



Management's analysis of the financial position and operating results of Bashneft Group for the three months ended 30 September and 30 June 2014 and for the nine months ended 30 September 2014 and 2013



This report contains an overview of the financial position and operating results of JSOC Bashneft and includes operating results of Bashneft Group for the nine months ended 30 September 2014. The terms “Bashneft”, “the Company”, “Bashneft Group” and “the Group” in various forms mean JSOC Bashneft and its subsidiaries and structured entities. The financial position and operating results analysed in this document are consolidated data on Bashneft Group.

Certain statements in this report may contain assumptions or forecasts with respect to forthcoming events within Bashneft Group. Such statements may contain the words “is expected”, “is estimated”, “intends”, “will”, “could”, negations thereof or other similar expressions. These statements are only assumptions, and actual events or results may differ materially from them. The actual results of Bashneft Group may differ substantially from what is declared in our assumptions and forecasts as a result of a large number of factors. Such factors may include general economic conditions, Bashneft’s competitive environment, risks associated with operating in Russia, rapid technological and market changes in the Company’s areas of business, as well as many other risks directly related to Bashneft Group.

The barrel-tonne conversion factor used in this report is 7.3.



OVERVIEW

Bashneft Group is one of Russia's leading vertically integrated oil companies involved in crude oil production and refining, as well as in selling oil and petroleum products.

The Company was established as an open joint-stock company on 13 January 1995 after the privatization of Bashneft production association.

The Group holds licences for the development of 193 oil and gas fields in the Republic of Bashkortostan, the Khanty-Mansi Autonomous District, the Nenets Autonomous District, the Orenburg Region, the Tyumen Region and the Republic of Tatarstan. 174 of the Group's fields are in commercial production.

According to the results of an audit conducted by Miller & Lents Ltd. using international PRMS (SPE) criteria, the Group's proved oil reserves as of 31 December 2013 amounted to 287.4 million tonnes. Bashneft Group has a reserves-to-production ratio of 18 years. Proved and probable (2P) reserves totalled 361.6 million tonnes. Overall reserves of Bashneft Group (including possible reserves) amounted to 454.3 million tonnes. During the nine months ended 30 September 2014, production at the developed licence areas totalled 13.1 million tonnes.

Bashneft Group includes three refineries. The Group has some of the most technologically advanced facilities in Russia that are leaders in terms of refining depth and quality of petroleum products. The refineries' installed capacity totals 24.1 million tonnes of hydrocarbons per year.

During the nine months ended 30 September 2014, the Group's refineries processed 16.3 million tonnes of hydrocarbons. Refining depth averaged 84.9%, which is one of the best results among Russian vertically integrated oil companies.

During the nine months ended 30 September 2014, Bashneft Group sold 7.7 million tonnes of petroleum products on the domestic market and exported 7.0 million tonnes of petroleum products. The Group also sold 5.1 million tonnes of crude oil, including 4.3 million tonnes of exported crude oil.

As of 30 September 2014, Bashneft Group's retail network comprised 565 operating petrol stations and also 220 partner petrol stations operated under the Bashneft brand name.

KEY FINANCIAL AND OPERATING RESULTS

	3Q		Change	9 months		
	2014	2014		2014	2013	Change
Revenue (million roubles)	162,861	163,176	-0.2%	472,705	417,054	13.3%
EBITDA (million roubles)	29,985	28,593	4.9%	83,337	76,169	9.4%
Adjusted EBITDA (million roubles) ¹	30,298	29,520	2.6%	85,293	76,981	10.8%
Operating profit (million roubles)	24,099	22,863	5.4%	66,666	61,952	7.6%
Profit for the period attributable to the owners of the parent company (million roubles)	15,611	15,855	-1.5%	45,425	32,542	39.6%
Net debt (million roubles)	127,577	107,124	19.1%	127,577	57,504	121.9%
Oil production (thousand tonnes)	4,596	4,374	5.1%	13,085	11,900	10.0%
Oil refining (thousand tonnes)	5,524	5,481	0.8%	16,323	16,053	1.7%

Major events during the nine months of 2014 that had an impact on the performance of Bashneft Group:

- On 3 February 2014, the Extraordinary General Meeting of Shareholders (EGMS) of Bashneft approved the decision on reorganization which was approved by the Board of Directors on 17 December 2013. On 25 March 2014, the Board of Directors of Bashneft approved the report on the results of submission of buyback requests by shareholders who abstained or voted against the reorganization at the EGMS. In April 2014, as part of the reorganization of the Group, Bashneft bought back 2,724,173 own ordinary shares and 8,885,866 own preferred shares for a total cash consideration of 17,869 million roubles. The reorganization was completed on 6 May 2014, when the Company cancelled 38,139,925 ordinary shares and 8,885,866 preferred shares obtained earlier following the reorganization of CJSC Sistema-Invest and bought back from Bashneft's shareholders, respectively;
- In March 2014, the Group completed the acquisition of a 100% stake in LLC Promenergoresurs, which owns a network of five petrol stations operating under the Red Oil brand name and seven land plots located in Magnitogorsk, a large industrial city in the Chelyabinsk Region;
- In March 2014, the Group acquired 100% of outstanding shares of LLC Burneftegaz, an exploration and production company based in the Tyumen Region, for a total cash consideration of 35,953 million roubles;
- In May 2014, the Group and OAO LUKOIL signed an agreement under which control over operational and financial activities of LLC Bashneft-Polyus was transferred to the Group;
- In May 2014, in accordance with the decision of the Federal Subsoil Resources Management Agency (Rosnedra), Bashneft transferred the licence for the R. Trebs and A. Titov fields to its subsidiary, LLC Bashneft-Polyus;

¹ Adjusted EBITDA excludes the impact of other operating expenses and income, which mainly include reserve accruals, financial results from sales of property, plant and equipment and inventories.

