

# **Bashneft Group**

**Interim Condensed  
Consolidated Financial Statements  
for the three and the six months  
ended 30 June 2016 (unaudited)**

# BASHNEFT GROUP

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## BASHNEFT GROUP

### STATEMENT OF MANAGEMENT'S RESPONSIBILITIES FOR THE PREPARATION AND APPROVAL OF THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS FOR THE THREE AND THE SIX MONTHS ENDED 30 JUNE 2016

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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 30 June 2016, the results of its operations for the three and the six months then ended, cash flows and changes in shareholders' equity for the six 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 and the six months ended 30 June 2016 were approved by:

  
\_\_\_\_\_  
**A.L. Korsik**  
President

  
\_\_\_\_\_  
**Y.V. Galaydin**  
Chief Accountant

Ufa, Russian Federation  
29 August 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 30 June 2016 and the related interim condensed consolidated statements of profit or loss and other comprehensive income for the three and the six months then ended, changes in equity and cash flows for the six 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*.

*Deloitte & Touche*

Moscow, Russian Federation  
29 August 2016

## BASHNEFT GROUP

### INTERIM CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME FOR THE THREE AND THE SIX MONTHS ENDED 30 JUNE 2016 (UNAUDITED)

*Millions of Russian roubles, except for earnings per share data*

	Notes	Three months ended 30 June		Six months ended 30 June	
		2016	2015	2016	2015
Revenue	6	141,868	152,745	273,127	295,675
Cost of purchased crude oil, gas and petroleum products		(25,023)	(32,861)	(51,612)	(63,895)
Export tariffs and excise		(20,877)	(24,153)	(41,192)	(51,182)
Taxes other than income tax	7	(26,625)	(29,113)	(45,719)	(56,099)
Production and operating expenses		(20,038)	(16,879)	(41,234)	(35,294)
Transportation expenses		(9,901)	(9,055)	(20,769)	(17,825)
Depletion and depreciation		(10,766)	(7,480)	(20,974)	(14,573)
Selling, general and administrative expenses		(6,243)	(4,830)	(11,275)	(8,789)
Other operating income/(expenses), net		244	(342)	624	(578)
<b>Operating profit</b>		<b>22,639</b>	<b>28,032</b>	<b>40,976</b>	<b>47,440</b>
Reversal of impairment/(impairment) of assets, net	11	(179)	248	5,398	(97)
Finance income	8	1,692	1,592	3,169	3,580
Finance costs	8	(4,076)	(4,929)	(8,204)	(9,209)
Foreign exchange loss, net		(1,165)	(1,370)	(4,685)	(3,321)
Share of loss of joint ventures, net of income tax		(289)	(747)	(590)	(787)
<b>Profit before income tax</b>		<b>18,622</b>	<b>22,826</b>	<b>36,064</b>	<b>37,606</b>
Income tax	9	(3,955)	(4,405)	(7,250)	(7,506)
<b>Profit for the period and total comprehensive income</b>		<b>14,667</b>	<b>18,421</b>	<b>28,814</b>	<b>30,100</b>
Attributable to:					
Owners of the Company		14,833	17,908	29,267	29,298
Non-controlling interests		(166)	513	(453)	802
		<b>14,667</b>	<b>18,421</b>	<b>28,814</b>	<b>30,100</b>

### EARNINGS PER SHARE

Earnings per share attributable to shareholders of the parent company (Russian roubles per share):

Basic	14	87.36	105.75	172.36	173.01
Diluted	14	87.22	105.75	172.18	173.01

*The accompanying notes on pages 8-23 form an integral part of these interim condensed consolidated financial statements*

# BASHNEFT GROUP

## INTERIM CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION AT 30 JUNE 2016 (UNAUDITED) Millions of Russian roubles

