largest region in terms of crude oil reserves, is

located in north-western Russia. The Timano-Pechora basin is bound in the east and south by the Ural uplift and on the west by the Russian platform. Reservoirs are at depths of between 500 and 4,500 meters, in sediments ranging in age from the Ordovician to the Triassic period. The northern extent of the basin is open to the Kara Sea and is not well defined.

Currently, the Group is working on the new geological model for the Kolvinskoye oil field in order to increase extraction of crude oil that is expected to be completed by December 2012. Additionally, the Group is subject to the 0 percent Mineral Extraction Tax on production at the Kolvinskoye and North Kharyaga oil fields due to specific tax holidays. The tax break is valid until the first 15 million tonnes (about 110 million barrels) are produced per field or through 2015 (the earlier of the two conditions). In 2012, the Group extended its presence in the Timano-Pechora region through the acquisition of the exploration license for the West-Osoveiskoye block located on the East side of the Kolvinskoye oil field and obtaining five exploration licenses. See "Legal matters and miscellaneous information".

The following table sets out the Group's estimated proven crude oil reserves and proven and probable crude oil reserves in the Timano-Pechora region as of 31 December 2011, 2010, and 2009 respectively.

Oil Field	PRMS Classification of Reserves - as of 31 Dec					
	2011		2010		2009	
	Proven	Proven and Probable	Proven	Proven and Probable	Proven	Proven and Probable
	<i>(in thousand barrels)</i>					
Middle						
Kharyaga	4,680	21,161	4,554	19,604	5,810	20,529
North Kharyaga	24,293	48,112	21,642	47,427	9,095	51,251
Lek Kharyaga	32,371	86,432	32,399	88,461	35,923	79,359
Kolvinskoye	105,563	253,281	96,737	239,265	88,578	153,778
<b>Total</b>	<b>166,907</b>	<b>408,986</b>	<b>155,332</b>	<b>394,757</b>	<b>139,406</b>	<b>304,917</b>

The following table sets out the Group's production in the Timano-Pechora region for the nine months ended 30 September 2011 and 2012 and the years ended 31 December 2011, 2010 and 2009, respectively.

Oil Field	Production				
	9 months ended 30 Sep		Year ended 31 Dec		
	2012	2011	2011	2010	2009
	<i>(in thousand barrels)</i>				
Middle Kharyaga	653	561	766	1,072	1,497
North Kharyaga	1,218	1,270	1,690	1,289	473
Lek Kharyaga	910	1,310	1,701	2,510	2,755
Kolvinskoye	3,674	995	3,021	94	-
<b>Total</b>	<b>6,455</b>	<b>4,136</b>	<b>7,178</b>	<b>4,964</b>	<b>4,725</b>

As of 31 December 2011, the Group had 123 wells in the Timano-Pechora region, 85 of which were active production wells, and 17 active injection wells. As of 31 December 2010, the Group had 88 wells in the Timano-Pechora region, 65 of which were active production wells, 10 were active injection wells. As of 31 December 2009, the Group had 57 wells in the Timano-Pechora region, 45 of which were active production wells, and 8 active injection wells.

## TOMSK REGION

The Tomsk region is located in Western Siberia in Russia and covers an area of approximately 317,000 square kilometres. The region sits on the Siberian Platform – one of the largest oil-bearing tectonic elements in the world.

The Group operates four oil fields in the region: Khvoinoye, Klyuchevskoye, Puglalymskoye and Middle Nyurola oil fields. The Group's production of oil in the Tomsk region accounted for approximately 16

percent of the Group's total oil production in the first nine months of 2012 and 18 percent in the first nine months of 2011. Production operations in the Tomsk regions are conducted principally through two wholly-owned subsidiaries – VTK and Khvoinoye. The oil wells in the region are at an average depth of 2,700 meters.

At the Puglalymyskoye field, a drilling program was expanded during 2012 to further develop the field and grow production in this region.

The following table sets out the Group's estimated proven crude oil reserves and proven and probable crude oil reserves in the Tomsk region as of 31 December 2011, 2010 and 2009.

Oil Field	PRMS Classification of Reserves - as of 31 Dec					
	2011		2010		2009	
	Proven	Proven and Probable	Proven	Proven and Probable	Proven	Proven and Probable
	<i>(in thousand barrels)</i>					
Middle Nyurola	8,730	25,932	6,119	24,614	7,820	25,690
Klyuchevskoye	5,809	9,062	4,626	9,713	5,725	10,962
Puglalymyskoye	7,777	7,811	322	7,347	7,074	8,545
Khvoinoye	6,463	14,556	3,798	14,431	5,805	15,409
<b>Total</b>	<b>28,779</b>	<b>57,361</b>	<b>14,865</b>	<b>56,105</b>	<b>26,424</b>	<b>60,606</b>

The following table sets out the Group's production in the Tomsk region for the nine months ended 30 September 2012 and 2011 and for the years ended 31 December 2011, 2010 and 2009, respectively.

Oil Field	Production				
	9 months ended 30 Sep		Year ended 31 Dec		
	2012	2011	2011	2010	2009
	<i>(in thousand barrels)</i>				
Middle Nyurola	854	900	1,190	1,045	1,054
Klyuchevskoye	540	684	876	1,177	1,603
Puglalymyskoye	398	262	346	364	413
Khvoinoye	567	386	528	437	484
<b>Total</b>	<b>2,358</b>	<b>2,231</b>	<b>2,940</b>	<b>3,024</b>	<b>3,555</b>

As of 31 December 2011, the Group had 95 wells in the Tomsk region, 59 of which were active production wells, and 32 active injection wells. As of 31 December 2010, the Group had 94 wells in the Tomsk region, 60 of which were active production wells, 28 were active injection wells. As of 31 December 2009, the Group had 91 wells in the Tomsk region, 65 of which were active production wells, and 21 active injection wells.

In addition, the Group acquired gas production assets in the Tomsk region through the acquisition of SN-Gazdobycha in October 2012. See "Legal matters and miscellaneous information".

## VOLGA-URALS REGION

The Volga-Urals oil region is located in the southern part of European Russia. Alliance Oil holds 13 oil fields in the region, primarily in Samara and Tatarstan. The two major oil fields are Yelginskoye and Steпноозerskoye. The oil wells in the region are at an average depth of 2,000 meters.

The Group's production of oil in the Volga-Urals region accounted for approximately 37 percent of the Group's total oil production in the first nine months of 2012 and 44 percent in the first nine months of 2011. The Volga-Urals oil region in the southern part of European Russia extends from the west flank of the Ural Mountains to west of the Volga River.



The following table sets out the Group's estimated proven crude oil reserves and proven and probable crude oil reserves for the Group's material fields in the Volga-Urals region as of 31 December 2011, 2010, and 2009.

Oil Field	PRMS Classification of Reserves - as of 31 Dec					
	2011		2010		2009	
	Proven	Proven and Probable	Proven	Proven and Probable	Proven	Proven and Probable
	<i>(in thousand barrels)</i>					
Novo Kievskoye	6,298	18,085	4,777	18,605	6,234	15,758
Kochevnskoye	1,066	1,066	1,259	1,259	2,812	2,812
West						
Kochevnskoye	290	1,925	403	2,040	633	2,228
Solnechnoye	1,863	2,739	644	2,351	952	1,358
Kovalevskoye	4,996	7,910	5,633	9,300	5,576	8,026
Borshevskoye	58	470	53	53	97	439
Kulturnenskoye	385	906	107	107	394	394
West						
Borshevskoye	—	670	—	677	—	676
Saratovskoye	—	—	—	—	—	—
South						
Kultashikhinskoye	1,352	2,454	1,076	2,428	—	—
South						
Solnechnoye	1,780	1,780	279	279	—	—
Stepnoozerskoye	75,085	115,925	76,068	116,525	67,617	96,384
Yelginskoye	14,876	16,801	15,781	17,856	17,231	18,914
<b>Total</b>	<b>108,049</b>	<b>170,731</b>	<b>106,080</b>	<b>171,480</b>	<b>101,546</b>	<b>146,989</b>

The following table sets out the Group's production in the Volga-Urals region for the nine months ended 30 September 2012 and 2011 and for the years ended 31 December 2011, 2010 and 2009, respectively.

Oil Field	Production				
	9 months ended 30 Sep		Year ended 30 Dec		
	2012	2011	2011	2010	2009
	<i>(in thousand barrels)</i>				
Novo Kievskoye	661	704	933	967	1,111
Kochevnskoye	208	301	399	547	882
West Kochevnskoye	46	89	117	200	260
Solnechnoye	1,417	381	705	470	620
Kovalevskoye	535	1,071	1,335	1,600	1,010
Borshevskoye	—	—	—	16	34
Kulturnenskoye	19	18	36	—	38
Saratovskoye	—	—	—	6	—
South Kultashikhinskoye	172	386	489	339	—
South Solnechnoye	70	54	59	50	—
West Borshevskoye	—	—	—	—	—
Stepnoozerskoye	1,527	1,534	2,039	2,142	2,204
Yelginskoye	886	756	1,006	1,056	1,117
<b>Total</b>	<b>5,542</b>	<b>5,295</b>	<b>7,120</b>	<b>7,391</b>	<b>7,276</b>

As of 31 December 2011, the Group had 350 wells in the Volga-Urals region, 312 of which were active production wells, and 16 active injection wells. As of 31 December 2010, the Group had 344 wells in the Volga-Urals region, 308 of which were active production wells, 16 were active injection wells. As of 31 December 2009, the Group had 317 wells in the Volga-Urals region, 289 of which were active production wells, and 11 active injection wells.

## KAZAKHSTAN

In Kazakhstan, Alliance Oil conducts production activities at the Zhanatalap Eastern Wing ("Zhanatalap") oil field. These activities are conducted through its 80 percent owned subsidiary Potential Oil, at the Begaidar block, in the Atyrau region of Kazakhstan on the northern shore of the Caspian Sea. The Begaidar block covers an area of approximately 4,300 square kilometres and is part of the oil- and gas-bearing area between the Ural and Volga rivers.

Generally, in Kazakhstan the rights for exploration and production are granted on the basis of contracts for subsoil use that are entered into between a subsoil user and the competent governmental authority. Subsoil use contracts are entered into for a specified period of time, but a subsoil user may extend such contract upon the expiration of the term. Subsoil use contracts may be terminated by the competent governmental authorities if a subsoil user does not meet its contractual obligations, including, but not limited to, periodic payment of royalties and taxes to the government and the satisfaction of mining, environmental, safety and health requirements.

In 2001, NK Alliance entered into a subsoil use contract for the exploration and production at the Begaidar block (the "Begaidar Contract"). The Begaidar Contract is valid until 4 April 2031. See "Risk Factors—The Group's licenses, permits and contracts, including licenses for exploration and production, may be suspended, amended or terminated prior to the end of their terms, and the Group may be unable to obtain or maintain necessary permits and authorisations". Pursuant to the terms of the Begaidar Contract, the exploration stage was completed on 4 April 2009. Upon completion of the exploration stage, the Group started the commercial development of its fields at the Begaidar block.

The following table sets out the Group's estimated proven crude oil reserves and proven and probable crude oil reserves in the Kazakhstan region as of 31 December 2011, 2010 and 2009 respectively.

Oil Field	PRMS Classification of Reserves - as of 31 Dec					
	2011		2010		2009	
	Proven	Proven and Probable	Proven	Proven and Probable	Proven	Proven and Probable
	<i>(in thousand barrels)</i>					
Zhanatalap	5,879	10,776	10,138	15,922	7,869	13,415
<b>Total</b>	<b>5,879</b>	<b>10,776</b>	<b>10,138</b>	<b>15,922</b>	<b>7,869</b>	<b>13,415</b>

The following table sets out the Group's production in Kazakhstan for the nine months ended 30 September 2012 and 2011 and for the years ended 31 December 2011, 2010 and 2009, respectively .

Oil Field	Production				
	9 months ended 30 Sep		Year ended 31 Dec		
	2012	2011	2011	2010	2009
	<i>(in thousand barrels)</i>				
Zhanatalap	554	474	642	582	487
<b>Total</b>	<b>554</b>	<b>474</b>	<b>642</b>	<b>582</b>	<b>487</b>

As of 31 December 2011, the Group had 43 wells in Kazakhstan, 38 of which were active production wells, and 4 active injection wells. As of 31 December 2010, the Group had 37 wells in Kazakhstan, 34 of which were active production wells, 3 were active injection wells. As of 31 December 2009, the Group had 32 wells in Kazakhstan, 29 of which were active production wells, and 2 active injection wells.

## CRUDE OIL SALES

The Group's crude oil sales structure includes (i) export of crude oil (including CIS export), (ii) domestic sales and (iii) swap contracts.

The Group exports crude oil primarily through oil traders. The main off-takers of the Group are Vitol, Concept Oil and Altex. The traders enter into principal-to-principal agreements with the Group to purchase crude oil and sell it on to western Europe and Asia.

Domestic sales include sales of crude oil to smaller clients including refineries, such as the Alexandrov refinery, and domestic traders.

The Group currently refines more crude oil at its facilities than it produces. Since the transshipment of crude oil by the Company's subsidiaries Saneco, Tatnefteotdacha and Pechoranefit to the Khabarovsk Refinery is not cost-effective, the Group enters into swap arrangements with various companies as set forth below when market conditions are favourable, and sells the balance on the domestic, CIS and international markets.

The swap arrangements of the Group on the domestic market are primarily entered into with TNK-BP Holding, whereby the Company's subsidiaries Pechoranefit, Tatnefteotdacha and Saneco sell crude oil directly to TNK-BP Holding for delivery to Slavneft-YANOS and the Saratov refineries. In turn, TNK-BP sells its crude oil directly to Alliance Oil for delivery to the Khabarovsk Refinery. Crude oil refined by the Khabarovsk Refinery pursuant to these swaps may equal up to 40 percent of the crude oil produced by the Group. Crude oil, which is disposed of pursuant to these swap arrangements is considered by the Group to be an intra-group sale.

VTK and Khvoinoye could supply crude oil directly to the Khabarovsk Refinery.

The following table sets forth the Group's crude oil sales volumes and prices for export and domestic markets for the nine months ended 30 September 2012 and 2011, respectively, excluding intra-group crude oil sales.

	9 months ended 30 Sep							
	2012				2011			
	Export	CIS	Domestic	Total	Export	CIS	Domestic	Total
Sold volume, thousand barrels	5,383	241	2,515	8,139	4,076	281	2,458	6,815
Gross price, US\$/barrel	107.98	51.3	61.43	91.92	108.95	60.37	59.63	89.16
Net price(1), US\$/barrel	57.02	51.36	52.06	55.32	57.64	60.37	50.53	55.19
Selling expenses, US\$/barrel	6.85	12.54	5.18	6.50	6.76	14.51	3.38	5.86
Netback price(2), US\$/barrel	50.17	38.82	45.88	48.82	50.88	45.86	47.15	49.33
Revenue, US\$ thousands	306,934	12,389	130,907	45,230	234,962	16,962	124,206	376,130

(1) Net price means the gross price less VAT or applicable export duties.

(2) Netback prices are calculated by deducting from the gross price: VAT (for Russian domestic sales); railway and pipeline transportation costs and export duties, brokers' commissions and certain other costs (for export sales); or transportation, brokers' commissions and certain other costs (for CIS countries export).

The following table sets forth the Group's crude oil sales volumes and prices for export and domestic markets for the years ended 31 December 2011, 2010 and 2009, respectively, excluding intra-group crude oil sales.

	Year ended 31 Dec											
	2011				2010				2009			
	Export	CIS	Domestic	Total	Export	CIS	Domestic	Total	Export	CIS	Domestic	Total
Sold volume, thousand barrels	6,172	321	3,334	9,827	4,988	1,160	3,977	10,124	5,433	2,387	2,316	10,136
Gross price, US\$/barrel	107.40	60.12	59.16	89.49	76.40	78.92	40.92	67.99	57.07	43.76	37.46	49.45
Net price(1), US\$/barrel	55.93	60.12	50.13	54.10	42.46	41.50	34.71	39.31	35.28	34.03	31.75	34.18
Selling expenses, US\$/barrel	6.74	14.22	3.40	5.85	5.74	5.83	3.51	4.87	4.94	8.16	3.32	5.33

Netback price(2), US\$/barrel	49.19	45.90	46.73	48.25	36.72	35.67	31.20	34.44	30.34	25.87	28.43	28.85
Revenue, US\$ thousands	345,192	19,320	167,144	531,656	211,786	48,140	138,017	397,943	191,670	81,218	73,513	346,401

(1) Net price means the gross price less VAT or applicable export duties.

(2) Netback prices are calculated by deducting from the gross price: VAT (for Russian domestic sales); railway and pipeline transportation costs and export duties, brokers' commissions and certain other costs (for export sales); or transportation, brokers' commissions and certain other costs (for CIS countries export).

## Downstream operations

The Group's downstream business has two principal areas of activity:

- i. Refining: The Group conducts its oil refining operations at the Khabarovsk Refinery, which has a refining capacity of 90,000 bopd. In 2011, the Khabarovsk Refinery processed 26.9 million barrels of oil (approximately 74,000 bopd), as compared to 23.7 million barrels in 2010 and 21.8 million barrels in 2009.
- ii. Marketing and Sales: The Group markets the refined oil products to (i) retail customers through its own network of gas stations and (ii) merchants through wholesale oil products terminals located in the Russian Far East as well as exports the products through large and small third party wholesalers to the neighbouring Asian markets, namely South Korea, Japan and China.

The Company's downstream guidance for the full year 2012 is an average refining volume of 77,000 barrels per day.

### REFINING

#### Refining Operations

The Group owns one of the only two major oil refineries currently located in the Russian Far East, the Khabarovsk Refinery. Refining volumes at the Khabarovsk Refinery amounted to 21.7 million barrels of oil (with the refining rate of 79,325 bopd) for the nine months ended 30 September 2012, as compared to 20.2 million barrels (and with the refining rate of 73,925 bopd) in the first nine months of 2011. The Khabarovsk Refinery sold 22 million barrels of oil products for the period ended 30 September 2012, 20.3 million barrels for the period ended 30 September 2011, and 27.7, 24.4 and 21.5 million barrels for the years ended 31 December 2011, 2010 and 2009, respectively.

In March 2009, the Group disposed of the Alexandrov Refinery located in the Tomsk region for net cash consideration of USD 3 million.

#### The Khabarovsk Refinery

Prior to 1998 when the Khabarovsk Refinery was acquired by NK Alliance, the Khabarovsk Refinery was a medium-capacity fuel supplier with a limited range of technological processes and no major reconstruction had been undertaken by the previous owner.

In 2008, the Group launched a significant modernisation program at the Khabarovsk Refinery to widen its production processes for a higher degree of oil refining, in order to produce lighter and higher value oil products, primarily diesel fuel (see more below). The modernisation program contemplates addition of new refinery facilities to the existing ones without suspending on-going operations.

The first stage of the upgrade of the Khabarovsk Refinery involved the reconstruction of a catalytic reforming unit and the construction of an isomerisation block. Due to these developments, the refinery was the first in the Russian Far East to successfully produce 98 octane gasoline.

During the second stage of the modernisation program, the reforming capacity was upgraded to 350,000 tons per year. The reformat 98 octane product is the basis for the entire line of commercial gasoline, which guarantees its high quality. Consumers appreciate the quality of the Khabarovsk Refinery's products, particularly the GreenEco gasoline brand, which features improved operating and

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environmental performance with basic parameters in compliance with the Euro-4 standards. The GreenEco formulation was jointly developed by experts from Alliance Oil, Shell and BASF. GreenEco reduces fuel consumption, restores the engine's nameplate capacity, lowers the likelihood of its failure and extends its operational life. Specifically for the harsh climatic conditions encountered in the Russian Far East region, the refinery has developed a winter version of the high octane GreenEco gasoline with improved cold start up characteristics which enable engines to start faster in cold weather.

In order to address increasing demand for oil products and the evolving pattern of the Russian Far Eastern markets, the scope of the Khabarovsk Refinery modernisation has gradually been expanded to enhance refining capacity, to improve quality of oil products and to facilitate crude oil supplies to the refinery through the ESPO pipeline.

