



BASHNEFT
JOINT STOCK OIL COMPANY

**Management's analysis of the financial position and
operating results of Bashneft Group for the three months
ended 30 June and 31 March 2013,
and for the six months ended 30 June 2013 and 2012**



This report contains a review of the financial position and operating results of JSOC Bashneft and includes preliminary operating results of Bashneft Group for the six months ended 30 June 2013. The terms “Bashneft”, “the Company”, “Bashneft Group” and “the Group” in various forms mean JSOC Bashneft and its subsidiaries and special purpose 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 of these expressions 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.

Comparable financial data on production and operating expenses, depletion and depreciation, and capital expenditures were revised due to change in the approach to disclosing segment information by separating operations of the Petrochemical complex and Service organizations into the Other segment.

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 and the Republic of Tatarstan. 171 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 2012 amounted to 282.1 million tonnes. Bashneft Group has a reserves-to-production ratio of 18.3 years. Proved and probable (2P) reserves totalled 356.4 million tonnes. Overall reserves of Bashneft Group (including possible reserves) amounted to 448.8 million tonnes. For the six months ended 30 June 2013, production at the developed licence areas totalled 7.8 million tonnes.

Bashneft Group includes three refineries and one petrochemical plant. 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 and petrochemicals. The refineries' installed capacity totals 24.1 million tonnes of hydrocarbons per year.

For the six months ended 30 June 2013, the Group's refineries processed 10.5 million tonnes of hydrocarbons. The average refining depth amounted to 85.3%, which is one of the best results among Russian vertically integrated oil companies.

For the six months ended 30 June 2013, Bashneft Group produced about 13% of gasoline manufactured in Russia. In July 2012, the Group's own retail network completed full transition to sales of high-octane gasoline and diesel fuel complying with the Euro 5 standard.

OJSC Ufaorgsintez (a petrochemical plant) is a major producer of phenol, acetone, high-density polyethylene and polypropylene.

For the six months ended 30 June 2013, Bashneft Group sold 5.0 million tonnes of petroleum products and petrochemicals on the domestic market and exported 4.5 million tonnes of petroleum products and petrochemicals. The Group also sold 2.4 million tonnes of crude oil, including 2.3 million tonnes of exported crude oil.

As of 30 June 2013, Bashneft Group's retail network comprised 481 operating petrol stations and 279 partner petrol stations operating under the Bashneft brand name.

KEY FINANCIAL AND OPERATING RESULTS

	2Q		1Q	1H		
	2013	2013	Change	2013	2012	Change
Sales revenue (million roubles)	134,903	125,580	7.4%	260,483	245,261	6.2%
EBITDA (million roubles)	22,730	21,223	7.1%	43,953	48,713	-9.8%
Adjusted EBITDA (million roubles) ¹	23,044	21,097	9.2%	44,141	44,873	-1.6%
Operating profit (million roubles)	18,006	16,812	7.1%	34,818	39,288	-11.4%
Profit for the period attributable to the owners of the parent company (million roubles)	13,162	11,992	9.8%	25,154	24,038	4.6%
Net debt (million roubles)	77,839	81,804	-4.8%	77,839	68,990	12.8%
Oil production (thousand tonnes)	3,924	3,844	2.1%	7,768	7,651	1.5%
Oil refining (thousand tonnes)	5,285	5,216	1.3%	10,501	10,074	4.2%

Major events during the six months 2013 that had an impact on the performance of Bashneft Group:

- in February 2013, the Group issued 10,000,000 series 06 non-convertible interest-bearing bonds, 10,000,000 series 07 non-convertible interest-bearing bonds, 5,000,000 series 08 non-convertible interest-bearing bonds and 5,000,000 series 09 non-convertible interest-bearing bonds with a par value of 1,000 roubles per bond and a maturity date in 2023. The coupon rate on series 06 and 08 bonds was set at 8.65% and will be revised in February 2018. The coupon rate on series 07 and 09 bonds was set at 8.85% and will be revised in February 2020, at which point the bondholders have the right to redeem the bonds at par value;
- in May 2013, Fitch Ratings confirmed Bashneft's long-term foreign and local currency issuer default ratings (IDR) at "BB". The outlook for the ratings was revised from "Stable" to "Positive";
- in May 2013 the Group further continued reduction of cost of debt and diversification of the debt portfolio by entering a pre-export finance term loan facility agreement with a group of international banks allowing borrowings of up to USD 600 mn. The facility has a three-year maturity and is to be repaid in equal monthly installments during the last two years of the loan's life. The facility is secured with future revenue from export sales of crude oil and/or oil products. The interest rate is USD Libor 1M + 2.35%. The facility is to be drawn down during the period of availability taking into account actual funding requirements. As of 30 June 2013 the loan was not drawn down;
- in May 2013, Bashneft-Novoil Branch put a complex of sulphuric acid alkylation and sulphuric acid regeneration units into full operation. Alkylate gasoline (alkylate) produced by the sulphuric acid alkylation unit is used for manufacturing high-octane gasoline meeting Euro 5 emission standards in accordance with the Technical Regulations;

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

(million roubles)	2Q		1Q	1H		
	2013	2013	Change	2013	2012	Change
EBITDA	22,730	21,223	7.1%	43,953	48,713	-9.8%
Other operating expenses/(income), net	314	(126)	-349.2%	188	(3,840)	-104.9%
Adjusted EBITDA	23,044	21,097	9.2%	44,141	44,873	-1.6%

- in June 2013, the Group acquired a 100% stake in LLC Alternativa, which owns 12 filling stations in the Orenburg Region operating under the Q&R brand name;
- in June 2013, JSOC Bashneft held the Annual General Meeting of Shareholders. The Meeting of Shareholders decided to pay dividends for 2012 amounting to 24 roubles per ordinary registered share and per preferred registered share of JSOC Bashneft and elected a new membership of the Board of Directors of JSOC Bashneft.