(million roubles)	3Q		Change	9 months		
	2014	2014		2014	2013	Change
EBITDA	29,985	28,593	4.9%	83,337	76,169	9.4%
Other operating expenses, net	313	927	-66.2%	1,956	812	140.9%
Adjusted EBITDA	30,298	29,520	2.6%	85,293	76,981	10.8%

- In May 2014, JSOC Bashneft and LLC Lukoil-Komi set up a new joint venture, LLC Vostok NAO Oil Company, to conduct geological exploration and prospecting and produce hydrocarbons at the companies' licence areas in the Nenets Autonomous District;
- In June 2014, the General Meeting of Shareholders of Bashneft decided to pay dividends for 2013 amounting to 211 roubles per share;
- In June 2014, Bashneft started pilot operation of a catalytic cracking gasoline hydrotreater at the Bashneft-UNPZ Branch. The catalytic cracking gasoline hydrotreater is the latest large-scale project forming part of the programme to upgrade Bashneft's refining complex in Ufa; the project is aimed at ensuring compliance with the requirements of the Technical Regulations for fuel quality. The launch of the hydrotreater will enable the Group to completely switch over to producing ultra-low sulphur gasoline meeting Euro 5 emission standards, with sulphur content totalling less than 10 ppm (0.001%);
- In August 2014, Bashneft completed the acquisition of a network of petrol stations operated under the OPTAN brand name and comprising 91 petrol stations and 11 land plots in 12 regions of the Russian Federation for a total cash consideration of 7,715 million roubles;
- In September 2014, Bashneft gained control over 98% of shares of OJSC United Petrochemical Company (UPC) through termination of the agreement on the sale of these shares to JSFC Sistema concluded in September 2013.

MAIN FACTORS INFLUENCING OPERATING RESULTS

Operating results of Bashneft Group can be significantly influenced by the following key external factors:

- international and domestic market prices for crude oil and petroleum products;
- the rouble/dollar exchange rate and inflation rate;
- taxation and government regulation of tariffs of natural monopolies.

Prices for crude oil and petroleum products

Prices for crude oil and petroleum products are the main factor determining the financial and, indirectly, operating results of Bashneft Group. The Group's ability to control the prices for its products is limited, as these prices mostly depend on the global market and on the supply and demand balance in particular regions of Russia. A decrease in prices for crude oil or petroleum products may adversely affect Bashneft's performance and financial position and lead to a reduction of oil production profitability of the Group, which, in turn, will result in a decline in the volume of Bashneft's economically viable hydrocarbon reserves for development and impact the economic efficiency of its geological exploration programmes and geological and engineering operations.

	3Q	2Q		9 months		
	2014	2014	Change	2014	2013	Change
Prices for crude oil and petroleum products²						
Brent crude oil (US\$ per barrel)	101.9	109.7	-7.1%	106.5	108.5	-1.8%
Brent crude oil (roubles per barrel)	3,689	3,838	-3.9%	3,769	3,429	9.9%
Urals crude oil (US\$ per barrel)	101.5	108.0	-6.0%	105.4	107.9	-2.3%
Urals crude oil (roubles per barrel)	3,675	3,781	-2.8%	3,730	3,412	9.3%
Fuel oil (average FOB Rotterdam/CIF NWE) (US\$ per tonne)	552.8	576.0	-4.0%	565.7	596.1	-5.1%
Fuel oil (average FOB Rotterdam/CIF NWE) (roubles per tonne)	20,008	20,159	-0.7%	20,020	18,848	6.2%
Diesel fuel (average FOB Rotterdam/CIF NWE) (US\$ per tonne)	865.3	909.1	-4.8%	895.7	918.7	-2.5%
Diesel fuel (average FOB Rotterdam/CIF NWE) (roubles per tonne)	31,318	31,819	-1.6%	31,698	29,048	9.1%
Naphtha (average FOB Rotterdam/CIF NWE) (US\$ per tonne)	880.2	936.9	-6.1%	909.3	893.9	1.7%
Naphtha (average FOB Rotterdam/CIF NWE) (roubles per tonne)	31,855	32,790	-2.9%	32,178	28,262	13.9%
Vacuum gas oil (FOB NWE) (US\$ per tonne)	698.9	776.5	-10.0%	751.6	769.2	-2.3%
Vacuum gas oil (FOB NWE) (roubles per tonne)	25,294	27,176	-6.9%	26,599	24,320	9.4%
Russian market (roubles per tonne, with excises, net of VAT)³						
Crude oil	11,484	12,164	-5.6%	11,752	10,510	11.8%
Fuel oil	9,910	9,923	-0.1%	9,499	8,881	7.0%
Diesel fuel (summer gasoil)	27,030	27,275	-0.9%	26,726	24,928	7.2%
Diesel fuel (winter gasoil)	28,829	28,469	1.3%	28,701	27,560	4.1%
High-octane gasoline	33,266	30,080	10.6%	30,560	26,930	13.5%
Low-octane gasoline	30,490	28,683	6.3%	28,758	25,478	12.9%

² Source: Platts.

³ Source: Kortes.