In 2009-2012 the Khabarovsk Refinery launched seven new units with upgraded utilities, infrastructure and off-sites. The capacity has been increased from 70,000 bopd to 90,000 bopd while daily throughput reached 82,943 bopd in October 2012. In the course of the construction works the Group cannot use the assets under construction for its operational purposes, save for the storage tanks.

A new hydrocracker and other hydroprocessing units are expected to be launched into test operations in the third quarter of 2013. As of 21 November 2012, the project progress is estimated at above 95 percent in engineering and procurement, and 75 percent in construction works. The main turn-key contractor of the Group working on the modernisation of the Khabarovsk Refinery is the Spanish developer Tecnicas Reunidas, S.A. Involvement of well-known and reputable developers minimises the Group's risks related to technical and organisational aspects of the modernisation process.

A new hydroprocessing complex will allow the refinery to bring its whole line of diesel products fully in line with Euro-5 standards and to introduce new products like Jet A-1 aviation fuel. This complex is the main facility constructed within the second stage of the upgrade. The project is being financed by the Company itself and through a 13-years loan from the state owned corporation Vnesheconombank, with an insurance guarantee from the Spanish state agency CESCE. Almost all real estate facilities and some production facilities of the Khabarovsk Refinery as well as 95.49 percent of the shares in OJSC Khabarovsk Oil Refinery (being 97.78 percent of the shares in OJSC Khabarovsk Oil Refinery owned by OJSC Alliance Oil Company) are pledged in favor of Vnesheconombank as security for obligations of OJSC Khabarovsk Oil Refinery under financing arrangements provided by Vnesheconombank.

The hydroprocessing complex includes a vacuum gasoil hydrocracking unit, an aviation kerosene and diesel hydrotreating unit, a hydrogen production unit and a sulphur recovery unit. These units involve advanced technologies of the world's leading licensors - Shell Global Solutions, Foster Wheeler, and Technip-KTI. The second stage of the upgrade is expected to be put into test operations in the third quarter of 2013.

The total cost for the expanded refinery modernisation is estimated at USD 1,400 million and includes contracts under negotiation for completing the capacity increase to 100,000 bopd in 2013. So far, approximately USD 1,000 million has been invested in the modernisation out of which approximately USD 680 million under the engineering procurement contract with Tecnicas Reunidas.

Currently, the products of greatest demand are gasoline, kerosene, winter diesel and low-viscosity marine fuel. After commissioning the new hydroprocessing complex, the output of premium-grade products will prevail. Euro-5 diesel and JetA-1 aviation fuel will be added to the list of existing products supplied both for domestic needs and export shipments.

As a result of Alliance Oil's present modernisation activity, a practically new refinery will be built on the existing site without disrupting the current operations. The production of light oil products will increase. Thus, Alliance Oil will be able to respond better to changing market conditions.

The Khabarovsk Refinery is not connected to the Transneft or Transnefteproduct pipeline systems. As a result, crude oil and oil products must be transported to and from Khabarovsk by other means, primarily by rail. It is expected that after the Khabarovsk Refinery is connected to the ESPO pipeline, currently planned for the end of 2013, the Group will significantly reduce its transportation costs and expects to increase its product turnover starting from 2014.

The Khabarovsk Refinery has its own autonomous energy supply system which has a power generation capacity sufficient for its energy needs.

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### *Crude oil suppliers*

In the nine months ended 30 September 2012, the main suppliers of crude oil processed at the Khabarovsk Refinery were TNK-BP, Tomskgazprom, Bashneft and VTK. About 26 percent of crude oil arrives to the Khabarovsk Refinery out of various Group swap arrangements.

The Khabarovsk Refinery processes crude oil under tolling agreements with a wholly-owned subsidiary of the Group. Services provided under the tolling agreements include processing of the crude oil purchased by a subsidiary within the Group and related storage and transportation services for oil products. The subsidiary purchases crude oil from suppliers outside the Group and some directly from VTK and Khvoinoye, two subsidiaries engaged in crude oil exploration and production in the Tomsk region. The Group currently refines more crude oil at its facilities than the Group produces.

The Group could also purchase crude oil under a ten year framework supply arrangement (expiring on 31 December 2017) with Surgutneftegas. The Group's supply contract with Surgutneftegas provides for a monthly supply of up to 170,000 tons of crude oil to the Khabarovsk Refinery. Specific volumes and prices for the shipments of purchased oil are negotiated monthly and formalised as supplements to the contract payment terms, either advance payment or letter of credit.

### **MARKETING AND SALES**

The view of the Company's management is that the Alliance brand is one of the most recognised in the Russian Far East and that consumers consider Alliance Oil as a company that consistently maintains high quality standards for the products and services offered. The high quality oil products are guaranteed as the whole production chain from the Khabarovsk Refinery through to the gas nozzle at the petrol station is being closely monitored.

The Company's own network of onshore depots and petrol filling stations, as well as its own sea terminals, enable Alliance Oil to operate within the whole value-chain: wholesale and retail sectors, complex logistics with transshipment and storage services, and bunker supply in the Khabarovsk, Vladivostok, Sakhalin and Kamchatka regions.

The Group derives a major part of its revenue from sales of oil products. In the nine months ended 30 September 2012, the Group's total revenue from sales of oil products amounted to USD 2,045 million as compared to USD 1,839 million in the nine months ended 30 September 2011. In the year ended 31 December 2011, the Group's total revenue from sales of oil products amounted to USD 2,496 million as compared to USD 1,756 million in the year ended 31 December 2010 and the Group's revenue of USD 1,347 million in the year ended 31 December 2009.

Excluding intra-group crude oil sales, in the nine months ended 30 September 2012, the Group's total revenue from sales of crude oil amounted to USD 450 million as compared to USD 376 million in the nine months ended 30 September 2011. In the year ended 31 December 2011, Alliance Oil's total revenue from sales of crude oil amounted to USD 532 million as compared to USD 398 million in the year ended 31 December 2010 and the Group's revenue of USD 346 million in the year ended 31 December 2009.

In the nine months ended 30 September 2012, the Group's total revenue from export sales and domestic sales of oil products amounted to USD 858 million and USD 1,186 million, respectively, compared to export and domestic sales of oil products amounted to USD 636 million and USD 1,203 million, respectively, in the nine months ended 30 September 2011. In the year ended 31 December 2011, the Group's total revenue from export sales and domestic sales of oil products amounted to USD 871 million and USD 1,625 million, respectively. In the year ended 31 December 2010, the Group's total revenue from export sales and domestic sales of oil products amounted to USD 500 million and USD 1,256 million, respectively. In the year ended 31 December 2009, the Group's total revenue from export sales and domestic sales of oil products amounted to USD 334 million and USD 1,014 million, respectively.

### *Domestic sales*

The Group sells its oil products through its network of filling stations in the Amur, Khabarovsk, Primorsk regions, the Jewish Autonomous District and the Republic of Buryatia. During the first nine months of 2012, the Group sold 3.8 million barrels of oil products to its retail customers. The Group sold 4.6 million barrels of oil products in the domestic retail market in 2011. Alliance Oil is constantly optimising its portfolio of gas stations and seeks to substantially increase the number of stations providing non-fuel

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services. The Group estimates its market share in the Russian Far East at 50 percent in the retail market and 30 percent in the wholesale market in terms of volumes of oil products sold in 2011. The oil products sold by the Group in the Russian Far East are primarily supplied by the Khabarovsk Refinery. The Group also sells small volumes of oil products purchased from unaffiliated companies on the domestic market.

Alliance Oil owns a network of 274 petrol stations and 21 oil product terminals in the Russian Far East and Siberia (Amur, Khabarovsk, Primorsk, the Jewish Autonomous District, and the Republic of Buryatia). The Group expects to launch another three petrol stations in the Republic of Buryatia by the end of 2012.

The Group sells oil products to both wholesale and retail customers through its marketing and sales subsidiaries. Khabarovsknefteprodukt, Amurnefteprodukt, Primornefteprodukt and Alliance-Baikalneftesbyt operate in the regions Khabarovsk, Amur, Primorsk, the Jewish Autonomous District and the Republic of Buryatia and are engaged in both wholesale and retail sales. Alliance-Bunker, one of the Group's subsidiaries, is engaged in fuelling of watercrafts and fishing ships, and operates in the Russian Far East including the Sakhalin and Kamchatka regions.

### *Wholesale sales*

Small wholesale sales of oil products in the domestic Russian Far Eastern market take place through the oil products terminals owned by the Group while large wholesale sales are shipped directly from the Khabarovsk Refinery. The Group sold 6.9 million barrels and 8.0 million barrels in the wholesale market in the nine months ended 30 September 2012 and 2011, respectively. The Group sold 10.6, 11.5 and 10.8 million barrels in the years ended 31 December 2011, 2010 and 2009, respectively. The Group estimates its wholesale market share in the Russian Far East at 30 percent in terms of volumes of oil products sold in 2011.

The Group generally enters into framework supply contracts with its wholesale customers. The supply contracts are usually entered into for a one-year term and include a standard provision permitting the renewal of the contract by agreement of the parties. The Group sells most of its jet fuel to the Khabarovsk airport.

Purchases of oil products under federal programs are financed by the Russian federal, regional or local budgets. In addition, the Group also supplies oil products to Russian Railways under the federal programs. Supplies under federal programs are appointed primarily on a tender basis.

### *Bunkering*

The Group markets its oil products through a network of owned sea terminals designed for receiving, storing and dispensing mainly two types of oil products - fuel oil and diesel.

The Group constantly investigates opportunities to increase its market share by negotiating long-term contracts with large customers, purchasing and leasing of modern bunkering tankers of ice class. In 2011 Alliance Oil's market share in the Russian Far Eastern bunkering industry was around 12 percent.

### *Retail sales*

The Group's retail customers are mainly individual car owners and transportation companies. The Group offers value-added services at its filling stations, such as car washes, car maintenance, retail shops and product kiosks and has commenced the roll-out of pay-at-the pump pre-pay debit card terminals which include a customer loyalty points program. The Group is currently optimising its portfolio of retail filling stations in the Russian Far East by reconstructing existing filling stations and by constructing new filling stations while closing underperforming stations. As part of this process, the Group seeks to substantially increase the number of filling stations providing non-fuel services. The Group intends to increase its retail sale operations in the Russian Far East by entering into neighbouring regions, namely Kamchatka, Magadan and Sakhalin.

### *Export Sales*

The Group sells all exported oil products to Lia Oil, a Swiss oil products trading company which is an affiliate of the Group. The Group exports primarily fuel oil, naphtha and diesel. In the nine months ended 30 September 2012 and 2011, the Group exported 11.4 million barrels and 9.1 million barrels of oil products, respectively. In 2011, 2010 and 2009, the Company exported 12.4, 9.1 and 7.4 million barrels of oil products, respectively.

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## TRANSPORTATION AND LOGISTICS

### *Pipelines*

The Group uses the Transneft pipeline network for transporting the crude oil to customers within and outside of Russia and to the Khabarovsk Refinery. The Group's oil fields located in Tatarstan in the Timano-Pechora region and in Kazakhstan are not directly connected to the Transneft network. The crude oil produced by the Group in Tatarstan is delivered to the Transneft pipelines via Tatneft's pipeline network, while Potential Oil transports crude oil from Kazakhstan through the Sazankurak and KazTransOil pipeline networks, and Pechoraneft transports crude oil to the Transneft pipeline via a Lukoil owned pipeline.

Transneft is a state-owned oil pipeline monopoly. The Russian Government regulates access to Transneft's pipeline network and is required to provide access on a non-discriminatory basis. The Russian Ministry of Energy, based on information provided by Transneft and oil producers, allocates pipeline network owned by Transneft and Transneftproduct (a state-owned refined product pipeline monopoly) and sea terminal capacity to oil producers for export deliveries on a quarterly basis. The overall price to transport crude oil depends on the number of Transneft "districts" through which the oil is transported.

In order to facilitate increased and efficient supplies of crude oil to the Khabarovsk Refinery, the Group has started construction of a new transfer unit and 28 kilometres pipeline from the designated ESPO pipeline connection point to the Khabarovsk Refinery. The first crude supplies to the refinery by the ESPO pipeline are expected in 2014 with 40,000 bopd switched from railway shipments. The pipeline supplies are scheduled to gradually increase to reach 100,000 bopd by 2015. The transportation costs for crude oil supplied through the ESPO pipeline are expected to amount to approximately half of the cost for 3,300 kilometres railway shipments.

The Group delivers its jet fuel to the Khabarovsk airport through a pipeline connecting the Khabarovsk Refinery with the Khabarovsk airport. The pipeline's length is approximately 14 kilometres. The Group leases the pipeline from the government of Khabarovsk.

### *Railways*

To optimise the cost of transporting crude oil by rail to Khabarovsk, Alliance Oil operates a transport unit with a fleet of owned and leased railway tank cars. These tank cars are also used for transporting oil products to domestic consumers and export sea terminals.

The Khabarovsk Refinery is expected to be connected to the ESPO pipeline, which will gradually replace railway deliveries starting from 2014. This will allow the Khabarovsk Refinery to have better access to the crude supplies while minimising significantly transportation costs.

## TRANSSHIPMENT AND STORAGE

### *Oil terminals*

A rail-and-water terminal is operated in Vladivostok with a transshipment capacity of 2.5 million tons per annum. The Vladivostok terminal includes 31 storage tanks with a net volume of 129,000 cubic metres and four railroad discharge ramps that can simultaneously accommodate 56 tank rail cars.

The Group has 21 oil terminals in the Russian Far East with a combined storage capacity of 373,714 cubic metres. The Khabarovsk and the Blagoveshensk oil terminal wharfs on the Amur river are connected with light and dark oil products pipelines, which accommodate barges with capacities of up to 5,000 tons. In accordance with Vaarwater program recommendations, the Group seeks to optimise its oil terminals network for more efficient storage and delivery of petroleum products with lower transportation costs.

### *The Khabarovsk Refinery's storage and transshipment*

The Khabarovsk Refinery has 50 tanks to store crude oil and oil products, with a total capacity of 266,500 cubic metres, including eight tanks for crude oil with a total capacity of 130,200 cubic metres, 32 tanks for light oil products with a total capacity of 91,400 cubic metres and ten tanks for dark oil products with a total capacity of 44,900 cubic metres.



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## Competition

The oil and gas industry in Russia is highly competitive. The key activities in which the Group faces competition are:

- i. the production of oil and gas, development of fields and conduct of exploration;
- ii. acquisition of exploration and production licenses at tenders or auctions run by Russian governmental authorities;
- iii. acquisition of other Russian companies that may already own licenses for hydrocarbon resources;
- iv. acquisition of crude oil stock for the Group's refining operations
- v. maintenance and development of the technology required to produce oil products that are demanded by the consumer market and/or required by law;
- vi. engagement of third party service providers whose capacity to provide key services may be limited;
- vii. access to transportation networks for crude oil, gas and oil products;
- viii. purchase of capital equipment that may be scarce;
- ix. employment of qualified and experienced staff;
- x. development of new export markets;
- xi. acquisition of existing retail outlets or of sites for new retail outlets; and
- xii. marketing to wholesale and retail customers in the Russian Far East.

In refining, the Group competes principally with the Komsomolsk oil refinery owned by Rosneft.

The retail sale of petroleum and non-fuel goods in Russia through filling stations is increasingly competitive, and changing demographics and consumer preferences in individual geographic locations may materially impact the operations of filling stations in those locations. The Group's business strategy depends in part on its ability to compete by assessing locations and successfully opening filling stations in new locations or remodelling existing filling stations to add facilities for non-fuel sales, such as shops and car wash facilities. Furthermore, the Group may face increased competition from companies that have more established brand names or more experience in combining fuel and non-fuel sales.

The Group's principal competitors in the oil products retail sector include other leading Russian oil companies, such as Rosneft and Vostokneft where Rosneft is larger than the Group. While the Group believes that it currently has a greater brand awareness than its competitors in the Russian Far East, there can be no guarantee that this position will not change in the future. See "Risk Factors—The Group operates in highly competitive businesses" for further information about the risks related to the Group's ability to compete effectively with other oil companies.

The oil and gas industry is currently subject to several important influences which impact the industry's competitive landscape. In recent years, the oil and gas industry has experienced consolidation, as well as increased deregulation and integration in strategic markets. In addition, the Group's ability to remain competitive will require, *inter alia*, management's continued focus on reducing unit costs and improving efficiency, maintaining long-term growth in the Group's reserves and production through continued technological innovation.

In the face of intense competition, oil and gas companies are also facing increasing demands to conduct their operations in a manner consistent with environmental and social goals. Investors, customers and governments are more actively following the industry's performance on environmental

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responsibility and human rights, including performance with respect to the development of alternative and renewable fuel resources.

As a result of these influences and other factors, Alliance Oil's assessment is that competition will continue to intensify. A number of other Russian oil and gas companies, as well as foreign companies, are permitted to compete for licenses and to offer services in Russia, increasing the competition which the Group faces. Competition will also continue to grow due to the limited quantities of unexploited and unallocated oil reserves.

## Investments

For the year ended 31 December 2011, the Group's net investments in upstream assets amounted to USD 603 million. For the year ended 31 December 2010, the Group's net investments in upstream assets amounted to USD 352 million. For the year ended 31 December 2009, the Group's net investments in upstream assets amounted to USD 95 million.

For the year ended 31 December 2011, the Group's net investments in refining assets amounted to USD 315 million and net investments in marketing, selling and other assets amounted to USD 28 million. For the year ended 31 December 2010, the Group's net investments in refining assets amounted to USD 224 million and net investments in marketing, selling and other assets amounted to USD 29 million. For the year ended 31 December 2009, the Group's net investments in refining assets amounted to USD 83 million and net investments in marketing, selling and other assets amounted to USD 28 million.

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## Financial development in brief

*The summarised financial information presented below for the financial years 2009–2011 has been extracted from Alliance Oil's audited consolidated financial statements, which were prepared in accordance with IFRS and have been audited by the Company's auditors.<sup>1</sup> Information regarding the first nine months of 2011 and 2012 has been extracted from Alliance Oil's interim reports which were prepared in accordance with IFRS and have been reviewed by the Company's auditors.*

*The below summary of the Company's financial statements should be read together with Alliance Oil's audited consolidated financial statements and accompanying notes for the years 2009–2011 and Alliance Oil's interim reports for the first nine months of 2012 and 2011, which have been incorporated in this Prospectus by way of reference and comprise part of the Prospectus.*

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<sup>1</sup> Please note that the fiscal years 2011-2010 have been audited by Deloitte AB and ZAO Deloitte & Touche CIS and fiscal year 2009 was audited by PricewaterhouseCoopers AB.