	Notes	30 June 2016	31 December 2015
<b>ASSETS</b>			
<b>Non-current assets</b>			
Property, plant and equipment	10	419,851	400,450
Advances paid for acquisition of property, plant and equipment		1,266	872
Intangible assets		3,382	3,736
Financial assets	11	3,687	3,504
Investments in joint ventures and related financial assets		3,601	3,361
Long-term inventories		3,734	3,086
Deferred tax assets		539	1,997
Other non-current assets		2,655	2,501
		<b>438,715</b>	<b>419,507</b>
<b>Current assets</b>			
Inventories		24,954	22,048
Financial assets	11	29,500	5,000
Trade and other receivables		17,361	10,260
Advances to suppliers and prepaid expenses		5,760	6,155
Income tax prepaid		1,095	442
Other taxes receivable		19,641	23,745
Cash and cash equivalents		28,868	32,955
		<b>127,179</b>	<b>100,605</b>
<b>TOTAL ASSETS</b>		<b>565,894</b>	<b>520,112</b>
<b>EQUITY AND LIABILITIES</b>			
<b>Capital and reserves</b>			
Share capital	14	1,954	1,954
Treasury shares		(12,084)	(12,720)
Additional paid-in capital		81,462	81,462
Other equity reserves		699	673
Retained earnings		167,407	164,121
<b>Equity attributable to owners of the Company</b>		<b>239,438</b>	<b>235,490</b>
Non-controlling interests		3,177	9,223
		<b>242,615</b>	<b>244,713</b>
<b>Non-current liabilities</b>			
Borrowings	12	92,437	115,899
Decommissioning provision		10,335	9,758
Deferred tax liabilities		38,950	39,524
Prepayments on oil products supply agreements	13	49,844	13,492
Other non-current liabilities		2,417	2,055
		<b>193,983</b>	<b>180,728</b>
<b>Current liabilities</b>			
Borrowings	12	21,025	20,108
Trade and other payables		45,325	40,991
Dividends payable		28,552	420
Advances received		9,514	14,191
Prepayment on oil products supply agreement	13	5,926	3,855
Provisions		651	760
Income tax payable		420	921
Other taxes payable		17,883	13,425
		<b>129,296</b>	<b>94,671</b>
<b>TOTAL LIABILITIES</b>		<b>323,279</b>	<b>275,399</b>
<b>TOTAL EQUITY AND LIABILITIES</b>		<b>565,894</b>	<b>520,112</b>

The accompanying notes on pages 8-23 form an integral part of these interim condensed consolidated financial statements

## BASHNEFT GROUP

### INTERIM CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS FOR THE SIX MONTHS ENDED 30 JUNE 2016 (UNAUDITED)

Millions of Russian roubles

	Notes	Six months ended 30 June 2016	Six months ended 30 June 2015
<b>OPERATING ACTIVITIES</b>			
<b>Profit before income tax</b>		<b>36,064</b>	<b>37,606</b>
Adjustments for:			
Depletion and depreciation		20,974	14,573
Loss on disposal of property, plant and equipment		21	499
Finance income	8	(3,169)	(3,580)
Finance costs	8	8,204	9,209
(Reversal of impairment)/impairment of assets, net	11	(5,398)	97
Share of loss of joint ventures, net of income tax		590	787
Foreign exchange loss, net		4,685	3,321
Share-based portion of long-term remuneration program		799	-
Change in provisions, net		24	(5)
Other, net		(12)	(33)
<b>Operating cash flows before working capital changes</b>		<b>62,782</b>	<b>62,474</b>
Movements in working capital:			
Inventories		(3,282)	(3,110)
Trade and other receivables		(7,764)	(2,507)
Advances to suppliers and prepaid expenses		396	1,548
Other taxes receivable		4,099	7,553
Trade and other payables		1,742	(1,990)
Advances received		(4,677)	(12,734)
Prepayment on oil products supply agreement	13	39,243	-
Settlement of prepayment on oil products supply agreement	13	(820)	-
Other taxes payable		4,909	(715)
<b>Cash generated from operations</b>		<b>96,628</b>	<b>50,519</b>
Interest paid		(7,201)	(7,630)
Income tax paid		(7,499)	(7,969)
<b>NET CASH GENERATED FROM OPERATING ACTIVITIES</b>		<b>81,928</b>	<b>34,920</b>

The accompanying notes on pages 8-23 form an integral part of these interim condensed consolidated financial statements

## BASHNEFT GROUP

### INTERIM CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS (CONTINUED) FOR THE SIX MONTHS ENDED 30 JUNE 2016 (UNAUDITED)