Rouble/dollar exchange rate and inflation rate

Over 50% of the Group's revenue comes from exports of oil and petroleum products. Therefore, fluctuations in rouble exchange rates have a direct impact on the financial and operating results of Bashneft Group.

In addition, the Consumer Price Index also affects the financial position of Bashneft Group; the inflation rate affects both capital and operating expenses of the Group.

	3Q		2Q	9 months		
	2014	2014	Change	2014	2013	Change
Rouble inflation (Consumer Price Index) during the stated periods ⁴	1.4%	2.4%	-1.0 p.p.	6.3%	4.7%	1.6 p.p.
Rouble/dollar exchange rate at the end of the period	39.4	33.6	17.3%	39.4	32.3	22.0%
Rouble/dollar exchange rate, period average	36.2	35.0	3.4%	35.4	31.6	12.0%

Taxation

Price fluctuations on the global market affect export duties and the mineral extraction tax.

	3Q		2Q	9 months		
	2014	2014	Change	2014	2013	Change
Mineral extraction tax (roubles per tonne)						
Crude oil	5,840	6,135	-4.8%	6,017	5,282	13.9%
Export duty (US\$ per tonne)						
Crude oil	380.5	382.6	-0.5%	384.6	389.7	-1.3%
Gasoline	342.4	344.4	-0.6%	346.1	350.7	-1.3%
Light and medium distillates	251.1	252.6	-0.6%	253.8	257.2	-1.3%
Fuel oil	251.1	252.6	-0.6%	253.8	257.2	-1.3%
Export duty (roubles per tonne)						
Crude oil	13,772	13,392	2.8%	13,610	12,321	10.5%
Gasoline	12,393	12,052	2.8%	12,247	11,088	10.5%
Light and medium distillates	9,088	8,838	2.8%	8,981	8,132	10.4%
Fuel oil	9,088	8,838	2.8%	8,981	8,132	10.4%

The following excise rates have been set in the Russian Federation:

(roubles per tonne)	1 January – 30 June 2013	1 July – 31 December 2013	2014	2015	2016
Gasoline					
non-compliant with classes 3, 4, 5	10,100	10,100	11,110	13,332	13,332
compliant with class 3	9,750	9,750	10,725	12,879	12,879
compliant with class 4	8,560	8,960	9,916	10,858	10,858
compliant with class 5	5,143	5,750	6,450	7,750	9,500
Naphtha	10,229	10,229	11,252	13,502	14,665
Diesel fuel					
non-compliant with classes 3, 4, 5	5,860	5,860	6,446	7,735	7,735
compliant with class 3	5,860	5,860	6,446	7,735	7,735
compliant with class 4	4,934	5,100	5,427	5,970	5,970
compliant with class 5	4,334	4,500	4,767	5,244	5,970
Lubricants	7,509	7,509	8,260	9,086	9,577

⁴ Source: Federal State Statistics Service (Rosstat).

Mineral extraction tax

The mineral extraction tax rate is calculated based on Urals world prices in U.S. dollars per barrel of crude oil and is set monthly in Russian roubles based on the exchange rate for the corresponding month.

The Tax Code of the Russian Federation stipulates a reduced or zero mineral extraction tax rate for certain fields. Actual mineral extraction tax expenses for the nine months ended 30 September 2014 are 32% lower than the current mineral extraction tax rate due to the fact that:

- a number of Bashneft Group's fields have a level of depletion exceeding 80%;
- the R. Trebs and A. Titov fields are situated in the Nenets Autonomous District.

	3Q	2Q		9 months		
	2014	2014	Change	2014	2013	Change
Mineral extraction tax						
Current mineral extraction tax rates (roubles per barrel)	800.0	840.4	-4.8%	824.2	723.6	13.9%
Actual mineral extraction tax expenses (roubles per barrel)	548.2	570.9	-4.0%	558.0	514.1	8.5%



OPERATING RESULTS

Production

	3Q	2Q	Change	9 months		
	2014	2014		2014	2013	Change
Oil production (thousand tonnes)	4,596	4,374	5.1%	13,085	11,900	10.0%
including at the R. Trebs and A. Titov fields	211	184	14.7%	572	120	n/a
Including at the fields of Burneftegaz Group	223	165	35.2%	397	-	n/a
Daily average production of crude oil (thousand barrels per day)	364.7	350.9	3.9%	355.1	318.2	11.6%

In the 3rd quarter of 2014, crude oil production increased by 5.1% compared to the 2nd quarter of 2014 and totalled 4,596 thousand tonnes, which was related primarily to an increase in the amount of highly efficient geological and engineering operations performed at the Group's brownfields and to production growth at new fields.

During the nine months ended 30 September 2014, production increased by 10.0% compared to the same period in 2013 and amounted to 13,085 due to the start of production at the R. Trebs field, the acquisition of Burneftegaz Group and a greater amount of highly efficient geological and engineering operations performed at the Group's brownfields.

Refining

(thousand tonnes)	3Q	2Q	Change	9 months		
	2014	2014		2014	2013	Change
Crude oil refining	5,524	5,481	0.8%	16,323	16,053	1.7%
Production of petroleum products						
Gasoline (including SNG ⁵)	1,169	1,268	-7.8%	3,598	3,625	-0.7%
Diesel fuel	1,880	1,950	-3.6%	5,629	5,683	-1.0%
Fuel oil	775	671	15.5%	2,315	2,170	6.7%
Vacuum gas oil	459	459	0.0%	1,348	1,356	-0.6%
Other	773	764	1.2%	2,125	1,939	9.6%
Total production of petroleum products	5,056	5,112	-1.1%	15,015	14,773	1.6%
Refining depth (%)	85.0%	86.6%	-1.6 p.p.	84.9%	85.4%	-0.5 p.p.
Share of light products (%)	59.3%	62.3%	-3.0 p.p.	60.1%	60.4%	-0.3 p.p.