## Consolidated Income Statement

USD million	9 months ended 30 Sep		Full year ended 31 Dec		
	2012	2011	2011	2010	2009
Revenue from sales of crude oil	450.2	376.1	531.7	397.9	346.4
Revenue from sales of oil products	2,044.8	1,838.9	2,496.2	1,756.3	1,347.3
Other income	41.5	42.3	54.8	41.5	32.7
<b>Total revenue</b>	<b>2,536.6</b>	<b>2,257.3</b>	<b>3,082.7</b>	<b>2,195.8</b>	<b>1,726.4</b>
Production costs of crude oil	-272.1	-258.4	-353.0	-269.2	-218.7
Production costs of oil products	-1,358.1	-1,234.6	-1,631.9	-1,168.1	-819.4
Cost of other sales	-18.3	-18.3	-23.9	-21.8	-19.7
Depletion and depreciation of oil and gas and refining assets	-130.9	-103.0	-156.2	-117.6	-95.2
Reversal of impairment of oil and gas assets	-	-	-	1.1	170.3
<b>Gross profit</b>	<b>757.2</b>	<b>643.1</b>	<b>917.6</b>	<b>620.1</b>	<b>743.8</b>
Selling expenses	-245.4	-224.6	-289.9	-223.7	-206.1
Administrative expenses	-67.1	-54.6	-77.5	-67.9	-59.9
Depreciation and amortization of marketing and other non-production	-13.6	-13.7	-18.0	-14.6	-12.4
Other operating expenses, net	-10.5	-12.6	-18.2	-6.7	-12.7
Share of profit/loss of associates	-0.2	-	2.2	0.1	0.0
Loss/gain on disposal of shares in subsidiaries	-	-	-2.9	0.0	0.9
<b>Operating income</b>	<b>420.4</b>	<b>337.6</b>	<b>513.3</b>	<b>307.3</b>	<b>453.6</b>
Finance costs, net	-59.3	-47.6	-46.9	-21.6	-34.2
Gain/loss on derivatives classified as held for trading	5.0	-15.9	-15.4	-	-
Currency exchange loss/gain, net	10.5	-	-18.2	3.9	-1.4
<b>Profit before tax</b>	<b>376.7</b>	<b>274.1</b>	<b>432.8</b>	<b>289.7</b>	<b>418.1</b>
Income tax expense	-85.8	-65.0	-104.5	-63.3	-73.1
<b>Profit for the period</b>	<b>290.8</b>	<b>209.1</b>	<b>328.3</b>	<b>226.3</b>	<b>345.0</b>
Attributable to:					
Owners of the Company	278.4	202.7	318.9	222.2	343.8
Non-controlling interests	12.4	6.4	9.4	4.1	1.2

## Consolidated Statement of Comprehensive Income

USD million	9 months ended 30 Sep		Full year ended 31 Dec		
	2012	2011	2011	2010	2009
<b>Profit for the period</b>	<b>290.8</b>	<b>209.1</b>	<b>328.3</b>	<b>226.3</b>	<b>345.0</b>
<b>Other comprehensive (loss)/income</b>					
Currency exchange (loss)/gain on intercompany loans	37.0	-41.7	-49.2	-15.0	-20.1
Exchange differences on translating foreign operations	63.0	-76.1	-95.2	-10.5	-24.3
Income tax relating to components of other comprehensive income	-6.0	7.0	7.6	1.3	7.3
Other comprehensive (loss)/income for the period, net of tax	94.0	-110.8	-136.9	-24.2	-37.2
<b>Total comprehensive (loss)/income for the period</b>	<b>384.8</b>	<b>98.3</b>	<b>191.4</b>	<b>202.1</b>	<b>307.8</b>
<b>Attributable to:</b>					
Owners of the company	368.2	89.2	179.6	198.0	306.5
Non-controlling interests	16.7	9.1	11.8	4.1	1.4

## Consolidated Statement of Financial Position

USD million	30 Sep 2012	30 Sep 2011	31 Dec 2011	31 Dec 2010	31 Dec 2009
Property, plant and equipment	3,799.7	3,048.8	3,223.8	2,528.2	1,957.3
Intangible assets	1.0	2.1	1.9	3.8	5.9
Goodwill	20.0	11.2	19.2	11.7	11.8
Deferred tax assets	28.3	28.9	26.4	25.3	22.8
Other non-current assets	48.8	45.6	51.9	48.5	0.6
<b>Non-current assets</b>	<b>3,897.9</b>	<b>3,136.6</b>	<b>3,323.3</b>	<b>2,617.6</b>	<b>1,998.4</b>
Inventories	207.3	180.6	145.0	141.3	115.8
Trade and other accounts receivable	193.1	93.3	113.6	117.1	30.0
Value added tax and other taxes	261.2	208.0	224.6	135.8	100.5
Income tax receivable	16.2	14.6	11.8	9.9	11.5
Advances paid and prepaid expenses	108.8	89.2	125.9	98.0	61.8
Other financial assets	113.7	94.3	93.3	49.6	16.9
Restricted cash	26.3	53.7	27.3	79.3	55.7
Cash and cash equivalents	296.0	189.9	160.5	98.8	336.4
<b>Current assets</b>	<b>1,222.6</b>	<b>923.8</b>	<b>902.0</b>	<b>729.8</b>	<b>728.6</b>
<b>Total assets</b>	<b>5,120.5</b>	<b>4,060.4</b>	<b>4,225.2</b>	<b>3,347.4</b>	<b>2,727.0</b>
Share capital	171.5	171.5	171.5	171.5	171.5
Additional paid-in capital	1,104.7	1,104.0	1,104.4	1,103.8	1,105.8
Other reserves	-390.6	-454.6	-480.4	-341.1	-316.9
Retained earnings	1,407.8	1,043.4	1,159.9	839.7	616.6
Non-controlling interests	141.2	39.6	38.0	31.3	29.7
<b>Total equity</b>	<b>2,434.5</b>	<b>1,903.9</b>	<b>1,993.4</b>	<b>1,805.3</b>	<b>1,606.8</b>
Non-current loans and borrowings	1,571.2	1,512.5	1,514.3	912.5	364.7
Deferred tax liabilities	213.8	180.3	188.0	178.0	160.2
Provision for decommissioning and site restoration costs	31.1	29.6	15.4	16.0	11.9
Other long-term liabilities	72.5	15.4	13.8	-	-
<b>Non-current liabilities</b>	<b>1,888.7</b>	<b>1,737.8</b>	<b>1,731.5</b>	<b>1,106.5</b>	<b>536.7</b>
Current loans and borrowings	378.5	54.9	106.8	127.1	345.5
Payables and accrued expenses	330.0	299.2	314.7	248.3	187.0
Income tax payables	7.5	4.4	5.5	1.6	2.1
Other taxes payable	74.1	60.2	68.4	58.6	49.0
Other current liabilities	7.2	-	4.9	-	-
<b>Current liabilities</b>	<b>797.3</b>	<b>418.7</b>	<b>500.3</b>	<b>435.7</b>	<b>583.5</b>
<b>Total equity and liabilities</b>	<b>5,120.5</b>	<b>4,060.4</b>	<b>4,225.2</b>	<b>3,347.4</b>	<b>2,727.0</b>

## Consolidated Statement of Changes in Equity

USD million	9 months ended 30 Sep		Full year ended 31 Dec		
	2012	2011	2011	2010	2009
<b>Balance at beginning of period</b>	<b>1,993.4</b>	<b>1,805.3</b>	<b>1,805.3</b>	<b>1,606.8</b>	<b>1,157.7</b>
Profit for the period	290.8	209.1	328.3	226.3	345.0
Other comprehensive income	94.0	-110.8	-136.9	-24.2	-37.2
<b>Total comprehensive income for the period</b>	<b>384.8</b>	<b>98.3</b>	<b>191.4</b>	<b>202.1</b>	<b>307.8</b>
Disposal of non-controlling interests arising on completion of the first phase of a joint venture	55.2	-	-	-	-
Changes in ownership of subsidiaries	-0.1	-0.2	-1.4	-4.4	-1.0
Disposal of subsidiaries	-	-	-2.8	-0.1	-
Equity issue	-	-	-	-	118.7
Dividends paid by subsidiaries	-	-0.5	-0.5	-	-0.1
Convertible bonds	-	-	-	-	22.3
Share option plan	1.2	0.9	1.4	0.9	1.3
<b>Balance at end of period</b>	<b>2,434.5</b>	<b>1,903.9</b>	<b>1,993.4</b>	<b>1,805.3</b>	<b>1,606.8</b>

## Consolidated Statement of Cash Flows

USD million	9 months ended 30 Sep		Full year ended 31 Dec		
	2012	2011	2011	2010	2009
Profit before tax	376.7	274.1	432.8	289.7	418.1
Adjustments for:					
Depreciation, depletion and amortization	144.5	116.6	174.2	132.2	107.6
Finance costs, net	59.3	47.6	46.9	21.6	34.2
Loss on derivatives classified as held for trading	-5.0	-	15.4	-	0.0
Currency exchange loss/gain, net	-10.5	15.9	18.2	-3.9	1.4
Loss/gain on disposal of shares in subsidiaries	-	-	2.9	0.0	-
Share of profits of associates	0.2	-	-2.2	-0.1	-
Loss on disposal of assets	3.9	-	3.2	0.2	2.4
Reversal of impairment of oil and gas assets, net	-	-	-	-1.1	-170.3
Other non-cash items	18.3	7.8	3.3	4.7	0.4
<b>Operating cash flow before changes in working capital</b>	<b>587.3</b>	<b>462.0</b>	<b>694.7</b>	<b>443.3</b>	<b>393.7</b>
Changes in working capital	-35.5	-71.9	-118.4	-175.6	1.2
Interest paid	-61.0	-26.1	-42.1	-18.9	-35.2
Income tax paid	-76.5	-52.8	-71.7	-45.0	-44.3
<b>Total cash generated from operating activities</b>	<b>414.3</b>	<b>311.2</b>	<b>462.5</b>	<b>203.8</b>	<b>315.4</b>
Investments in oil and gas assets	-259.1	-446.2	-603.7	-351.9	-94.7
Investments in refining assets	-202.8	-230.0	-314.9	-223.5	-83.4
Investments in marketing and other non-production assets	-36.0	-17.4	-28.2	-29.2	-28.0
Interest capitalized and paid	-71.0	-72.7	-78.3	-46.0	-28.8
Investments in shares in subsidiaries	-30.0	-11.7	-15.6	-	1.2
Proceeds from disposal of assets	1.8	-	1.7	1.7	3.0
Interest received	5.1	-	5.8	6.7	7.9
Loans provided	-51.8	-40.0	-56.6	-29.4	-15.3
Loans repaid	50.3	-	19.2	16.9	0.0
Short-term deposits placed	-19.1	-30.0	-30.0	-29.9	0.0
Proceeds from deposits withdrawn	-	30.1	30.1	-	0.0
Other investing activities, net	-10.5	8.0	-	-20.0	0.2
<b>Total cash used in investing activities</b>	<b>-623.1</b>	<b>-809.8</b>	<b>-1,070.7</b>	<b>-704.5</b>	<b>-237.8</b>
Proceeds from financing raised, net of issue costs	731.2	1,055.5	1,111.3	825.8	718.4
Repayment of loans and borrowings	-429.4	-476.1	-478.9	-519.7	-736.9
Acquisition of non-controlling interest in subsidiaries	-1.2	-1.2	-1.3	-4.7	0.0
Dividends paid to shareholders by subsidiaries	0.0	-	-0.4	0.0	-0.1
Other financing activities	35.7	-	-	0.1	-
<b>Total cash generated from financing activities</b>	<b>336.3</b>	<b>578.2</b>	<b>630.7</b>	<b>301.5</b>	<b>-18.7</b>
Effects of exchange rate changes on cash balances held in foreign currencies and translation difference	7.1	-14.0	-12.8	-14.7	-2.2
<b>Change in cash, cash equivalents and restricted cash</b>	<b>134.5</b>	<b>65.5</b>	<b>9.7</b>	<b>-214.0</b>	<b>56.7</b>
Cash, cash equivalents and restricted cash at beginning of the period	187.8	178.1	178.1	329.1	335.4
<b>Cash, cash equivalents and restricted cash at the end of the period</b>	<b>322.3</b>	<b>243.6</b>	<b>187.8</b>	<b>178.1</b>	<b>392.1</b>



## Key ratios

	30 Sep 2012	30 Sep 2011	31 Dec 2011	31 Dec 2010	31 Dec 2009
<b>Financial ratios</b>					
EBITDA for the last twelve months, USD million	801.1	572.8	690.3	438.4	387.9
Return on shareholders' equity, per cent	17%	14%	16%	13%	21%
Return on capital employed, per cent	15%	14%	16%	12%	21%
Debt/equity ratio, per cent	80%	82%	81%	58%	45%
Equity ratio, per cent	48%	47%	47%	54%	59%
Risk-bearing capital, per cent	52%	51%	52%	59%	65%
Interest-coverage ratio, multiple	3.5	3.2	3.5	3.2	6.4
Debt coverage ratio, multiple	4.5	4.2	4.6	4.4	5.4
Debt/EBITDA, multiple	2.4	2.7	2.4	2.4	1.8
Earnings per share, before dilution, USD	1.62	1.18	1.86	1.30	2.06
Earnings per share, after dilution, USD	1.53	1.11	1.74	1.21	2.01
<b>Operational ratios</b>					
Sales volume crude oil, million barrels	14.6	11.7	17.5	15.8	16.2
Crude oil revenue per barrel sold, USD/barrel	51.9	51.0	50.0	36.6	30.5
Production costs per barrel sold crude oil, USD/barrel	26.4	29.4	27.8	23.4	18.7
Sales volume oil products, million barrels	22.1	20.3	27.6	24.5	21.5
Oil products revenue per barrel sold, USD/barrel	92.4	90.5	90.3	72.2	62.5
Production costs per barrel sold oil products, USD/barrel	75.0	72.2	71.2	55.9	45.6

## Definition of key ratios

### FINANCIAL RATIOS

#### *EBITDA for the last twelve months*

The Company's operating result plus depletion, depreciation and amortisation, 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.

#### *Return on shareholders' equity*

The Company's result divided by the shareholders' equity at the end of the financial period.

#### *Return on capital employed*

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).

#### *Debt/equity ratio*

Loans and borrowings, as shown in the consolidated statement of financial position, in relation to the shareholders' equity.

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### *Equity ratio*

The proportion of the Group's shareholders' equity (including non-controlling interests) to total assets.

### *Risk-bearing capital*

The sum of shareholders' equity (including non-controlling interests) and deferred tax liabilities, divided by total assets.

### *Interest-coverage ratio*

Result before tax plus interest expenses, plus/less currency exchange gain/loss, divided by interest expense (both capitalised and expensed in the income statement).

### *Debt coverage ratio*

The Company's EBITDA divided by interest expense (both capitalised and expensed in the income statement).

### *Debt/EBITDA*

Loans and borrowings, as shown in the consolidated statement of financial position, divided by EBITDA.

### *Earnings per share, before dilution*

Earnings per share, before dilution, are calculated by dividing profit for the period attributable to owners of the Company by the weighted average number of Ordinary Shares for the period.

### *Earnings per share, after dilution*

Earnings per share, after dilution, are calculated by dividing profit for the period attributable to owners of the Company by the weighted average number of dilutive potential Ordinary Shares for the period. Dilutive potential Ordinary Shares for the Company are convertible bonds, share options and warrants.

## **OPERATIONAL RATIOS**

### *Sales volume crude oil*

Volume crude oil sold in terms of millions of barrels.

### *Crude oil revenue per barrel sold*

Revenue from sale of crude oil divided by volume of crude oil sold both intra-group and to external customers.

### *Production costs per barrel sold crude oil*

Based on volume of crude oil sold both intragroup and to the external customers excluding crude oil purchased for re-sale. Include production cost, taxes, depletion and depreciation.

### *Sales volume oil products*

Volume oil products sold in terms of millions of barrels.

### *Oil products revenue per barrel sold*

Net sales price (gross price less VAT or export duties) per barrel of oil products sold to external customers.

### *Production costs per barrel sold oil products*

Operating costs (including purchases of crude oil and other services from intra-group companies) divided by volumes of oil products sold both intragroup and to external customers. Include cost of refining, transportation cost, cost of crude oil purchased for re-sale, taxes and depreciation of refining assets.

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## Comments to financial developments in brief

*The following information should be read in conjunction with the preceding section "Financial development in brief".*

### Comparison between January–September 2012 and January–September 2011

#### **REVENUES AND PROFIT**

Revenue from crude oil increased by 20 percent during the first nine months in 2012 and amounted to USD 450.2 million compared to USD 376.1 million during the first nine months in 2011. The increase was mainly due to increased sales volumes from the Kolvinskoye oil field. Revenue from sales of oil products amounted to USD 2,044.8 million during the first nine months in 2012 compared to USD 1,838.9 million during the corresponding period in 2011, an increase of 11 percent. The increase was due to higher volumes and higher market prices.

Upstream oil production costs amounted to USD 272.1 million during the first nine months in 2012, an increase of 5 percent compared to the corresponding period in 2011 when the amount was USD 258.4 million. Despite increased sales volumes, oil production costs remained stable primarily due to decreased cost of transportation from the Kolvinskoye oil field upon completion of the pipeline to the Kharyaga terminal. Production costs for oil products during the first nine months in 2012 totaled USD 1,358.1 million compared to USD 1,234.6 million during the corresponding period in 2011, an increase of 10 percent. The main cost drivers were increased volumes and crude oil prices.

The depletion charge for upstream assets amounted to USD 112.5 million during the first nine months in 2012, an increase of USD 26.5 million compared to the corresponding period in 2011. The increase in depletion charge resulted from higher production volumes at the Kolvinskoye oil field and the updated estimation of the future capital expenditures at the end of 2011. The depreciation charge for refining assets increased by USD 1.4 million during the first nine months in 2012, from USD 17.0 million during the corresponding period in 2011 to USD 18.5 million.

Operating expenses increased to USD 336.8 million during the first nine months in 2012 from USD 305.5 million in 2011, an increase of 10 percent. The increase was primarily due to the selling expenses increased as a result of revenue improvements.

The Company's operating profit was USD 420.4 million during the first nine months in 2012 compared to USD 337.6 million in 2011, an increase of 25 percent.

Net financial costs increased to USD 59.3 million during the first nine months in 2012 from USD 47.6 million in 2011, an increase of USD 11.7 million. Bonds with a notional amount of RUR 3,000 million were during 2011 swapped to USD through a cross currency interest swap contract in order to balance foreign currency income from export and obtain a lower interest rate. The impact from the cross currency swap valuation for the nine months ended 30 September 2012 was recognised in the income statement and represented a gain of USD 5.0 million before income tax due to the weakening of USD to RUR and gain from netting position on swap periodical payments.

Profit before tax amounted to USD 376.7 million during the period, an increase of USD 102.6 million compared to USD 274.1 million of the corresponding period in 2011. Income tax expense for the period amounted to USD 85.8 million, an increase of USD 20.8 million compared to USD 65.0 million in 2011. Paid income tax was USD 76.5 million, compared to USD 52.8 million in 2011.

Profit after tax for the period amounted to USD 290.8 million, an increase of USD 81.7 million compared to USD 209.1 million during the corresponding period in 2011.

#### **BALANCE SHEET DEVELOPMENT**

Total non-current assets increased during the first nine months in 2012 from USD 3,323.3 million to USD 3,897.9 million, a net increase of USD 574.6 million. The increase was largely due to an increase in property, plant and equipment of USD 575.9 million primarily related to the Khabarovsk Refinery and to

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the development of oil fields. Intangible assets, mainly consisting of goodwill, amounted to USD 21.0 million at the end of September 2012 compared to USD 13.3 million at the end of September 2011.

Current assets increased with USD 320.6 million from USD 902.0 million at the end of 2011 to USD 1,222.6 million at the end of September 2012, mainly due to an increase in cash and cash equivalents of USD 135.5 million. During the corresponding period in 2011, current assets increased with USD 194.0 million. At the end of September 2012, cash and cash equivalents amounted to USD 296.0 million compared to USD 189.9 million at the of September 2011.

The Company's non-current liabilities amounted to USD 1,888.7 million, an increase of USD 157.2 million during the period.

Current liabilities increased to USD 797.3 million compared to USD 418.7 million at the end of corresponding period in 2011. The increase of USD 378.6 million is mainly explained by an increase in current loans and borrowings, which amounted to USD 323.6 million.

### **CASH FLOW DEVELOPMENT**

Cash flow for the first nine months in 2012 amounted to USD 134.5 million compared to USD 65.5 million in 2011, an improvement of USD 69.0 million. During the period, the Company reported cash flow from operating activities of USD 414.3 million compared to USD 311.2 million in 2011, an improvement of USD 103.1 million. The improvement in cash flow was mainly attributable to increased profit from operations due to improved revenue.

Cash used in investing activities decreased during the period by USD 173.5 million and amounted to USD 636.3 million compared to USD 809.8 million during the corresponding period in 2011. The decrease is mainly attributable to a decrease of investments in oil and gas assets which decreased by USD 187.1 million during the period and totalled USD 259.1 million. Investments in refining assets amounted to USD 202.8 million during the first nine months in 2012, compared to USD 230.0 million in 2011.

Cash flow from financing activities amounted to USD 336.3 million during the first nine months in 2012, a decrease of USD 241.9 million compared to USD 578.2 million during the corresponding period in 2011. During 2011, the Company issued non-convertible bonds contributing to cash flow with USD 1,055.5 million net of issue costs during the first nine months in 2011, compared to only USD 731.2 million during the period in 2012. The Company repaid loans and borrowings for approximately the same amounts during the two periods, amounting to a total of USD 429.4 million during the first nine months in 2012, a decrease of USD 46.7 million compared to USD 476.1 million during the corresponding period in 2011.