*Millions of Russian roubles*

	Notes	Six months ended 30 June 2016	Six months ended 30 June 2015
<b>INVESTING ACTIVITIES</b>			
Payments for acquisition of property, plant and equipment		(38,145)	(27,563)
Proceeds from disposal of property, plant and equipment		224	29
Loans to joint venture		(830)	(733)
Acquisition of subsidiaries, net of cash acquired		-	7
Payments for acquisition of intangible assets		(557)	(1,002)
Payments for acquisition of financial assets		(29,692)	(20,034)
Proceeds from disposal of financial assets		10,269	2,534
Interest received		3,043	2,975
Dividends received		3	2
		<u>(55,685)</u>	<u>(43,785)</u>
<b>NET CASH USED IN INVESTING ACTIVITIES</b>			
<b>FINANCING ACTIVITIES</b>			
Acquisition of non-controlling interests	4	(3,550)	-
Proceeds from borrowings		27,268	16,294
Repayments of borrowings		(50,631)	(13,838)
Dividends paid by the Company		(29)	(18)
		<u>(26,942)</u>	<u>2,438</u>
<b>NET CASH (USED IN)/GENERATED FROM FINANCING ACTIVITIES</b>			
<b>Net decrease in cash and cash equivalents</b>		<b>(699)</b>	<b>(6,427)</b>
<b>Cash and cash equivalents at the beginning of the period</b>		<b>32,955</b>	<b>52,818</b>
Effect of exchange rate changes on the balance of cash and cash equivalents held in foreign currencies		<u>(3,388)</u>	<u>(607)</u>
<b>Cash and cash equivalents at the end of the period</b>		<b><u>28,868</u></b>	<b><u>45,784</u></b>

*The accompanying notes on pages 8-23 form an integral part of these interim condensed consolidated financial statements*

## BASHNEFT GROUP

### INTERIM CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY FOR THE SIX MONTHS ENDED 30 JUNE 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
<b>Balance at 1 January 2015</b>		<b>1,984</b>	<b>(18,122)</b>	<b>81,462</b>	-	<b>130,494</b>	<b>195,818</b>	<b>7,834</b>	<b>203,652</b>
Profit for the period		-	-	-	-	29,298	<b>29,298</b>	802	<b>30,100</b>
<b>Total comprehensive income for the period</b>		-	-	-	-	<b>29,298</b>	<b>29,298</b>	<b>802</b>	<b>30,100</b>
Dividends	14	-	-	-	-	(19,130)	<b>(19,130)</b>	-	<b>(19,130)</b>
Cancellation of treasury shares	14	(30)	5,402	-	-	(5,372)	-	-	-
Other equity transactions		-	-	-	-	(5)	<b>(5)</b>	-	<b>(5)</b>
<b>Balance at 30 June 2015</b>		<b>1,954</b>	<b>(12,720)</b>	<b>81,462</b>	-	<b>135,285</b>	<b>205,981</b>	<b>8,636</b>	<b>214,617</b>
<b>Balance at 1 January 2016</b>		<b>1,954</b>	<b>(12,720)</b>	<b>81,462</b>	<b>673</b>	<b>164,121</b>	<b>235,490</b>	<b>9,223</b>	<b>244,713</b>
Profit for the period		-	-	-	-	29,267	<b>29,267</b>	(453)	<b>28,814</b>
<b>Total comprehensive income for the period</b>		-	-	-	-	<b>29,267</b>	<b>29,267</b>	<b>(453)</b>	<b>28,814</b>
Dividends	14	-	-	-	-	(27,847)	<b>(27,847)</b>	(431)	<b>(28,278)</b>
Acquisition of non-controlling interests	4	-	-	-	-	1,612	<b>1,612</b>	(5,162)	<b>(3,550)</b>
Long-term remuneration program		-	636	-	26	137	<b>799</b>	-	<b>799</b>
Other equity transactions		-	-	-	-	117	<b>117</b>	-	<b>117</b>
<b>Balance at 30 June 2016</b>		<b>1,954</b>	<b>(12,084)</b>	<b>81,462</b>	<b>699</b>	<b>167,407</b>	<b>239,438</b>	<b>3,177</b>	<b>242,615</b>

