

Bashneft Group

**Interim Condensed
Consolidated Financial Statements
for the three months ended 31 March 2016
(unaudited)**

BASHNEFT GROUP

TABLE OF CONTENTS

	Page
STATEMENT OF MANAGEMENT'S RESPONSIBILITIES FOR THE PREPARATION AND APPROVAL OF THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS FOR THE THREE MONTHS ENDED 31 MARCH 2016	1
INDEPENDENT AUDITORS' REPORT ON REVIEW OF THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS	2
INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS FOR THE THREE MONTHS ENDED 31 MARCH 2016:	
Interim condensed consolidated statement of profit or loss and other comprehensive income	3
Interim condensed consolidated statement of financial position	4
Interim condensed consolidated statement of cash flows	5-6
Interim condensed consolidated statement of changes in equity	7
Notes to the interim condensed consolidated financial statements	8-20

BASHNEFT GROUP

STATEMENT OF MANAGEMENT'S RESPONSIBILITIES FOR THE PREPARATION AND APPROVAL OF THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS FOR THE THREE MONTHS ENDED 31 MARCH 2016

The following statement, which should be read in conjunction with the independent auditors' report on review of the interim condensed consolidated financial statements set out on page 2, is made with a view to distinguish the respective responsibilities of management and those of the independent auditors in relation to the interim condensed consolidated financial statements of Public Joint Stock Oil Company Bashneft (the "Company") and its subsidiaries (the "Group").

Management is responsible for the preparation of the interim condensed consolidated financial statements that present fairly in all material respects the consolidated financial position of the Group as of 31 March 2016, the results of its operations, cash flows and changes in shareholders' equity for the three months then ended, in accordance with International Accounting Standard 34 *Interim Financial Reporting* ("IAS 34").


In preparing the interim condensed consolidated financial statements, management is responsible for:

- Properly selecting and applying accounting policies;
- Presenting information, including accounting policies, in a manner that provides relevant, reliable, comparable and understandable information;
- Providing additional disclosures when compliance with the specific requirements in International Financial Reporting Standards ("IFRS") are insufficient to enable users to understand the impact of particular transactions, other events and conditions on the Group's consolidated financial position and financial performance;
- Making judgements and estimates that are reasonable and prudent;
- Stating whether IAS 34 has been followed, subject to any material departures disclosed and explained in the interim condensed consolidated financial statements; and
- Making an assessment of the Group's ability to continue as a going concern.


Management is also responsible for:

- Designing, implementing and maintaining an effective and sound system of internal controls, throughout the Group;
- Maintaining adequate accounting records that are sufficient to show and explain the Group's transactions and disclose with reasonable accuracy at any time the consolidated financial position of the Group, and which enable them to ensure that the interim condensed consolidated financial statements of the Group comply with IAS 34;
- Maintaining statutory accounting records in compliance with Russian Federation legislation and accounting standards;
- Taking such steps as are reasonably available to them to safeguard the assets of the Group; and
- Preventing and detecting fraud and other irregularities.

The interim condensed consolidated financial statements for the three months ended 31 March 2016 were approved by:



A.L. Korsik
President



Y.V. Galaydin
Chief Accountant

Ufa, Russian Federation
27 May 2016

INDEPENDENT AUDITORS' REPORT ON REVIEW OF THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

To: Shareholders and Board of Directors of Public Joint Stock Oil Company Bashneft

Introduction

We have reviewed the accompanying interim condensed consolidated statement of financial position of Public Joint Stock Oil Company Bashneft and its subsidiaries (the "Group") as at 31 March 2016 and the related interim condensed consolidated statements of profit or loss and other comprehensive income, changes in equity and cash flows for the three months then ended, and a summary of significant accounting policies and other explanatory notes. Management is responsible for the preparation and presentation of these interim condensed consolidated financial statements in accordance with International Accounting Standard ("IAS") 34, *Interim Financial Reporting*. Our responsibility is to express a conclusion on these interim condensed consolidated financial statements based on our review.

Scope of Review

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

Conclusion

Based on our review, nothing has come to our attention that causes us to believe that the accompanying interim condensed consolidated financial statements are not prepared, in all material respects, in accordance with IAS 34 *Interim Financial Reporting*.



Moscow, Russian Federation
27 May 2016

BASHNEFT GROUP

INTERIM CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

FOR THE THREE MONTHS ENDED 31 MARCH 2016 (UNAUDITED)

Millions of Russian roubles, except for earnings per share data

	Notes	Three months ended 31 March 2016	Three months ended 31 March 2015
Revenue	6	131,259	142,930
Cost of purchased crude oil, gas and petroleum products		(26,589)	(31,034)
Export tariffs and excise		(20,315)	(27,029)
Taxes other than income tax	7	(19,094)	(26,986)
Production and operating expenses		(21,196)	(18,415)
Transportation expenses		(10,868)	(8,770)
Depletion and depreciation		(10,208)	(7,093)
Selling, general and administrative expenses		(5,032)	(3,959)
Other operating income/(expenses), net		380	(236)
Operating profit		18,337	19,408
Reversal of impairment/(impairment) of assets, net	11	5,577	(345)
Finance income	8	1,477	1,988
Finance costs	8	(4,128)	(4,280)
Foreign exchange loss, net		(3,520)	(1,951)
Share of loss of joint ventures, net of income tax		(301)	(40)
Profit before income tax		17,442	14,780
Income tax	9	(3,295)	(3,101)
Profit for the period and total comprehensive income		14,147	11,679
Attributable to:			
Owners of the Company		14,434	11,390
Non-controlling interests		(287)	289
		14,147	11,679
EARNINGS PER SHARE			
Earnings per share attributable to shareholders of the parent company (Russian roubles per share):			
Basic	14	85.03	67.26
Diluted	14	84.98	67.26

