



BASHNEFT
JOINT STOCK OIL COMPANY

**Management's analysis of the financial position and
operating results of Bashneft Group for the three months
ended 31 March 2016 and 31 December 2015 and for the three
months ended 31 March 2016 and 2015**



This report contains an overview of the financial position and operating results of PJSOC Bashneft and includes operating results of Bashneft Group for the three months ended 31 March 2016. The terms “Bashneft”, “the Company”, “Bashneft Group” and “the Group” in various forms mean PJSOC Bashneft and its subsidiaries. The financial position and operating results analysed in this document are consolidated data on Bashneft Group.

Certain statements in this report may contain assumptions or forecasts with respect to forthcoming events within Bashneft Group. Such statements may contain the words “is expected”, “is estimated”, “intends”, “will”, “could”, negations thereof or other similar expressions. These statements are only assumptions, and actual events or results may differ materially from them. The actual performance of Bashneft Group may differ materially 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 related to operating in Russia, rapid technological and market changes in the Group’s areas of business, as well as many other risks directly related to Bashneft Group.

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



OVERVIEW

Bashneft Group is one of Russia's leading vertically integrated oil companies involved in production of hydrocarbons, oil refining and oil, petroleum products and petrochemicals marketing.

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 194 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. 181 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) classification, the Group's proved oil reserves as of 31 December 2015 amounted to 324.5 million tonnes. Bashneft Group has a reserves-to-production ratio of 16 years. Proved and probable (2P) reserves totalled 436.0 million tonnes. Overall reserves of Bashneft Group (including possible reserves) amounted to 587.5 million tonnes. In the 1st quarter of 2016, production at the developed licence areas totalled 5.3 million tonnes.

Bashneft Group runs three refineries, which rank among the most technologically advanced facilities in Russia and are leaders in terms of refining depth and quality of petroleum products, and a petrochemical plant, PJSC Ufaorgsintez. The refineries' installed capacity totals 23.2 million tonnes of hydrocarbons per annum.

PJSC Ufaorgsintez is a major producer of phenol, acetone, high-density polyethylene and polypropylene.

In the 1st quarter of 2016, the Group's refineries processed 4.7 million tonnes of hydrocarbons. Refining depth averaged 86.2%, which is one of the best results among Russian vertically integrated oil companies.

In the 1st quarter of 2016, Bashneft Group sold 2.5 million tonnes of petroleum products on the domestic market and exported 2.0 million tonnes of petroleum products. The Group also sold 2.7 million tonnes of crude oil, including 2.0 million tonnes exported.

As of 31 March 2016, Bashneft Group's retail network comprised 564 operating petrol stations and 122 partner petrol stations, including 77 petrol stations on franchise contract operating under the Bashneft brand name.

KEY FINANCIAL AND OPERATING RESULTS

	1Q		Change	1Q		
	2016	2015		2016	2015	Change
Revenue (million roubles)	131,259	147,970	-11.3%	131,259	142,930	-8.2%
EBITDA (million roubles)	28,545	27,207	4.9%	28,545	26,501	7.7%
Adjusted EBITDA (million roubles) ¹	28,165	30,228	-6.8%	28,165	26,737	5.3%
Profit for the period attributable to the owners of the parent company (million roubles)	14,434	6,897	109.3%	14,434	11,390	26.7%
Capital expenditures (million roubles)	17,227	18,833	-8.5%	17,227	12,161	41.7%
Operating cash flow (million roubles)	59,422	22,065	169.3%	59,422	(2,697)	n/a
Net debt (million roubles)	72,673	103,052	-29.5%	72,673	145,328	-50.0%
Adjusted net debt (million roubles) ²	107,463	111,544	-3.7%	107,463	146,516	-26.7%
Oil production (thousand tonnes)	5,286	5,245	0.8%	5,286	4,709	12.3%
Oil refining (thousand tonnes)	4,732	4,821	-1.8%	4,732	4,715	0.4%

Major events during the 1st quarter of 2016 that had an impact on the performance of Bashneft Group:

- in January 2016, the Group closed a US\$ 500 million financing transaction. Financing was obtained in the form of prepayment under a long-term contract for the supply of crude oil and petroleum products;
- in January and February 2016, the Group fully repaid the outstanding amount of a secured floating-rate loan and the corresponding outstanding amount of accrued interest both denominated in US dollars, totalling 5,239 million roubles;
- in February 2016, the Group redeemed series 04 bonds worth a total of 9,859 million roubles under a put option;
- in March 2016, the Group completed the acquisition of 21,505,680 ordinary shares (19.043% of the authorized share capital) of PJSC Ufaorgsintez from CJSC Sistema-Invest for 3,550 million roubles. As a result, the Group consolidated 100% of voting shares in PJSC Ufaorgsintez;
- in March 2016, Vostok NAO Oil Company, a joint venture of the Group and PJSC Lukoil, started drilling the first prospecting well as part of its geological exploration programme in the Nenets Autonomous District.