In the 3rd quarter of 2014, refining slightly increased by 0.8% compared to the 2nd quarter of 2014 to 5,524 thousand tonnes.

During the nine months ended 30 September 2014, refining increased by 1.7% compared to the same period in 2013 and amounted to 16,323 thousand tonnes due to an improvement in market conditions and the launch of alkylation units and a catalytic cracking gasoline hydrotreater.

⁵ Stable natural gasoline.



FINANCIAL RESULTS

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME FOR THE THREE AND NINE MONTHS ENDED 30 SEPTEMBER 2014

(million roubles)	3Q	2Q	Change	9 months		Change
	2014	2014		2014	2013	
Revenue						
Crude oil sales	42,022	38,081	10.3%	118,750	81,747	45.3%
Petroleum products and petrochemicals sales	119,302	122,981	-3.0%	348,477	327,003	6.6%
Other sales	1,537	2,114	-27.3%	5,478	8,304	-34.0%
Total revenue	162,861	163,176	-0.2%	472,705	417,054	13.3%
Operating expenses						
Export tariffs and excise	(47,866)	(46,546)	2.8%	(141,008)	(117,438)	20.1%
Cost of purchased crude oil, gas and petroleum products	(34,929)	(37,178)	-6.0%	(104,083)	(95,059)	9.5%
Taxes other than income tax	(19,527)	(20,713)	-5.7%	(58,188)	(52,129)	11.6%
Production and operating expenses	(18,674)	(17,343)	7.7%	(50,249)	(42,730)	17.6%
Transportation expenses	(7,276)	(8,053)	-9.6%	(22,404)	(21,284)	5.3%
Depletion and depreciation	(5,886)	(5,730)	2.7%	(16,671)	(14,217)	17.3%
Selling, general and administrative expenses	(4,291)	(3,823)	12.2%	(11,480)	(11,433)	0.4%
Other operating expenses, net	(313)	(927)	-66.2%	(1,956)	(812)	140.9%
Total costs and expenses	(138,762)	(140,313)	-1.1%	(406,039)	(355,102)	14.3%
Operating profit	24,099	22,863	5.4%	66,666	61,952	7.6%
Impairment of investment in associate	-	-	-	-	(15,752)	-100.0%
Financial income	676	1,225	-44.8%	3,193	3,635	-12.2%
Financial costs	(3,800)	(3,340)	13.8%	(9,075)	(7,462)	21.6%
Foreign exchange (loss)/gain, net	(603)	(637)	-5.3%	(2,778)	451	n/a
Share of (loss)/profit of associate and joint ventures, net of income tax	(1)	119	n/a	58	(185)	n/a
Total other expenses	(3,728)	(2,633)	41.6%	(8,602)	(19,313)	-55.5%
Profit before income tax	20,371	20,230	0.7%	58,064	42,639	36.2%
Income tax	(4,578)	(4,362)	5.0%	(12,459)	(9,837)	26.7%
Profit for the period	15,793	15,868	-0.5%	45,605	32,802	39.0%
Profit for the period attributable to non-controlling interests	182	13	n/a	180	260	-30.8%
Profit for the period attributable to owners of the parent company	15,611	15,855	-1.5%	45,425	32,542	39.6%



REVENUE

In the 3rd quarter of 2014, the revenue of Bashneft Group remained at the level reached in the 2nd quarter of 2014 and totalled 162,861 million roubles.

During the nine months ended 30 September 2014, revenue grew by 13.3% compared to the same period in 2013 and amounted to 472,705 million roubles. This change was related to an increase in sales of crude oil volume and a rise in prices denominated in roubles.

(million roubles)	3Q		Change	9 months		
	2014	2014		2014	2013	Change
Revenue						
Export sales of crude oil outside the Customs Union*	35,583	31,453	13.1%	101,908	73,183	39.3%
Export sales of crude oil to the Customs Union*	2,047	2,197	-6.8%	6,278	5,081	23.6%
Domestic sales of crude oil	4,392	4,431	-0.9%	10,564	3,483	203.3%
Total sales of crude oil	42,022	38,081	10.3%	118,750	81,747	45.3%
Export sales of petroleum products and petrochemicals outside the Customs Union*	52,126	57,133	-8.8%	167,586	157,405	6.5%
Export sales of petroleum products and petrochemicals to the Customs Union*	2,802	1,469	90.7%	6,234	8,310	-25.0%
Domestic sales of petroleum products and petrochemicals	64,374	64,379	0.0%	174,657	161,288	8.3%
<i>wholesale</i>	49,963	51,651	-3.3%	136,373	127,889	6.6%
<i>retail</i>	14,411	12,728	13.2%	38,284	33,399	14.6%
Total sales of petroleum products and petrochemicals	119,302	122,981	-3.0%	348,477	327,003	6.6%
Other sales	1,537	2,114	-27.3%	5,478	8,304	-34.0%
Total revenue	162,861	163,176	-0.2%	472,705	417,054	13.3%