The accompanying notes on pages 8-20 form an integral part of these interim condensed consolidated financial statements

BASHNEFT GROUP

INTERIM CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION AT 31 MARCH 2016 (UNAUDITED) Millions of Russian roubles

	Notes	31 March 2016	31 December 2015
ASSETS			
Non-current assets			
Property, plant and equipment	10	406,626	400,450
Advances paid for acquisition of property, plant and equipment		648	872
Intangible assets		3,589	3,736
Financial assets	11	3,696	3,504
Investments in joint ventures and related financial assets		3,268	3,361
Long-term inventories		3,170	3,086
Deferred tax assets		2,127	1,997
Other non-current assets		2,381	2,501
		425,505	419,507
Current assets			
Inventories		22,636	22,048
Financial assets	11	16,500	5,000
Trade and other receivables		14,419	10,260
Advances to suppliers and prepaid expenses		5,616	6,155
Income tax prepaid		641	442
Other taxes receivable		21,111	23,745
Cash and cash equivalents		49,081	32,955
		130,004	100,605
TOTAL ASSETS		555,509	520,112
EQUITY AND LIABILITIES			
Capital and reserves			
Share capital		1,954	1,954
Treasury shares		(12,720)	(12,720)
Additional paid-in capital		81,462	81,462
Other equity reserves		1,024	673
Retained earnings		180,167	164,121
Equity attributable to owners of the Company		251,887	235,490
Non-controlling interests		3,774	9,223
		255,661	244,713
Non-current liabilities			
Borrowings	12	90,700	115,899
Decommissioning provision		10,049	9,758
Deferred tax liabilities		38,758	39,524
Prepayments on oil products supply agreements	13	51,290	13,492
Other non-current liabilities		2,455	2,055
		193,252	180,728
Current liabilities			
Borrowings	12	31,054	20,108
Trade and other payables		45,556	40,991
Dividends payable		402	420
Advances received		6,519	14,191
Prepayment on oil products supply agreement	13	5,300	3,855
Provisions		754	760
Income tax payable		1,335	921
Other taxes payable		15,676	13,425
		106,596	94,671
TOTAL LIABILITIES		299,848	275,399
TOTAL EQUITY AND LIABILITIES		555,509	520,112

The accompanying notes on pages 8-20 form an integral part of these interim condensed consolidated financial statements

BASHNEFT GROUP

INTERIM CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS FOR THE THREE MONTHS ENDED 31 MARCH 2016 (UNAUDITED)

Millions of Russian roubles

	Notes	Three months ended 31 March 2016	Three months ended 31 March 2015
OPERATING ACTIVITIES			
Profit before income tax		17,442	14,780
Adjustments for:			
Depletion and depreciation		10,208	7,093
Loss on disposal of property, plant and equipment		139	116
Finance income	8	(1,477)	(1,988)
Finance costs	8	4,128	4,280
(Reversal of impairment)/impairment of assets, net	11	(5,577)	345
Share of loss of joint ventures, net of income tax		301	40
Foreign exchange loss, net		3,520	1,951
Share-based portion of long-term remuneration program		351	-
Change in provisions, net		48	-
Other, net		21	(1)
Operating cash flows before working capital changes		29,104	26,616
Movements in working capital:			
Inventories		(620)	(3,405)
Trade and other receivables		(4,476)	(5,668)
Advances to suppliers and prepaid expenses		536	1,125
Other taxes receivable		2,630	829
Trade and other payables		6,417	(861)
Advances received		(7,672)	(11,513)
Prepayment on oil products supply agreement	13	39,243	-
Other taxes payable		2,078	(2,957)
Cash generated from operations		67,240	4,166
Interest paid		(3,834)	(3,655)
Income tax paid		(3,984)	(3,208)
NET CASH GENERATED FROM/(USED IN) OPERATING ACTIVITIES		59,422	(2,697)

The accompanying notes on pages 8-20 form an integral part of these interim condensed consolidated financial statements

BASHNEFT GROUP

INTERIM CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS (CONTINUED) FOR THE THREE MONTHS ENDED 31 MARCH 2016 (UNAUDITED)

Millions of Russian roubles

	Notes	Three months ended 31 March 2016	Three months ended 31 March 2015
INVESTING ACTIVITIES			
Payments for acquisition of property, plant and equipment		(17,227)	(12,161)
Proceeds from disposal of property, plant and equipment		134	32
Loans to joint venture		(209)	(183)
Acquisition of subsidiaries, net of cash acquired		-	7
Payments for acquisition of intangible assets		(515)	(449)
Payments for acquisition of financial assets		(16,692)	(15,004)
Proceeds from disposal of financial assets		10,269	-
Interest received		2,073	2,163
		<u>(22,167)</u>	<u>(25,595)</u>
FINANCING ACTIVITIES			
Acquisition of non-controlling interests	4	(3,550)	-
Proceeds from borrowings		432	508
Repayments of borrowings		(15,113)	(11,730)
Dividends paid by the Company		(18)	(14)
		<u>(18,249)</u>	<u>(11,236)</u>
Net increase/(decrease) in cash and cash equivalents		19,006	(39,528)
Cash and cash equivalents at the beginning of the period		32,955	52,818
Effect of exchange rate changes on the balance of cash and cash equivalents held in foreign currencies		<u>(2,880)</u>	<u>(35)</u>
Cash and cash equivalents at the end of the period		<u>49,081</u>	<u>13,255</u>