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. This 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.

	2Q		1Q	1H		
	2013	2013	Change	2013	2012	Change
Prices for crude oil and petroleum products²						
Brent crude oil (US\$ per barrel)	102.4	112.6	-9.1%	107.5	113.6	-5.4%
Brent crude oil (roubles per barrel)	3,238	3,424	-5.4%	3,334	3,481	-4.2%
Urals crude oil (US\$ per barrel)	102.3	111.1	-7.9%	106.7	112.1	-4.8%
Urals crude oil (roubles per barrel)	3,235	3,378	-4.2%	3,309	3,435	-3.7%
Fuel oil (average FOB Rotterdam/CIF NWE) (US\$ per tonne)	580.3	613.1	-5.3%	596.7	657.0	-9.2%
Fuel oil (average FOB Rotterdam/CIF NWE) (roubles per tonne)	18,345	18,646	-1.6%	18,507	20,130	-8.1%
Diesel fuel (average FOB Rotterdam/CIF NWE) (US\$ per tonne)	868.5	958.0	-9.3%	913.3	961.2	-5.0%
Diesel fuel (average FOB Rotterdam/CIF NWE) (roubles per tonne)	27,456	29,138	-5.8%	28,327	29,451	-3.8%
Naphtha (average FOB Rotterdam/CIF NWE) (US\$ per tonne)	830.6	944.5	-12.1%	887.6	947.7	-6.3%
Naphtha (average FOB Rotterdam/CIF NWE) (roubles per tonne)	26,259	28,728	-8.6%	27,530	29,036	-5.2%
Vacuum gas oil (FOB NWE) (US\$ per tonne)	729.6	807.6	-9.7%	768.6	803.9	-4.4%
Vacuum gas oil (FOB NWE) (roubles per tonne)	23,066	24,564	-6.1%	23,841	24,634	-3.2%
Russian market (roubles per tonne, with excises, net of VAT)³						
Crude oil	9,756	10,449	-6.6%	10,103	10,087	0.2%
Fuel oil	8,465	8,370	1.1%	8,418	9,055	-7.0%
Diesel fuel (summer gasoil)	24,207	23,972	1.0%	24,089	21,894	10.0%
Diesel fuel (winter gasoil)	26,523	27,752	-4.4%	27,137	24,371	11.3%
High-octane gasoline	25,513	26,127	-2.4%	25,820	23,821	8.4%
Low-octane gasoline	25,214	25,011	0.8%	25,113	22,821	10.0%

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.

² Source: Platts.

³ Source: Kortes.



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.

	2Q		1Q	1H		
	2013	2013	Change	2013	2012	Change
Rouble inflation (Consumer Price Index) during the stated periods ⁴	1.6%	1.9%	-0.3%	3.5%	3.2%	0.3%
Rouble/dollar exchange rate at the end of the period	32.7	31.1	5.1%	32.7	32.8	-0.3%
Rouble/dollar exchange rate, period average	31.6	30.4	3.9%	31.0	30.6	1.3%

Taxation

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

	2Q		1Q	1H		
	2013	2013	Change	2013	2012	Change
Mineral extraction tax (roubles per tonne)						
Crude oil	4,955	5,261	-5.8%	5,108	5,055	1.0%
Export duty (roubles per tonne)						
Crude oil	12,005	12,363	-2.9%	12,193	12,927	-5.7%
Gasoline	10,804	11,128	-2.9%	10,974	11,634	-5.7%
Light and medium distillates	7,922	8,160	-2.9%	8,047	8,530	-5.7%
Fuel oil	7,922	8,160	-2.9%	8,047	8,530	-5.7%

In accordance with the amendments to tax legislation that became effective in December 2010, excise rates are increased and differentiated in accordance with requirements for fuel quality:

(roubles per tonne)	1 January – 30 June 2012	1 July – 31 December 2012	1 January – 30 June 2013	1 July – 31 December 2013	2014	2015
Gasoline						
non-compliant with classes 3, 4, 5	7,725	8,225	10,100	10,100	11,110	13,332
compliant with class 3	7,382	7,882	9,750	9,750	10,725	12,879
compliant with class 4	6,822	6,822	8,560	8,960	9,416	10,358
compliant with class 5	6,822	5,143	5,143	5,750	5,750	6,223
Naphtha	7,824	7,824	10,229	10,229	11,252	13,502
Diesel fuel						
non-compliant with classes 3, 4, 5	4,098	4,300	5,860	5,860	6,446	7,735
compliant with class 3	3,814	4,300	5,860	5,860	6,446	7,735
compliant with class 4	3,562	3,562	4,934	5,100	5,427	5,970
compliant with class 5	3,562	2,962	4,334	4,500	4,767	5,244
Lubricants	6,072	6,072	7,509	7,509	8,260	9,086

Mineral extraction tax

The mineral extraction tax rate is calculated based on Urals world prices in 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. A number of Bashneft Group's fields have a level of depletion exceeding 80%;

⁴ Source: Federal State Statistics Service (Rosstat).



as a result, actual mineral extraction tax expenses for the six months ended 30 June 2013 are 28% lower than the current mineral extraction tax rate.

	2Q		1Q	1H		
	2013	2013	Change	2013	2012	Change
Mineral extraction tax						
Current mineral extraction tax rates (roubles per barrel)	678.8	720.7	-5.8%	699.7	692.5	1.0%
Actual mineral extraction tax expenses (roubles per barrel)	485.6	517.3	-6.1%	501.3	507.0	-1.1%

OPERATING RESULTS

Production

	2Q	1Q	Change	1H		Change
	2013	2013		2013	2012	
Crude oil production (thousand tonnes)	3,924	3,844	2.1%	7,768	7,651	1.5%
Daily average production of crude oil (thousand barrels per day)	314.8	311.8	1.0%	313.3	306.9	2.1%

In the 2nd quarter of 2013, crude oil production increased by 2.1% as compared to the 1st quarter of 2013 and totalled 3,924 thousand tonnes.