## **Comparison between 2011 and 2010**

### **REVENUES AND PROFIT**

Revenue from crude oil increased by 34 percent in 2011 and amounted to USD 531.7 million compared to USD 397.9 million in 2010. The increase was due to increased sales volumes from the launched Kolvinskoye oil field and higher net prices. Revenue from sales of oil products amounted to USD 2,496.2 million in 2011 compared to USD 1,756.3 million in 2010, an increase of 42 percent. The increase was due to higher volumes and higher market prices.

Upstream oil production costs amounted to USD 353.1 million in 2011, an increase of 31 percent compared to 2010 when the amount was USD 269.2 million. The increase was mainly due to higher production-related taxes in the period and the launch of production at the Kolvinskoye field. Production costs for oil products in 2011 totalled USD 1,631.9 million compared to USD 1,168.1 million in 2010, an increase of 40 percent. The main cost drivers were increased crude oil prices and higher transportation tariffs, which are regulated by the state-owned transportation company.

The depletion charge for upstream assets amounted to USD 133.7 million in 2011, an increase of USD 32.8 million compared to 2010. The increase in depletion charge resulted from the launch of production at the Kolvinskoye field and the updated estimation of the future capital expenditures at

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the end of 2011. The depreciation charge for refining assets increased by USD 5.7 million during 2011, from USD 16.8 million in 2010 to USD 22.5 million in 2011.

Operating expenses increased to USD 404.4 million in 2011 from USD 312.8 million in 2010, an increase of 29 percent. The increase was primarily due to the selling expenses increased as a result of revenue improvements.

The Company's operating profit was USD 513.3 million in 2011 compared to USD 307.3 million in 2010, an increase of 67 percent.

Net financial costs increased to USD 46.9 million in 2011 from USD 21.6 million in 2010, an increase of USD 25.3 million. The increase in financial costs was due to new financing of RUR 10,000 million raised during 2011. Bonds with a notional amount of RUR 3,000 million have during 2011 been swapped to USD through a cross currency interest swap contract in order to balance foreign currency income from export and obtain a lower interest rate. The impact from the cross currency swap valuation at 31 December 2011 was recognised in the income statement and represented a non-cash loss of USD 15.4 million before income tax due to the strengthening of USD to RUR.

Profit before tax amounted to USD 432.8 million, an increase of USD 143.1 million compared to USD 289.7 million of the corresponding period in 2010. Income tax expense for the year amounted to USD 104.5 million, an increase of USD 41.1 million compared to USD 63.3 million in 2010. Paid income tax was USD 71.7 million, compared to USD 45.0 million in 2010.

Profit after tax for 2011 amounted to USD 328.3 million, an increase of USD 102.0 million compared to USD 226.3 million in 2010.

#### **BALANCE SHEET DEVELOPMENT**

Total non-current assets increased in 2011 from USD 2,167.6 million to USD 3,323.3 million, a net increase of USD 705.7 million. The increase was largely due to an increase in property, plant and equipment of USD 695.6 million primarily related to the Khabarovsk Refinery and to the development of oil fields. Intangible assets amounted to USD 21.2 million in 2011 compared to USD 15.6 million in 2010.

Current assets increased from USD 729.8 million in 2010 to USD 902.0 million in 2011, mainly due to an increase in VAT tax and other taxes receivable of USD 88.8 million. During the year the Company's cash and cash equivalents, including restricted cash, increased by USD 9.7 million, despite a decrease in restricted cash of USD 52.0 million.

The Company's non-current liabilities amounted to USD 1,731.5 million, an increase of USD 625.0 million. The increase is mainly attributable to the issuance of non-convertible interest bearing bonds denominated in RUR.

Current liabilities increased to USD 500.3 million from USD 435.7 million. The increase of USD 64.7 million is mainly explained by an increase in payables and accrued expenses, which amounted to USD 71.3 million. The current portion of loans and borrowings decreased with USD 20.3 million during 2011.

#### **CASH FLOW DEVELOPMENT**

Cash flow for the year 2011 amounted to USD 9.7 million compared to USD -214.0 million in 2010, an improvement of USD 223.7 million. In 2011 the Company reported cash flow from operating activities of USD 462.5 million compared to USD 203.8 million in 2010, an improvement of USD 258.7 million. The improvement in cash flow was mainly attributable to increased profit from operations due to improved revenue.

Cash used in investing activities increased by USD 366.2 million during 2011 and amounted to USD 1,070.7 million compared to USD 704.5 million in 2010. The increase is mainly attributable to investments in oil and gas assets which increased by USD 251.8 million during the year and totalled USD 603.7 million in 2011. Investments in refining assets amounted to USD 314.9 million in 2011, compared to USD 223.5 million in 2010.

Cash flow from financing activities amounted to USD 630.7 million in 2011, an increase of USD 329.2 million compared to USD 301.5 million in 2010. During the year the Company issued non-

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convertible bonds contributing to cash flow with USD 1,111.3 million net of issue costs. The Company repaid loans and borrowings during the year, amounting to a total of USD 478.9 million in 2011, a decrease of USD 40.8 million compared to USD 519.7 million in 2010.

## Comparison between 2010 and 2009

### REVENUES AND PROFIT

During 2010, upstream revenue increased by 15 percent compared to 2009 and amounted to USD 397.9 million. The increase in sales of crude oil was due to higher prices. Revenue from sales of oil products increased by 30 percent year-on-year and amounted to USD 1,756.3 million in 2010 compared to USD 1,347.3 million in 2009. The increase was due to higher prices, increased oil processing volumes and higher sales volume of oil products.

Oil production costs for the year 2010 amounted to USD 269.2 million, an increase of 23 percent compared to 2009 when production costs amounted to USD 218.7 million. The main growth drivers were production-related taxes which increased from USD 146.9 million in 2009 to USD 182.1 million in 2010. Production and other taxes increased due to higher crude oil prices. The appreciation of the RUR against the USD and cost inflation also contributed to the increase in oil production costs for 2010 compared to 2009. Production costs for oil products increased from USD 819.4 million in 2009 to USD 1,159.8 million in 2010, an increase of USD 340.4 million or 42 percent. The main cost drivers were increased oil prices, higher crude oil transportation tariffs regulated by the state managed monopoly, and the decrease of the average exchange rate due to appreciation of the RUR against the USD. Increased volumes and higher prices for oil products purchased from third parties also contributed to the higher production costs for 2010 compared to 2009.

The depletion charge for upstream assets amounted to USD 100.9 million for 2010, an increase of USD 17.9 million compared to 2009. The increase in depletion charge resulted from the updated estimation of the future capital expenditures at the end of 2010. The depreciation charge for refining assets increased by 37 percent during 2010, from USD 12.2 million in 2009 to USD 16.8 million in 2010.

In 2010, the Company made a decision to write off USD 2.3 million of capitalised exploration costs in the Volga-Urals region of Russia due to unsatisfactory exploration works. This write-off was offset by a reversed impairment loss of USD 3.3 million related to the Kolvinskoye cash generating unit in the Timano-Pechora region during the year, which implied a total of USD 1.1 million positive effect on profit, compared to 2009 when a substantial reversed impairment loss led to a USD 170.3 million contribution to profit.

Operating expenses increased to USD 312.8 million in 2010 from USD 290.2 million in 2009, an increase of 8 percent. The increase was primarily due to the selling expenses increased as a result of revenue improvements.

Net finance costs for 2010 amounted to USD 21.6 million, a decrease of 37 percent compared to 2009 when the amount was USD 34.2 million. The decrease was mainly attributable to repayment of short-term loans with high-interest rates and increase of capitalised interest expense.

Profit before tax for 2010 amounted to USD 289.7 million, a decrease of USD 128.4 million compared to USD 418.1 million in 2009. Income tax expense for the year amounted to USD 63.3 million, a decrease of USD 9.8 million compared to USD 73.1 million in 2010. Paid income tax was USD 45.0 million, a small increase compared to USD 44.3 million in 2009. Profit after tax for the period amounted to USD 226.3 million, a decrease of USD 118.7 million compared to USD 345.0 million in 2009.

### BALANCE SHEET DEVELOPMENT

Total non-current assets increased in 2010 from USD 1,998.4 million to USD 2,617.6 million, a net increase of USD 619.2 million. The increase was largely due to an increase in property, plant and equipment of USD 570.9 million related to the Khabarovsk Refinery and to the Kolvinskoye oil field, the major development project. Intangible assets amounted to USD 15.6 million in 2010 compared to USD 17.8 million in 2009.

Current assets were stable and increased only slightly from USD 728.6 million in 2009 to USD 729.8 million in 2010. A decrease in cash and cash equivalents of USD 237.6 million was partly offset by an increase

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in inventories, trade and tax receivables of USD 146.4 million, leading to a stable development of current assets.

Non-current liabilities amounted to USD 1,106.5 million in 2010, an increase of USD 569.7 million from 2009. The increase is attributable to several financing sources in 2010, the most significant being the issuance of USD 350 million Eurobonds maturing in March 2015 and RUR 5,000 million RUR-denominated bonds maturing in July 2020.

Current liabilities decreased to USD 435.7 million in 2010 from USD 583.5 million in 2009. The decrease of USD 147.8 million is mainly explained by a decrease in current portion of loans borrowings as the Company repaid short-term loans with high interest rates during 2010. The current portion of loans and borrowings decreased from USD 345.5 million to USD 127.1 million and was partly offset by an increase in payables and accrued expenses of USD 61.3 million.

### **CASH FLOW DEVELOPMENT**

Cash flow for the year 2010 amounted to USD -214.0 million compared to USD 56.7 million in 2009, a decrease of USD 270.7 million. In 2010 the Company reported cash flow from operating activities of USD 203.8 million compared to USD 315.4 million in 2009, a decrease of USD 111.6 million.

Cash used in investing activities increased during 2010 by USD 471.4 million and amounted to USD 709.2 million compared to USD 237.8 million in 2009. The increase is mainly attributable to investments in oil and gas assets which increased by USD 257.2 million during the year and totalled USD 351.9 million in 2010. Investments in refining assets amounted to USD 223.5 million in 2010, compared to USD 83.4 million in 2009.

Cash flow from financing activities amounted to USD 306.2 million in 2010, an increase of USD 324.8 million compared to USD -18.7 million in 2009. During the year the Company issued bonds and was granted bank loans, in total contributing to cash flow with USD 825.8 million net of issue costs. The Company repaid loans and borrowings during the year, amounting to a total of USD 519.7 million in 2010, a decrease of USD 217.2 million compared to USD 736.9 million in 2009.

Cash and cash equivalents decreased by USD 214.0 million during 2010 due to the negative cash flow and amounted to USD 178.1 million at year-end 2010 compared to USD 392.1 million 2009.

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## Capitalisation and indebtedness and other financial information

### Equity and liabilities

The Company is financed by equity and debt, where the majority of the debt is interest-bearing bonds and bank loans. Shareholder's equity totalled USD 2,293.4 million as of 30 September 2012. Current financial debt was as of the same date USD 378.5 million and non-current interest-bearing debt was USD 1,571.2 million. The interest-bearing debt amounted to USD 1,949.6 million.

There has not been any significant changes regarding the Company's equity and liabilities since the publication of the interim report for the quarter and nine months ended 30 September 2012.

Below follows a presentation of Alliance Oil's interest-bearing net indebtedness as of 30 September 2012.

USD million	30 Sep 2012
A. Cash and cash equivalents	-322.3
B. Trading securities	0.0
C. Unused credit line	-584.1
<b>D. Liquidity (A + B + C)</b>	<b>-906.4</b>
E. Current financial receivable	0.0
F. Current interest-bearing debt	378.5
G. Other current liabilities	0.0
<b>H. Current financial debt (F + G)</b>	<b>378.5</b>
<b>I. Net current debt (D + E +H)</b>	<b>-527.9</b>
J. Non-current financial receivable	0.0
K. Non-current interest-bearing debt	1,571.2
L. Other non-current liabilities	8.3
<b>M. Non-current financial indebttness (K + L)</b>	<b>1,579.4</b>
<b>N. Non-current financial net debt (J + M)</b>	<b>1,579.4</b>
<b>O. Net financial indebtedness (I +N)</b>	<b>1,051.5</b>



Alliance Oil's overall indebtedness as of 30 September 2012 is presented below.

USD million	30 Sep 2012
<b>Current interest-bearing debt</b>	
Guaranteed	261.5
Secured	62.9
Unguaranteed/unsecured	54.0
<b>Total current interest-bearing debt</b>	<b>378.5</b>
<b>Non-current interest-bearing debt</b>	
Guaranteed	828.8
Secured	327.9
Unguaranteed/unsecured	422.8
<b>Total non-current interest-bearing debt</b>	<b>1,579.4</b>
<b>Shareholders' equity</b>	
Share capital	171.5
Other paid in capital	1,104.7
Other reserves	-390.6
Profits brought forward including profit for the period	1,407.8
<b>Total shareholders' equity</b>	<b>2,293.4</b>

The maturity profile of the Group's loans and borrowings based on contractual undiscounted payments, including accrued interest, as of 30 September 2012 is presented below.

USD million	Principal	Interest	Total
Within one year	357.7	158.4	516.1
1-2 years	487.7	127.8	615.5
>2 years	1,141.5	196.4	1,337.9
<b>Total</b>	<b>1,986.8</b>	<b>482.7</b>	<b>2,469.6</b>

Funds attracted through the New Share Issuance will be recognised directly in equity. Preference Shares issued by the Group will be recognised at the proceeds received, net of direct issue costs. Dividends payable to the shareholders will be recognised as liability when the shareholder's right to receive payment has been established (*i.e.* when dividends payment has been approved by the general meeting).

Assuming issuance of 2.7 million Preference Shares at a subscription price of SEK 250 per Preference Share, an exchange rate of 6.70 SEK per USD and that the transaction would have taken place before 30 September 2012, the shareholders' equity would total approximately USD 2,400 million and net financial indebtedness would be reduced to approximately USD 625 million. This would mean an equity ratio of 49 percent compared to 48 percent before the issuance of the Preference Shares.

## Working capital

In the opinion of Alliance Oil, working capital is sufficient to finance operations for the next twelve months as of the date of the Prospectus.

## Significant events taking place after 30 September 2012

### ACQUISITION OF GAS COMPANY

In October 2012, Alliance Oil acquired 100 percent of the shares in Polonio Holdings Limited and its subsidiary SN-Gazdobycha for USD 127.8 Million. SN-Gazdobycha has two gas licenses in the Tomsk

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region. 2P gas reserves are estimated at 112 mboe and 3P gas reserves are estimated at 259 mboe. Gas production is scheduled to commence in 2013.

**ALLIANCE OIL AWARDED FIVE EXPLORATION LICENSES**

All five license blocks are located in the Timano-Pechora region in Northern Russia close to the Group's existing operations and cover an area of 2,740 square kilometers. The license blocks' resources are estimated at approximately 325 million barrels of oil and approximately 86 million barrels of oil equivalent (14.6 billion cubic meters of gas) under Russian reserve classification (D1+D2).

Even though the Company believes that the above events are significant, neither have they nor have any other material changes occurred affecting the Group's financial or market position.

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## Share capital and ownership structure

### Shares and share capital

The Company is a limited liability company incorporated under the laws of Bermuda, with its registered office located at Clarendon House, 2 Church Street, Hamilton HM11, Bermuda. The Company was incorporated on 1 September 1998 for an unlimited duration with registration number 25413. The Company's management is based in the Company's Moscow office, with address LLC Alliance Oil MC, 39 Sivtsev Vrazhek lane, 119002 Moscow, Russian Federation.

The issued share capital of the Company amounts to USD 171,528,414.00 and the number of Ordinary Shares outstanding amounts to 171,528,414. Each share carries one vote. The number of Ordinary Shares in the Company as per the date of this Prospectus is the same as at the start of 2012, *i.e.*, 171,528,414 Ordinary Shares.

At general meetings, each holder of SDRs is entitled to exercise the vote attributable to the full number of Ordinary Shares represented by the SDRs held by him, without restrictions in voting rights. This will be arranged by the depositary bank SEB providing the holders with relevant and sufficient authorisation.

Rights attributable to the Ordinary Shares under the Bye-Laws may only be amended in accordance with the terms of the Bye-Laws.

The Preference Shares will, provided the New Share Issuance is carried out, be issued in accordance with Bermuda law and will be denominated in U.S. dollars. The Preference Shares will, provided the New Share Issuance is carried out, be registered as SDRs with Euroclear Sweden AB ("Euroclear Sweden"), who also maintains the register of SDRs for the Ordinary Shares. Euroclear Sweden's address is Euroclear Sweden AB, P.O. Box 7822, 103 97 Stockholm. No share certificates representing the shares have been issued. The Preference Shares will not be subject to any transfer restrictions.

Alliance Oil's Ordinary Shares are publicly traded as SDRs on NASDAQ OMX Stockholm and form part of the Large Cap segment. The SDRs have been listed since 2007. The ISIN code is SE0000739286 and the trading symbol is AOIL SDB. Debt securities issued by the Company are listed on the Luxembourg and London Stock Exchanges and on MICEX, Moscow.

There has been no public offering for the Ordinary Shares of the Company during the present or past financial year and the Ordinary Shares are not subject to any offering as a consequence of mandatory offering or redemption rights.

The table below illustrates the development of the Company's share capital during the three most recent financial years and the current financial year, including the number of Ordinary Shares that the share capital has represented.

Share capital development	Change in number of Ordinary Shares	Number of Ordinary Shares	Par value (USD)	Change in share capital (USD)	Share capital
2009-06-10 Reverse split 1:20	-3,069,039,866	161,528,414	1.00	-	161,528,414.00
2009-06-17 Private placement	10,000,000	171,528,414	1.00	10,000,000.00	171,528,414.00

## Shareholding

As of 31 October 2012, the number of the Company's shareholders amounted to approximately 37,500. As of the same date, to the best of the Company's knowledge, the 15 largest shareholders represented approximately 64.1 percent of the share capital. At the same date, the total number of non-Swedish shareholders amounted to approximately 68 percent of the share capital. The Company holds no own shares.

The following table sets forth information regarding the 15 largest shareholders as of 31 October 2012:

Shareholder	Number of SDRs	Share capital and voting rights, percent
Betino Investments Limited (Cyprys)*	37,890,000	22.1
Alliance Group OJSC*	30,816,997	18.0
CJSC Investment Co Alliance Capital*	6,637,129	3.9
Repsol Exploration S.A.	5,495,136	3.2
JP Morgan Chase N.A.	4,003,579	2.3
Avanza Pension	3,785,533	2.2
Swedbank Robur fonder	3,674,598	2.1
AFA Insurance	2,880,583	1.7
Catella Fondförvaltning	2,450,862	1.4
SSB CL OMNIBUS AC OM07 (15 PCT)	2,319,321	1.4
Nordea Investment Funds	2,290,594	1.3
JPM Chase NA	2,224,122	1.2
BK Julius Baer & CO Sweden Main AC	2,085,281	1.2
JPM Chase NA	1,764,920	1.0
AMF - Försäkring och Fonder	1,540,000	0.9
<b>SUBTOTAL 15 LARGEST SHAREHOLDERS</b>	<b>109,858,655</b>	<b>64.1</b>
Total	171,528,414	100.0

\* Shares owned by the Bazhaev family, which together with the family's ownership of 482,752 SDR's in the Company through Daumier Investments Limited (Cyprus), corresponding to 0.29 percent of the Company's Ordinary Shares, constitutes the Bazhaev family's 44.2 percent ownership in the Company.

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To the best of the knowledge of the Board or the Company, there are no shareholders' agreements or other arrangement for the purpose of obtaining joint control over the Company, or any arrangement which may lead to a change of control of the Company.

## Convertible bonds

In July 2009 the Group issued USD 265 million convertible bonds with a coupon of 7.25 percent per annum maturing in July 2014. The bonds are convertible into SDRs (with respect to Ordinary Shares) at an initial conversion price of SEK 121.1250 per SDR. The Group has the option to call the convertible bonds after the first three years at their principal amount, together with accrued interest, if the market price of the SDRs deliverable on conversion of the bonds exceeds 130 percent of the principal amount of the bonds over a specified period.

## Dividend policy

Alliance Oil has historically reinvested cash flows from operations through its capital expenditure programme aimed at increasing oil reserves and production and upgrading the Khabarovsk Refinery. The Company has not paid any dividends to holders of Ordinary Shares since it was listed in 2000.