The accompanying notes on pages 8-20 form an integral part of these interim condensed consolidated financial statements

BASHNEFT GROUP

INTERIM CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY FOR THE THREE MONTHS ENDED 31 MARCH 2016 (UNAUDITED)

Millions of Russian roubles

	Notes	Share capital	Treasury shares	Additional paid-in capital	Other equity reserves	Retained earnings	Equity attributable to owners of the Company	Non-controlling interests	Total
Balance at 1 January 2015		1,984	(18,122)	81,462	-	130,494	195,818	7,834	203,652
Profit for the period		-	-	-	-	11,390	11,390	289	11,679
Total comprehensive income for the period		-	-	-	-	11,390	11,390	289	11,679
Balance at 31 March 2015		<u>1,984</u>	<u>(18,122)</u>	<u>81,462</u>	<u>-</u>	<u>141,884</u>	<u>207,208</u>	<u>8,123</u>	<u>215,331</u>
Balance at 1 January 2016		1,954	(12,720)	81,462	673	164,121	235,490	9,223	244,713
Profit for the period		-	-	-	-	14,434	14,434	(287)	14,147
Total comprehensive income for the period		-	-	-	-	14,434	14,434	(287)	14,147
Acquisition of non-controlling interests	4	-	-	-	-	1,612	1,612	(5,162)	(3,550)
Share-based portion of long-term remuneration program		-	-	-	351	-	351	-	351
Balance at 31 March 2016		<u>1,954</u>	<u>(12,720)</u>	<u>81,462</u>	<u>1,024</u>	<u>180,167</u>	<u>251,887</u>	<u>3,774</u>	<u>255,661</u>

The accompanying notes on pages 8-20 form an integral part of these interim condensed consolidated financial statements

BASHNEFT GROUP

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS FOR THE THREE MONTHS ENDED 31 MARCH 2016 (UNAUDITED)

1. GENERAL INFORMATION

Organisation and operations

Public Joint Stock Oil Company Bashneft (the “Company” or “Bashneft”) and its subsidiaries (together referred to as the “Group” or the “Bashneft Group”) are primarily involved in oil production and refining in the Russian Federation, marketing and distribution of oil and petroleum products on domestic and export markets. The Group’s oil production, refining, marketing and distribution base includes oil and gas fields, refineries and petrol stations. Bashneft is the parent company of a vertically integrated group of oil and gas companies.

The Company was incorporated in the Russian Federation as an open joint stock company on 13 January 1995, following the privatisation of Bashneft production association. The Company’s registered office is located at 30, bldg.1, Karl Marx Street, the City of Ufa, the Republic of Bashkortostan, 450077, Russian Federation.

The following principal subsidiaries incorporated in the Russian Federation were included in the scope of consolidation at 31 March 2016 and 31 December 2015:

Company	Principal activities	Group’s effective interest	
		31 March 2016	31 December 2015
LLC Bashneft-Dobycha	Production of crude oil and gas	100%	100%
LLC Bashneft-Retail Sales	Petroleum products trading	100%	100%
LLC Burneftegaz	Exploration and production of crude oil	100%	100%
LLC Bashneft-Polyus	Exploration and production of crude oil	74.9%	74.9%
PJSC Ufaorgsintez	Production of petrochemicals	95.056%	76.013%

Controlling shareholder

On 9 December 2014 in accordance with the decision of the Moscow Commercial Court dated 30 October 2014 the 122,971,934 ordinary and 6,192,245 preference shares of the Company representing 71.62% of the Company’s charter capital previously owned by JSFC Sistema and CJSC Sistema-invest were transferred to the Russian Federal Property Management Agency. As a result of the transfer effective control over the Company passed from JSFC Sistema to the Government of the Russian Federation, that became the ultimate controlling party of the Bashneft Group from 9 December 2014.

On 3 July 2015 in accordance with the Decree of the President of the Russian Federation Mr. Vladimir V. Putin 38,128,551 ordinary shares and 6,280,076 preference shares of Bashneft (25% plus 1 share) were transferred to the Republic of Bashkortostan, represented by the Ministry of Land and Property Relations.

Going concern

In assessing its going concern status, the Group has taken into account its financial position, anticipated future trading performance, its borrowings and other facilities and its capital expenditure commitments and plans, together with other risks facing the Group. After making appropriate enquires, the Group considers that it has adequate resources to continue in operational existence for at least the next 12 months from the date of issuance of these interim condensed consolidated financial statements. Consequently, the Group has determined that it is appropriate to adopt the going concern basis in the preparation of these interim condensed consolidated financial statements.

BASHNEFT GROUP

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS FOR THE THREE MONTHS ENDED 31 MARCH 2016 (UNAUDITED)

2. BASIS OF PREPARATION AND SIGNIFICANT ACCOUNTING POLICIES

Statement of compliance

These interim condensed consolidated financial statements for the three months ended 31 March 2016 have been prepared in accordance with IAS 34. These interim condensed consolidated financial statements do not include all the information and disclosure required in the annual consolidated financial statements and should be read in conjunction with the Group's annual consolidated financial statements for the year ended 31 December 2015, which have been prepared in accordance with International Financial Reporting Standards as issued by the International Accounting Standards Board ("IFRS").