Refining

(thousand tonnes)	2Q	1Q	Change	1H		Change
	2013	2013		2013	2012	
Crude oil refining	5,285	5,216	1.3%	10,501	10,074	4.2%
Production of petroleum products						
Gasolines (including SNG ⁵)	1,215	1,229	-1.1%	2,444	2,237	9.3%
Diesel fuel	1,914	1,812	5.6%	3,726	3,511	6.1%
Fuel oil	733	702	4.4%	1,435	1,357	5.7%
Vacuum gas oil	405	390	3.8%	795	784	1.4%
Other	648	563	15.1%	1,211	1,154	4.9%
Total production of petroleum products	4,915	4,696	4.7%	9,611	9,043	6.3%
Refining depth (%)	86.0%	84.5%	1.5%	85.3%	85.1%	0.2%
Share of light products (%)	61.2%	60.2%	1.0%	60.7%	58.9%	1.8%

In the 2nd quarter of 2013, crude oil refining volume remained almost the same as in the 1st quarter of 2013.

For the six months ended 30 June 2013, refining increased by 4.2% compared to the same period in 2012 due to the stoppage of the Ufimsky refinery plant for scheduled major overhaul and repair works at Novoil in the 2nd quarter of 2012.

⁵ Stable natural gasoline.



FINANCIAL RESULTS

PRELIMINARY CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME FOR THE SIX MONTHS ENDED 30 JUNE 2013

(million roubles)	2Q		1Q	1H		
	2013	2013	Change	2013	2012	Change
Revenue						
Crude oil sales	24,721	27,078	-8.7%	51,799	55,491	-6.7%
Petroleum products and petrochemicals sales	107,275	95,881	11.9%	203,156	182,404	11.4%
Other sales	2,907	2,621	10.9%	5,528	7,366	-25.0%
Total revenue	134,903	125,580	7.4%	260,483	245,261	6.2%
Operating expenses						
Export tariffs and excises	(38,558)	(36,577)	5.4%	(75,135)	(67,069)	12.0%
Cost of purchased crude oil, gas and petroleum products	(29,696)	(28,705)	3.5%	(58,401)	(56,050)	4.2%
Taxes other than income tax	(16,813)	(16,504)	1.9%	(33,317)	(33,497)	-0.5%
Production and operating expenses	(15,301)	(12,459)	22.8%	(27,760)	(25,128)	10.5%
Transportation expenses	(7,552)	(6,759)	11.7%	(14,311)	(11,835)	20.9%
Depletion and depreciation	(4,724)	(4,411)	7.1%	(9,135)	(9,425)	-3.1%
Selling, general and administrative expenses	(3,939)	(3,479)	13.2%	(7,418)	(6,809)	8.9%
Other operating (expenses)/income, net	(314)	126	-349.2%	(188)	3,840	-104.9%
Total costs and expenses	(116,897)	(108,768)	7.5%	(225,665)	(205,973)	9.6%
Operating profit	18,006	16,812	7.1%	34,818	39,288	-11.4%
Finance income	1,299	1,028	26.4%	2,327	2,426	-4.1%
Finance costs	(2,520)	(2,736)	-7.9%	(5,256)	(5,847)	-10.1%
Foreign exchange gains, net	368	231	59.3%	599	926	-35.3%
Share in the profit/(losses) of associate and joint venture, net of income tax	272	(129)	-310.9%	143	(1,294)	-111.1%
Total other expenses	(581)	(1,606)	-63.8%	(2,187)	(3,789)	-42.3%
Profit before tax	17,425	15,206	14.6%	32,631	35,499	-8.1%
Income tax	(4,157)	(3,184)	30.6%	(7,341)	(8,506)	-13.7%
Profit for the period	13,268	12,022	10.4%	25,290	26,993	-6.3%
Profit for the period attributable to non-controlling interests	106	30	253.3%	136	2,955	-95.4%
Profit for the period attributable to owners of the parent company	13,162	11,992	9.8%	25,154	24,038	4.6%