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

(million roubles)	1Q		Change	1Q		
	2016	2015		2016	2015	Change
EBITDA	28,545	27,207	4.9%	28,545	26,501	7.7%
Other operating (income)/ expenses, net	(380)	3,021	n/a	(380)	236	n/a
Adjusted EBITDA	28,165	30,228	-6.8%	28,165	26,737	5.3%

² Adjusted net debt is calculated as net debt increased by the amount of the long-term portion of prepayments on oil and oil products supply agreements and reduced by the amount of short-term financial investments.

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 for 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. Crude oil or petroleum products prices decrease may adversely impact Bashneft's performance and its financial position and may lead to a reduction of oil volumes which production is profitable. This, in turn, result in a decline of the volume of Bashneft's economically viable hydrocarbon reserves and this also decrease the economic efficiency of its geological exploration programmes and geological and engineering operations.

	1Q			1Q		
	2016	2015	Change	2016	2015	Change
Prices for crude oil and petroleum products³						
Brent crude oil (US\$ per barrel)	33.9	43.8	-22.6%	33.9	53.9	-37.1%
Brent crude oil (roubles per barrel)	2,533	2,886	-12.2%	2,533	3,354	-24.5%
Urals crude oil (US\$ per barrel)	32.7	42.6	-23.2%	32.7	53.3	-38.6%
Urals crude oil (roubles per barrel)	2,442	2,809	-13.1%	2,442	3,312	-26.3%
Fuel oil (average FOB Rotterdam/CIF NWE) (US\$ per tonne)	132.5	181.5	-27.0%	132.5	273.0	-51.5%
Fuel oil (average FOB Rotterdam/CIF NWE) (roubles per tonne)	9,885	11,971	-17.4%	9,885	16,977	-41.8%
Diesel fuel (average FOB Rotterdam/CIF NWE) (US\$ per tonne)	306.3	401.1	-23.6%	306.3	516.9	-40.7%
Diesel fuel (average FOB Rotterdam/CIF NWE) (roubles per tonne)	22,857	26,452	-13.6%	22,857	32,144	-28.9%
High-octane gasoline (FOB Rotterdam) (US\$ per tonne)	369	451	-22.3%	369	532	-30.6%
High-octane gasoline (FOB Rotterdam) (roubles per tonne)	27,538	29,754	-7.4%	27,538	33,086	-16.8%
Naphtha (average FOB Rotterdam/CIF NWE) (US\$ per tonne)	318.4	410.6	-22.5%	318.4	466.0	-31.7%
Naphtha (average FOB Rotterdam/CIF NWE) (roubles per tonne)	23,764	27,074	-12.2%	23,764	28,982	-18.0%
Vacuum gas oil (FOB NWE) (US\$ per tonne)	222.8	302.1	-26.2%	222.8	383.5	-41.9%
Vacuum gas oil (FOB NWE) (roubles per tonne)	16,626	19,921	-16.5%	16,626	23,851	-30.3%
Russian market (roubles per tonne, with excises for petroleum products, net of VAT)⁴						
Crude oil	9,924	11,008	-9.9%	9,924	12,669	-21.7%
Fuel oil	3,829	6,097	-37.2%	3,829	7,842	-51.2%
Diesel fuel (summer gasoil)	25,787	28,553	-9.7%	25,787	27,025	-4.6%
Diesel fuel (winter gasoil)	27,125	31,190	-13.0%	27,125	28,472	-4.7%
High-octane gasoline	30,190	31,440	-4.0%	30,190	28,250	6.9%
Low-octane gasoline	29,007	31,754	-8.7%	29,007	27,804	4.3%

³ Source: Platts.

⁴ Source: Thomson Reuters KORTES.



Rouble/dollar exchange rate and inflation rate

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

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

	1Q		Change	1Q		Change
	2016	2015		2016	2015	
Rouble inflation (Consumer Price Index) during the stated periods ⁵	2.1%	2.5%	-0.4 p.p.	2.1%	7.4%	-5.3 p.p.
Rouble/dollar exchange rate at the end of the period (roubles per US\$)	67.6	72.9	-7.3%	67.6	58.5	15.6%
Rouble/dollar exchange rate, period average (roubles per US\$)	74.6	65.9	13.2%	74.6	62.2	19.9%

Taxation

Global market price fluctuations affect export tariffs and the mineral extraction tax.