The same accounting policies and methods of computation have been followed in these interim condensed consolidated financial statements as were applied in the preparation of the Group's consolidated financial statements for the year ended 31 December 2015, except for amendments, related to application of new standards or interpretations described below.

Standards and interpretations effective in the current period

The amendments to IFRS 11 *Joint Arrangements*, IAS 16 *Property, Plant and Equipment*, IAS 38 *Intangible assets*, IAS 27 *Consolidated and separate financial statements*, IAS 1 *Presentation of Financial Statements* and *annual Improvements to IFRSs 2012-2014 Cycle* were applied for the first time in these interim condensed consolidated financial statements. The application of these amendments did not result in significant changes to the Group's financial position or results of operations.

3. CRITICAL ACCOUNTING JUDGEMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY

The critical accounting judgements, estimates and assumptions made by management of the Group and applied in these interim condensed consolidated financial statements for the three months ended 31 March 2016 are consistent with those applied in the preparation of annual consolidated financial statements of the Group for the year ended 31 December 2015.

BASHNEFT GROUP

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS FOR THE THREE MONTHS ENDED 31 MARCH 2016 (UNAUDITED)

Millions of Russian roubles

4. ACQUISITION OF NON-CONTROLLING INTERESTS

PJSC Ufaorgsintez

PJSC Ufaorgsintez ("Ufaorgsintez") is a subsidiary of the Group engaged in production of petrochemicals. On 24 March 2016, the Group acquired an additional 19.043% interest in Ufaorgsintez, increasing its ownership interest to 95.056%. Cash consideration of RUB 3,550 million was paid to the non-controlling interests. Following is a schedule of additional interest acquired in Ufaorgsintez:

	<u>24 March 2016</u>
Carrying value of the additional interests in Ufaorgsintez	5,162
Cash consideration paid to non-controlling interests	<u>(3,550)</u>
Difference recognised in retained earnings	<u>1,612</u>

5. SEGMENT INFORMATION

The Board of Directors (the "Board") is the Group's chief operating decision maker. Operating segments have been determined based on the information reviewed by the Board for the purposes of assessing performance.

The Board considers financial and operational results based on the stages of the production process and the marketing of associated products. The Group's reportable segments under IFRS 8 *Operating Segments* are therefore as follows:

- Upstream: this segment comprises subsidiaries and business units of the Company engaged in the exploration and production of crude oil; and
- Downstream: this segment comprises subsidiaries and business units of the Company engaged in processing and sale of crude oil, oil products and petrochemicals on export and domestic markets.

The information about other subsidiaries and business units of the Company engaged in non-core activities, none of which meets the criteria for separate reporting, as well as certain non-core revenues and expenses are presented as All other segments.

There are varying levels of integration between the Group's operating segments. Inter-segment expenses of the Downstream segment represent crude oil transfer from the Upstream segment for the purpose of refining and crude oil sales. Such inter-segment expenses are measured with a reference to market prices for crude oil and include remeasurement of stock based on inter-segment price. Inter-segment revenues of the Downstream segment and All other segments represent oil products deliveries and services provided. Inter-segment pricing is estimated to represent an arm's length basis.

Information regarding the results of each reportable segment is reviewed by the Board. Segment EBITDA is used to measure segment performance, as management believes that such information is the most relevant in evaluating the results of segments relative to other entities that operate within same industries. Segment EBITDA is determined as summation of Operating profit and Depletion and depreciation. Since Segment EBITDA is not a standard IFRS measure, the Group's definition of Segment EBITDA may differ from that of other companies. The significant accounting policies of the reportable and other segments are the same as the Group's accounting policies.

BASHNEFT GROUP

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS FOR THE THREE MONTHS ENDED 31 MARCH 2016 (UNAUDITED)

Millions of Russian roubles

Information about the Group's reportable segments for the three months ended 31 March 2016 is presented below:

	<u>Upstream</u>	<u>Down- stream</u>	<u>All other segments</u>	<u>Adjustments and elimi- nations</u>	<u>Consoli- dated</u>
External revenues	332	130,653	274	-	131,259
Inter-segment revenues	55,442	404	2,682	(58,528)	-
External expenses	(37,696)	(73,450)	(1,776)	-	(112,922)
Inter-segment expenses	(1,118)	(53,480)	(1,874)	56,472	-
Segment EBITDA	<u>23,092</u>	<u>7,893</u>	<u>(399)</u>	<u>(2,041)</u>	28,545
Depletion and depreciation					(10,208)
Reversal of impairment of assets, net					5,577
Finance income					1,477
Finance costs					(4,128)
Foreign exchange loss, net					(3,520)
Share of loss of joint venture, net of income tax					<u>(301)</u>
Profit before income tax					<u>17,442</u>
Income tax expense					<u>(3,295)</u>
Profit for the period					<u><u>14,147</u></u>

Information about the Group's reportable segments for the three months ended 31 March 2015* is presented below:

	<u>Upstream</u>	<u>Down- stream</u>	<u>All other segments</u>	<u>Adjustments and elimi- nations</u>	<u>Consoli- dated</u>
External revenues	394	142,328	208	-	142,930
Inter-segment revenues	61,605	278	1,760	(63,643)	-
External expenses	(39,887)	(82,341)	(1,294)	-	(123,522)
Inter-segment expenses	(951)	(57,289)	(654)	58,894	-
Segment EBITDA	<u>24,435</u>	<u>6,806</u>	<u>244</u>	<u>(4,984)</u>	26,501
Depletion and depreciation					(7,093)
Impairment of assets, net					(345)
Finance income					1,988
Finance costs					(4,280)
Foreign exchange loss, net					(1,951)
Share of loss of joint ventures, net of income tax					<u>(40)</u>
Profit before income tax					<u>14,780</u>
Income tax expense					<u>(3,101)</u>
Profit for the period					<u><u>11,679</u></u>

* Certain comparative figures have been adjusted following the amendments to segmentation process introduced in 2016 aimed to increase itemisation of expenses and allocation of revenue and costs between segments.