PRELIMINARY CONSOLIDATED STATEMENT OF FINANCIAL POSITION AS AT 30 JUNE 2013

(million roubles)	30 June 2013	31 March 2013	Change	30 June 2013	31 December 2012	Change
ASSETS						
Non-current assets						
Property, plant and equipment	288,428	277,496	3.9%	288,428	277,149	4.1%
Advances paid for acquisition of property, plant and equipment	308	489	-37.0%	308	632	-51.3%
Intangible assets	1,749	1,811	-3.4%	1,749	1,830	-4.4%
Financial assets	29,105	28,531	2.0%	29,105	29,318	-0.7%
Investments in associate and joint venture	36,155	29,972	20.6%	36,155	28,619	26.3%
Long-term inventories	2,268	2,248	0.9%	2,268	2,351	-3.5%
Other non-current assets	435	1,994	-78.2%	435	1,998	-78.2%
Total non-current assets	358,448	342,541	4.6%	358,448	341,897	4.8%
Current assets						
Inventories	27,180	28,442	-4.4%	27,180	23,839	14.0%
Financial assets	18,330	21,462	-14.6%	18,330	18,635	-1.6%
Trade and other receivables	32,198	33,169	-2.9%	32,198	28,366	13.5%
Advances to suppliers and prepaid expenses	6,750	6,423	5.1%	6,750	5,649	19.5%
Income tax prepaid	1,100	1,446	-23.9%	1,100	2,485	-55.7%
Other taxes receivable	19,920	22,273	-10.6%	19,920	22,534	-11.6%
Cash and cash equivalents	19,649	30,308	-35.2%	19,649	20,104	-2.3%
Total current assets	125,127	143,523	-12.8%	125,127	121,612	2.9%
TOTAL ASSETS	483,575	486,064	-0.5%	483,575	463,509	4.3%
Capital and reserves						
Share capital	2,501	2,501	0.0%	2,501	2,501	0.0%
Treasury shares	(38,147)	(38,147)	0.0%	(38,147)	(38,147)	0.0%
Additional paid-in capital	83,753	83,765	0.0%	83,753	83,651	0.1%
Retained earnings	216,022	206,967	4.4%	216,022	194,975	10.8%
Equity attributable to owners of the parent company	264,129	255,086	3.5%	264,129	242,980	8.7%
Non-controlling interests	3,883	4,739	-18.1%	3,883	4,928	-21.2%
Total capital and reserves	268,012	259,825	3.2%	268,012	247,908	8.1%
Non-current liabilities						
Borrowings	90,953	92,053	-1.2%	90,953	78,201	16.3%
Decommissioning provision	7,455	7,280	2.4%	7,455	7,083	5.3%
Deferred taxes liabilities	37,936	37,770	0.4%	37,936	37,561	1.0%
Other non-current liabilities	6,258	5,955	5.1%	6,258	5,931	5.5%
Total non-current liabilities	142,602	143,058	-0.3%	142,602	128,776	10.7%
Current liabilities						
Borrowings	14,879	33,133	-55.1%	14,879	32,007	-53.5%
Trade and other payables	37,029	29,564	25.3%	37,029	28,942	27.9%
Dividends payable	4,788	217	n/a	4,788	224	n/a
Advances received	6,056	8,089	-25.1%	6,056	14,156	-57.2%
Provisions	1,381	623	121.7%	1,381	718	92.3%
Income tax payable	334	199	67.8%	334	393	-15.0%
Other taxes payable	8,494	11,356	-25.2%	8,494	10,385	-18.2%
Total current liabilities	72,961	83,181	-12.3%	72,961	86,825	-16.0%
TOTAL LIABILITIES	215,563	226,239	-4.7%	215,563	215,601	0.0%
TOTAL EQUITY AND LIABILITIES	483,575	486,064	-0.5%	483,575	463,509	4.3%



PRELIMINARY CONSOLIDATED STATEMENT OF CASH FLOWS FOR THE SIX MONTHS ENDED 30 JUNE 2013

(million roubles)	2Q 2013	1Q 2013	Change	1H		Change
	2013	2013		2013	2012	
OPERATING ACTIVITIES						
Profit before tax	17,425	15,206	14.6%	32,631	35,499	-8.1%
Adjustments:						
Depletion and depreciation	4,724	4,411	7.1%	9,135	9,425	-3.1%
Loss on disposal and impairment of property, plant and equipment	122	6	n/a	128	754	-83.0%
Finance income	(1,299)	(1,028)	26.4%	(2,327)	(2,426)	-4.1%
Finance costs	2,520	2,736	-7.9%	5,256	5,847	-10.1%
Share in the (profit)/losses of associate and joint venture, net of income tax	(272)	129	-310.9%	(143)	1,294	-111.1%
Foreign exchange gains, net	(73)	(67)	9.0%	(140)	(396)	-64.6%
Change in provisions and allowances, net	962	(207)	-564.7%	755	(3,203)	-123.6%
Other, net	(137)	(216)	-36.6%	(353)	(740)	-52.3%
Operating cash flow before working capital changes	23,972	20,970	14.3%	44,942	46,054	-2.4%
Movements in working capital:						
Inventories	1,435	(4,198)	-134.2%	(2,763)	(2,242)	23.2%
Trade and other receivables	1,080	(4,234)	-125.5%	(3,154)	(1,971)	60.0%
Advances to suppliers and prepaid expenses	877	(776)	-213.0%	101	53	90.6%
Other taxes receivable	2,332	254	818.1%	2,586	9,048	-71.4%
Trade and other payables	(870)	222	-491.9%	(648)	(262)	147.3%
Advances received	(2,032)	(6,068)	-66.5%	(8,100)	(2,082)	289.0%
Other taxes payable	(1,602)	972	-264.8%	(630)	(810)	-22.2%
Cash generated from operations	25,192	7,142	252.7%	32,334	47,788	-32.3%
Interest paid	(1,808)	(2,047)	-11.7%	(3,855)	(5,004)	-23.0%
Income tax paid	(3,568)	(2,154)	65.6%	(5,722)	(6,972)	-17.9%
Net cash flow generated from operating activities	19,816	2,941	573.8%	22,757	35,812	-36.5%
INVESTING ACTIVITIES						
Payments for acquisition of property, plant and equipment	(8,462)	(5,820)	45.4%	(14,282)	(13,352)	7.0%
Proceeds from disposal/(payments for acquisition) of financial assets, net	2,369	(1,901)	-224.6%	468	(35,243)	-101.3%
Other	(4,522)	95	n/a	(4,427)	(1,208)	266.5%
Net cash used in investing activities	(10,615)	(7,626)	39.2%	(18,241)	(49,803)	-63.4%
FINANCING ACTIVITIES						
Proceeds from borrowings	500	30,950	-98.4%	31,450	25,388	23.9%
Repayments of borrowings	(20,196)	(16,142)	25.1%	(36,338)	(5,640)	544.3%
Dividends paid by the Company	(8)	(7)	14.3%	(15)	(26)	-42.3%
Purchase of treasury shares	-	-	-	-	(11,070)	-100.0%
Payments for acquisition of non-controlling interests in subsidiaries and a special purpose entities	(422)	(105)	301.9%	(527)	(7,964)	-93.4%
Other	-	-	-	-	(16)	-100.0%
Net cash (used in)/generated from financing activities	(20,126)	14,696	-236.9%	(5,430)	672	-908.0%
Net (decrease)/increase in cash and cash equivalents	(10,925)	10,011	-209.1%	(914)	(13,319)	-93.1%
Cash and cash equivalents at the beginning of the period	30,308	20,104	50.8%	20,104	28,354	-29.1%
Effect of exchange rate changes on the balance of cash and cash equivalents held in foreign currencies	266	193	37.8%	459	588	-21.9%
Cash and cash equivalents at the end of the period	19,649	30,308	-35.2%	19,649	15,623	25.8%



REVENUE

In the 2nd quarter of 2013, the revenue of Bashneft Group totalled 134,903 million roubles, which is 7.4% higher than in the 1st quarter of 2013. The increase in revenue was caused mainly by a rise in sales volume of petroleum products and petrochemicals.