(thousand tonnes)	3Q		Change	9 months		
	2014	2014		2014	2013	Change
Sales volumes						
Export sales of crude oil outside the Customs Union*	1,345	1,178	14.2%	3,811	3,005	26.8%
Export sales of crude oil to the Customs Union*	165	158	4.4%	475	413	15.0%
Domestic sales of crude oil	360	340	5.9%	848	305	178.0%
Total sales of crude oil	1,870	1,676	11.6%	5,134	3,723	37.9%
Export sales of petroleum products and petrochemicals outside the Customs Union*	2,162	2,216	-2.4%	6,693	6,571	1.9%
Export sales of petroleum products and petrochemicals to other countries forming part of the Customs Union*	120	79	51.9%	317	489	-35.2%
Domestic sales of petroleum products and petrochemicals	2,747	2,810	-2.2%	7,729	7,806	-1.0%
<i>wholesale</i>	2,337	2,440	-4.2%	6,614	6,774	-2.4%
<i>retail</i>	410	370	10.8%	1,115	1,032	8.0%
Total sales of petroleum products and petrochemicals	5,029	5,105	-1.5%	14,739	14,866	-0.9%
Total sales of crude oil, petroleum products and petrochemicals	6,899	6,781	1.7%	19,873	18,589	6.9%

*The Customs Union is a union between Belarus, Kazakhstan and Russia which involves a single customs territory where no customs duties or economic restrictions are imposed on trade between the members of the Union.

Export and domestic sales of crude oil

In the 3rd quarter of 2014, revenue from export sales of crude oil totalled 37,630 million roubles, which is 11.8% more than in the 2nd quarter of 2014. The increase in revenue was caused by a 13.0% rise in sale volumes of crude oil due to an increase in the quota for oil transportation on export via main pipelines.



During the nine months ended 30 September 2014, revenue from export sales of crude oil totalled 108,186 million roubles, which is 38.2% greater than in the same period in 2013. This change was caused by a 25.4% increase in oil export volumes due to an increase in the quota for oil transportation on export via main pipelines and a rise in global oil prices denominated in roubles.

In the 3rd quarter of 2014, revenue from domestic sales of crude oil remained at the level reached in the 2nd quarter of 2014 and totalled 4,392 million roubles.

During the nine months ended 30 September 2014, revenue from domestic sales of crude oil totalled 10,564 million roubles, which is considerably higher than in the same period in 2013. This change was caused by an increase in sale volumes of crude oil due to the start of oil production at the R. Trebs field and the acquisition of Burneftegaz Group.

Export sales of petroleum products and petrochemicals

(thousand tonnes)	3Q	2Q	Change	9 months		
	2014	2014		2014	2013	Change
Diesel fuel	1,236	1,325	-6.7%	3,748	3,781	-0.9%
Vacuum gas oil	460	458	0.4%	1,352	1,356	-0.3%
Fuel oil	455	364	25.0%	1,405	1,042	34.8%
High-octane gasoline	59	72	-18.1%	280	523	-46.5%
Naphtha	28	34	-17.6%	98	73	34.2%
Other	39	42	-7.1%	122	181	-32.6%
Total sales of petroleum products	2,277	2,295	-0.8%	7,005	6,956	0.7%
Petrochemicals sales	5	-	n/a	5	104	-95.2%
Total sales of petroleum products and petrochemicals	2,282	2,295	-0.6%	7,010	7,060	-0.7%

Export sales of petroleum products and petrochemicals outside the Customs Union

In the 3rd quarter of 2014, revenue from export sales of petroleum products and petrochemicals outside the Customs Union totalled 52,126 million roubles, down by 8.8% compared to the 2nd quarter of 2014. This reduction was related both to a 2.4% decline in sale volumes of petroleum products (2,162 thousand tonnes in the 3rd quarter of 2014 compared to 2,216 thousand tonnes in the 2nd quarter of 2014) and to a fall in global prices. The reduction in sale volumes of petroleum products was caused by a change in the terms of delivery.

During the nine months ended 30 September 2014, revenue from export sales of petroleum products and petrochemicals outside the Customs Union increased by 6.5% compared to the same period in 2013 and totalled 167,586 million roubles. The increase in revenue was caused by an increase in sale volumes of fuel oil to the most profitable export destinations and by a rise in global prices denominated in roubles.

Export sales of petroleum products and petrochemicals to the Customs Union

In the 3rd quarter of 2014, revenue from export sales of petroleum products and petrochemicals to the Customs Union amounted to 2,802 million roubles, which is 90.7% more than in the 2nd quarter of 2014. The increase in revenue from export sales of petroleum products and petrochemicals to the Customs Union was caused by a 51.9% rise in sale volumes of petroleum products (120 thousand tonnes in the 3rd quarter of 2014 compared to 79 thousand tonnes in the 2nd quarter of 2014) due to a shift of focus in the markets.

During the nine months ended 30 September 2014, revenue from export sales of petroleum products and petrochemicals to the Customs Union fell by 25.0% compared to the same period in 2013 and amounted to 6,234 million roubles. The reduction in revenue was caused by a 35.2%



decline in sale volumes of petroleum products due to a shift of focus to export outside the Customs Union.

Domestic sales of petroleum products and petrochemicals

(thousand tonnes)	3Q		2Q	9 months		
	2014	2014	Change	2014	2013	Change
High-octane gasoline	1,032	1,200	-14.0%	3,047	2,992	1.8%
Diesel fuel	604	629	-4.0%	1,712	1,824	-6.1%
Fuel oil	322	238	35.3%	848	1,151	-26.3%
Naphtha	19	32	-40.6%	81	-	n/a
Low-octane gasoline	17	17	-	48	87	-44.8%
Other	738	694	6.3%	1,978	1,475	34.1%
Total sales of petroleum products	2,732	2,810	-2.8%	7,714	7,529	2.5%
Petrochemicals sales	15	-	n/a	15	277	-94.6%
Total sales of petroleum products and petrochemicals	2,747	2,810	-2.2%	7,729	7,806	-1.0%

In the 3rd quarter of 2014, revenue from wholesale of petroleum products and petrochemicals on the domestic market dropped by 3.3% compared to the 2nd quarter of 2014 to 49,963 million roubles, which was related mainly to a 4.2% decline in wholesale volume due to a shift of focus to retail sales.