	1Q		Change	1Q		Change
	2016	2015		2016	2015	
Mineral extraction tax (roubles per tonne)						
Crude oil	4,080	5,099	-20.0%	4,080	6,834	-40.3%
Export tariff (US\$ per tonne)						
Crude oil	55.0	92.3	-40.4%	55.0	130.2	-57.8%
Gasoline	33.5	71.9	-53.4%	33.5	101.5	-67.0%
Light and medium distillates	22.0	44.3	-50.3%	22.0	62.4	-64.7%
Diesel fuel	22.0	44.3	-50.3%	22.0	62.4	-64.7%
Fuel oil	45.1	70.1	-35.7%	45.1	98.9	-54.4%
Straight gasoline (naphtha)	39.0	78.4	-50.3%	39.0	110.6	-64.7%
Export tariff (roubles per tonne)						
Crude oil	4,105	6,087	-32.6%	4,105	8,097	-49.3%
Gasoline	2,500	4,741	-47.3%	2,500	6,312	-60.4%
Light and medium distillates	1,642	2,921	-43.8%	1,642	3,881	-57.7%
Diesel fuel	1,642	2,921	-43.8%	1,642	3,881	-57.7%
Fuel oil	3,366	4,623	-27.2%	3,366	6,151	-45.3%
Straight gasoline (naphtha)	2,911	5,170	-43.7%	2,911	6,878	-57.7%

The following excise rates (roubles per tonne) have been set in the Russian Federation:

	2015	1 January - 31 March 2016	1 April - 31 December 2016	1 January 2017 onwards
Gasoline				
non-compliant with classes 3, 4, 5 and compliant with classes 3, 4	7,300	10,500	13,100	12,300
compliant with class 5	5,530	7,530	10,130	7,430
Naphtha	11,300	10,500	13,100	12,300
Diesel fuel	3,450	4,150	5,293	5,093
Lubricants	6,500	6,000	6,000	5,400

⁵ Source: Federal State Statistics Service (Rosstat).

Mineral extraction tax

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

In accordance with the Tax Code, as from 1 January 2016, mineral extraction tax per tonne of crude oil is calculated as follows:

Mineral extraction tax = Tax rate x Kc – Dm

where Dm is calculated using the following formula: $DM = KNDPI \times KC \times (1 - KV \times KZ \times KD \times KDV \times KKAN)$,

where:

The tax rate amounts to 857 roubles (766 roubles in 2015; 919 roubles in 2017);

KC is a coefficient reflecting changes in global oil prices which is calculated as $(C - 15) \times R / 261$, where C is the average price of Urals crude oil in US dollars and R is the average US dollar exchange rate set by the Central Bank of the Russian Federation;

KNDPI amounts to 559 starting from 1 January 2016 (530 roubles in 2015);

KV is a depletion coefficient for a specific subsoil area;

KZ is a coefficient reflecting the amount of reserves at a specific subsoil area;

KD is a coefficient reflecting the complexity of oil production;

KDV is a depletion coefficient for a specific hydrocarbon deposit;

KKAN is a coefficient characterizing the oil-producing region and the properties of oil.

Actual mineral extraction tax expenses in the 1st quarter of 2016 were 27% lower than the current mineral extraction tax rate due to the following:

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

	1Q		4Q	1Q		
	2016	2015	Change	2016	2015	Change
Current mineral extraction tax rates (roubles per barrel)	558.9	698.5	-20.0%	558.9	936.2	-40.3%
Actual mineral extraction tax expenses (roubles per barrel)	407.2	524.6	-22.4%	407.2	706.1	-42.3%



Crude oil export tariffs

In accordance with the current legislation, the rates of the export customs tariff on crude oil shall not exceed the maximum tariff rate, which is calculated as follows:

Average price for Urals crude oil (C), US\$ per tonne	Export tariff, US\$ per tonne
$C \leq 109.5$	No tariff is imposed
$109.5 < C \leq 146$	$35\% \times (C-109.5)$
$146 < C \leq 182.5$	$12.78 + 45\% \times (C-146)$
$C > 182.5$	$29.2 + 42\% \times (C-182.5)$ (until 31 December 2016 inclusive) $29.2 + 30\% \times (C-182.5)$ (during the period from 1 January 2017)

C is the average price for Urals crude oil on the Mediterranean and Rotterdam crude oil markets during the monitoring period before the month when the tariff rate was set. The monitoring period is a period from the 15th day of each calendar month until the 14th day of the next calendar month inclusive.

Petroleum products export tariffs

The rates of the export customs tariff for certain categories of petroleum products are calculated as the rate of the export tariff on crude oil multiplied by a coefficient, which varies depending on the type of petroleum product. The following coefficients are applied in accordance with the current legislation:

	2015	2016	As from 1 January 2017
Light and medium distillates (except for straight and commercial gasoline, benzene, toluene, xylenes and lubricants)			
Straight gasoline	48%	40%	30%
Commercial gasoline	85%	71%	55%
Fuel oil, petroleum bitumen, used petroleum products, paraffin wax, Vaseline	78%	61%	30%
Petroleum coke, propylene trimers and tetramers	76%	82%	100%
		6.5% for all periods	



OPERATING RESULTS

Production

	1Q	4Q	Change	1Q		
	2016	2015		2016	2015	Change
Oil production (thousand tonnes)	5,286	5,245	0.8%	5,286	4,709	12.3%
<i>mature fields</i>	4,206	4,236	-0.7%	4,206	4,115	2.2%
<i>fields of Burneftegaz Group</i>	569	572	-0.5%	569	290	96.2%
<i>the R. Trebs and A. Titov fields</i>	511	437	16.9%	511	304	68.1%
Daily average production of crude oil (thousand barrels per day)	424.0	416.2	1.9%	424.0	382.0	11.0%

In the 1st quarter of 2016, production volume remained flat quarter to quarter and totalled 5,286 thousand tonnes.