*The accompanying notes on pages 8-23 form an integral part of these interim condensed consolidated financial statements*

# BASHNEFT GROUP

## NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS FOR THE THREE AND THE SIX MONTHS ENDED 30 JUNE 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 30 June 2016 and 31 December 2015:

Company	Principal activities	Group’s effective interest	
		30 June 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 Sorovskneft (former 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 AND THE SIX MONTHS ENDED 30 JUNE 2016 (UNAUDITED)

Millions of Russian roubles

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### 2. BASIS OF PREPARATION AND SIGNIFICANT ACCOUNTING POLICIES

#### Statement of compliance

These interim condensed consolidated financial statements for the three and the six months ended 30 June 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 the impact of the adoption of the following amended standards from 1 January 2016.

#### *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. The Group did not early adopt any other standard, amendment or interpretation that has been issued and is not yet effective.

### 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 and the six months ended 30 June 2016 are consistent with those applied in the preparation of annual consolidated financial statements of the Group for the year ended 31 December 2015.

### 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:

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

## BASHNEFT GROUP

### NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS FOR THE THREE AND THE SIX MONTHS ENDED 30 JUNE 2016 (UNAUDITED)

Millions of Russian roubles

#### 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. External revenue of the Downstream segment related to deliveries under prepayments on long-term oil and oil products supply agreements (see note 13) is recognised at settlement-date exchange rates with a corresponding adjustment recognised within External expenses of All other segments. All other significant accounting policies of the reportable and other segments are the same as the Group's accounting policies.

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.

Information about the Group's reportable segments for the three months ended 30 June 2016 is presented below:

	<u>Upstream</u>	<u>Downstream</u>	<u>All other segments</u>	<u>Adjustments and eliminations</u>	<u>Consolidated</u>
External revenues	307	142,022	268	(729)	<b>141,868</b>
Inter-segment revenues	73,584	317	3,165	(77,066)	-
External expenses	(46,927)	(70,099)	(2,932)	729	<b>(119,229)</b>
Inter-segment expenses	(865)	(73,530)	(2,638)	77,033	-
Segment EBITDA	<u>33,035</u>	<u>2,379</u>	<u>(1,787)</u>	<u>(222)</u>	<b>33,405</b>
Depletion and depreciation					<b>(10,766)</b>
Impairment of assets, net					<b>(179)</b>
Finance income					<b>1,692</b>
Finance costs					<b>(4,076)</b>
Foreign exchange loss, net					<b>(1,165)</b>
Share of loss of joint venture, net of income tax					<b>(289)</b>
<b>Profit before income tax</b>					<b>18,622</b>
Income tax expense					<b>(3,955)</b>
<b>Profit for the period</b>					<b>14,667</b>

## BASHNEFT GROUP

### NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS FOR THE THREE AND THE SIX MONTHS ENDED 30 JUNE 2016 (UNAUDITED)

Millions of Russian roubles

Information about the Group's reportable segments for the three months ended 30 June 2015\* is presented below:

	Upstream	Downstream	All other segments	Adjustments and eliminations	Consolidated
External revenues	290	152,203	252	-	152,745
Inter-segment revenues	66,801	140	1,750	(68,691)	-
External expenses	(44,727)	(79,307)	(679)	-	(124,713)
Inter-segment expenses	(138)	(68,693)	(1,772)	70,603	-
Segment EBITDA	<u>25,512</u>	<u>8,093</u>	<u>(138)</u>	<u>2,045</u>	<u>35,512</u>
Depletion and depreciation					(7,480)
Reversal of impairment of assets, net					248
Finance income					1,592
Finance costs					(4,929)
Foreign exchange loss, net					(1,370)
Share of loss of joint ventures, net of income tax					<u>(747)</u>
<b>Profit before income tax</b>					<u>22,826</u>
Income tax expense					<u>(4,405)</u>
<b>Profit for the period</b>					<u>18,421</u>

Information about the Group's reportable segments for the six months ended 30 June 2016 is presented below:

	Upstream	Downstream	All other segments	Adjustments and eliminations	Consolidated
External revenues	639	272,675	542	(729)	273,127
Inter-segment revenues	129,026	721	5,847	(135,594)	-
External expenses	(84,623)	(143,549)	(4,708)	729	(232,151)
Inter-segment expenses	(1,983)	(127,010)	(4,512)	133,505	-
Segment EBITDA	<u>56,127</u>	<u>10,272</u>	<u>(2,186)</u>	<u>(2,263)</u>	<u>61,950</u>
Depletion and depreciation					(20,974)
Reversal of impairment of assets, net					5,398
Finance income					3,169
Finance costs					(8,204)
Foreign exchange loss, net					(4,685)
Share of loss of joint venture, net of income tax					<u>(590)</u>
<b>Profit before income tax</b>					<u>36,064</u>
Income tax expense					<u>(7,250)</u>
<b>Profit for the period</b>					<u>28,814</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.

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Millions of Russian roubles

Information about the Group's reportable segments for the six months ended 30 June 2015\* is presented below:

	Upstream	Downstream	All other segments	Adjustments and eliminations	Consolidated
External revenues	684	294,531	460	-	295,675
Inter-segment revenues	128,406	418	3,510	(132,334)	-
External expenses	(84,614)	(161,648)	(1,973)	-	(248,235)
Inter-segment expenses	(1,089)	(125,982)	(2,426)	129,497	-
Segment EBITDA	49,947	14,899	106	(2,939)	62,013
Depletion and depreciation					(14,573)
Impairment of assets, net					(97)
Finance income					3,580
Finance costs					(9,209)
Foreign exchange loss, net					(3,321)
Share of loss of joint ventures, net of income tax					(787)
<b>Profit before income tax</b>					<b>37,606</b>
Income tax expense					(7,506)
<b>Profit for the period</b>					<b>30,100</b>

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 30 June		Six months ended 30 June	
	2016	2015	2016	2015
Export outside the Customs Union	71,201	83,386	137,982	166,101
Russian Federation	65,759	65,291	126,549	119,494
Export to other countries of the Customs Union	4,908	4,068	8,596	10,080
<b>Total</b>	<b>141,868</b>	<b>152,745</b>	<b>273,127</b>	<b>295,675</b>

## 6. REVENUE

	Three months ended 30 June		Six months ended 30 June	
	2016	2015	2016	2015
Petroleum products	91,219	107,527	183,713	208,753
Crude oil	49,580	44,133	87,283	84,801
Other revenue	1,069	1,085	2,131	2,121
<b>Total</b>	<b>141,868</b>	<b>152,745</b>	<b>273,127</b>	<b>295,675</b>

\* 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.

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Millions of Russian roubles

#### 7. TAXES OTHER THAN INCOME TAX

	Three months ended 30 June		Six months ended 30 June	
	2016	2015	2016	2015
Mineral extraction tax	23,422	26,247	39,240	50,346
Contributions to Pension Fund of the Russian Federation	1,734	1,397	3,110	2,878
Other social contributions	413	519	1,175	1,065
Property tax	627	533	1,308	1,067
Other taxes	429	417	886	743
<b>Total</b>	<b>26,625</b>	<b>29,113</b>	<b>45,719</b>	<b>56,099</b>

#### 8. FINANCE INCOME AND FINANCE COSTS

	Three months ended 30 June		Six months ended 30 June	
	2016	2015	2016	2015
<b>Finance income</b>				
Interest income on cash and deposits	1,581	1,467	2,956	3,353
Interest income on loans and promissory notes	108	123	210	225
Dividends income	3	2	3	2
<b>Total</b>	<b>1,692</b>	<b>1,592</b>	<b>3,169</b>	<b>3,580</b>
<b>Finance costs</b>				
Interest expense on borrowings	3,291	4,555	6,622	8,443
Interest expense related to prepayments on oil products supply agreements (Note 13)	467	112	921	242
Unwinding of discount	288	223	575	446
Other accretion expenses	30	39	86	78
<b>Total</b>	<b>4,076</b>	<b>4,929</b>	<b>8,204</b>	<b>9,209</b>