In the 3rd quarter of 2014, revenue from retail sales increased by 13.2% compared to the 2nd quarter of 2014 and totalled 14,411 million roubles, which was related to a 10.8% seasonal increase in retail sales on the domestic market and expansion of Bashneft's network of petrol stations through the acquisition of the OPTAN network.

During the nine months ended 30 September 2014, revenue from wholesale of petroleum products and petrochemicals on the domestic market grew by 6.6% compared to the same period in 2013 and totalled 136,373 million roubles. The increase in revenue was caused by price growth on the domestic market.

During the nine months ended 30 September 2014, revenue from retail sales increased by 14.6% compared to the same period in 2013 and totalled 38,284 million roubles. The growth of revenue from retail sales was related to an 8.0% increase in retail sale volumes due to expansion of the network of petrol stations and the ongoing rebranding programme, as well as price growth on the domestic market.

Other sales

Revenue from other sales includes revenue from sales of goods and services that are not related to the Group's core business, such as maintenance services.

In the 3rd quarter of 2014, other revenue decreased by 27.3% compared to the 2nd quarter of 2014 to 1,537 million roubles as a result of a reduction in the amount of services provided to Bashneft-Service Assets Group and consolidation of LLC Bashneft-Polyus.

During the nine months ended 30 September 2014, other revenue fell by 34.0% compared to the same period in 2013, which was caused mainly by the divestment of Bashneft-Service Assets Group.



COSTS AND EXPENSES

Production and operating expenses

The breakdown of production and operating expenses of Bashneft Group by business segment is shown in the table below.

(million roubles)	3Q	2Q	Change	9 months		Change
	2014	2014		2014	2013	
Production and operating expenses						
Production	9,478	8,437	12.3%	25,870	21,722	19.1%
Refining	6,232	5,543	12.4%	16,950	15,181	11.7%
Other (including change in balances of WIP and finished products)	2,964	3,363	-11.9%	7,429	5,827	27.5%
Total production and operating expenses	18,674	17,343	7.7%	50,249	42,730	17.6%

Unit production and operating expenses for crude oil extraction are shown in the table below.

	3Q	2Q	Change	9 months		Change
	2014	2014		2014	2013	
Crude oil production expenses (million roubles)	9,478	8,437	12.3%	25,870	21,722	19.1%
Unit costs for production of crude oil (roubles per barrel)	282.5	264.2	6.9%	270.8	250.1	8.3%

Crude oil production expenses include labour costs, expenditure on raw and other materials, as well as the acquisition of heat and electricity, repairs and maintenance of oil and gas producing assets, and the use of enhanced oil recovery techniques.

In the 3rd quarter of 2014, unit costs for production of crude oil rose by 6.9% compared to the 2nd quarter of 2014 and amounted to 282.5 roubles per barrel following a seasonal increase in the amount of repairs and additional geological and engineering operations aimed at boosting production.

During the nine months ended 30 September 2014, unit costs for production of crude oil increased by 8.3% compared to the same period in 2013 and amounted to 270.8 roubles per barrel, which was related to additional geological and engineering operations performed in order to boost production, a rise in electricity prices and higher cost of services provided by oilfield service companies.

Unit production and operating expenses for oil refining are shown in the table below.

	3Q	2Q	Change	9 months		Change
	2014	2014		2014	2013	
Refining expenses (million roubles)	6,232	5,543	12.4%	16,950	15,181	11.7%
Unit refining costs (roubles per barrel)	154.5	138.5	11.6%	142.3	129.5	9.9%

Refining expenses include labour costs, expenditure on raw and other materials (excluding purchased crude oil, gas and petroleum products), as well as the acquisition of heat and electricity, repairs and maintenance of oil refining assets.

In the 3rd quarter of 2014, unit refining costs increased by 11.6% to 154.5 roubles per barrel due to an increase in the amount of repairs and consolidation of the UPC Group.



During the nine months ended 30 September 2014, unit refining costs increased by 9.9% compared to the same period in 2013 and totalled 142.3 roubles per barrel, which was related mainly to an increase in expenditure on repairs.

Cost of purchased crude oil, gas and petroleum products

In addition to production of its own crude oil, JSOC Bashneft purchases West-Siberian oil and gas (including gas condensate) for subsequent refining.

Volumes of purchased crude oil, gas and petroleum products which formed the cost of goods sold are shown in the table below.

(thousand tonnes)	3Q	2Q	Change	9 months		
	2014	2014		2014	2013	Change
Purchased crude oil, gas, and gas condensate	2,888	2,912	-0.8%	8,411	8,304	1.3%
Purchased petroleum products	46	19	142.1%	80	110	-27.3%
Total	2,934	2,931	0.1%	8,491	8,414	0.9%

In the 3rd quarter of 2014, the cost of purchased crude oil, gas and petroleum products decreased by 6.0% compared to the 2nd quarter of 2014 and totalled 34,929 million roubles. This change was caused by a fall in oil prices.