Holders of Preference Shares are entitled to an annual dividend of SEK 30 per Preference Share and have priority over dividends on Ordinary Shares as of the time of issuance of the Preference Shares. Such annual dividend shall be paid quarterly in an amount of SEK 7.50. Upon completion of the current capital expenditures programme, the board intends to review the dividend policy in order to facilitate dividends to all shareholders.

## The New Share Issuance

In order to enable the New Share Issuance, on 28 November 2012, the Board of Directors proposed that the special general meeting on 14 December 2012 resolves to amend the Company's Bye-Laws and authorises the Board of Directors to resolve to offer a new share class, the Preference Shares, represented by SDRs, for subscription.

According to the amended Bye-Laws proposed to be adopted at the special general meeting, the Company may issue two classes of shares: Ordinary Shares and Preference Shares. Each Ordinary Share carries one vote and each Preference Share carries one tenth (1/10) of a vote at general meetings of the Company.

If the New Share Issuance is carried out and subscribed for in full, the Company's issued share capital will be increased by USD 2.7 million - USD 5.3 million to USD 174.3 million - USD 176.8 million and the number of shares will increase from 171.5 million Ordinary Shares up to a maximum of 176.8 million and the number of votes will increase from 171.5 million up to 172.1 million.

For further details on rights relating to the shares in the Company, please see "*Alliance Oil's Preference Shares in brief*" and "*Bye-Laws*".

## Restrictions on foreign ownership

There are no restrictions under Bermuda law or the Company's Bye-Laws in respect of rights for persons resident outside Bermuda or without Bermuda citizenship to own or vote for shares, while the Company's shares represented by SDRs remain listed on NASDAQ OMX Stockholm.

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## Board of Directors, senior management and auditors

### Board of Directors

The Board of Directors has the overall responsibility for the management of the Company's and its subsidiaries' affairs. The Board of Directors is appointed annually at the annual general meeting, for the period until the closing of the next annual general meeting. The Company's Bye-Laws stipulate that the Board of Directors shall consist of no less than three and no more than 15 members.

The Board consists of seven directors with no alternate director. At the annual general meeting held on 22 May 2012, Eric Forss was re-elected as Chairman of the Board and Mr. Arsen Idrisov, Mr. Raymond Liefoghe, Mr. Fred Boling, Mr. Fernando Martinez-Fresneda, Mr. Isa Bazhaev and Mr. Claes Levin were re-elected as directors.

All of the directors directly or indirectly hold securities to subscribe for Ordinary Shares in the Company.

All directors have the same office address: c/o Alliance Oil Company Ltd., Clarendon House, 2 Church Street, Hamilton HM11, Bermuda.

Prior positions held by the directors and accounted for below relate to the last five years prior the date of this Prospectus. Positions in subsidiaries of the Company are not accounted for separately.

None of the Company's directors have during the last five years been involved in any bankruptcies, receivership, or liquidations in their respective capacity as director, alternate director or as a member of the management. None of the directors have during the last five years been convicted of fraud or been subject to public allegations or sanctions by supervising or legislative authorities and none of them have been prohibited to act as a director or in any other way be engaged in business activities in the last five years.

The Company has not provided any loans, extended or issued any warranties or security in favour of any director. None of the directors have either directly or indirectly through any related individual's natural person or legal entity had any business relations with the Company or the Group that have not been available to non-related individuals on the market.

#### **MR. ERIC FORSS**

Chairman of the Board, elected July 2004

Independent in relation to the Company, management and major shareholders

Holding in Alliance Oil: 83,000 SDRs and 672,553 options

Mr. Forss, a Swedish citizen, was born in 1965. Mr. Forss holds a B.Sc. degree in Finance from Babson College, Wellesley, MA, U.S.A. He has served as chief executive officer of Forssgruppen since 1998 and of S.O.G Energy AB - Svenska Oljegruppen AB - since 2005. Between 1991 and 1998, Mr. Forss served as president of Forcenergy AB, a public Swedish oil and gas corporation where he also served as vice president between 1990 and 1991. Mr. Forss is chairman of the board of directors of Mediagruppen Stockholm MGS AB, as well as a member of the board of directors of Forcenergy AB, Forsinvest AB, Consortum Capital Investments AB and S.O.G. Energy AB. He has also served as a director of and advisor to several public and private Swedish and international companies.

#### **MR. ARSEN E IDRISOV**

Director and Managing Director, elected May 2008, appointed Managing Director November 2008

Not independent in relation to the Company or management, nor in relation to major shareholders

Holding in Alliance Oil: 147,730 options

Mr. Idrisov holds five percent of the shares of OJSC "Alliance Group" with the fully owned subsidiaries CJSC "Alliance Capital" and Betino Investments Limited and five percent of Daumier Investments Ltd. Please see further information under "Transactions with related parties".

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Mr. Idrisov, a Russian citizen, was born in 1970. Mr. Idrisov graduated with honours from the Russian Economic Academy named after G. V. Plekhanov in 1993 after majoring in international economic relations. In 1992-1993 Mr. Idrisov studied in Otto Beisheim School of Management/WHU (Vallendar, Germany) and had training with Marquard & Bahls AG and with Deutsche Shell AG. Between 1993 and 1997 he held a number of senior positions in the international trading business. In 1998, Mr. Idrisov was elected as general director of Alliance Capital Investment Company and joined the Board of the Company. Mr. Idrisov served as president/CEO of OJSC "Alliance" Oil Company from 2002 until July 2006. Within this period OJSC "Alliance" Oil Company advanced to the top 50 Russian largest companies. He has been a member of the board of directors of OJSC "Alliance" Oil Company since its establishment and has served as the chairman of its board of directors between 2006 and 2008.

#### **MR. RAYMOND LIEFOOGHE**

Director, elected May 2008

Independent in relation to the Company, management and major shareholders

Holding in Alliance Oil: 8,000 SDRs and 82,677 options

Mr. Liefoghe was born in 1942 and is a Swiss resident with Swiss and French nationalities. Raymond Liefoghe served as a member of the board of directors of OJSC "Alliance" Oil Company between 2006 and 2008. Mr. Liefoghe graduated from the International Trade Institute in Paris in 1973. Between 1974 and 1991, Mr. Liefoghe worked in BNP New York, Montreal, Geneva and Paris. From 1992 to 2002, he worked in the United European Bank (Geneva) and in 1999 he was elected as its chief executive officer. Mr. Liefoghe founded a consulting company in 2002 that mainly worked for the BNP Paribas Group until July 2005. Between 2002 and 2005, he was the chairman of the supervisory board of BNP Paribas Bank ZAO in Moscow. Mr. Liefoghe also holds a position of director at Diamond Capital Fund, Diamond Growth Fund, Diamond Fixed Income Ltd, Diamond Asia Ltd, Nutrimenta Finance & Investments Ltd, Sucafina S.A., Sucafina Ingredients S.A., Lia Oil and Mefinvest International.

#### **MR. FRED BOLING**

Director, elected July 2004

Independent in relation to the Company, management and major shareholders

Holding in Alliance Oil: 80,000 SDRs and 106,258 options

Mr. Boling, a U.S. citizen, was born in 1940. Mr. Boling holds B.Sc. and M.Sc. degrees from the Georgia Institute of Technology where he also lectured. He is currently president and director of Commonwealth Oil Refining and Investors Life Insurance Company. He was formerly an executive with Sinclair Oil, Atlantic Richfield, BP Oil Corp., Gibbs Oil, and Astroline Oil Trading Corp. In addition to over 40 years' experience in the oil industry, Mr. Boling has been active in banking and was president of Security National Bank, a director of Bank of New England and a director of Pacific National Bank, Massachusetts. Also, Mr. Boling is a director of Energi Insurance Co. and Harbor Fuel Oil Corporation.

#### **MR. FERNANDO MARTINEZ-FRESNEDA**

Director, elected May 2009

Independent in relation to the Company, management and major shareholders

Holding in Alliance Oil: 48,087 options

Mr. Martinez-Fresneda, a Spanish citizen, was born in 1951. Mr. Martinez-Fresneda is a Mining Engineer from the ETSIM, Mining Engineer School at the Polytechnic University of Madrid and has a PDD in Business Administration from the INALDE in Bogotá. He is currently the managing director of Repsol YPF's office and operations in the Russian Federation. Prior to his current position, Mr. Martinez-Fresneda was Petroleos Sudamericanos' General Manager in Ecuador. Since 1981, he has held various positions in the Repsol organisation including being Repsol's general manager in Colombia and Bolivia.

#### **MR. ISA BAZHAEV**

Director, elected May 2009

Not independent in relation to the Company, management nor major shareholders

Holding in Alliance Oil: 53,522 options

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Mr. Bazhaev, a Russian citizen, was born in 1962. In 1985, Mr. Bazhaev graduated from the Grozny Oil Institute with a degree in engineering and construction. From 1993 to 2000 he was marketing director with Lia Oil SA (Switzerland) in Ukraine, and from 2000 to 2002 at Lia Oil's representative office in Russia. From 2002 to 2005 Mr. Bazhaev held the position of director of the finance department at OJSC Alliance Group. From April 2008 to March 2009 Mr. Bazhaev was a board member of OJSC "Alliance" Oil Company. Since 2005 he has been the vice president for finance of CJSC Alliance-Prom and also a board member of Alliance-Prom.

**MR. CLAES LEVIN**

Director, elected July 2004

Independent in relation to the Company, management and major shareholders

Holding in Alliance Oil: 53,718 SDRs and 76,457 options

Mr. Levin, a Swedish citizen, was born in 1941. Mr. Levin has a law degree and a B.A. degree in economics from the University of Lund. From 1971 to 1980, Mr. Levin held various management positions within SEB. He was the managing director of Diligenta between 1980 and 1983, Reinhold Bygg AB between 1983 and 1985 and Platzer Bygg between 1986 and 1998, all listed companies. Today, Mr. Levin holds positions as chairman of several companies including Bröderna Falk AB, SH Förvaltning AB and Variant Fastighets AB. Mr. Levin is also a member of the board of directors of First Baltic Property Ltd.

## Senior management

The Group senior management consists of the Managing Director, the Chief Financial Officer, Chief Operating Officer, the CEO Upstream and the CEO Downstream.

None of the members of the Company's senior management have during the last five years been involved in any bankruptcies, receivership, or liquidations in their respective capacity as director, alternate director or as a member of the management. None of the members of the Company's senior management have during the last five years been convicted of fraud or been subject to public allegations or sanctions by supervising or legislative authorities and none of them have been prohibited to act as a director or in any other way be engaged in business activities in the last five years.

The Company has not provided any loans, extended or issued any warranties or security in favour of any member of senior management. None of the members of senior management have either directly or indirectly through any related individual's natural person or legal entity had any business relations with the Company or the Group that have not been available to non-related individuals on the market.

All members of senior management have the same office address: LLC Alliance Oil MC, 39 Sivtsev Vrazhek lane, 119002 Moscow, Russian Federation.

**MR. ARSEN E IDRISOV, MANAGING DIRECTOR**

Please see information under "Board of Directors" above.

**MRS. ANGELIKA ADIEVA, CHIEF FINANCIAL OFFICER**

Holding in Alliance Oil: 60,708 options

Ms. Adieva, a Russian citizen, was born in 1975. She joined the Company in 2008. Ms. Adieva holds a Bachelor's degree in Economics from the Institute of Practical Oriental Studies in Moscow and an MBA from McCombs School of Business at the University of Texas at Austin with a concentration in Finance and specialisation in Energy Finance. Her previous experience includes international oil and gas investment banking, as well as downstream and upstream project management. Ms. Adieva started in the oil and gas industry in 1998 with Fluor Corporation. Prior to joining Alliance Oil Company Ms. Adieva held a management position in the European Energy and Power Investment Banking team at Merrill Lynch International in London.



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## **MR. YEVGENY VORBEICHIK, CHIEF OPERATING OFFICER**

Holding in Alliance Oil: 113,048 options

Mr. Vorobeichik, a Russian citizen, was born in 1958. Mr. Vorobeichik graduated from the Kuibyshev Polytechnic Institute in 1980 after majoring in chemical technologies related to oil and gas. He won the honorary title of a Merited Oil Industry Worker in 1997. Mr. Vorobeichik spent more than 15 years with the Kuibyshev Oil Refinery, working his way up from an operator and the supervisor of an installation to deputy head of the Production and Sales Office. Between 1996 and 1998, Mr. Vorobeichik headed the Petroleum and Petroleum product Sales Department at Sidanco. He has been with the OJSC "Alliance" Oil Company since 1999, has served as president of OJSC "Alliance" Oil Company since July 2006 and as a vice president from 2002 to July 2006.

## **MR. SERGEY BREZITSKY, CEO UPSTREAM**

Mr. Brezitsky, a Russian citizen, was born in 1962. Mr. Brezitsky graduated from the Ivanovo-Frankovsk Institute of Oil and Gas in 1984. Having more than 25 years of experience from the oil and gas industry, Mr. Brezitsky previously held management positions with TNK-BP, Tyumen Oil Company, Noyabrskneftegaz and Muravlenskoneft. Prior to joining Alliance Oil in 2011, Mr. Brezitsky was executive vice president, Upstream at TNK-BP.

## **MR. ALEXANDER SUTYAGIN, CEO DOWNSTREAM**

Holding in Alliance Oil: 70,191 options

Mr. Sutyagin, a Russian citizen, was born in 1958. Mr. Sutyagin graduated from the Kuibyshev Polytechnic Institute and holds a doctorate in Engineering. He has served as first vice president and vice president for Development and Coordination of Commercial Activity of OJSC "Alliance" Oil Company since 2006. Mr. Sutyagin has worked in the oil and gas industry since 1995.

## Conflicts of interest

No director or member of the senior management of the Company has any family relationships with other directors or members of the senior management. No conflicts of interest exist in respect of any of the directors or members of senior management, their duties to the Company, their personal interests or other duties.

All directors and four of the members of senior management have financial interests in the Group due to ownership of shares or options to subscribe for shares.

## Remuneration

The general meeting resolves on remuneration to the Board of Directors. At the annual general meeting of the Company in 2012, it was resolved that remuneration to the currently elected Board of Directors shall be USD 180,000 per annum to the chairman and USD 120,000 per annum to each of the remaining directors, except the Managing Director who does not receive additional remuneration for being a director. No alternate directors are to receive any remuneration. In addition, the annual general meeting in 2012 resolved that each member of the Audit Committee and each member of the Remuneration Committee shall receive additional remuneration of USD 10,000 per annum.

From 2006, the Company has adopted the following principles for executive remuneration, which were approved by the shareholders at the annual general meeting in 2008. The executive remuneration consists of a base salary, an annual bonus and participation in the Company's long-term incentive plan. The annual bonus is individually capped at 50 - 100 percent of the salary and is determined based on the Company's performance which is measured by several performance indicators, both operational and financial. Annual option grants are based on the employee's total compensation and the value of granted options may amount to 100 - 200 percent of annual compensation, but lower amounts can be granted.

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Notice periods are not to exceed twelve months, during which the employee is entitled to full compensation. The directors are not entitled to any severance payments when they leave their position as directors.

Members of senior management of the Company received a total remuneration of USD 18,293,000 during 2011 of which the Managing Director received a total remuneration of USD 4,183,000. The Managing Director's employment contract effective as of 31 December 2011 may be terminated by the Company upon six months written notice. Should the Managing Director decide to leave the Group he must give the Company six months' notice. The Managing Director is entitled to a bonus in an amount not exceeding 50 percent of his annual salary and may be awarded a bonus of up to 100 percent of the annual salary, including performance bonus for specific projects as determined by the Board.

For further details on remuneration for 2011, please refer to Note 34 to the financial statements in the 2011 consolidated financial statements. For further details see "Remuneration Committee", below.

## Incentive programs - Global Share Option Plan

At the Company's special general meeting held 14 November 2000, it was resolved to adopt a Global Share Option Plan (the "Option Plan"). An amended Option Plan was adopted on 31 January 2006. The Option Plan allows for managers and directors of the Group (eligible employees) to be granted call options each entitling the holder to acquire one Ordinary Share in the Company. The Option Plan is administered by the Remuneration Committee which has been authorised, from time to time, to make and vary such regulations for the implementation and administration of the Option Plan as it deems fit.

In connection to option grants, the Remuneration Committee is to determine what performance conditions must be satisfied for the options to become exercisable. Initial grants are determined based on the employee's position in the Company. Annual option grants are based on the employee's total compensation for the current year and the value of granted options may amount to between 100 and 200 percent of the annual compensation. 614,934 options were granted in 2011. 1,363,700 options and 225,000 options expired in January and April 2011, with no options being exercised. 578,850 options expired in February 2012, with no options being exercised. As of December 31, 2011 the total number of outstanding options amounted to 2,615,879 corresponding to two percent of the outstanding shares after dilution. Exercise prices range from SEK 81.80 to SEK 124.00. All options are exercisable after three years subject to certain non-market conditions and expire in five years from the date of grant. As of the date of the issuance of the 2011 consolidated financial statements, 2,037,029 options were outstanding and 487,700 options were exercisable out of which none have been exercised. For further details regarding the option grants, please refer to Note 28 to the financial statements in the consolidated financial statements of 2011.

The New Share issuance will not have any effect on the Option Plan.

## Corporate governance

The Company's corporate governance is based on the Company's Bye-Laws, the listing agreement with NASDAQ OMX Stockholm and other applicable laws and regulations. In the absence of a Bermuda corporate governance code, the Company implemented the Swedish Code of Corporate Governance (the "Code") in 2006. The Code is based on the principle "comply or explain", i.e. a company may deviate from individual rules of the Code, provided it reports each deviation, describes its own solution and explains the reason for the deviation.

The Company deviates from Clause 9.8 of the Code: "Non-executive members of the board are not to participate in programs designed for the executive management or other employees. Remuneration of non-executive board members is not to include share options."

The Company explains the deviation as follows: Directors are eligible for and have participated in the Company's shareholder approved Option Plan since its adoption in 2006. The Option Plan was approved prior to the Company's listing on NASDAQ OMX Stockholm and implementation of the Code, and has a term of ten years.

The Company does not deviate from any other clauses of the Code.

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Since 2006, the Company has developed and implemented an application of the Code that also corresponds to Bermudian law and Company practice. The Company implements Code revisions and references to the Swedish Companies Act when applicable and reports corporate governance matters accordingly.

According to the Code, at least half of the directors of the Board must be independent in relation to the company and the management. In order to determine whether a director is independent, an overall assessment is to be made of all the circumstances that may give reason to question the director's independence in relation to the company and the management. A director's independence may e.g. be questioned if the director, directly or indirectly, has substantial business relationships or any other major financial relationship with the company. Other situations may also exist where the director cannot be considered independent in relation to the company. An overall assessment of the director's independence must be made in each individual case.

Furthermore, according to the Code, at least two of the directors who are independent in relation to the company and management must also be independent in relation to major shareholders. Shareholders who, directly or indirectly, control ten percent or more of the issued shares or votes of the Company (please see "*Share capital and ownership structure*" for further information on the Company's major shareholders) are according to the Code considered major shareholders. A director is not considered independent in relation to a major shareholder if she or he represents a major shareholder or is an employee or a director of a company that is a major shareholder. A director's direct or indirect relations to a major shareholder is decisive when assessing if the director is to be considered independent in relation to the major shareholder.

The information in the section Board of Directors above includes statements about each director's independence. In brief, five of the seven directors are independent in relation to the Company and the senior management and five directors are independent in relation to the Company's major shareholders.

## Committees of the Board of Directors

The Company has, in accordance with the Code, implemented an audit committee as well as a remuneration committee.

### **AUDIT COMMITTEE**

The Code provides that the Board of Directors is to establish an Audit Committee consisting of at least three directors. The majority of the Audit Committee members are to be independent in relation to the Company and its management. At least one member of the committee is to be independent of the Company's major shareholders. No director who holds a management position may be appointed as a member of the Audit Committee. The Board of the Company has appointed an Audit Committee consisting of three directors who are independent in relation to the Group, management, and major shareholders. The Audit Committee consists of Fred Boling (chairman), Raymond Liefoghe and Claes Levin. Accordingly, the Audit Committee of the Company is composed in accordance with the rules mentioned above as well as all other provisions of the Code relating to audit committees.