BASHNEFT GROUP

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS FOR THE THREE MONTHS ENDED 31 MARCH 2016 (UNAUDITED)

Millions of Russian roubles

Substantially all of the Group's operations are conducted in the Russian Federation. Therefore, the Group has not presented any disclosure about its non-current assets by geographical area, as amounts not pertaining to the Russian Federation are immaterial.

The Group's revenue from external customers by geographical location is as follows:

	Three months ended 31 March 2016	Three months ended 31 March 2015
Export outside the Customs Union	66,781	82,715
Russian Federation	60,790	54,203
Export to other countries of the Customs Union	3,688	6,012
Total	131,259	142,930

6. REVENUE

	Three months ended 31 March 2016	Three months ended 31 March 2015
Petroleum products	92,494	101,226
Crude oil	37,703	40,668
Other revenue	1,062	1,036
Total	131,259	142,930

7. TAXES OTHER THAN INCOME TAX

	Three months ended 31 March 2016	Three months ended 31 March 2015
Mineral extraction tax	15,818	24,099
Contributions to Pension Fund of the Russian Federation	1,376	1,481
Other social contributions	762	546
Property tax	681	534
Other taxes	457	326
Total	19,094	26,986

8. FINANCE INCOME AND FINANCE COSTS

	Three months ended 31 March 2016	Three months ended 31 March 2015
Finance income		
Interest income on cash and deposits	1,375	1,886
Interest income on loans and promissory notes	102	102
Total	1,477	1,988
Finance costs		
Interest expense on borrowings	3,331	3,888
Interest expense related to prepayments on oil products supply agreements (Note 13)	454	130
Unwinding of discount	287	223
Other accretion expenses	56	39
Total	4,128	4,280

BASHNEFT GROUP

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS FOR THE THREE MONTHS ENDED 31 MARCH 2016 (UNAUDITED)

Millions of Russian roubles

9. INCOME TAX

	Three months ended 31 March 2016	Three months ended 31 March 2015
Current period income tax expense	4,157	1,688
Adjustments relating to current income tax of prior years	34	5
Current income tax expense	4,191	1,693
Deferred tax (benefit)/expense	(896)	1,408
Income tax expense	3,295	3,101

10. PROPERTY, PLANT AND EQUIPMENT

	Three months ended 31 March 2016	Three months ended 31 March 2015
Cost		
Balance at the beginning of the period	552,027	487,410
Acquisition of subsidiaries	-	713
Constructions and additions	16,470	10,865
Disposals	(831)	(838)
Balance at the end of the period	567,666	498,150
Accumulated depletion, depreciation and impairment		
Balance at the beginning of the period	(151,577)	(117,485)
Charge for the period	(9,955)	(7,085)
Disposals	558	690
Impairment	(66)	(675)
Balance at the end of the period	(161,040)	(124,555)
Net book value		
At the beginning of the period	400,450	369,925
At the end of the period	406,626	373,595

At 31 March 2016 balances of construction in progress included in Property, plant and equipment were RUB 63,218 million (31 December 2015: RUB 57,912 million).

11. FINANCIAL ASSETS

	31 March 2016	31 December 2015
Non-current investments		
Loan given, at amortised cost	3,500	3,500
Deposits and other financial assets	196	4
Total	3,696	3,504
Current investments		
Deposits	16,500	5,000
Total	16,500	5,000

At 31 March 2016 deposits comprised of RUB-denominated deposits maturing in July 2016 and with interest rates varying from 10.68% to 11.60% (At 31 December 2015: 12.33%) per annum.

BASHNEFT GROUP

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS FOR THE THREE MONTHS ENDED 31 MARCH 2016 (UNAUDITED)

Millions of Russian roubles

Financial assets impaired in 2014 were recovered and collected in full during January-March 2016 following successful negotiations with debtors, as a result a reversal of impairment in the amount of RUB 5,590 was recognized.