#### 9. INCOME TAX

	Three months ended 30 June		Six months ended 30 June	
	2016	2015	2016	2015
Current period income tax expense	2,171	6,488	6,328	8,176
Adjustments relating to current income tax of prior years	4	63	38	68
<b>Current income tax expense</b>	<b>2,175</b>	<b>6,551</b>	<b>6,366</b>	<b>8,244</b>
Deferred tax expense/(benefit)	1,780	(2,146)	884	(738)
<b>Income tax expense</b>	<b>3,955</b>	<b>4,405</b>	<b>7,250</b>	<b>7,506</b>

## BASHNEFT GROUP

### NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS FOR THE THREE AND THE SIX MONTHS ENDED 30 JUNE 2016 (UNAUDITED)

Millions of Russian roubles

#### 10. PROPERTY, PLANT AND EQUIPMENT

	Six months ended 30 June 2016	Six months ended 30 June 2015
<b>Cost</b>		
<b>Balance at the beginning of the period</b>	<b>552,027</b>	<b>487,410</b>
Acquisition of subsidiaries	-	776
Constructions and additions	40,479	27,970
Disposals	(1,454)	(1,843)
<b>Balance at the end of the period</b>	<b>591,052</b>	<b>514,313</b>
<b>Accumulated depletion, depreciation and impairment</b>		
<b>Balance at the beginning of the period</b>	<b>(151,577)</b>	<b>(117,485)</b>
Charge for the period	(20,657)	(14,194)
Disposals	1,209	1,315
Impairment	(176)	(1,663)
<b>Balance at the end of the period</b>	<b>(171,201)</b>	<b>(132,027)</b>
<b>Net book value</b>		
<b>At the beginning of the period</b>	<b>400,450</b>	<b>369,925</b>
<b>At the end of the period</b>	<b>419,851</b>	<b>382,286</b>

At 30 June 2016 balances of construction in progress included in Property, plant and equipment were RUB 76,089 million (31 December 2015: RUB 57,912 million).

#### 11. FINANCIAL ASSETS

	30 June 2016	31 December 2015
<b>Non-current investments</b>		
Loan given, at amortised cost	3,500	3,500
Deposits and other financial assets	187	4
<b>Total</b>	<b>3,687</b>	<b>3,504</b>
<b>Current investments</b>		
Deposits	29,500	5,000
<b>Total</b>	<b>29,500</b>	<b>5,000</b>

At 30 June 2016 deposits comprised of RUB-denominated deposits maturing in July-December 2016 and with interest rates varying from 10.40% to 11.60 % (At 31 December 2015: 12.33%) per annum.

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 million was recognised.

## BASHNEFT GROUP

### NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS FOR THE THREE AND THE SIX MONTHS ENDED 30 JUNE 2016 (UNAUDITED)

Millions of Russian roubles

#### 12. BORROWINGS

	30 June 2016		31 December 2015	
	Rate, %	Outstanding balance	Rate, %	Outstanding balance
<b>Non-current liabilities</b>				
Unsecured non-convertible bonds issued in February 2013	8.65%-8.85%	29,984	8.65%-8.85%	29,979
Unsecured non-convertible bonds issued in May 2016	10.50%-10.90%	24,997	-	-
Unsecured floating (2015: fixed) interest rate loan	CBR key rate*0.76	17,225	8.00%	15,473
Unsecured non-convertible bonds issued in May 2014	10.70%	10,000	10.70%	10,000
Unsecured floating interest rate borrowing	Central Bank key rate + 1.00%	9,900	Central Bank key rate + 1.00%	24,824
Deferred payment letter of credit	EURIBOR 12M+2.00%	331	-	-
Unsecured fixed interest rate borrowing	-	-	11.00%	20,655
Unsecured non-convertible bonds issued in June 2015	-	-	12.00%-12.10%	9,978
Unsecured non-convertible bonds issued in May 2015	-	-	12.00%	4,990
<b>Total</b>		<b>92,437</b>		<b>115,899</b>
<b>Current liabilities</b>				
Unsecured fixed interest rate borrowing	11.00%	10,674	-	-
Unsecured non-convertible bonds issued in December 2009	8.35%	5,281	8.35%	5,278
Unsecured floating interest rate borrowing	Central Bank key rate + 1.00%	4,950	-	-
Unsecured non-convertible bonds issued in February 2012	9.50%	120	16.00%	9,979
Secured floating interest rate borrowing	-	-	USD Libor 1M+1.70%	4,851
<b>Total</b>		<b>21,025</b>		<b>20,108</b>

#### 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.

In May 2016, the Company executed early redemption of series BO-03, BO-04 and BO-07 non-convertible RUB-denominated bonds with a par value of RUB 1,000 each and issuance of series BO-02, BO-06 and BO-08 non-convertible RUB-denominated bonds with a par value of RUB 1,000 each.