For the six months ended 30 June 2013, revenue increased by 6.2% as compared to the same period in 2012 and totalled 260,483 million roubles. This change was also caused by an increase in sales of petroleum products.

(million roubles)	2Q		1Q	1H		
	2013	2013	Change	2013	2012	Change
Revenue						
Export sales of crude oil outside the CIS	22,522	24,975	-9.8%	47,497	52,926	-10.3%
Export sales of crude oil to CIS countries	1,846	1,217	51.7%	3,063	-	n/a
Domestic sales of crude oil	353	886	-60.2%	1,239	2,565	-51.7%
Total sales of crude oil	24,721	27,078	-8.7%	51,799	55,491	-6.7%
Export sales of petroleum products and petrochemicals outside the CIS	48,605	45,376	7.1%	93,981	57,536	63.3%
Export sales of petroleum products and petrochemicals to CIS countries	6,775	3,147	115.3%	9,922	30,768	-67.8%
Domestic sales of petroleum products and petrochemicals	51,895	47,358	9.6%	99,253	94,100	5.5%
<i>wholesale</i>	40,726	37,604	8.3%	78,330	75,625	3.6%
<i>retail</i>	11,169	9,754	14.5%	20,923	18,475	13.3%
Total sales of petroleum products and petrochemicals	107,275	95,881	11.9%	203,156	182,404	11.4%
Other sales	2,907	2,621	10.9%	5,528	7,366	-25.0%
Total revenue	134,903	125,580	7.4%	260,483	245,261	6.2%

(thousand tonnes)	2Q		1Q	1H		
	2013	2013	Change	2013	2012	Change
Sales volumes						
Export sales of crude oil outside the CIS	975	1,037	-6.0%	2,012	2,200	-8.5%
Export sales of crude oil to CIS countries	165	102	61.8%	267	-	n/a
Domestic sales of crude oil	36	77	-53.2%	113	234	-51.7%
Total sales of crude oil	1,176	1,216	-3.3%	2,392	2,434	-1.7%
Export sales of petroleum products and petrochemicals outside the CIS	2,136	1,868	14.3%	4,004	2,489	60.9%
Export sales of petroleum products and petrochemicals to CIS countries	357	157	127.4%	514	1,606	-68.0%
Domestic sales of petroleum products and petrochemicals	2,589	2,412	7.3%	5,001	4,979	0.4%
<i>wholesale</i>	2,243	2,106	6.5%	4,349	4,360	-0.3%
<i>retail</i>	346	306	13.1%	652	619	5.3%
Total sales of petroleum products and petrochemicals	5,082	4,437	14.5%	9,519	9,074	4.9%
Total sales of crude oil, petroleum products and petrochemicals	6,258	5,653	10.7%	11,911	11,508	3.5%

Export and domestic sales of crude oil

In the 2nd quarter of 2013, revenue from export sales of crude oil totalled 24,368 million roubles, which is 7.0% less than in the 1st quarter of 2013. The decrease in revenue was caused by a further shift of focus from export outside the CIS to sales to countries forming a part of the Customs Union in the 2nd quarter of 2013 and a fall in global oil prices.



For the six months ended 30 June 2013, revenue from export sales of crude oil totalled 50,560 million roubles, which is 4.5% less than in the same period of 2012. This reduction in revenue was also caused by a shift of focus from export outside the CIS to sales to countries forming part of the Customs Union starting from the 1st quarter of 2013 and a fall in global oil prices.

Export sales of petroleum products and petrochemicals

(thousand tonnes)	2Q		1Q	1H		
	2013	2013	Change	2013	2012	Change
Diesel fuel	1,345	1,190	13.0%	2,535	2,414	5.0%
Vacuum gas oil	407	388	4.9%	795	779	2.1%
Fuel oil	409	216	89.4%	625	428	46.0%
High-octane gasoline	233	114	104.4%	347	269	29.0%
Naphtha	2	35	-94.3%	37	72	-48.6%
Other	60	52	15.4%	112	69	62.3%
Total sales of petroleum products	2,456	1,995	23.1%	4,451	4,031	10.4%
Petrochemicals sales	37	30	23.3%	67	64	4.7%
Total sales of petroleum products and petrochemicals	2,493	2,025	23.1%	4,518	4,095	10.3%

Export sales of petroleum products and petrochemicals outside the CIS

In the 2nd quarter of 2013, revenue from export sales of petroleum products and petrochemicals outside the CIS totalled 48,605 million roubles, which is 7.1% more than in the 1st quarter of 2013. This increase was caused primarily by a 14.3% rise in volume of exports of petroleum products and petrochemicals (2,136 thousand tonnes in the 2nd quarter of 2013 versus 1,868 thousand tonnes in the 1st quarter of 2013) due to overall growth of the output of petroleum products and a partial shift of focus from sales on the domestic market to exports outside the CIS. This increase was partially offset by a decrease in global prices for petroleum products.

For the six months ended 30 June 2013, revenue from export sales of petroleum products and petrochemicals outside the CIS increased by 63.3% as compared to the same period in 2012 and totalled 93,981 million roubles. This was related primarily to a shift of focus from sales to the CIS to export outside the CIS.