In the 1st quarter of 2016, production volume increased by 12.3% compared to the same period in 2015 mainly due to a further development of Burneftegaz Group fields and the R. Trebs and A. Titov fields.

Refining

(thousand tonnes)	1Q	4Q	Change	1Q		
	2016	2015		2016	2015	Change
Crude oil refining	4,732	4,821	-1.8%	4,732	4,715	0.4%
Petroleum product output						
Gasoline (including naphtha and alkylate ⁶)	1,293	1,202	7.6%	1,293	1,211	6.8%
Diesel fuel	1,871	1,815	3.1%	1,871	1,898	-1.4%
Fuel oil	630	654	-3.7%	630	706	-10.8%
Vacuum gas oil	-	164	-100.0%	-	27	-100.0%
Other	585	674	-13.2%	585	541	8.1%
Total production of petroleum products	4,379	4,509	-2.9%	4,379	4,383	-0.1%
of which used in the production of petrochemicals	153	160	-4.4%	153	130	17.7%
Refining depth (%)	86.2%	85.3%	0.9 p.p.	86.2%	83.7%	2.5 p.p.
Share of light products (%)	68.9%	66.3%	2.6 p.p.	68.9%	68.6%	0.3 p.p.
Production of petrochemicals	231	213	8.5%	231	225	2.7%

In the 1st quarter 2016, refining volume remained at the level of the 4th and the 1st quarters of 2015 and totalled 4,732 thousand tonnes.

⁶ Stable natural gasoline.



FINANCIAL RESULTS

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

(million roubles)	1Q		Change	1Q		Change
	2016	2015		2016	2015	
Revenue						
Crude oil sales	37,703	40,039	-5.8%	37,703	40,668	-7.3%
Petroleum products and petrochemicals sales	92,494	106,797	-13.4%	92,494	101,226	-8.6%
Other sales	1,062	1,134	-6.3%	1,062	1,036	2.5%
Total revenue	131,259	147,970	-11.3%	131,259	142,930	-8.2%
Operating expenses						
Cost of purchased crude oil, gas and petroleum products	(26,589)	(29,587)	-10.1%	(26,589)	(31,034)	-14.3%
Export tariffs and excises	(20,315)	(22,784)	-10.8%	(20,315)	(27,029)	-24.8%
Taxes other than income tax	(19,094)	(24,157)	-21.0%	(19,094)	(26,986)	-29.2%
Production and operating expenses	(21,196)	(24,204)	-12.4%	(21,196)	(18,415)	15.1%
Transportation costs	(10,868)	(10,384)	4.7%	(10,868)	(8,770)	23.9%
Depletion and depreciation	(10,208)	(11,642)	-12.3%	(10,208)	(7,093)	43.9%
Selling, general and administrative expenses	(5,032)	(6,626)	-24.1%	(5,032)	(3,959)	27.1%
Other operating income/ (expenses), net	380	(3,021)	n/a	380	(236)	n/a
Total costs and expenses	(112,922)	(132,405)	-14.7%	(112,922)	(123,522)	-8.6%
Operating profit	18,337	15,565	17.8%	18,337	19,408	-5.5%
Reversal of impairment/ (impairment) of assets, net	5,577	(1,669)	n/a	5,577	(345)	n/a
Financial income	1,477	1,401	5.4%	1,477	1,988	-25.7%
Financial costs	(4,128)	(4,962)	-16.8%	(4,128)	(4,280)	-3.6%
Foreign exchange losses, net	(3,520)	(864)	307.4%	(3,520)	(1,951)	80.4%
Share in the losses of joint ventures, net of income tax	(301)	(124)	142.7%	(301)	(40)	n/a
Total other expenses	(895)	(6,218)	-85.6%	(895)	(4,628)	-80.7%
Profit before tax	17,442	9,347	86.6%	17,442	14,780	18.0%
Income tax	(3,295)	(2,509)	31.3%	(3,295)	(3,101)	6.3%
Profit for the period	14,147	6,838	106.9%	14,147	11,679	21.1%
Other comprehensive expenses net of income tax	-	-	n/a	-	-	n/a
Total comprehensive income for the period	14,147	6,838	106.9%	14,147	11,679	21.1%
(Losses)/ profit for the period attributable to non-controlling interests	(287)	(59)	n/a	(287)	289	n/a
Profit for the period attributable to owners of the parent company	14,434	6,897	109.3%	14,434	11,390	26.7%
Total comprehensive (expenses)/ income for the period attributable to non-controlling interests	(287)	(59)	n/a	(287)	289	n/a
Total comprehensive income for the period attributable to owners of the parent company	14,434	6,897	109.3%	14,434	11,390	26.7%



REVENUE

In the 1st quarter of 2016, the revenue of Bashneft Group decreased by 11.3% compared to the 4th quarter of 2015 and totalled 131,259 million roubles. This change was caused by a reduction in the volume of export sales of petroleum products and petrochemicals, a decrease in the volume of domestic crude oil sales and a fall in prices.