12. BORROWINGS

	31 March 2016		31 December 2015	
	Rate, %	Outstanding balance	Rate, %	Outstanding balance
Non-current liabilities				
Unsecured non-convertible bonds issued in February 2013	8.65%-8.85%	29,981	8.65%-8.85%	29,979
Unsecured floating interest rate borrowing	Central Bank key rate + 1.00%	24,837	Central Bank key rate + 1.00%	24,824
Unsecured floating (2015: fixed) interest rate loan	Central Bank key rate * 0.76	15,903	8.00%	15,473
Unsecured non-convertible bonds issued in May 2014	10.70%	10,000	10.70%	10,000
Unsecured non-convertible bonds issued in June 2015	12.00%-12.10%	9,979	12.00%-12.10%	9,978
Unsecured fixed interest rate borrowing	-	-	11.00%	20,655
Unsecured non-convertible bonds issued in May 2015	-	-	12.00%	4,990
Total		90,700		115,899
Current liabilities				
Unsecured fixed interest rate borrowing	11.00%	20,664	-	-
Unsecured non-convertible bonds issued in December 2009	8.35%	5,280	8.35%	5,278
Unsecured non-convertible bonds issued in May 2015	12.00%	4,990	-	-
Unsecured non-convertible bonds issued in February 2012	9.50%	120	16.00% USD Libor	9,979
Secured floating rate borrowing	-	-	1M+1.70%	4,851
Total		31,054		20,108

Unsecured non-convertible bonds

In February 2012, the Group issued 10,000,000 non-convertible RUB-denominated bonds at a par value of RUB 1,000 and a maturity date in February 2022. In February 2016, the Company redeemed 9,858,534 bonds at par value. Subsequently the new coupon rate at 9.50% was approved for outstanding bonds. The Group has a right to determine new coupon rate in February 2017 at which point bondholders have the right to redeem residual bonds at par value.

Secured borrowing

At 31 December 2015, USD secured floating interest rate borrowings comprise a pre-export finance term loan facility agreement with a group of international banks allowing borrowings of up to USD 600 million. The loan facility matures in 2016. The facility was secured by future revenue from the export of petroleum products for the duration of the facility. The interest rate is USD Libor 1M +1.70%. In January and February 2016, the Group fully repaid outstanding amount of secured floating rate borrowing denominated in USD together with related interest accrued to date in the amount of RUB 5,239 million.

BASHNEFT GROUP

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS FOR THE THREE MONTHS ENDED 31 MARCH 2016 (UNAUDITED)

Millions of Russian roubles

Unsecured loan

During the three months ended 31 March 2016 the interest rate for unsecured loan was changed from a fixed rate of 8.00% to a floating rate of Central Bank key rate * 0.76.

13. PREPAYMENTS ON OIL PRODUCTS SUPPLY AGREEMENTS

In January 2016, the Company received along-term advance of USD 500 million (RUB 39,243 million) under a new long-term oil products supply agreement. As of 31 March 2016, RUB 39,243 million was classified as long-term prepayment. The minimum monthly delivery volume is set as 60,000 tons of oil products or 80,000 tons of crude oil from the date of the contract to March 2021. Under the terms of agreement interest is accrued and settled on a monthly basis, the prepayment will be settled starting from July 2017.

In April 2014, the Company entered into a long-term oil products supply agreement and subsequently received a long-term advance of USD 500 million (RUB 17,347 million). As of 31 March 2016 RUB 5,300 million and RUB 12,047 million (31 December 2015: RUB 3,855 million and RUB 13,492 million) were classified as short-term and long-term parts of the prepayment, accordingly. The minimum monthly delivery volume is set as 50,000 tons of oil products and/or crude oil from the date of the contract to July 2019. Under the terms of agreement interest is accrued and settled on a monthly basis, the prepayment will be settled starting from May 2016.

The agreements stipulate pricing calculated with reference to market quotes, and prepayments are settled through physical deliveries of crude oil and/or oil products.

The Group considers those agreements to be a regular way sale contracts which were entered into for the purpose of the delivery of goods within the normal course of business.

14. EARNINGS PER SHARE

The calculation of basic and diluted earnings per share for the reporting periods is as follows:

	Three months ended 31 March 2016	Three months ended 31 March 2015
Profit for the period attributable to owners of the Company (basic and diluted)	14,434	11,390
Weighted average number of outstanding ordinary and preference shares	169,751,688	169,341,446
Weighted average number of preference shares remained contingently issuable at the end of the period related to the long-term remuneration program	96,714	-
Weighted average number of outstanding ordinary and preference shares, assuming dilution	169,848,402	169,341,446
Earnings per share attributable to shareholders of the parent company (Russian roubles per share):		
Basic	85.03	67.26
Diluted	84.98	67.26

BASHNEFT GROUP

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS FOR THE THREE MONTHS ENDED 31 MARCH 2016 (UNAUDITED)

Millions of Russian roubles

15. RELATED PARTIES

Government-related entities and institutions

The Government of Russian Federation is the ultimate controlling party of Bashneft Group since 9 December 2014 and the Group has applied the exemption allowed by IAS 24 *Related Party Disclosures* not to disclose all government related transactions.

In the normal course of business the Group enters into transactions with the entities controlled by the government.

The Group had transactions during the three months ended 31 March 2016 and balances outstanding as at 31 March 2016 with government-controlled banks. All transactions are carried out on market rates.

At 31 March 2016 and 31 December 2015, the Group had the following outstanding balances in government-controlled banks:

	<u>31 March 2016</u>	<u>31 December 2015</u>
Borrowings	45,501	45,479
Cash and cash equivalents	46,522	30,887
Financial assets	4,500	5,000

For the three months ended 31 March 2016 and 2015 the Group entered into the following transactions with the government-controlled banks:

	<u>Three months ended 31 March 2016</u>	<u>Three months ended 31 March 2015</u>
Cash placed on bank deposits	4,500	12,329
Proceeds from repayment of bank deposits	5,000	-
Interest expenses	1,312	2,124
Interest income	1,137	1,714

For the three months ended 31 March 2016 and 2015 significant transactions with government-related entities were related to transportation of crude oil and oil products, purchase of heat and electricity (included in production and operating expenses), purchase of crude oil, gas and petroleum products and sale of oil products, and comprised approximately the following percentages of the total amounts presented in the statement of profit or loss:

	<u>Three months ended 31 March 2016</u>	<u>Three months ended 31 March 2015</u>
Transportation of crude oil and oil products	78%	62%
Purchase of heat and electricity	8%	9%
Purchase of crude oil, gas and petroleum products	2%	2%
Sale of petroleum products	3%	1%

At 31 March 2016 and 31 December 2015 the most significant balances owed by and owed to government-related parties were approximately the following percentages of the total balance of trade and other receivables, advances to suppliers and advances received:

	<u>31 March 2016</u>	<u>31 December 2015</u>
Advances to suppliers	60%	44%
Trade and other receivables	5%	2%
Advances received	3%	2%

BASHNEFT GROUP

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS FOR THE THREE MONTHS ENDED 31 MARCH 2016 (UNAUDITED)

Millions of Russian roubles

Joint ventures

At 31 March 2016 and 31 December 2015, the Group had the following outstanding balances with joint ventures:

	31 March 2016	31 December 2015
Amount owed by joint ventures	1,008	781

The amounts outstanding were unsecured and expected to be settled in cash. The Group does not create an allowance for doubtful receivables in respect of outstanding balances of related parties. No balances owed by related parties were past due but not impaired.

No expense has been recognised in the current period for bad debts in respect of amounts owed by related parties.

The Group entered into the following transactions with joint ventures of the Group:

	Three months ended 31 March 2016	Three months ended 31 March 2015
Loans issued	209	183
Interest income	17	2
Sale of goods and services	3	5

Compensation of key management personnel

The remuneration of directors and other key management personnel was as follows:

	Three months ended 31 March 2016	Three months ended 31 March 2015
Wages and salaries	123	145
Long-term remuneration program	257	112
Total	380	257

At 31 March 2016, outstanding balances in respect of wages and salaries of key management personnel were RUB 1,096 million (31 December 2015: RUB 897 million).

16. FAIR VALUE OF FINANCIAL INSTRUMENTS

There were no financial instruments measured at fair value as at 31 March 2016 and 31 December 2015. Except for instruments presented in the table below, fair values of financial instruments approximate their carrying values according to assessment prepared by management.

The financial instruments in the table are grouped into Levels 1 to 3 based on the degree to which the inputs used to calculate the fair value are observable:

- Level 1 fair value measurements are those derived from quoted prices (unadjusted) in active markets for identical financial instruments;
- Level 2 fair value measurements are those derived from inputs other than quoted prices included within Level 1 that are observable for the financial instruments; and
- Level 3 fair value measurements are those derived from inputs for the financial instruments that are not based on observable market data.

BASHNEFT GROUP

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS FOR THE THREE MONTHS ENDED 31 MARCH 2016 (UNAUDITED)

Millions of Russian roubles

	Carried at	Level	31 March 2016		31 December 2015	
			Carrying value	Fair value	Carrying value	Fair value
Financial assets						
Loans given	Amortised cost	3	3,500	2,206	3,500	2,346
			3,500	2,206	3,500	2,346
Financial liabilities						
Unsecured non-convertible bonds traded on active market	Amortised cost	1	45,381	43,740	55,262	53,233
Unsecured floating (2015: fixed) and fixed interest rate loans and borrowings	Amortised cost	3	36,567	32,904	36,128	35,113
			81,948	76,644	91,390	88,346

There have been no transfers between levels during the three months ended 31 March 2016 and 2015. Loans given and unsecured floating (2015: fixed) and fixed interest rate loans and borrowings are classified at Level 3. As such, their valuation requires assumptions which are not readily available. These instruments were valued using discounted cash flows model. Unobservable inputs include:

- For loans given: discount rate calculated as Group's weighted average cost of capital and forecast exchange rates for US dollars for the period from the reporting date until 2022;
- For unsecured floating (2015: fixed) and fixed interest rate loans and borrowings: discount rate calculated as Group's cost of debt and forecast exchange rates for US dollars for the period from the reporting date until 2020.

Changing certain inputs to reasonable possible alternative assumptions does not change the fair value significantly.

17. COMMITMENTS AND CONTINGENCIES

Capital commitments

At 31 March 2016, contractual capital commitments of the Group amounted to RUB 79,743 million (31 December 2015: RUB 66,805 million). These commitments are expected to be settled during 2016-2025. Included in total capital commitments is RUB 38,102 million (31 December 2015: RUB 35,515 million) of capital commitments which mainly relates to drilling services.

Operating leases: Group as a lessee

The Group leases certain production equipment, transport and office premises. The leases typically run for periods varying from 1 to 10 years with no renewal option at the end of the lease term. The Group's facilities are located on land under operating leases, which expire in various years through 2064.

The amount of rental expenses for the three months ended 31 March 2016 were RUB 515 million (for the three months ended 31 March 2015: RUB 388 million).