Export sales of petroleum products and petrochemicals to CIS countries

In the 2nd quarter of 2013, revenue from export sales of petroleum products and petrochemicals to CIS countries amounted to 6,775 million roubles, which is 115.3% higher than in the 1st quarter of 2013. The increase in revenue from export sales of petroleum products and petrochemicals to the CIS was primarily caused by a partial recovery in the volume of exports of petroleum products and petrochemicals to CIS countries in the 2nd quarter of 2013.

For the six months ended 30 June 2013, revenue from export sales of petroleum products and petrochemicals to CIS countries fell by 67.8% as compared to the same period in 2012 and amounted to 9,922 million roubles. The reduction in revenue was primarily caused by a shift of focus from sales to the CIS to export outside the CIS.



Domestic sales of petroleum products and petrochemicals

(thousand tonnes)	2Q	1Q	Change	1H		Change
	2013	2013		2013	2012	
High-octane gasoline	1,027	944	8.8%	1,971	1,843	6.9%
Diesel fuel	604	477	26.6%	1,081	1,083	-0.2%
Fuel oil	347	452	-23.2%	799	910	-12.2%
Low-octane gasoline	27	29	-6.9%	56	90	-37.8%
Other	488	426	14.6%	914	887	3.0%
Total sales of petroleum products	2,493	2,328	7.1%	4,821	4,813	0.2%
Petrochemicals sales	96	84	14.3%	180	166	8.4%
Total sales of petroleum products and petrochemicals	2,589	2,412	7.3%	5,001	4,979	0.4%

In the 2nd quarter of 2013, revenue from wholesale of petroleum products and petrochemicals on the domestic market increased by 8.3% as compared to the 1st quarter of 2013 and amounted to 40,726 million roubles, which was caused primarily by a seasonal increase in sales volume by 6.5%.

In the 2nd quarter of 2013, revenue from retail sales increased by 14.5% as compared to the 1st quarter of 2013 and amounted to 11,169 million roubles, which was also due to a seasonal increase in retail sales volume on the domestic market by 13.1%.

For the six months ended 30 June 2013, revenue from wholesale of petroleum products and petrochemicals on the domestic market increased by 3.6% as compared to the same period in 2012 and totalled 78,330 million roubles. The increase in revenue was due to higher prices on the domestic market.

For the six months ended 30 June 2013, revenue from retail sales increased by 13.3% as compared to the same period in 2012 and totalled 20,923 million roubles. The increase in revenue from retail sales was due to a 5.3% increase in retail sales volume and higher prices 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 and drilling services provided to external customers.

In the 2nd quarter of 2013, other revenue increased by 10.9% as compared to the 1st quarter of 2013 and totalled 2,907 million roubles.

For the six months ended 30 June 2013, other revenue fell by 25.0% as compared to the same period in 2012, mainly because Bashneft discontinued operations related to transportation services.



COSTS AND EXPENSES

Production and operating expenses

The breakdown of production and operating expenses of Bashneft Group by business segments are presented in the table below.

(million roubles)	2Q	1Q	Change	1H		Change
	2013	2013		2013	2012	
Production and operating expenses						
Production	7,044	6,476	8.8%	13,520	10,881	24.3%
Refining	5,151	5,050	2.0%	10,201	10,680	-4.5%
Other (including change in remaining WIP and finished products)	3,106	933	232.9%	4,039	3,567	13.2%
Total production and operating expenses	15,301	12,459	22.8%	27,760	25,128	10.5%

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

	2Q	1Q	Change	1H		Change
	2013	2013*		2013	2012*	
Crude oil production expenses (million roubles)	7,044	6,476	8.8%	13,520	10,881	24.3%
Unit costs for production of crude oil (roubles per barrel)	245.9	230.8	6.5%	238.4	194.8	22.4%

* Comparable financial data on production and operating costs was revised due to the fact that operations of the service organisations have been separated into the separate Group's segment.

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 2nd quarter of 2013, unit costs for production of crude oil increased by 6.5% as compared to the 1st quarter of 2013 and totalled 245.9 roubles per barrel due to a seasonal increase in the amount of geological and engineering operations and seismic works in the 2nd quarter of 2013.

For the six months ended 30 June 2013, unit costs for production of crude oil increased by 22.4% as compared to the same period in 2012 and amounted to 238.4 roubles per barrel due to higher amount of geological and engineering operations and seismic works, cost of services provided by contractors and a rise in heat and electricity prices.

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

	2Q	1Q	Change	1H		Change
	2013	2013*		2013	2012*	
Refining expenses (million roubles)	5,151	5,050	2.0%	10,201	10,680	-4.5%
Unit refining costs (roubles per barrel)	133.5	132.6	0.7%	133.1	145.2	-8.3%

* Comparable financial data on production and operating costs was revised due to the fact that operations of the petrochemical complex have been separated into the separate Group's segment.

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

In the 2nd quarter of 2013, unit refining costs remained on the same level as in the 1st quarter of 2013.

For the six months ended 30 June 2013, unit refining costs decreased by 8.3% as compared to the same period in 2012 and amounted to 133.1 roubles per barrel due to the stoppage of the

Ufimsky refinery plant for scheduled major overhaul and repair works at Novoil in the 2nd quarter of 2012. The reduction was partially offset by a rise in heat and electricity prices and inflation.

Cost of purchased crude oil, gas and petroleum products

In addition to the 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)	2Q		1Q	1H		
	2013	2013	Change	2013	2012	Change
Purchased crude oil, gas, and gas condensate	2,803	2,510	11.7%	5,313	4,847	9.6%
Purchased petroleum products	36	36	0.0%	72	104	-30.8%
Total	2,839	2,546	11.5%	5,385	4,951	8.8%

In the 2nd quarter of 2013, the cost of purchased crude oil, gas and petroleum products rose by 3.5% as compared to the 1st quarter of 2013 and amounted to 29,696 million roubles. This change was caused mainly by an increase in refining volume, which was partially offset by a drop in oil prices.