Revenue fell by 8.2% compared to the 1st quarter of 2015. This change was caused primarily by a fall in prices.

(million roubles)	1Q		Change	1Q		Change
	2016	2015		2016	2015	
Revenue						
Export sales of crude oil outside of the Customs Union	27,691	26,917	2.9%	27,691	32,809	-15.6%
Export sales of crude oil to the Customs Union	2,725	2,769	-1.6%	2,725	2,942	-7.4%
Domestic sales of crude oil	7,287	10,353	-29.6%	7,287	4,917	48.2%
Total sales of crude oil	37,703	40,039	-5.8%	37,703	40,668	-7.3%
Export sales of petroleum products and petrochemicals	40,053	46,104	-13.1%	40,053	52,976	-24.4%
<i>Outside of the Customs Union</i>	39,090	44,051	-11.3%	39,090	49,906	-21.7%
<i>to the Customs Union</i>	963	2,053	-53.1%	963	3,070	-68.6%
Domestic sales of petroleum products and petrochemicals	52,441	60,693	-13.6%	52,441	48,250	8.7%
<i>Wholesale</i>	39,109	45,703	-14.4%	39,109	35,436	10.4%
<i>Retail</i>	13,332	14,990	-11.1%	13,332	12,814	4.0%
Total sales of petroleum products and petrochemicals	92,494	106,797	-13.4%	92,494	101,226	-8.6%
Other sales ⁷	1,062	1,134	-6.3%	1,062	1,036	2.5%
Total revenue	131,259	147,970	-11.3%	131,259	142,930	-8.2%

(thousand tonnes)	1Q		Change	1Q		Change
	2016	2015		2016	2015	
Sales volume						
Export sales of crude oil outside of the Customs Union	1,819	1,438	26.5%	1,819	1,477	23.2%
Export sales of crude oil to the Customs Union	214	204	4.9%	214	192	11.5%
Domestic sales of crude oil	684	871	-21.5%	684	397	72.3%
Total sales of crude oil	2,717	2,513	8.1%	2,717	2,066	31.5%
Export sales of petroleum products and petrochemicals	2,024	2,197	-7.9%	2,024	2,117	-4.4%
<i>outside of the Customs Union</i>	1,982	2,090	-5.2%	1,982	1,962	1.0%
<i>to the Customs Union</i>	42	107	-60.7%	42	155	-72.9%
Domestic sales of petroleum products and petrochemicals	2,473	2,457	0.7%	2,473	2,237	10.5%
<i>Wholesale</i>	2,109	2,058	2.5%	2,109	1,877	12.4%
<i>Retail</i>	364	399	-8.8%	364	360	1.1%
Total sales of petroleum products and petrochemicals	4,497	4,654	-3.4%	4,497	4,354	3.3%
Total sales of crude oil, petroleum products and petrochemicals	7,214	7,167	0.7%	7,214	6,420	12.4%

⁷ Revenue from other sales includes revenue from sales of goods and services that are not related to the Group's core business, such as lease of property, sales of related goods at petrol stations and sales of other goods and services.



Export and domestic sales of crude oil

In the 1st quarter of 2016, revenue from export sales of crude oil amounted to 30,416 million roubles, which is 2.5% more than in the 4th quarter of 2015. The increase of revenue in the 1st quarter of 2016 was due to a 23.8% increase in volume sold, which was offset by a fall in prices in global markets.

Revenue from export sales of crude oil decreased by 14.9% compared to the 1st quarter of 2015. The reduction of revenue was caused by a price fall on global markets.

In the 1st quarter of 2016, revenue from domestic sales of crude oil totalled 7,287 million roubles, which is 29.6% less than in the 4th quarter of 2015, due to a 21.5% reduction of volume sold and a fall in prices on the domestic market.

Revenue from domestic sales of crude oil increased by 48.2% compared to the 1st quarter of 2015. Revenue increase in the 1st quarter of 2016 compared to the same period in 2015 was due to an increase in oil production and volume sold, which was offset by a drop of domestic market prices.

Export sales of petroleum products and petrochemicals

(thousand tonnes)	4Q			1Q		
	2016	2015	Change	2016	2015	Change
Diesel fuel	1,402	1,423	-1.5%	1,402	1,482	-5.4%
High-octane gasoline	230	108	113.0%	230	148	55.4%
Fuel oil	120	337	-64.4%	120	310	-61.3%
Naphtha	70	38	84.2%	70	34	105.9%
Vacuum gas oil	-	164	-100.0%	-	29	-100.0%
Other	117	44	n/a	117	27	n/a
Total sales of petroleum products	1,939	2,114	-8.3%	1,939	2,030	-4.5%
Petrochemicals sales	85	83	2.4%	85	87	-2.3%
Total export sales of petroleum products and petrochemicals	2,024	2,197	-7.9%	2,024	2,117	-4.4%

Export sales of petroleum products and petrochemicals outside of the Customs Union

In the 1st quarter of 2016, revenue from export sales of petroleum products and petrochemicals outside of the Customs Union totalled 39,090 million roubles, which is lower by 11.3% compared to the 4th quarter of 2015, due to a fall in prices, primarily diesel fuel price.