In the Board of Directors' opinion, the members of the Audit Committee fulfils the requirements of the Code regarding the composition of the Audit Committee.

The Audit Committee is responsible for ensuring the quality of the Group's financial statements, including considering all critical accounting policies, regulatory compliance, the Group's system of internal control and unadjusted errors brought to the attention of the committee by the external auditors. The Audit Committee shall also review related party transactions. Furthermore, the Audit Committee evaluates the performance of the external auditor, makes recommendations to the Nomination Committee on the appointment of the external auditor and meets with the Company's auditors on a regular basis to understand the scope and findings of their work and to ensure that the auditors are independent of the Group.

The Audit Committee reviews the quarterly and annual financial statements before they are published and discusses them with the management and the external auditors. The Audit Committee's review concerns the conformity with IFRS, the reasonableness of significant estimates and judgments made in

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the preparation of the financial statements, as well as the quality of disclosures in the financial statements.

### **REMUNERATION COMMITTEE**

The Code provides that the Board of Directors is to establish a Remuneration Committee consisting of at least three directors. The Board of Directors of the Company has appointed three directors to form the Remuneration Committee. The Code stipulates that the chairman of the Board may also be the chairman of the Remuneration Committee and that the additional members must be independent in relation to the Company and the management. The members of the Remuneration Committee must according to the Code have the necessary knowledge and competence with regard to questions relating to remuneration to directors and management.

The Remuneration Committee establishes principles and makes recommendations to the Board for executive remuneration and contracts, determines remuneration packages and manages the Company's long-term incentive plan. The Board may delegate to the Remuneration Committee to approve individual employment contracts, compensation agreements and option grants within approved policies, provided any actions taken by the committee are reported to the Board. The Remuneration Committee consists of Eric Forss (chairman), Fred Boling and Isa Bazhaev.

In the Board of Directors' opinion, the members of the Remuneration Committee fulfils the requirements stipulated in the Code regarding the composition of the Remuneration Committee.

### **NOMINATION COMMITTEE**

The Code provides that the Company must have a Nomination Committee. The Company's Nomination Committee is to present a proposal for election of the Board of Directors as well as related questions for adoption at the annual general meeting, to complete certain tasks and consider whether directors are independent according to the Code.

The procedure for the appointing of the coming year's Nomination Committee is decided upon at the annual general meeting. In accordance with the Code, the principles for appointing a Nomination Committee and its guidelines were presented to and approved by the shareholders at the annual general meeting held 22 May 2012.

In accordance with the resolution at the annual general meeting in 2011, the Nomination Committee for the annual general meeting 2012, was on 8 November 2011 appointed by the four largest shareholders in the Company at the time, Betino Investments Limited, Alliance Group OJSC, Alliance Capital CJSC and Repsol Exploracion S.A. The four largest shareholders appointed the following representatives to constitute the nomination committee for the annual general meeting 2012:

Carl Svernlöv, Chairman, representing Betino Investments Limited  
Fred Boling, representing Alliance Group OJSC  
Andrei Sletov, representing Alliance Capital CJSC  
Thomas Yonko, representing Repsol Exploracion S.A.

In addition, the chairman of the Board, Mr. Eric Forss, is a member of the Nomination Committee.

The composition of the Nomination Committee is disclosed by way of a press release as soon as the members have been appointed. The members must be appointed no later than six months' before the annual general meeting. The composition is also presented on Alliance Oil's homepage, where information also can be found regarding how shareholders may submit proposals to the Nomination Committee.

The Nomination Committee's proposal is presented in the notice of the annual general meeting and on the Alliance Oil website. In connection with the issuance of the notice, the Nomination Committee publishes a statement of the reasons behind the nominations of directors on Alliance Oil's website.

### **Auditors**

Deloitte AB and ZAO Deloitte & Touche CIS were reelected as auditors of the Company at the annual general meeting held 22 May 2012 for a term of one year. The responsible auditor at Deloitte AB is the

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authorised public accountant Svante Forsberg. The responsible auditor at Deloitte & Touche CIS is the authorised public accountant Natalia Golovkina. The consolidated financial statements for 2009 was audited by the previous auditor PricewaterhouseCoopers AB with Johan Rippe being the responsible authorised public accountant.

Deloitte AB and Svante Forsberg are members of FAR, the professional institute for authorised public accountants, approved public accountants, and other highly qualified professionals in the accountancy sector in Sweden. Deloitte AB's and Svante Forsberg's address is Rehngatan 11, SE-113 79 Stockholm, Sweden.

ZAO Deloitte & Touche CIS and Natalia Golovkina are members of the non-commercial partnership "Audit Chamber of Russia". The address to ZAO Deloitte & Touche CIS and Natalia Golovkina is Business Center White Square, 5 Lesnaya St., Bldg. B, Moscow, 125047, Russia. For details on fees to the Company's auditors, please refer to Note 12 in the 2011 consolidated financial statements.



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which holds exploration and production licenses in the Karabashsky-1 and -2 blocks in the prolific West-Siberia basin.

#### **ACQUISITION OF SN-GAZDOBYCHA**

In October 2012, the Group acquired LLC SN-Gaproduction, a Russian company holding two gas licenses covering an area of about 1,323 square kilometres located approximately 55 kilometres west of the town of Kargasok, in the Tomsk region in Russia. Proven and Probable (2P) gas reserves under these licenses are estimated at 112 million barrels of oil equivalents ("mboe") and Proved, Probable and Possible (3P) reserves are estimated at 259 mboe (as of 29 February 2012 as evaluated by D&M under SPE (Society of Petroleum Engineers) standards). Gas field developments are at an advanced stage with four new wells drilled and a 43 kilometres gas pipe line joining the Gazprom trunk pipeline at the Parabel tie-in point is near completion. Gas production is scheduled to commence in the first half of 2013. Through the acquisition, the Company's total hydrocarbon reserves (3P) will increase by 26 percent from 997 mboe (evaluated by D&M as of 31 December 2011 under SPE standards) to 1,256 mboe. 2P reserves will increase by 17 percent from 648 mboe to 760 mboe.

#### **ACQUISITION OF GEOINVESTSERVICE**

In 2012, the Group acquired LLC GeoInvestService for USD 30 million. LLC GeoInvestService holds an exploration license for the West-Osoveiskoye block in the Timano-Pechora region. The West-Osoveiskoye license block is located on the East side of the Kolvinskoye oil field and covers an area of 670 square kilometres. As of the date of the license issuance, oil resources were estimated at 87.7 million barrels (12.4 million tons) under Russian reserve classification (D1+D2). The prospective oil bearing Perm and Devonian formations are located at depths of 2,500-3,900 meters.

According to the current exploration and development plan, oil production at the West-Osoveiskoye block can commence in 2014-2015 and be processed and transported through the Kolvinskoye oil field infrastructure.

#### **THE COMPANY HAS BEEN AWARDED FIVE EXPLORATION LICENSES**

In November 2012, the Company was awarded five exploration licenses in the Timano-Pechora region and covers an area of 2,740 square kilometres. The license blocks' resources are estimated to approximately 325 million barrels of oil and approximately 86 million barrels of oil equivalent under Russian reserve classification (D1+D2).  
VNESHECONOMBANK FACILITY

In August 2010, OJSC Khabarovsk Oil Refinery entered into a long-term project financing agreement with Vnesheconombank (the value of the agreement is approximately USD 760 million). The financing purported to support the modernisation of the Khabarovsk Refinery and has a tenor of 12 and 13 years depending on tranches and is divided into three tranches of USD 239 million, EUR 218 million and USD 240 million. The first two tranches are to be repaid during 10 years in equal semi-annual instalments. The grace period for these tranches runs until December 2012. The third tranche is to be repaid during 9 years, the grace period for this tranche runs until January 2014.

#### **EUROBONDS**

The Company issued 9.875 percent eurobonds amounting to USD 350,000,000 in March 2010 with five year maturity. The eurobonds are listed on the London and Berlin Stock Exchanges. The Company's obligations under the bonds were guaranteed by *inter alia* CSJC Alliancetransoil, LLC Alliance-Bunker, LLC Kolvinskoye and VTK.

#### **CONVERTIBLE BONDS**

In July 2009 the Group issued USD 265 million convertible bonds with a coupon of 7.25 percent per annum maturing in July 2014. The bonds are convertible into SDRs at an initial conversion price of SEK 121.125 per SDR. The Group has the option to call the bonds after the first three years at their principal amount, together with accrued interest, if the market price of the SDRs deliverable on conversion of the bonds exceeds 130 percent of the principal amount of the bonds over a specified period.

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## **RUSSIAN BONDS**

In June 2010, OJSC Alliance Oil Company issued RUR 5,000 million ten-year RUR bonds with a fixed coupon of 9.75 percent per annum maturing in July 2020. The bonds also have a three year put option. Funds raised from the RUR bonds issue were used to refinance short-term debt.

In August 2010, OJSC Alliance Oil Company issued RUR 5,000 million of three-year bonds with a fixed coupon of 9.25 percent per annum maturing in February 2014.

In June 2011 OJSC Alliance Oil Company issued RUR 10,000 million of ten-year bonds with a five-year put option and a fixed coupon for the five-year period of 8.85 percent per annum.

## **RECONSTRUCTION OF THE Khabarovsk Refinery**

In November 2007, OJSC Khabarovsk Oil Refinery entered into a contract with Tecnicas Reunidas, S.A. for engineering, procurement and construction (EPC) of a Hydroprocessing Complex at the Khabarovsk Refinery. This is the principal contract in respect of the reconstruction works on the Khabarovsk Refinery. Additionally, in November 2007 OJSC Khabarovsk Oil Refinery entered into a material contract with UTE Khabarovsk for engineering services in respect of a Hydroprocessing Complex of the Khabarovsk Refinery with the contract value of EUR 72,328,324. There are also several other agreements documenting the relations of OJSC Khabarovsk Oil Refinery with various contractors in connection to the reconstruction works.

## **ACCESS TO THE ESPO PIPELINE**

In December 2011, OJSC Khabarovsk Oil Refinery entered into a services agreement with LLC Dalnevostochnye Magistralnye Nefteprovody. This is a principal contract for connecting the Khabarovsk Refinery to the ESPO pipeline, which is expected to be completed by the end of 2013.

## **Litigation**

From time to time, the Group is involved in litigation in the ordinary course of its business activities. The Group believes that such ordinary course litigation is immaterial and is unlikely to significantly affect the Group's operating results or financial position. During the past 12 months from the date of this Prospectus, the Group has not been involved in any governmental, legal or arbitral proceedings (including any such proceedings which are pending or threatened or of which the Group is aware) that may have or have in the past had significant effects on the Group's financial position and profitability.

## **Transactions with related parties**

The Group emerged in its current form as a result of the merger between OJSC "Alliance" Oil Company and the Company in 2008. Prior to the merger OJSC "Alliance" Oil Company was privately owned and had established a well-functioning business structure that included significant transactions with entities controlled by the same shareholders. Since the merger, the Group therefore reports significant related party transactions primarily related to the marketing of oil and oil products through OJSC "Alliance" Oil Company and its subsidiaries through this business structure. Transactions with shareholders, associates and other related parties relate to transactions in the ordinary course of business with terms and conditions established similarly to transactions with third parties.

In 2009, the Audit Committee recommended and the Board approved "Related Party Transaction Policy and Procedures". According to the policy, all related party transactions shall be subject to the approval of the members of the Board who have no interest in the transaction. Such approval shall give consideration to the fairness of the transaction terms and that these have been established on arms length basis, the relevance of the transaction, independence and conflicts of interest issues. The Board has asked the Audit Committee to review and monitor the Group's transactions with related parties and provide a periodic report. The Audit Committee receives a report each quarter detailing such transactions and reviews this with management and internal auditors. The results of the review are reported to the Board each quarter. Based on these reviews, the Audit Committee concluded that the related party transactions entered into in 2011, 2010 and 2009, respectively, were evaluated and approved in accordance with the established policy.



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Related party transactions are disclosed in the Group's 2011, 2010 and 2009 IFRS consolidated financial statements in accordance with the IFRS requirements, see Note 36 (2011), Note 35 (2010) and Note 35 (2009).

For related party transactions during 2012, please see interim reports available on the Company's website, [www.allianceoilco.com/en/press-releases](http://www.allianceoilco.com/en/press-releases).

## Employees

In 2011, 2010 and 2009, the Group employed 7,185, 6,945 and 6,794 employees, respectively. The majority of the Group's operating subsidiaries enter into collective bargaining agreements with trade unions for a term of three years. As at the date of this Prospectus, the Group is not involved in any labour disputes, which the Group considers to be material, or strikes at its oil production, refining or distribution subsidiaries. The Board of Directors considers the Group's employee relations to be good.

## Insurance

The Group has obtained insurance policy covering property damage and business interruption for number of assets, which provides protection against loss of revenues and assets due to an accident, fire, explosion, special perils or operational failure from LLC Paritet Insurance Company ("Paritet"), a Russian insurance company.

Paritet insures the Group's assets and operations in an aggregate amount exceeding RUR 87,557 million (USD 2,880 million). This amount includes RUR 15,661 million (USD 515 million) in respect of property belonging to production and development subsidiaries, RUR 16,301 million (USD 536 million) in respect of property belonging to the Khabarovsk Refinery and RUR 55,595 million (USD 1,829 million) in respect of property belonging to trading companies. Paritet's policy also covers environmental risks in case of spills and other unexpected or dangerous conditions or accidents in an aggregate amount of RUR 451 million (USD 15 million).

In addition, Paritet insures the Group in an aggregate amount of RUR 23,298 million (USD 766 million) in respect of construction and assembling works performed at refining facilities and in an aggregate amount of RUR 6,217 million (USD 205 million) in respect of life insurance of employees working at hazardous facilities, as such insurance is mandatory under Russian law. The Group also provides mandatory health insurance to its employees.

In addition, the Group obtains re-insurance coverage from AIG Europe S.A., ACE Europe, XL Insurance Company, Allianz SE, Munich Re, Zurich Insurance Ireland, Hannover Re, China Re, Korean Re, Lloyd's Syndicates AES, MKL, TAL, AML and others.

## Health, safety and environment

The operations of the Group are subject to a number of environmental laws and regulations. These laws govern, among other things, air emissions, wastewater discharges and discharges to the sea, the use, handling and disposal of hazardous substances and wastes, soil and groundwater contamination and employee health and safety. As with other oil and gas companies, environmental liability risks are inherent in the operations of the Group. The Group aims to ensure that it conducts its operations with due regard for health, safety and the surrounding environment. In addition to complying with the environmental laws and regulations concerning its products, operations and activities, the Group seeks to comply with its health, safety and environmental policy (the "HSE Policy"). The HSE Policy provides the strategic framework for the Group to strive to conduct its operations in accordance with international standards of environmental protection and to monitor its compliance with these principles.

The Group has established a department of environmental protection, industrial safety and labour protection, which is responsible for management and control of health, safety and environment of its facilities.

The Group continuously seeks to minimise the impact of its operations on the environment by reducing waste, emissions and discharges. The Company's subsidiaries aim to observe the prescribed limits and exercise control over the emissions and formation and disposal of hazardous substances and waste. To limit soil and ground pollutant emissions, the Group strives to promptly undertake measures aimed at

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diminishing oil spills. The Company and its subsidiaries construct special containers to hold oil products that may spill as the result of an accident. The Group aims to ensure that the chemically hazardous and flammable explosive materials are fully equipped with accident prevention systems, including emergency stoppage of equipment, localisation of the source of the accident and emergency sources for energy provision. Some subsidiaries of the Group enter into agreements on the transfer of wastewater to municipal facilities for advanced treatment. To contain accidental spills of oil products from the Group's oil terminals, the Group tries to ensure that oil terminals with wharfs for oil-loading of water-carriers are equipped for oil-spill containment and skimming. In 2008, the Group launched various investment projects aimed at limiting adverse environmental impact at the Group's facilities, including the construction of automated dark oil loading dock, implementation of the second stage of reconstruction of a treating facility at the Khabarovsk Refinery and construction of tank pontoons.

The Group is currently introducing (i) a complex of technologies to detect, evaluate, monitor and eliminate oil pollution in the ground and in ground water, (ii) systems to recover vapours emanating from oil products, (iii) closed loading and unloading systems for oil products, (iv) modern systems for treating waste water for reuse and (v) technologies for more efficient recycling of oil-containing wastes. While there is no regulatory requirement to do so in Russia, the Group's long-term goal is to ensure that the system of environmental protection management at the Group and each of its subsidiaries meets the requirements of the International Standards Organisation (ISO).

The Group did not have a significant oil or waste spill or other environmental incident during any of the years ended 31 December 2011, 2010 or 2009 and the Group is not aware of any claims or penalties from Russian domestic environmental authorities that have not been corrected and/or settled.

## Intellectual property

The Company and its subsidiaries use certain common trademarks duly registered and owned by OJSC Alliance Oil Company. In the financial years ended 31 December 2011, 2010 and 2009, the trademark use charges payable by the Group to OJSC Alliance Oil Company amounted approximately to RUR 163.3 million, RUR 68 million and RUR 60.9 million respectively. At the end of 2008, Alliance Group OJSC sold all trademarks currently used by the Group to OJSC Alliance Oil Company.

## Carnegie's and Swedbank's interests

Carnegie and Swedbank have provided financial services to Alliance Oil and have been paid fees corresponding to market levels and Carnegie and/or Swedbank may continue to act for Alliance Oil in this respect in the future.

## Documents incorporated by reference

The following documents earlier publicised shall be incorporated through reference and constitute a part of the Prospectus:

1. Alliance Oil's audited consolidated financial statements for 2011, including the auditor's report.
2. Alliance Oil's audited consolidated financial statements for 2010, including the auditor's report.
3. Alliance Oil's audited consolidated financial statements for 2009, including the auditor's report.
4. Alliance Oil's unaudited (reviewed) interim report for the period ended 30 September 2012.
5. Alliance Oil's unaudited (reviewed) interim report for the period ended 30 September 2011.

## Documents available for inspection

For the life of the Prospectus, copies of the following documents may be inspected free of charge in hardcopy at the head office of Alliance Oil, Carnegie and Swedbank during normal business hours on any weekday (Saturdays, Sundays and public holidays exempted):

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- The Company's Bye-Laws as in effect and as proposed to be adopted on the special general meeting on 14 December 2012;
  - The Company's audited financial statements for 2011, 2010 and 2009 respectively;
  - The Company's interim reports for the periods ended 30 September 2012 and 2011 respectively;
  - This Prospectus;
  - The decision of the SFSA to approve the Prospectus; and
  - The decision of the SFSA to passport the Prospectus into the United Kingdom.

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## Tax issues in Sweden

The following is a summary of certain Swedish tax consequences that may arise from the Offering. It is based on Swedish tax legislation currently in effect and is intended only as general information for shareholders who are resident in Sweden for tax purposes, unless otherwise stated. The summary does not deal comprehensively with all tax consequences that may occur in this context. For instance, it does not cover the specific rules that may apply to shares acquired by virtue of shares in a "closely held company" (Sw. *fåmansforetag*). Also, it does not deal with the rules that in certain cases apply in the corporate sector with respect to tax exempt capital gains and dividends on "shares held for business purposes" (Sw. *näringsbetingade andelar*) or "share based securities" (Sw. *aktiebaserade delägarätter*). Nor does this description deal with the rules that apply where shares are held by a partnership or held as current assets in a business operation or in a securities investment account (Sw. *investeringssparkonto*). Special tax consequences that are not described below may also apply for certain categories of taxpayers, including investment companies and mutual funds. Each investor is recommended to consult a tax advisor for information with respect to the special tax consequences that may arise from the Offering, including the applicability and effect of foreign tax legislation, provisions in tax treaties for the avoidance of double taxation and other rules which may be applicable.

### General information

#### INDIVIDUALS

Capital income, such as dividends and capital gains on the sale of listed shares and other listed securities, is generally taxable as income from capital at a rate of 30 percent.

The capital gain or capital loss is calculated as the difference between the sales proceeds, after deduction of sales expenses, and the acquisition cost for tax purposes. The acquisition cost is determined according to the "average method". This means that the acquisition cost for all shares of the same type and series are added together and determined collectively, with respect to changes to the holding. For listed shares the acquisition cost may, as an alternative, be determined as 20 percent of the net sale revenue under the "standard rule".