BASHNEFT GROUP

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS FOR THE THREE MONTHS ENDED 31 MARCH 2016 (UNAUDITED)

Millions of Russian roubles

Future minimum rental expenses under non-cancellable operating leases are as follows:

	31 March 2016	31 December 2015
Due in one year	1,804	1,671
Due from one to five years	5,717	5,314
Thereafter	14,526	14,529
Total	22,047	21,514

Taxation contingencies in the Russian Federation

Laws and regulations affecting business in the Russian Federation continue to change rapidly. Management's interpretation of such legislation as applied to the activity of the Group may be challenged by the relevant regional and federal authorities. Recent events suggest that the tax authorities are taking a more assertive position in their interpretation of the legislation and assessments and as a result, it is possible that transactions and activities that have not been challenged in the past may be challenged. Fiscal periods generally remain open to tax audit by the authorities in respect of taxes for three calendar years preceding the year of tax audit. Under certain circumstances reviews may cover longer periods. Management believes that it has provided adequately for tax liabilities based on its interpretations of tax legislation. However, the relevant authorities may have differing interpretations, and the effects on the financial statements could be significant.

In 2014, amendments were introduced into the Russian tax legislation in respect of taxation of profit of controlled foreign companies. According to these changes, the 2015 undistributed profits of the Group foreign subsidiaries, recognized as controlled foreign companies, may result in an increase of the tax base of the controlling entities in 2016. Instead, income of an active controlled foreign company as defined by tax law is not considered for the purposes of income tax base calculation of the controlling entity in Russia. Since the Group's foreign companies are recognized as active under the Russian tax law, their incomes do not increase taxable income of controlling entities.

Legal contingencies

At 31 March 2016, unresolved legal claims against the Group amounted to RUB 505 million (31 December 2015: RUB 15 million). Management estimates the unfavourable outcome of the legal claims to be possible, and consequently no provision has been raised. The Group is rigorously defending itself in relation to such legal claims.

Performance guarantee

At 31 March 2016 the Group had performance guarantee issued to the South Oil Company of Iraq in connection with exploration and development services for Block 12 (Iraq) of USD 63 million or RUB 4,259 million equivalent (at 31 December 2015: USD 64 million or RUB 4,464 million equivalent) and performance guarantee issued to Myanmar Oil and Gas Enterprise to perform exploration and development services for Block EP-4 (Mayaman Area) of USD 31 million or RUB 2,082 million equivalent (at 31 December 2015: USD 31 million or RUB 2,259 million equivalent).

Insurance

The Group maintains insurance coverage for its main production assets including coverage for property damage or loss and third party liabilities in respect of damage on the Group's property or relating to the Group's operations. Insurance coverage for business interruption is maintained for major production assets in Downstream segment. However there are risks of losses and damages of assets, as well as causes of damages to third parties, which were not insured or partially insured, that could have an adverse effect on the Group's operations and financial position.

Management believes that the Group has adequate property damage coverage for its main production assets.

BASHNEFT GROUP

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS FOR THE THREE MONTHS ENDED 31 MARCH 2016 (UNAUDITED)

Millions of Russian roubles

Russian Federation economic environment

Emerging markets such as Russia are subject to different risks than more developed markets, including economic, political and social, and legal and legislative risks. Laws and regulations affecting businesses in Russia continue to change rapidly, tax and regulatory frameworks are subject to varying interpretations. The future economic direction of Russia is heavily influenced by the fiscal and monetary policies adopted by the government, together with developments in the legal, regulatory and political environment.

Because Russia produces and exports large volumes of crude oil and gas, its economy is particularly sensitive to the price of crude oil and gas on the world market. During 2014-2015 and then in the first quarter of 2016, the oil price decreased significantly, which led to substantial decrease of the Russian Ruble exchange rate.

Starting from 2014, sanctions have been imposed in several packages by the U.S. and the E.U. on certain Russian officials, businessmen and companies.

In the first quarter of 2015 two international credit agencies downgraded Russia's long-term foreign currency sovereign rating to the speculative level with the negative outlook.

The above mentioned events have led to reduced access of the Russian businesses to international capital markets, increased inflation, economic recession and other negative economic consequences. The impact of further economic developments on future operations and financial position of the Group is at this stage difficult to determine.

18. EVENTS SUBSEQUENT TO THE REPORTING PERIOD

As a part of optimization of the Group's credit portfolio in May 2016 the Company executed early redemption of series BO-03, BO-04 and BO-07 non-convertible RUB-denominated bonds with the par value of RUB 1,000 each, issuance of series BO-02, BO-06 and BO-08 non-convertible RUB-denominated bonds with the par value of RUB 1,000 each and partly early repayment of unsecured fixed interest rate borrowing in amount of RUB 10,000 million.

The detailed information related to early redemption of bonds after the reporting date is presented below:

Bonds	Quantity of bonds	Price of redemption	Coupon rate before the redemption date	Offer date* according to bonds issue agreement
Series BO-03	5,000,000	101.3% of the par value	12.00%	May 2020
Series BO-04	5,000,000	101.4% of the par value	12.00%	May 2020
Series BO-07	5,000,000	101.4% of the par value	12.10%	June 2021

The detailed information related to issuance of bonds after the reporting date is presented below:

Bonds	Quantity of bonds	Redemption date	Early redemption date at the discretion of the Company	Coupon rate before the offer date**	Offer date*
Series BO-02	10,000,000	May 2026	not applicable	10.50%	May 2023
Series BO-06	10,000,000	April 2026	May 2021	10.90%	April 2025
Series BO-08	5,000,000	April 2026	May 2022	10.90%	April 2025

On 26 May 2016 the Board of Directors recommended to the General Meeting of Shareholders to approve dividend payments for 2015 year amounting to 164 roubles per ordinary and preferred share.

* Offer date is the date when subsequent coupon rates are to be determined, at which point bondholders have the right to redeem the bonds at par value.

** Coupon income is payable semiannually.