Revenue from export sales of petroleum products and petrochemicals outside of the Customs Union decreased by 21.7% as compared to the 1st quarter of 2015, which was also related to a reduction in prices.

Export sales of petroleum products and petrochemicals to the Customs Union

In the 1st quarter of 2016, revenue from sales of petroleum products to the Customs Union amounted to 963 million roubles, which is 53.1% less than in the 4th quarter of 2015. The decline in revenue from export sales of petroleum products to the Customs Union was related to a sharp reduction in the sales volume of fuel oil and high-octane gasoline to the Customs Union in the 1st quarter of 2016 due to the existing unfavourable market conditions.

In the 1st quarter of 2016, revenue from sales of petroleum products and petrochemicals to the Customs Union decreased by 68.6% compared to the 1st quarter of 2015. The decline in revenue was caused by a 72.9% reduction in the sales volume of petroleum product due to a decrease in gasoline sales volume under existing unfavourable market conditions.



Domestic sales of petroleum products and petrochemicals

(thousand tonnes)	1Q		4Q	1Q		
	2016	2015	Change	2016	2015	Change
High-octane gasoline	891	977	-8.8%	891	916	-2.7%
Fuel oil	561	287	95.5%	561	400	40.3%
Diesel fuel	483	508	-4.9%	483	373	29.5%
Other	409	534	-23.4%	409	431	-5.1%
Total sales of petroleum products	2,344	2,306	1.6%	2,344	2,120	10.6%
Petrochemicals sales	129	151	-14.6%	129	117	10.3%
Total domestic sales of petroleum products and petrochemicals	2,473	2,457	0.7%	2,473	2,237	10.5%

Petroleum products and petrochemicals wholesale

In the 1st quarter of 2016, revenue from wholesale distribution of petroleum products on the domestic market fell by 14.4% compared to the 4th quarter of 2015 and amounted to 39,109 million roubles, which was caused by a fall in prices on the domestic market.

In the 1st quarter of 2016, revenue from wholesale distribution of petroleum products and petrochemicals on the domestic market increased by 10.4% compared to the same period in 2015. The increase in revenue was mainly due to a 12.4% increase in sales volume.

Petroleum products retail

In the 1st quarter of 2016, revenue from retail sales decreased by 11.1% compared to the 4th quarter of 2015 and totalled 13,332 million roubles, which was due to a 8.8% seasonal decline in retail sales on the domestic market.

In the 1st quarter of 2016, revenue from retail sales increased by 4.0% compared to the same period in 2015. The increase in revenue from retail sales was caused mainly by a rise in prices on the domestic market.



COSTS AND EXPENSES

Production and operating expenses

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

(million roubles)	1Q		Change	1Q		
	2016	2015		2016	2015	Change
Production and operating expenses						
Production	11,558	11,911	-3.0%	11,558	9,815	17.8%
Refining	7,414	7,959	-6.8%	7,414	6,201	19.6%
Other (including petrochemicals, change in WIP and finished product balances and other costs)	2,224	4,334	-48.7%	2,224	2,399	-7.3%
Total production and operating expenses	21,196	24,204	-12.4%	21,196	18,415	15.1%

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

	1Q		Change	1Q		
	2016	2015		2016	2015	Change
Unit costs for production of crude oil (roubles per barrel)	299.5	311.1	-3.7%	299.5	285.5	4.9%

Crude oil production expenses include labour costs, expenditure on raw and other materials, as well as purchases of heat and electricity, repairs and maintenance of oil and gas production assets, and expenses on oil recovery enhancement.

In the 1st quarter of 2016, unit costs for production of crude oil decreased by 3.7% compared to the 4th quarter of 2015 and amounted to 299.5 roubles per barrel due to the planned reduction in maintenance costs of oil and gas assets.

Unit costs for production of crude oil increased by 4.9% compared to the 1st quarter of 2015, mainly due to an increase in the amount of repairs and higher cost of auxiliary materials as a result of inflation.

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

	1Q		Change	1Q		
	2016	2015		2016	2015	Change
Unit refining costs (roubles per barrel)	214.6	226.2	-5.1%	214.6	180.2	19.1%

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

In the 1st quarter of 2016, unit refining costs decreased by 5.1% compared to the 4th quarter of 2015 and totalled 214.6 roubles per barrel due to the completion of plan repairs at refineries by the end of 4th quarter of 2015.

Unit refining costs increased by 19.1% compared to the same period in 2015, which was a result of inflation, including increases in the cost of auxiliary materials and tariffs for heat and electricity.