Capital losses on listed shares and listed securities (except for listed shares in mutual funds containing only Swedish receivables) are fully deductible against taxable capital gains on such assets or on non-listed shares in Swedish limited liability companies and foreign legal entities. 70 percent of any excess loss is deductible in the income from capital category.

Moreover, only five sixths (5/6) of capital losses on non-listed shares in Swedish limited liability companies and foreign legal entities are deductible. If capital losses pertain to both listed and non-listed shares, the losses pertaining to the listed shares are deductible prior to the losses on the non-listed shares. Part of capital losses on listed shares or non-listed shares in Swedish limited liability companies and foreign legal entities not deducted in accordance with the above, may be deducted by, 70 percent against other capital income or five sixths (5/6) of 70 percent respectively. Capital losses on listed shares in mutual funds containing only Swedish receivables are fully deductible in the income from capital category.

If a deficit arises in the income from capital category, a reduction of the tax on income from employment and from business operations, as well as the real estate tax and the municipal real estate fee, is allowed. The tax reduction amounts to 30 percent of any deficit not exceeding SEK 100,000 and 21 percent of any deficit in excess of SEK 100,000. Deficits may not be carried forward to a later fiscal year.

#### LEGAL ENTITIES

Limited liability companies and other legal entities are normally taxed on all income, including capital gains and dividends, as income from business operations at a flat rate of 26.3 percent (proposed to be reduced to 22 percent from 2013). For the calculation of capital gains and losses, see "Individuals" above. A capital loss on shares incurred by a corporate shareholder may be offset only against taxable gains on shares or other securities. Such capital losses may, however, under certain circumstances, also be deducted against capital gains on such securities within the same group of companies, provided

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the requirements for group contributions (tax consolidation) are met. Capital losses on shares or other securities, which have not been deducted from capital gains within a certain year, may be carried forward and be offset against such capital gains in future years without any limitation in time.

## Taxation of dividends

For individuals, dividends on listed shares are normally taxed at a rate of 30 percent. For individuals resident in Sweden, preliminary tax of 30 percent is withheld on the dividend if the payment is effected by any central securities depository or similar institution. This preliminary tax is normally withheld by Euroclear Sweden or, for nominee-registered shares, by the nominee.

For legal entities liable to tax in Sweden for dividends, dividends on listed shares are taxed at a flat rate of 26.3 percent (proposed to be reduced to 22 percent from 2013). Special rules apply for certain types of legal entities.

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# Bye-Laws

Proposed amended and restated Bye-Laws of Alliance Oil, to be adopted by the special general meeting of shareholders on 14 December 2012.

As approved by the board of directors  
and confirmed by the members on 14 December 2012.

**Amended and restated**  
**Bye-Laws**  
**of**  
**Alliance Oil Company Ltd**

## **1. INTERPRETATION**

### **1.1. Definitions**

In these Bye-Laws, the following words and expressions shall have the following meaning, unless the context otherwise requires:

"Act"	The Companies Act 1981 of Bermuda, as amended from time to time;
"Additional Amount"	Shall have the meaning assigned to it in Bye-Law 6.4;
"Bermuda"	The Islands of Bermuda;
"Board"	The Board of Directors of the Company or the Directors present at a meeting of Directors at which there is a quorum, as the context may require;
"Bye-Laws"	These Bye-Laws in their present form or as from time to time amended;
"Company"	The company with the name Alliance Oil Company Ltd incorporated in Bermuda on September 1, 1998;
"Group"	The Company and its Subsidiaries;
"Liquidation"	Liquidation, bankruptcy proceedings or similar proceedings, whether such proceeding has been imposed on the Company or if the Company has entered into such proceeding on a voluntary basis;
"Ordinary Share"	An ordinary share of US\$1 par value in the capital of the Company;
"Outstanding Amount"	Shall have the meaning assigned to it in Bye-Law 6.3.3;
"Preference Share"	A preference share of US\$1 par value in the capital of the Company;
"Preference Distribution"	Shall have the meaning assigned to it in Bye-Law 6.3.1;

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"Preference Share Ratio"	Shall have the meaning assigned to it in Bye-Law 2.4.3;
"Primary Preferential Right"	Shall have the meaning assigned to it in Bye-Law 2.4.3;
"Redemption Price"	Shall have the meaning assigned to it in Bye-Law 6.4.2;
"Register"	The register of Shareholders of the Company;
"Registered Office"	The registered office of the Company for the time being;
"Seal"	The common seal of the Company, including any duplicate thereof;
"Secretary"	Any person, firm or other legal entity appointed by the Board to perform the duties of secretary of the Company, including any assistant, deputy, temporary or acting secretary;
"Securities"	Shall have the meaning assigned to it in Bye-Law 2.4.7;
"SEK"	the Swedish krona, the currency in Sweden.
"Share"	A share in the capital of the Company;
"Shareholder"	A Shareholder of the Company, regardless whether the Share is an Ordinary Share or a Preference Share.
"Subsidiary"	Any legal entity (whether incorporated or not) of which the Company at any time, directly or indirectly, owns or controls more than 50 per cent of the shares or votes, controls the appointment of more than 50 per cent of the board members or otherwise has control over.
"US\$"	The lawful currency of the United States of America.

## 1.2. Certain words and expressions

For the purposes of these Bye-Laws, unless the context otherwise requires:-

- (a) words importing the singular shall include the plural and vice versa;
- (b) words importing a gender shall include every gender;
- (c) words referring to persons shall include companies, associations or other legal entities;
- (d) reference to writing shall include typewriting, printing, lithography, photography and other modes of representing or reproducing words in a legible form;
- (e) any words or expressions defined in the Act in force at the date when these Bye-Laws or any part thereof are adopted shall bear the same meaning in these Bye-Laws or such part (as the case may be); and
- (f) save as otherwise provided herein, reference to any act, ordinance, statute or other statutory provision shall be interpreted as relating to any statutory modification or re-enactment thereof for the time being in force.

## 1.3. Certain Bye-Laws

Subject to these Bye-Laws, any directions given by the general meeting and any mandatory provisions of the Act, the Bye-Laws set forth below (the model of which is, in whole or in part, Swedish company law, as in force on the date of adoption or last amendment of these Bye-Laws) shall be construed in accordance with Swedish law (taking into account the provisions

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of the Swedish Companies Act (*aktiebolagslagen, 2005:551*), any relevant case law and other sources of law), as Swedish law has been amended as of the date of interpretation or, if Swedish law has been amended between the time of the event or circumstance on which a Bye-Law shall be applied and the date of interpretation, of the date of the event or circumstance in question.

The Bye-Laws of which Swedish law is the model are:

- 2.1 Equal rights of Shares
- 3.1 The right to attend general meetings
- 3.2 Time, place and matters to be dealt with at general meetings
- 3.3 Notices convening general meetings
- 3.4 The proceeding of a general meeting
- 3.5 Decisions by a general meeting
- 4.1 Appointment of directors
- 4.2 Managing director and chairman
- 4.3 Powers and duties of the Board and the managing director
- 4.4 Proceedings of the Board
- 4.5 Decisions by the Board
- 4.6 Disqualification in certain matters
- 4.7 Authority to represent the Company
- 4.8 Equal treatment of Shareholders
- 6.1 Dividend resolutions and other distributions to Shareholders
- 6.2 Dividend payments on Ordinary Shares
- 6.3 Dividend payments on Preference Shares and preferential right to dividends

## **2. SHARES AND AUTHORIZED SHARE CAPITAL**

### **2.1. Equal rights of Shares**

All Shares shall carry equal rights unless otherwise provided by these Bye-Laws.

### **2.2. Alteration of authorized Share capital**

The general meeting may by resolution

- (i) increase its authorized Share capital by such amount as it thinks expedient and do those other things which are listed in items (b), (c), (d), (dd) (e) and (f) of section 45 of the Act; and
- (ii) reduce its authorized Share capital in accordance with section 46 of the Act.

### **2.3. Share issues**

- 2.3.1. Subject to Bye-Law 3.5.2 below, either the general meeting or the Board may resolve to issue new Shares, warrants, debt instruments and convertible securities on such terms as the general meeting or the Board (as the case may be) may from time to time determine, provided that



- (i) the total amount of the issued Share capital (including the maximum number of Shares which may be issued upon conversion of any issued securities) may not exceed the authorized capital of the Company, and
- (ii) a new issue against the contribution of non-cash property or payment in-kind or the set-off of claims may only be approved by the general meeting (and for the purposes of these Bye-laws, payment of subscription price for Shares by way of a set-off of a liability of the Company, shall be regarded in the same way as a subscription for cash).

Shares as well as other securities may only be issued as fully paid.

- 2.3.2. Except as provided for by the conditions of issue or these Bye-Laws, any capital raised by the creation of new Shares shall be treated as if it formed part of the original capital of the Company, and such Shares shall be subject to the provisions contained in these Bye-Laws.

#### **2.4. Share classes**

- 2.4.1. At the date of adoption of these Bye-laws the Company is authorized to issue Ordinary Shares and Preference Shares.
- 2.4.2. Save as contemplated in Bye-Law 6.6 (when Ordinary Shares shall not vote), Ordinary Shares shall on a poll carry one (1) vote per share and Preference Shares shall on a poll carry one tenth (1/10) of a vote per share.
- 2.4.3. Preference Shares may only be issued if, after the issue (on a fully diluted basis), the Preference Share Ratio would not exceed one third (1/3). The "Preference Share Ratio" is:

$$\frac{(A + B) \times C}{D}$$

where:

- A is the Redemption Price according to Bye-Law 6.4 of all Preference Shares in issue (on a fully diluted basis);
  - B is the Outstanding Amount in respect of all Preference Shares in issue (on a fully diluted basis);
  - C is the total number of issued Preference Shares (on a fully diluted basis); and
  - D is the total equity of the Group (on a fully diluted basis) as at the end of the latest quarter for which the Group has issued and announced an interim report.
- 2.4.4. If and as long as the Preference Share Ratio exceeds one third (1/3), the Company may not issue additional Preference Shares.
  - 2.4.5. In the event that the Company issues new Shares of more than one class at the same time, whether for consideration in cash or by set-off, holders of Ordinary Shares and Preference Shares shall have preferential right to subscribe for such Shares of the applicable class pro rata to their existing shareholding in that class ("Primary Preferential Right"). Shares not subscribed for by Primary Preferential Right shall be allocated by the Board in its sole discretion.
  - 2.4.6. In the event that the Company issues new Shares of only one class, whether for consideration in cash or by set-off, the existing Shareholders of such class of Shares shall have preferential right to subscribe for such newly issued Shares pro rata in relation to their existing shareholding in the class of Shares issued (Primary Preferential Right). Shares not subscribed for by Primary Preferential Right shall be allocated by the Board in its sole discretion.
  - 2.4.7. In the event that the Company decides to issue new warrants or options to acquire Shares or debt instruments that are convertible into Shares ("Securities"), whether for consideration in cash or by set-off, the Shareholders of the applicable class to which the Securities relate shall have preferential right to subscribe for the new Securities as if the issue related to the Shares

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that may be subscribed for/converted to following an exercise/conversion of the Securities, as applicable.

- 2.4.8. The preferential right above shall not apply (i) where the Company issues Shares or Securities with deviation from the Shareholders' preferential right (ii) or where the Company issues new Shares for consideration in non-cash property or payment in-kind.
- 2.4.9. An issue of Shares by way of a bonus issue may only be made in respect of and by the issuance of Ordinary Shares. In such case, holders of Ordinary Shares have preferential right to receive such new Ordinary Shares pro rata in relation to their respective existing holdings of Ordinary Shares.

## **2.5. Ownership and transfer of Shares**

- 2.5.1. Subject to these Bye-Laws, any Shareholder may transfer all or any of his Shares by an instrument of transfer.
- 2.5.2. The instrument of transfer shall be executed by or on behalf of the transferor and the transferee and shall include the following details:
- (i) the complete names of the transferor and the transferee;
  - (ii) the number and class of Shares transferred;
  - (iii) the consideration payable by the transferee;
  - (iv) the date of execution of the instrument of transfer, and
  - (v) the terms upon which the transfer has been made conditional, if any.
- 2.5.3. The Board shall be entitled to deny registration of a transfer of a Share, if the instrument of transfer is not (i) submitted to the Registered Office or such other place in Bermuda at which the Register is kept in accordance with the Act or (ii) accompanied by such evidence as the Board may reasonably require to show the authority of the persons acting on behalf of the transferor and the transferee to make the transfer. The transferor shall be deemed to remain the holder of the transferred Share until the name of the transferee is entered in the Register in respect thereof.
- 2.5.4. Anyone who is recorded in the Register, as the holder of Shares in the Company, shall be recognized by the Company as a Shareholder in respect of the Shares for which he is registered.
- 2.5.5. If a Shareholder dies, the survivor or survivors, where the deceased was a joint holder, and his legal personal representatives, where he was a sole or only surviving holder, will be the only persons recognised by the Company as having any title to his interest in the Shares; but nothing in this Bye-Law will release the estate of a deceased Shareholder (whether sole or joint) from any liability in respect of any share which has been solely or jointly held by him.
- 2.5.6. Subject to the Act, any person becoming entitled to a Share in consequence of the death or bankruptcy or winding-up of a Shareholder may, upon such evidence as to his title being produced as may be required by the Board, elect either to become the holder of the Share or to have some person nominated by him registered as the transferee thereof. If he elects to become the holder he shall notify the Company in writing at the Registered Office to that effect. If he elects to have another person registered he shall execute a transfer of the Share in favour of that person. The provisions of these Bye-laws relating to the transfer and registration of transfers of Shares shall apply to such notice or transfer as aforesaid as if the death or bankruptcy of the Shareholder had not occurred and the notice or transfer was a transfer signed by such Shareholder.

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### **3. GENERAL MEETING**

#### **3.1. The right to attend general meetings**

- 3.1.1. A person shall be entitled to participate in a general meeting, provided that he is listed as a Shareholder in the Register five weekdays (including Saturday) prior to the general meeting. A Shareholder is entitled to bring one or two advisors to a general meeting, provided that the Company is notified thereof in advance.

In order to attend a general meeting, a Shareholder shall give the Company notice of his intention to attend, including the name of any accompanying advisor, not later than on the day specified in the notice convening the meeting. This day may not be a Sunday, any other Swedish or Bermudan public holiday, Saturday, Midsummer Eve, Christmas Eve or New Year's Eve and may not be earlier than the fifth weekday (including Saturday) before the meeting.

- 3.1.2. A Shareholder may exercise his rights at a general meeting personally or by a representative who shall be in possession of a written and dated proxy, the original copy of which shall be submitted to the Registered Office at least two weekdays prior to the general meeting or at such other time and place as may be specified in the notice convening the general meeting. A Shareholder shall be entitled to appoint different representatives and issue different proxies in respect of parts of his registered holding of Shares in the Company, in which case each proxy shall state the number of Shares in respect of which the representative has been authorized.

A proxy is valid for not more than one year from its issuance.

- 3.1.3. Directors and auditors shall be entitled to attend general meetings.

- 3.1.4. Where a Share is held by two or more persons, the holders may exercise the rights of a Shareholder in the Company only by a joint representative under a common proxy.

#### **3.2. Time, place and matters to be dealt with at general meetings**

- 3.2.1. General meetings shall be held in Stockholm, Sweden and be opened by the chairman or such other person as the Board may designate.

- 3.2.2. The annual general meeting shall be held within six months of the end of each financial year.

At each annual general meeting the following matters shall be dealt with:-

- (i) The election of a chairman of the meeting.
- (ii) Preparation and approval of a voting list.
- (iii) Approval of the proposed agenda.
- (iv) Election of one or two persons to check and sign the minutes together with the chairman.
- (v) Verification that the meeting has been duly convened.
- (vi) Presentation of the annual report and the auditor's report and, if the Company is a parent company, a presentation of the annual report of the Group of companies and the auditor's report of the Group of companies.
- (vii) Decisions in respect of
  - (a) the adoption of the profit and loss account and the balance sheet and, if the Company is a parent company, the adoption of the consolidated profit and loss account and balance sheet,
  - (b) the appropriation of the Company's profit or loss according to the adopted balance sheet,

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- (viii) Determination of the number of directors.
  - (ix) Determination of fees for the Board and the auditors.
  - (x) Election of the Board and appointment of an auditor or a firm of auditors.
  - (xi) Other matters which are to be dealt with by the meeting in accordance with the Act, the Memorandum of Association and/or these Bye-Laws.

Resolutions pursuant to item (vii) above, shall be adjourned to an adjourned general meeting if a majority or a minority consisting of owners of one-tenth of all Shares so request. The general meeting shall then be resumed not earlier than one month and not later than two months thereafter. No further adjournment shall be permitted.

Special general meetings shall deal with the matters referred to in items (i)-(v) above, in addition to the matters for which the special general meeting has been convened.

- 3.2.3. A Shareholder shall be entitled to have a resolution put before a general meeting provided that the Board has received a request therefor at least 48 hours prior to the announcement of the notice convening the meeting.

### **3.3. Notices convening general meetings**

- 3.3.1. The Board shall convene general meetings. Notice convening a general meeting shall be sent by mail to Shareholders whose addresses are known to the Company, at the earliest five weeks and at the latest two weeks before the meeting
- 3.3.2. Where a general meeting is adjourned to a date later than four weeks after the opening of the meeting, a notice shall also be issued convening the resumed meeting.
- 3.3.3. The notice convening a general meeting shall contain information regarding the time and place of the meeting as well as information regarding the conditions, pursuant to Bye-Law 3.1.1, for a Shareholder's right to participate at the meeting. The proposed agenda for the general meeting shall be included in the notice, specifying the items to be dealt with at the meeting. Where the meeting shall deal with an amendment of the Bye-Laws or the Memorandum of Association, the notice shall contain the essential contents of the proposed amendment.
- 3.3.4. The notice convening the annual general meeting shall be accompanied by copies of the annual report and the auditors report.
- 3.3.5. Where provisions of the Act or these Bye-Laws regarding notices of general meetings or the furnishing of documents have been disregarded in a matter, the meeting may not pass a resolution in the matter. The meeting may nonetheless pass a resolution in a matter which has not specifically been included in the notice, provided that the matter is to be dealt with at the meeting pursuant to these Bye-Laws or that the notice has specified the general nature of the business to be considered. The meeting may also decide to convene a special general meeting to deal with the matter.

### **3.4. The proceeding of a general meeting**

- 3.4.1. The chairman of the general meeting shall be elected by the meeting.

The chairman shall prepare a list of Shareholders and representatives present at the general meeting stating the number of Shares and votes represented by each of them (the "voting list"). The voting list, having been approved by the meeting, shall apply unless the meeting resolves to amend it. Where a meeting is adjourned to a day later than the immediately following working day, a new voting list shall be prepared. The chairman shall be responsible for the keeping of minutes of the general meeting. The voting list shall be recorded in or attached to the minutes. The resolutions by the meeting shall be entered in the minutes and, where a vote has taken place, the result of the vote. The minutes shall be signed by the chairman and not less than one person appointed by the meeting to check the minutes. The

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minutes shall be preserved in a safe manner. Copies of minutes shall be sent to any Shareholder who requests such copies, however, not earlier than two weeks after the meeting.

- 3.4.2. At the request of a Shareholder, the Board and the managing director shall, provided the Board considers it possible without any material prejudice to the Company, give such information to the general meeting as may be required for the purpose of examining the Company's annual report and its financial position or a matter before the meeting. Where the Company is part of a Group, the duty of providing information also includes the Company's relations to other Group companies and, where the Company is a parent company, the consolidated accounts of the Group as well as such circumstances relating to the subsidiaries as mentioned in the first sentence.

Where the requested information can be provided only if supported by data not available at the meeting, the information shall be made available within two weeks from the meeting and shall be sent to any Shareholder who requests the information.

Where the Board considers that the information requested cannot be given to the Shareholders without material prejudice to the Company, the information shall instead, if so requested by a Shareholder, be submitted to the auditors of the Company within two weeks thereafter. The auditors shall, within a month from the meeting, give a written statement to the Board indicating whether they have received the information requested and whether, in their opinion, the information should have given rise to an amendment of the audit report or, with respect to a parent company, the Group audit report or whether the information in other respects gives rise to any critical comment. Where this is the case, the amendment or comment shall be specified in the auditors' statement. The Board shall send a copy of the auditors' statement to the Shareholder who requested the information as well as to any other Shareholder who requests such information.