For the six months ended 30 June 2013, the cost of purchased crude oil, gas and petroleum products increased by 4.2% as compared to the same period in 2012 and totalled 58,401 million roubles. This change was caused by an increase in refining volume.

Transportation costs

In the 2nd quarter of 2013, transportation costs increased by 11.7% as compared to the 1st quarter of 2013 and totalled 7,552 million roubles. This was caused primarily by an overall increase in sales volumes.

For the six months ended 30 June 2013, transportation costs increased by 20.9%. This was caused mainly by a shift of focus to exporting petroleum products outside the CIS, as well as higher transportation tariffs.

Depletion and depreciation

(million roubles)	2Q		1Q	1H		
	2013	2013*	Change	2013	2012*	Change
Depletion and depreciation						
Exploration and production	1,825	1,796	1.6%	3,621	3,986	-9.2%
Refining and marketing	2,336	2,131	9.6%	4,467	4,474	-0.2%
Other	563	484	16.3%	1,047	965	8.5%
Total depletion and depreciation	4,724	4,411	7.1%	9,135	9,425	-3.1%

* Comparable financial data on depletion and depreciation was revised due to the fact that operations of the petrochemical complex and service organizations have been separated into the separate Group's segment.

In the 2nd quarter of 2013, depletion and depreciation costs increased by 7.1% as compared to the 1st quarter of 2013 and totalled 4,724 million roubles mainly due to a rise in sales volumes.

For the six months ended 30 June 2013, depletion and depreciation costs went down by 3.1% as compared to the same period in 2012. This was mainly due to the revaluation of the Group's hydrocarbon reserves as of 31 December 2012 conducted in the 4th quarter of 2012.

Taxes other than income tax

(million roubles)	2Q	1Q	Change	1H		Change
	2013	2013		2013	2012	
Taxes other than income tax						
Mineral extraction tax	14,085	13,843	1.7%	27,928	28,478	-1.9%
Social taxes	2,035	2,007	1.4%	4,042	3,613	11.9%
Property tax	417	406	2.7%	823	931	-11.6%
Other	276	248	11.3%	524	475	10.3%
Total taxes other than income tax	16,813	16,504	1.9%	33,317	33,497	-0.5%

In the 2nd quarter of 2013, taxes other than income tax increased by 1.9% as compared to the 1st quarter of 2013 and totalled 16,813 million roubles.

For the six months ended 30 June 2013, taxes other than income tax decreased slightly in comparison to the same period 2012.

Export duties and excises

(million roubles)	2Q	1Q	Change	1H		Change
	2013	2013		2013	2012	
Export duties on crude oil	11,730	12,876	-8.9%	24,606	28,280	-13.0%
Export duties on petroleum products	18,082	15,082	19.9%	33,164	21,784	52.2%
Excises	8,746	8,619	1.5%	17,365	17,005	2.1%
Total export duties and excises	38,558	36,577	5.4%	75,135	67,069	12.0%

In the 2nd quarter of 2013, the total amount of export duties on oil and petroleum products increased by 6.6% as compared to the 1st quarter of 2013 to 29,812 million roubles due to an increase in export sales of petroleum products to countries outside the CIS. This change was partially offset by lower export duty rates.

In the 2nd quarter of 2013, the total amount of excises increased by 1.5% as compared to the 1st quarter of 2013 to 8,746 million roubles due to an increase in sales in Russia. This growth was partially offset by an increase in the share of high-octane gasoline and diesel fuel of higher grades taxed at lower rates in the Group's output.

For the six months ended 30 June 2013, the total amount of export duties on oil and petroleum products grew by 15.4% as compared to the same period in 2012 due to an increase in exports of petroleum products outside the CIS.

For the six months ended 30 June 2013, the total amount of excises increased by 2.1% mainly due to an increase in excise rates in 2013. This growth was partially offset by an increase in the share of high-octane gasoline and diesel fuel of higher grades taxed at lower rates in the Group's output as the Group's own petrol stations switched over completely to selling Euro 5 fuel in July 2012.



CASH FLOW

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

(million roubles)	2Q		1Q	1H		
	2013	2013	Change	2013	2012	Change
Cash flow						
Net cash generated from operating activities	19,816	2,941	573.8%	22,757	35,812	-36.5%
Net cash used in investing activities	(10,615)	(7,626)	39.2%	(18,241)	(49,803)	-63.4%
Net cash (used in)/generated from financing activities	(20,126)	14,696	-236.9%	(5,430)	672	-908.0%

Net cash generated from operating activities:

(million roubles)	2Q		1Q	1H		
	2013	2013	Change	2013	2012	Change
Operating cash flow before working capital changes	23,972	20,970	14.3%	44,942	46,054	-2.4%
Movements in working capital excluding cash and cash equivalents	1,220	(13,828)	-108.8%	(12,608)	1,734	-827.1%
Interest paid	(1,808)	(2,047)	-11.7%	(3,855)	(5,004)	-23.0%
Income tax paid	(3,568)	(2,154)	65.6%	(5,722)	(6,972)	-17.9%
Net cash generated from operating activities	19,816	2,941	573.8%	22,757	35,812	-36.5%

In the 2nd quarter of 2013, net cash flow generated from operating activities increased by 573.8% as compared to the 1st quarter of 2013 and totalled 19,816 million roubles. The main factor behind this change consisted in movements in working capital excluding cash and cash equivalents.

For the six months ended 30 June 2013, net cash flow generated from operating activities decreased by 36.5% as compared to the same period in 2012, which was also related mainly to movements in working capital excluding cash and cash equivalents.