Cost of purchased crude oil, gas and petroleum products

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



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

(thousand tonnes)	1Q		Change	1Q		
	2016	2015		2016	2015	Change
Purchased crude oil, gas, and gas condensate	2,380	2,427	-1.9%	2,380	2,068	15.1%
Purchased petroleum products	14	11	27.3%	14	16	-12.5%
Total volume of purchased crude oil, gas, and petroleum products	2,394	2,438	-1.8%	2,394	2,084	14.9%

In the 1st quarter of 2016, the cost of purchased crude oil, gas and petroleum products decreased by 10.1% compared to the 4th quarter of 2015 and amounted to 26,589 million roubles. This change was caused by a reduction in the volume of purchased crude oil, gas and gas condensate as well as by decrease in prices.

The cost of purchased crude oil, gas and petroleum products decreased by 14.3% compared to the 1st quarter of 2015 due to a drop in prices.

Transportation costs

In the 1st quarter of 2016, transportation costs increased by 4.7% compared to the 4th quarter of 2015 and totalled 10,868 million roubles.

Transportation costs increased by 23.9% compared to the 1st quarter of 2015. The increase in transportation costs was primarily due to a tariffs rise and an increase of the volume of crude oil export.

Depletion and depreciation

(million roubles)	1Q		Change	1Q		
	2016	2015		2016	2015	Change
Depletion and depreciation	10,208	11,642	-12.3%	10,208	7,093	43.9%

In the 1st quarter of 2016, depletion and depreciation costs decreased by 12.3% compared to the 4th quarter of 2015 and totalled 10,208 million roubles, which was related primarily to the decrease in the depletion costs of the Production segment due to volume of reserves increase as of 31 December 2015 according to Miller & Lents Ltd.

In the 1st quarter of 2016, depletion and depreciation costs rose by 43.9% compared to the 1st quarter of 2015, which was caused mainly by an increase in the volume of crude oil production and sales, as well as commissioning of new property, plant and equipment.

Taxes other than income tax

(million roubles)	1Q		Change	1Q		
	2016	2015		2016	2015	Change
Mineral extraction tax	15,818	20,938	-24.5%	15,818	24,099	-34.4%
Social taxes	2,138	2,059	3.8%	2,138	2,027	5.5%
Property tax	681	675	0.9%	681	534	27.5%
Other	457	485	-5.8%	457	326	40.2%
Total taxes other than income tax	19,094	24,157	-21.0%	19,094	26,986	-29.2%



In the 1st quarter of 2016, taxes other than income tax decreased by 21.0% compared to the 4th quarter of 2015 and amounted to 19,094 million roubles. This change was caused by a decrease in mineral extraction tax payments due to a reduction in the mineral extraction tax rate.

In the 1st quarter of 2016, taxes other than income tax decreased by 29.2% compared to the 1st quarter of 2015. This change was caused by a decrease in mineral extraction tax payments due to a reduction in the mineral extraction tax rate.

Export tariffs and excises

(million roubles)	1Q		4Q	1Q		
	2016	2015		Change	2016	2015
Export tariffs on crude oil	7,453	8,983	-17.0%	7,453	11,310	-34.1%
Export tariffs on petroleum products	4,615	7,807	-40.9%	4,615	9,365	-50.7%
Total export tariffs:	12,068	16,790	-28.1%	12,068	20,675	-41.6%
Excises	8,247	5,994	37.6%	8,247	6,354	29.8%
Total export tariffs and excises	20,315	22,784	-10.8%	20,315	27,029	-24.8%

In the 1st quarter of 2016, the total amount of export tariffs on oil and petroleum products decreased by 28.1% compared to the 4th quarter of 2015 and amounted to 12,068 million roubles, which was caused primarily by a reduction in export tariff rates from 1st January 2016.

In the 1st quarter of 2016, the total amount of excises increased by 37.6% compared to the 4th quarter of 2015 to 8,247 million roubles due to a rise in excise rates from 1st January 2016.

In the 1st quarter of 2016, the total amount of export tariffs on oil and petroleum products fell by 41.6% compared to the same period in 2015 mainly due to a reduction in export tariff rates.

In the 1st quarter of 2016, the total amount of excises increased by 29.8% compared to the same period in 2015, primarily due to a rise in excise rates.

CASH FLOW

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

(million roubles)	1Q		4Q	1Q		
	2016	2015		Change	2016	2015
Net cash generated from/ (used in) operating activities	59,422	22,065	169.3%	59,422	(2,697)	n/a
Net cash used in investing activities	(22,167)	(17,858)	24.1%	(22,167)	(25,595)	-13.4%
Net cash used in financing activities	(18,249)	(15,605)	16.9%	(18,249)	(11,236)	62.4%

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

(million roubles)	1Q		4Q	1Q		
	2016	2015		Change	2016	2015
Operating cash flow before working capital changes	29,104	30,513	-4.6%	29,104	26,616	9.3%
Movements in working capital less cash and cash equivalents	38,136	2,014	n/a	38,136	(22,450)	n/a
Interest paid	(3,834)	(4,927)	-22.2%	(3,834)	(3,655)	4.9%
Income tax paid	(3,984)	(5,535)	-28.0%	(3,984)	(3,208)	24.2%
Net cash generated from/ (used in) operating activities	59,422	22,065	169.3%	59,422	(2,697)	n/a

In the 1st quarter of 2016, net cash generated from operating activities totalled 59,422 million roubles. The main factor behind the change compared to the 4th quarter of 2015 and the



1st quarter of 2015 is movements in working capital less cash and cash equivalents due to the receipt of funds related to the prepayment under the long-term oil and petroleum products supply agreement in the amount of US\$ 500 million.