During the nine months ended 30 September 2014, the cost of purchased crude oil, gas and petroleum products increased by 9.5% compared to the same period in 2013 and totalled 104,083 million roubles. This change was caused primarily by a rise in oil prices.

Transportation costs

In the 3rd quarter of 2014, transportation costs decreased by 9.6% compared to the 2nd quarter of 2014 to 7,276 million roubles, which was caused primarily by a reduction in export volumes of petroleum products combined with a change in the structure of buyers of petroleum products on the domestic market.

During the nine months ended 30 September 2014, transportation costs increased by 5.3% to 22,404 million roubles, which was caused primarily by an increase in export volumes of crude oil and petroleum products combined with expansion of the geographical footprint of the wholesale business on the domestic market.

Depletion and depreciation

(million roubles)	3Q	2Q	Change	9 months		
	2014	2014		2014	2013	Change
Depletion and depreciation						
Exploration and production	2,644	2,517	5.0%	7,298	4,787	52.5%
Refining and marketing	3,057	3,033	0.8%	8,819	6,906	27.7%
Other	185	180	2.8%	554	2,524	-78.1%
Total depletion and depreciation	5,886	5,730	2.7%	16,671	14,217	17.3%

In the 3rd quarter of 2014, depletion and depreciation costs increased by 2.7% compared to the 2nd quarter of 2014 and amounted to 5,886 million roubles, which was related mainly to an increase in sale volumes of crude oil.

During the nine months ended 30 September 2014, depletion and depreciation costs increased by 17.3% compared to the same period in 2013, primarily due to an increase in production and



sale volumes of crude oil, as well as to putting into operation new property, plant and equipment, the acquisition of Burneftegaz Group and consolidation of LLC Bashneft-Polyus.

Taxes other than income tax

(million roubles)	3Q		Change	9 months		
	2014	2014		2014	2013	Change
Taxes other than income tax						
Mineral extraction tax	17,615	18,671	-5.7%	52,139	44,420	17.4%
Social contributions	1,338	1,403	-4.6%	4,253	5,784	-26.5%
Property tax	372	410	-9.3%	1,164	1,196	-2.7%
Other	202	229	-11.8%	632	729	-13.3%
Total taxes other than income tax	19,527	20,713	-5.7%	58,188	52,129	11.6%

In the 3rd quarter of 2014, taxes other than income tax decreased by 5.7% compared to the 2nd quarter of 2014 and amounted to 19,527 million roubles, which was related primarily to a reduction in the mineral extraction tax rate.

During the nine months ended 30 September 2014, taxes other than income tax increased by 11.6% to 58,188 million roubles due to an increase in mineral extraction tax payments caused by a rise in the mineral extraction tax rate combined with production growth. At the same time, social contributions and property tax decreased due to the divestment of the UPC Group and Bashneft-Service Assets Group.

Export tariffs and excise

(million roubles)	3Q		Change	9 months		
	2014	2014		2014	2013	Change
Export tariffs on crude oil	18,768	15,773	19.0%	52,219	37,206	40.4%
Export tariffs on petroleum products	19,182	19,844	-3.3%	60,306	53,036	13.7%
Excise	9,916	10,929	-9.3%	28,483	27,196	4.7%
Total export tariffs and excises	47,866	46,546	2.8%	141,008	117,438	20.1%

In the 3rd quarter of 2014, the total amount of export tariffs on oil and petroleum products increased by 6.6% compared to the 2nd quarter of 2014 and totalled 37,950 million roubles due to an increase in oil export volumes outside the Customs Union combined with a rise in rouble-denominated export duty rates.

In the 3rd quarter of 2014, the total amount of excise fell by 9.3% compared to the 2nd quarter of 2014 and amounted to 9,916 million roubles due to a reduction in domestic sale volumes of petroleum products.

During the nine months ended 30 September 2014, the total amount of export tariffs on oil and petroleum products increased by 24.7% compared to the same period in 2013 due to an increase in export volumes of oil and petroleum products outside the Customs Union and a rise in rouble-denominated export duty rates.

During the nine months ended 30 September 2014, the total amount of excise increased by 4.7%, which was caused mainly by a rise in excise rates.



CASH FLOW

The table below represents the main items of the cash flow statement for the analysed periods:

(million roubles)	3Q		Change	9M		Change
	2014	2Q 2014		2014	2013	
Cash flow						
Net cash generated from operating activities	30,575	42,001	-27.2%	77,697	58,932	31.8%
Net cash used in investing activities	(14,498)	(11,138)	30.2%	(68,556)	(26,840)	155.4%
Net cash generated from/(used in) financing activities	(37,934)	(3,490)	n/a	10,794	(36,289)	n/a

Net cash generated from operating activities:

(million roubles)	3Q		Change	9M		Change
	2014	2Q 2014		2014	2013	
Operating cash flow before working capital changes	29,991	29,162	2.8%	84,518	78,049	8.3%
Movements in working capital less cash and cash equivalents	9,607	19,040	-49.5%	12,481	(2,247)	n/a
Interest paid	(3,918)	(2,181)	79.6%	(8,539)	(6,447)	32.4%
Income tax paid	(5,105)	(4,020)	27.0%	(10,763)	(10,423)	3.3%
Net cash generated from operating activities	30,575	42,001	-27.2%	77,697	58,932	31.8%

In the 3rd quarter of 2014, net cash generated from operating activities decreased by 27.2% compared to the 2nd quarter of 2014 and totalled 30,575 million roubles. The main factor behind this change consisted in movements in working capital less cash and cash equivalents, including those related to receiving a prepayment under a long-term contract for supply of petroleum products in the 2nd quarter of 2014.