Net cash used in investing activities:

(million roubles)	2Q		1Q	1H		
	2013	2013	Change	2013	2012	Change
Capital expenditures	(8,462)	(5,820)	45.4%	(14,282)	(13,352)	7.0%
Proceeds from disposal/(payments for acquisition) of financial assets, net	2,369	(1,901)	-224.6%	468	(35,243)	-101.3%
Other	(4,522)	95	n/a	(4,427)	(1,208)	266.5%
Net cash used in investing activities	(10,615)	(7,626)	39.2%	(18,241)	(49,803)	-63.4%

In the 2nd quarter of 2013, net cash used in investing activities increased by 39.2% as compared to the 1st quarter of 2013 and amounted to 10,615 million roubles, which was mainly related to capital expenditures incurred by the Group and additional investments in joint ventures.

For the six months ended 30 June 2013, net cash used in investing activities decreased by 63.4% as compared to the same period in 2012 and totalled 18,241 million roubles. The main factor that contributed to this change consisted in placement of available cash in deposit accounts in the 1st quarter of 2012.



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

(million roubles)	2Q		1Q	1H		
	2013	2013	Change	2013	2012	Change
Proceeds from borrowings	500	30,950	-98.4%	31,450	25,388	23.9%
Repayments of borrowings	(20,196)	(16,142)	25.1%	(36,338)	(5,640)	544.3%
Total issue and repayment of debt:	(19,696)	14,808	-233.0%	(4,888)	19,748	-124.8%
Dividends paid	(8)	(7)	14.3%	(15)	(42)	-64.3%
Purchase of treasury shares	-	-	n/a	-	(11,070)	-100.0%
Payments for acquisition of non-controlling interests in subsidiaries and a special purpose entity	(422)	(105)	301.9%	(527)	(7,964)	-93.4%
Net cash (used in)/generated from financing activities	(20,126)	14,696	-236.9%	(5,430)	672	-908.0%

In the 2nd quarter of 2013, net cash used in financing activities amounted to 20,126 million roubles and was allocated mainly for repayment of loans.

FINANCING AND DEBT

(million roubles)	30 June		31 March	30 June		
	2013	2013	Change	2013	2012	Change
Net debt calculation						
Short-term borrowings	14,879	33,133	-55.1%	14,879	15,941	-6.7%
Long-term borrowings	90,953	92,053	-1.2%	90,953	113,018	-19.5%
Total debt	105,832	125,186	-15.5%	105,832	128,959	-17.9%
Cash and cash equivalents	(19,649)	(30,308)	-35.2%	(19,649)	(15,623)	25.8%
Short-term financial investments	(8,344)	(13,074)	-36.2%	(8,344)	(44,346)	-81.2%
Adjusted net debt	77,839	81,804	-4.8%	77,839	68,990	12.8%

As of 30 June 2013, the total debt of the Group in the form of short-term and long-term borrowings amounted to 105,832 million roubles compared to 125,186 million roubles as of 31 March 2013. Availability of surplus cash funds allowed early repayment of a bank loan originally scheduled for the second half of 2013, thereby reducing the overall leverage and interest expense on the loan portfolio.

In the 1st quarter of 2013, the Group issued 10,000,000 series 06 non-convertible interest-bearing bonds, 10,000,000 series 07 non-convertible interest-bearing bonds, 5,000,000 series 08 non-convertible interest-bearing bonds and 5,000,000 series 09 non-convertible interest-bearing bonds with a par value of 1,000 roubles per bond and a maturity date in 2023. The coupon rate on series 06 and 08 bonds was set at 8.65% and will be revised in February 2018. The coupon rate on series 07 and 09 bonds was set at 8.85% and will be revised in February 2020, at which point the bondholders have the right to redeem the bonds at par value.

As of 30 June 2013, the annual weighted average interest rate on loans stood at 8.6%.



CAPITAL EXPENDITURES

(million roubles)	2Q	1Q	Change	1H		Change
	2013	2013*		2013	2012*	
Capital expenditures						
Exploration and production incl. development of the R. Trebs and A. Titov fields ⁶	4,340	2,689	61.4%	7,029	8,554	-17.8%
Refining and marketing	3,712	2,747	35.1%	6,459	4,425	46.0%
Other	410	384	6.8%	794	373	112.9%
Total cash used in capital expenditures	8,462	5,820	45.4%	14,282	13,352	7.0%

* Comparable financial data on capital expenditure was revised due to the fact that operations of the petrochemical complex and service organizations have been separated into the separate Group's segment.

In the 2nd quarter of 2013, capital expenditures increased by 45.4% as compared to the 1st quarter of 2013 and totalled 8,462 million roubles. This increase was related mainly to higher capital expenditure on the development of the R. Trebs and A. Titov fields and construction of a catalytic cracking gasoline hydrotreater in the Refining and marketing segment.

For the six months of 2013, capital expenditures increased by 7.0% as compared to the same period in 2012, which was related mainly to an increase in CAPEX in the Refining and marketing segment.

EVENTS SUBSEQUENT TO THE REPORTING PERIOD

26 August 2013 the Extraordinary Meeting of Shareholders of Bashneft has decided that the Company should sell its 98% stake in the authorized share capital of OJSC United Petrochemical Company to OJSC JSFC Sistema which worth 6.2 billion roubles.

In August 2013 Bashneft-Polyus, a joint venture of JSOC Bashneft and OJSC Lukoil, has started pilot production at the R. Trebs and A. Titov fields in the Nenets Autonomous District. By the end of 2013, production volume is to total about 300 thousand tonnes of oil.

⁶ Capital expenditures on the development of the R. Trebs and A. Titov fields partially accounted on JSOC Bashneft due to the fact that the Company holds the license on these fields. LLC Bashneft-Polyus renders construction services.