- 3.4.3. No business shall be transacted at any general meeting unless a quorum is present when the meeting proceeds to business, but the absence of a quorum shall not preclude the appointment, choice or election of a chairman which shall not be treated as part of the business of the meeting. Save as otherwise provided by these Bye-Laws, at least two Shareholders present in person or by proxy and entitled to vote shall be a quorum for all purposes; provided, however, that if the Company shall have only one Shareholder, one Shareholder present in person or by proxy shall constitute the necessary quorum.

### **3.5. Decisions by a general meeting**

- 3.5.1. Except as provided for in Bye-Laws 3.5.2 and 6.6, a resolution by the general meeting shall be passed by a simple majority of the votes cast and, in case of parity of votes, by the casting vote of the chairman of the meeting. In an election the candidate receiving the largest number of votes shall be considered elected. In case of parity of votes the election shall be effected by drawing of lots unless otherwise resolved by the meeting before the election takes place.

- 3.5.2. Except as provided for in Bye-Laws 3.5.3 and 6.6, the following resolutions shall be passed by a general meeting with the support of Shareholders holding not less than two-thirds of both the votes cast and the Shares represented at the general meeting:

- (i) amendments of the Memorandum of Association;
- (ii) amendments of these Bye-Laws;
- (iii) deviation from the Shareholders' preferential right to subscribe for new Shares or other Securities; and
- (iv) amendments of the rights attached to issued Ordinary Shares.

- 3.5.3. A general meeting may not pass any resolution which is likely to give an undue advantage to a Shareholder or another person to the detriment of the Company or other Shareholders.

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This Bye-Law 3.5.3 may not be amended unless supported by Shareholders at a general meeting representing not less than nine-tenths (9/10) of both the votes cast and the Shares represented at the general meeting.

#### **4. THE MANAGEMENT OF THE COMPANY**

##### **4.1. Appointment of directors**

4.1.1. The Board shall consist of not less than 3 and not more than 15 directors.

The Board is appointed annually at the annual general meeting, for the period until the closing of the next annual general meeting.

The provisions in these Bye-Laws in respect of directors shall, where appropriate, apply to any managing director and deputy managing director as well as committee members appointed pursuant to these Bye-Laws.

4.1.2. The term of office of a director may be terminated prematurely

- (i) at the director's own request to the Board; or
- (ii) by the general meeting.

In addition, the office of a director may be terminated prematurely by the Board upon the occurrence of any of the following events:

- (iii) if he becomes of unsound mind or a patient for any purpose of any statute or applicable law relating to mental health;
- (iv) if he becomes bankrupt or compounds with his creditors; or
- (v) if he is prohibited by law from being a director.

4.1.3. Where a director's term of office is terminated prematurely, then the other directors shall take steps to have a new director appointed by the general meeting, for the remaining term of the office. However, such new appointment may be postponed until the next annual general meeting at which an election of directors shall take place, provided that the remaining directors form a quorum and that the remaining number of directors is not less than the minimum number designated pursuant to Bye-law 4.1.1.

4.1.4. Any general meeting of the Company may elect a person or persons to act as a director in the alternative to any one or more of the directors of the Company. Any person so elected or appointed shall have all the rights and powers of the director or directors for whom such person is appointed in the alternative provided that such person shall not be counted more than once in determining whether or not a quorum is present.

An alternate director shall be entitled to receive notice of all meetings of the Board and to attend and vote at any such meeting at which a director for whom such alternate director was appointed in the alternative is not personally present and generally to perform at such meeting all the functions of such director for whom such alternate director was appointed.

An alternate director shall cease to be such if the director for whom such alternate director was appointed ceases for any reason to be a director but may be re-appointed by the Board as alternate to the person appointed to fill the vacancy in accordance with these Bye-laws.

The provisions set forth in these Bye-Laws regarding members of the Board shall apply, mutatis mutandis, to alternate directors.

##### **4.2. Managing director and chairman**

4.2.1. The Board shall appoint a managing director. The managing director shall be an ordinary or alternate director of the Board. A deputy managing director may also be appointed by the Board.

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- 4.2.2. One of the directors shall be the chairman of the Board. If the chairman resigns during the mandate period, the Board shall elect a chairman from among the directors to serve until the end of the next annual general meeting. In the event of parity of votes the election shall be effected by the drawing of lots. The managing director may not be the chairman.

**4.3. Powers and duties of the Board and the managing director**

- 4.3.1. Subject to the provisions of the Act, these Bye-Laws and to any directions given by the general meeting the Board shall manage the business of the Company and may exercise all the powers of the Company, including the power to raise or borrow money and to mortgage or charge all or any part of the undertaking, property and assets of the Company.
- 4.3.2. The managing director shall be in charge of the day-to-day management of the Company, according to the guidelines and instructions laid down by the Board.
- 4.3.3. The Board shall ensure that the Company's accounting records and the management of the Company's funds comply with applicable international accounting standards and generally accepted minimum standards of control. The managing director is responsible for ensuring that the accounting records are kept in accordance with all applicable laws and regulations and that the funds are managed and kept in custody in accordance with the Company's investment policy.

**4.4. Proceedings of the Board**

- 4.4.1. The chairman of the Board shall ensure that board meetings are held whenever necessary. The Board shall be convened upon request by any director given to the chairman.
- 4.4.2. The proceedings of the Board meetings shall be recorded in minutes which shall be signed or verified by the chairman of the Board and the person acting as secretary to the meeting. Any director shall be entitled to have his dissent recorded in the minutes. The minutes shall be taken in numerical order and preserved in a safe manner at the Registered Office.
- 4.4.3. The Board may adopt resolutions in writing. Provided that such resolutions are signed by all directors, they are as valid and effectual as resolutions passed at a meeting.
- 4.4.4. The Board may delegate to any committee, director, officer or other individual any of the powers exercisable by it.

**4.5. Decisions by the Board**

- 4.5.1. A quorum exists where more than half of all directors are present. However, a matter may not be decided unless, to the extent possible, all directors have had an opportunity to participate in considering the matter and have received satisfactory supporting material in order to reach a decision.
- 4.5.2. All resolutions by the Board shall be adopted by a simple majority of the votes of directors present; provided, however, that the number of directors who are in favour of a resolution shall represent more than one third of all directors. In case of a parity of votes, the chairman shall have the casting vote.

**4.6. Disqualification in certain matters**

A director may not vote in relation to or otherwise deal with matters relating to agreements or court actions or other legal actions between himself and the Company, nor with matters relating to agreements or court actions or other legal actions between the Company and a third party, if the director has a considerable interest in the matter contrary to that of the Company, nor with matters relating to agreements between the Company and a legal person which the director is entitled to represent, whether alone or together with another person, except where the party contracting with the Company belongs to the same Group as the Company.

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#### **4.7. Authority to represent the Company**

- 4.7.1. The Board shall represent the Company and be authorized to sign for it. The Board shall be entitled to authorise a director or a third party or two or more persons jointly to represent and sign for the Company. The provision on disqualification (Bye-Law 4.6) applies equally to such a person who is not a director.
- 4.7.2. The Board may at any time revoke any authorisation granted pursuant to Bye-Law 4.7.1.
- 4.7.3. A managing director shall always be entitled to represent the Company and sign for it with regard to measures which are within his responsibilities pursuant to Bye-Law 4.3.

#### **4.8. Equal treatment of Shareholders**

Neither the Board, any director nor any other representative of the Company may enter into legal transactions or undertake other measures which are likely to give an undue advantage to a Shareholder or a third party to the detriment of the Company or another Shareholder.

The directors and other representatives may not comply with a directive by the general meeting or by any other body within the Company if the directive is contrary to the Act or these Bye-Laws.

#### **4.9. Directors' remuneration and expenses**

- 4.9.1. The directors shall be entitled to remuneration, to be determined by a resolution of the Shareholders.

In addition to the remuneration for being a director, each director shall be paid all expenses properly and reasonably incurred in the conduct of the Company's business or in the discharge of his duties as a director.

- 4.9.2. A director may hold any other office or place of profit within the Company (except that of auditors) on the terms and for the extra remuneration decided by the Board. A director may also render professional services to the Company, and he is entitled to remuneration therefore.

#### **4.10. Proceedings of committees**

Committees and committee members are governed by the provisions pertaining to the meetings and proceedings of the Board and to directors, where applicable, unless the Board has imposed specific regulations.

### **5. OFFICERS**

The Board shall appoint and regulate the terms for a Company secretary, a resident representative and any other officer required under the Act (exclusive of directors).

In addition, the Board shall be entitled to appoint and regulate the terms for any other employee as it may deem appropriate.

### **6. DIVIDEND AND DISTRIBUTIONS TO SHAREHOLDERS, REDEMPTION, AND LIQUIDATION**

#### **6.1. Dividend resolutions and other distributions to Shareholders**

- 6.1.1. Save as expressly provided in these Bye-Laws and subject to the requirements of the Act, the general meeting may from time to time declare a dividend as well as other distributions out of any contributed surplus in any currency and in any kind, to be paid to the Shareholders. However, the general meeting may not declare a dividend or distribution higher than the dividend recommended by the Board.
- 6.1.2. The Board may, before recommending any dividend, set aside such sums as it thinks proper as reserves which shall, at the discretion of the Board, be applicable for any purpose of the Company and pending such application may, also at such discretion, either be employed in



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the business of the Company or be invested in such investments as the Board may from time to time think fit. The Board may also without placing the same to reserve carry forward any sums which it may think it prudent not to distribute.

- 6.1.3. Before recommending any dividend or other distribution, the Board must ensure that, following the action, there is sufficient coverage for the Company's share capital. The calculation shall be based on the most recently adopted balance sheet taking into consideration changes in the share capital which have occurred subsequent to the balance sheet date. The Board must also take into account the Company's as well as the Group's investment plans, consolidation needs, liquidity and financial position in general as well as the requirement of the size of the Company's and the Group's equity considering the nature scope and risks of the business.

## **6.2. Dividend payments on Ordinary Shares**

- 6.2.1. Those who are recorded as Shareholders in the Register on the record date specified in the resolution declaring the dividend shall be deemed to be entitled to receive such dividend. The record date shall occur within one month from the date of the resolution. The dividend shall be paid out immediately following the record date.
- 6.2.2. No dividend or other distribution to holders of Ordinary Shares may be declared and/or paid prior to the declaration/ full payment, as applicable, of any Preference Distribution due, including any Outstanding Amount, to holders of Preference Shares.

## **6.3. Dividend payments on Preference Shares and preferential right to dividends**

Holders of Preference Shares shall have priority over holders of Ordinary Shares to receive dividend as follows. Holders of Preference Shares shall not be entitled to receive any other dividend than explicitly stated below.

### **6.3.1. Calculation of the Preference Distribution**

Each Preference Share shall entitle the holder to receive in priority to the payment of any dividend in respect of Ordinary Shares, an amount equal to SEK 7.50 per quarter of a year (or pro-rata in respect of any part of a quarter), not exceeding a total amount of SEK 30 per year (the "Preference Distribution").

### **6.3.2. Payment of Preference Distribution**

Subject to the Act and to Bye-Law 6.1, Preference Distribution shall be paid in cash quarterly to the holders of Preference Shares shown on the Register on each record date. The record dates shall be 28 February, 31 May, 31 August and 30 November. If such a record date is not a banking day, i.e. a day that is not a Saturday, Sunday or a public holiday in Sweden, the record date shall be the closest preceding banking day. Preference Distribution shall be made on the third banking day after the record date. The first time that a Preference Distribution to the holders of Preference Shares may be made, is on the first payment day following the first record date after the issuance of the Preference Shares.

### **6.3.3. Calculation of Outstanding Amount**

If no Preference Distribution is paid on Preference Shares, or if dividend is paid with an amount less than the Preference Distribution, the holders of Preference Shares shall, in addition to future Preference Distribution, be entitled to receive an amount constituting the difference between what should have been paid as dividend and the actual amount paid (equally divided on each Preference Share) ("Outstanding Amount") before any dividend or any other distribution is paid on Ordinary Shares. The Outstanding Amount shall be increased with an annual interest rate corresponding to fourteen (14) per cent calculated from the quarterly date on which the dividend payment should have been made, where no or insufficient dividend was paid, to the date of payment.

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6.3.4. Recalculation at certain events of the Company

If the number of Preference Shares in issue changes through a share split or a reverse share split, consolidation or other Company events with a similar effect, the Preference Distribution shall be recalculated to reflect this change.

**6.4. Redemption**

6.4.1. The general meeting may at any time resolve to redeem some of or all the Preference Shares. The Shares will be redeemed pro rata in relation to the number of Preference Shares held at the time of the record date specified by the general meeting resolving on redemption. If the pro rata allocation of Preference Shares to be redeemed of any holder does not amount to an even number, the Board may round up or down to a whole number of Preference Shares to be redeemed in its sole discretion. For the avoidance of doubt, holders of Preference Shares are not entitled to require that the Preference Shares are redeemed.

6.4.2. The redemption price per Preference Share shall be equal to 130 per cent of the subscription price per Preference Share determined in connection with the first issue of Preference Shares plus any Outstanding Amount and Additional Amount (the "Redemption Price").

6.4.3. "Additional Amount" means such dividend accrued for the period beginning on (but excluding) the latest record date constituting the basis for calculation of an Outstanding Amount, if applicable, and ending on (and including) the day of redemption. The number of days shall be calculated on the basis of the actual number of days in that period divided by 90.

6.4.4. On the redemption date set out in the notice of redemption from the Company, the Preference Shares subject to redemption shall be redeemed and the holders thereof shall have no further right in respect of the Preference Shares redeemed save for the right to be paid the Redemption Price.

**6.5. Liquidation of the Company**

In the event the Company becomes subject to Liquidation, the holders of Preference Shares shall be entitled in priority to any payment to the holders of Ordinary Shares, to receive an amount per Preference Share corresponding to the Redemption Price calculated according to Bye-Law 6.4 (where the calculation of any Additional Amount shall end on the day of Liquidation) from the Liquidation proceeds, equally divided between the Preference Shares (but to no further or other amount), considering if the Preference Shares were issued at different occasions. Thereafter, any remaining proceeds shall be distributed among the Ordinary Shares. The Preference Shares shall not be entitled to any other distribution in connection with Liquidation of the Company.

**6.6. Alteration of Bye-Laws relating to Preference Shares**

6.6.1. Subject to Bye-Law 6.6.2, the Bye-Laws 6.1 - 6.6 may not be amended or abrogated unless the holders of at least one half (1/2) of all issued Preference Shares are represented at a general meeting and the amendment/abrogation is supported by not less than nine-tenths (9/10) of both the Preference Share votes cast and the Preference Shares represented at the general meeting. For the avoidance of doubt, (i) this Bye-Law 6.6.1 only applies if the proposed amendment or abrogation is considered by the directors of the Company (in their discretion) to be detrimental to the holders of Preference Shares (where a reduction of the (a) Preference Distribution or (b) Redemption Price in relation to redemption or (c) Redemption Price in relation to Liquidation always shall be deemed detrimental) and (ii), holders of Ordinary Shares are not entitled to vote on any amendment or abrogation of Bye-Laws 6.1 - 6.6.

6.6.2. If the quorum requirement in Bye-Law 6.6.1 is not achieved at a general meeting sufficient to pass a resolution in accordance with this Bye-Law 6.6, the general meeting, only with regard to the relevant resolution(s), shall be adjourned to the tenth banking day thereafter. Notice containing information regarding time and place for a continued meeting shall immediately be provided to the holders of Shares present at the first general meeting and, regardless of Bye-Law 3.3.2, promptly be provided to the holders of Shares in accordance with the

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procedures in Bye-Law 3.3. At a continued meeting, the quorum requirement of Bye-Law 6.6.1 shall not apply and resolutions to amend or abrogate Bye-Laws 6.1 to 6.6 may be passed by the approval of holders of Preference Shares representing not less than two-thirds of both the votes cast and the Preference Shares represented at the general meeting.

**7. SEAL**

**7.1.** The Company shall have one or more Seals, as the Board may determine. For the purpose of sealing documents creating or evidencing securities issued by the Company (to the extent that such securities are represented by certificates), the Company may have a securities seal which is a facsimile of the Seal of the Company with the addition of the words "Securities Seal" on its face or in such other form as the Board may approve. The Board shall provide for the custody of each Seal and no Seal shall be used without the authority of the Board or of a committee of the Board authorised by the Board in that behalf. Subject as otherwise provided in these Bye-Laws, any instrument to which a Seal is affixed shall be signed autographically by one director and the Secretary or by two directors or by such other person (including a director) or persons as the Board may appoint, either generally or in any particular case, save that as regards certificates for shares or debentures or other securities of the Company the Board may by resolution determine that such signatures or either of them shall be dispensed with or affixed by some method or system of mechanical signature. Every instrument executed in a manner provided by this Bye-Law shall be deemed to be sealed and executed with the authority of the Board previously given.

**7.2.** Where the Company has a Seal for use abroad, the Board may by writing under the Seal appoint any agent or committee abroad to be the duly authorised agent of the Company for the purpose of affixing and using such Seal and the Board may impose restrictions on the use thereof as may be thought fit. Wherever in these Bye-Laws reference is made to the Seal, the reference shall, when and so far as may be applicable, be deemed to include any such other Seal as aforesaid.

**8. MATTERS NOT REGULATED BY THESE BYE-LAWS**

Unless otherwise provided by these Bye-Laws or by any directions given by the general meeting, the management of the Company and other matters shall be governed by and conducted in accordance with the Act.

**9. DISPUTES**

Any dispute, controversy or claim between the Company and any director or Shareholder or between any director and any Shareholder shall be finally settled by the Stockholm City Court (*Stockholms tingsrätt*) in accordance with the Swedish Code of Judicial Procedure (*rättegångsbalken*).

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## Glossary

References to certain defined terms in this Prospectus are as described below:

### **2P**

An oil industry classification meaning: Proven and Probable oil reserves.

### **3P**

An oil industry classification meaning: Proven, Probable and Possible oil reserves.

### **Board of Directors or Board**

The Board of Directors of the Company.

### **Carnegie**

Carnegie Investment Bank AB (publ), the Company's financial advisor together with Swedbank in connection with the New Share Issuance.

### **CIS**

The Commonwealth of Independent States

### **Code**

The Swedish Code of Corporate Governance.

### **Company or Alliance Oil**

Alliance Oil Company Ltd.

### **D&M**

DeGolyer and MacNaughton.

### **Group**

The Company and each of its subsidiaries.

### **Merger**

The merger of NK Alliance and WSR which was effective as of 10 April 2008.

### **New Share Issuance or Offering**

The offering to subscribe for Preference Shares, represented by SDRs, in the Company in accordance with the terms of the Prospectus.

### **NK Alliance**

Open Joint Stock Company Oil Company Alliance and its consolidated subsidiaries and affiliates as it existed immediately prior to 1 January 2008.

### **PMRS**

The Petroleum Resources Management System approved in March 2007 by the Society of Petroleum Engineers, the World Petroleum Council, the American Association of Petroleum Geologists and the Society of Petroleum Evaluation Engineers.

### **Preference Shares**

The Preference Shares, represented by SDRs of the Company offered for subscription in accordance with the terms of the Prospectus.

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**Prospectus**

The present prospectus which has been prepared in relation to the Offering to subscribe for Preference Shares, represented by SDRs in Alliance Oil.

**Repsol**

Repsol Exploración S.A.

**SDR**

Swedish Depositary Receipt.

**SFSA**

The Swedish Financial Supervisory Authority (Sw. *Finansinspektionen*).

**Subscription Price**

The subscription price of the Preference Shares in the New Share Issuance, amounting to SEK 250 - 300 per Preference Share, will be determined in a book building process with institutional investors and announced by the Company on 17 December 2012.

**Swedbank**

Swedbank First Securities, AB (publ), the Norwegian branch of Swedbank AB (publ), the Company's financial advisor together with Carnegie in connection with the New Share Issuance.

**WSR**

West Siberian Resources Ltd and its subsidiaries and affiliates as it existed immediately prior to the Merger.

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## Addresses

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