In April 2014, Bashneft concluded a long-term contract for supply of petroleum products and subsequently received a prepayment totalling US\$ 500 million (17,347 million roubles). The total minimum volume of supplies is about 3,150 thousand tonnes of petroleum products, to be delivered starting from the date of the contract until July 2019.

During the nine months ended 30 September 2014, net cash generated from operating activities increased by 31.8% compared to the same period in 2013, which was also related to movements in working capital less cash and cash equivalents, including those related to receiving a prepayment under a long-term contract for supply of petroleum products.

Net cash used in investing activities:

(million roubles)	3Q		Change	9M		Change
	2014	2Q 2014		2014	2013	
Capital expenditures	(12,832)	(9,758)	31.5%	(31,643)	(22,989)	37.6%
Proceeds from disposal of financial assets, net	2,007	123	n/a	2,130	1,058	101.3%
Other	(3,673)	(1,503)	144.4%	(39,043)	(4,909)	n/a
Net cash used in investing activities	(14,498)	(11,138)	30.2%	(68,556)	(26,840)	155.4%

In the 3rd quarter of 2014, net cash used in investing activities increased by 30.2% compared to the 2nd quarter of 2014 and amounted to 14,498 million roubles, which was related mainly to an increase in capital expenditure.

During the nine months ended 30 September 2014, net cash used in investing activities increased by 155.4% compared to the same period in 2013 and totalled 68,556 million roubles; it was allocated primarily for financing capital expenditure and acquiring Burneftegaz Group and OPTAN Group.

Net cash (used in)/generated from financing activities:

(million roubles)	3Q		Change	9M		
	2014	2014		2014	2013	Change
Proceeds from borrowings	1,489	40,800	-96.4%	95,833	31,450	204.7%
Repayments of borrowings	(3,826)	(26,421)	-85.5%	(31,573)	(62,556)	-49.5%
Total issue and repayment of debt:	(2,337)	14,379	-116.3%	64,260	(31,106)	-306.6%
Dividends paid	(35,597)	-	n/a	(35,597)	(4,655)	664.7%
Purchase of treasury shares	-	(17,869)	-100.0%	(17,869)	-	n/a
Payments for acquisition of non-controlling interests in subsidiaries and special-purpose entities	-	-	-	-	(528)	-100.0%
Net cash (used in)/generated from financing activities	(37,934)	(3,490)	n/a	10,794	(36,289)	n/a

In the 3rd quarter of 2014, net cash used in financing activities amounted to 37,934 million roubles and was allocated primarily for dividend payments.

FINANCING AND DEBT

(million roubles)	30 September		Change	30 September		
	2014	2014		2014	2013	Change
Net debt calculation						
Short-term borrowings	27,227	24,079	13.1%	27,227	15,037	81.1%
Long-term borrowings	139,209	140,525	-0.9%	139,209	65,197	113.5%
Total debt	166,436	164,604	1.1%	166,436	80,234	107.4%
Cash and cash equivalents	(37,620)	(57,480)	-34.6%	(37,620)	(15,988)	135.3%
Short-term financial investments	(1,239)	-	n/a	(1,239)	(6,742)	-81.6%
Adjusted net debt	127,577	107,124	19.1%	127,577	57,504	121.9%

As of 30 September 2014, the total debt of the Group in the form of short-term and long-term borrowings amounted to 166,436 million roubles compared to 164,604 million roubles as of 30 June 2014.

As of 30 September 2014, the annual weighted average interest rate on loans remained unchanged compared to the previous reporting period and stood at 7.9%.

CAPITAL EXPENDITURES

(million roubles)	3Q		Change	9M		
	2014	2014		2014	2013	Change
Capital expenditures						
Exploration and production	9,841	7,505	31.1%	23,948	11,977	99.9%
incl. development of the R. Trebs and A. Titov fields	4,779	3,953	20.9%	11,960	3,550	n/a
Refining and marketing	2,859	2,191	30.5%	7,483	9,340	-19.9%
Other	132	62	112.9%	212	1,672	-87.3%
Total cash used in capital expenditures	12,832	9,758	31.5%	31,643	22,989	37.6%

In the 3rd quarter of 2014, capital expenditures increased by 31.5% compared to the 2nd quarter of 2014 and amounted to 12,832 million roubles. This increase was caused mainly by a rise in capital expenditure in the Upstream segment due to an increase in expenditure on the development of the R. Trebs and A. Titov fields and growing capital expenditure on the Group's brownfields.



During the nine months of 2014, capital expenditures increased by 37.6% compared to the same period in 2013, primarily due to an increase in capital expenditure in the Upstream segment driven by expenditure on the development of the R. Trebs and A. Titov fields and the acquisition of Burneftegaz Group, which was partially offset by a reduction in construction in the Refining and Marketing segment.

EVENTS SUBSEQUENT TO THE REPORTING PERIOD

On 30 October 2014 the Moscow Commercial Court upheld the claim of the Prosecutor General's Office of the Russian Federation for the recovery of JSOC Bashneft's shares owned by JSFC Sistema and CJSC Sistema-Invest in favour of the Russian Federation.

On 20 November 2014 credit agency Moody's Investors Service confirmed Bashneft's corporate family rating (CFR) at Ba2 and probability of default rating (PDR) at Ba2-PD. According to credit agency Moody's Investors Service, the outlook for both ratings is positive.