Net cash used in investing activities:

(million roubles)	1Q		Change	1Q		
	2016	2015		2016	2015	Change
Capital expenditures	(17,227)	(18,833)	-8.5%	(17,227)	(12,161)	41.7%
Acquisition of financial assets, less proceeds from disposal of financial assets	(6,423)	(146)	n/a	(6,423)	(15,187)	-57.7%
Interest received	2,073	1,115	85.9%	2,073	2,163	-4.2%
Other	(590)	6	n/a	(590)	(410)	43.9%
Net cash used in investing activities	(22,167)	(17,858)	24.1%	(22,167)	(25,595)	-13.4%

In the 1st quarter of 2016, net cash used in investing activities totalled 22,167 million roubles and was allocated to financing of capital investments and bank deposits.

Net cash used in financing activities:

(million roubles)	1Q		Change	1Q		
	2016	2015		2016	2015	Change
Proceeds from borrowings	432	2,079	-79.2%	432	508	-15.0%
Repayment of borrowings	(15,113)	(17,659)	-14.4%	(15,113)	(11,730)	28.8%
Total proceeds from and repayment of borrowings:	(14,681)	(15,580)	-5.8%	(14,681)	(11,222)	30.8%
Acquisition of non-controlling interests	(3,550)	-	n/a	(3,550)	-	n/a
Dividends paid	(18)	(25)	-28.0%	(18)	(14)	28.6%
Net cash used in financing activities	(18,249)	(15,605)	16.9%	(18,249)	(11,236)	62.4%

Acquisition of non-controlling interests represents the acquisition of 21,505,680 ordinary shares (19.043% of the authorized share capital) of PJSC Ufaorgsintez for 3,550 million roubles.

FINANCING AND DEBT

(million roubles)	31 March		31 December	Change	31 March		
	2016	2015			2016	2015	Change
Short-term borrowings	31,054	20,108	54.4%	31,054	19,337	60.6%	
Long-term borrowings	90,700	115,899	-21.7%	90,700	139,246	-34.9%	
Debt	121,754	136,007	-10.5%	121,754	158,583	-23.2%	
Cash and cash equivalents	(49,081)	(32,955)	48.9%	(49,081)	(13,255)	n/a	
Net debt	72,673	103,052	-29.5%	72,673	145,328	-50.0%	
Short-term financial investments	(16,500)	(5,000)	n/a	(16,500)	(16,159)	2.1%	
Long-term portion of prepayments on oil and oil products supply agreements	51,290	13,492	n/a	51,290	17,347	n/a	
Adjusted net debt	107,463	111,544	-3.7%	107,463	146,516	-26.7%	

As of 31 March 2016, the Group's total debt in the form of short-term and long-term loans and borrowings totalled 121,754 million roubles compared to 136,007 million roubles as of 31 December 2015.

As of 31 March 2016, the annual weighted average interest rate on borrowings and bonds stood at 10.3% compared to 10.4% as of 31 December 2015. The annual weighted average interest rate on borrowings, bonds and long-term portion of prepayments on oil and oil products supply agreements was 8.2% compared to 9.6% as of 31 December 2015.

CAPITAL EXPENDITURES

(million roubles)	1Q		Change	1Q		
	2016	2015		2016	2015	Change
Production	14,082	15,332	-8.2%	14,082	9,107	54.6%
<i>Including</i>						
<i>development of the R. Trebs and A. Titov fields</i>	5,327	4,649	14.6%	5,327	1,186	n/a
<i>development of fields of Burneftegaz Group</i>	1,914	1,978	-3.2%	1,914	1,746	9.6%
Refining, petrochemicals and marketing	2,967	3,271	-9.3%	2,967	2,646	12.1%
Other	178	230	-22.6%	178	408	-56.4%
Total cash used in capital expenditures	17,227	18,833	-8.5%	17,227	12,161	41.7%

In the 1st quarter of 2016, capital expenditures declined by 8.5% compared to the 4th quarter of 2015 and totalled 17,227 million roubles. This decrease was caused mainly by a planned reduction in capital expenditure on the development of brownfields due to seasonal factors.

In the 1st quarter of 2016, capital expenditures increased by 41.7% compared to the same period in 2015 due to an increase in capital expenditures in the Production segment, in particular expenditures related to the R. Trebs and A. Titov fields.