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### NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS FOR THE THREE AND THE SIX MONTHS ENDED 30 JUNE 2016 (UNAUDITED)

Millions of Russian roubles

The detailed information related to early redemption of bonds in May 2016 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 in May 2016 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

#### 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.

#### 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 a long-term advance of USD 500 million (RUB 39,243 million) under new long-term oil products supply agreement. As of 30 June 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 30 June 2016 RUB 5,926 million and RUB 10,601 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 shipments of petroleum products in accordance with the terms of the prepayment contract started in May 2016.

\* 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.

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### NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS FOR THE THREE AND THE SIX MONTHS ENDED 30 JUNE 2016 (UNAUDITED)

Millions of Russian roubles

The movement of the prepayments on oil products supply agreements is represented below:

	<b>Six months ended 30 June 2016</b>
<b>Total balance at the beginning of the period</b>	<b>17,347</b>
Received	39,243
Settled	(820)
<b>Total balance at the end of the period</b>	<b>55,770</b>
Less current portion	(5,926)
<b>Long-term portion of prepayments on oil products supply agreements</b>	<b>49,844</b>

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. SHARE CAPITAL

##### Authorised, issued and fully paid share capital and treasury shares

	<b>30 June 2016</b>	<b>31 December 2015</b>
147,846,489 (31 December 2015: 147,846,489) ordinary shares with a par value of RUB 1.00	1,626	1,626
29,788,012 (31 December 2015: 29,788,012) preference shares with a par value of RUB 1.00	328	328
<b>Total</b>	<b>1,954</b>	<b>1,954</b>

Changes in treasury shares balances during the six months ended 30 June 2016 and 30 June 2015 were as follows:

	<b>Preference shares</b>	<b>Ordinary shares</b>
	(number of shares)	
<b>Balance as of 1 January 2015</b>	<b>4,864,168</b>	<b>6,153,060</b>
Cancellation of treasury shares	-	(2,724,173)
<b>Balance as of 30 June 2015</b>	<b>4,864,168</b>	<b>3,428,887</b>
<b>Balance as of 1 January 2016</b>	<b>4,864,168</b>	<b>3,428,887</b>
Settlement of share-based portion of long-term remuneration program	(456,752)	-
<b>Balance as of 30 June 2016</b>	<b>4,407,416</b>	<b>3,428,887</b>

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### NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS FOR THE THREE AND THE SIX MONTHS ENDED 30 JUNE 2016 (UNAUDITED)

*Millions of Russian roubles*

On 5 June 2015 the Company cancelled 2,724,173 ordinary shares previously held in treasury stock. As a result, the number of treasury shares decreased to 8,293,055. Upon cancellation of treasury shares, the Group recognised decrease in share capital of RUB 30 million representing a nominal value of shares cancelled. Difference between cost of treasury shares and its nominal value was recognised in Group Retained earnings in the amount of RUB 5,372 million.

In June 2016 in accordance with the terms of the long-term remuneration program employees of the Company received 456,752 treasury shares.

#### Dividends

On 30 June 2015, the Company declared dividend of RUB 113 per ordinary and preferred share amounting to RUB 20,073 million. A part of the dividend declared was attributable to the companies of the Group.

On 30 June 2016, the Company declared dividend of RUB 164 per ordinary and preferred share amounting to RUB 29,132 million. A part of the dividend declared was attributable to the companies of the Group. At 30 June 2016 dividends payable equaled RUB 28,552 million.

#### Earnings per share

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

	Three months ended 30 June		Six months ended 30 June	
	2016	2015	2016	2015
Profit for the period attributable to owners of the Company (basic and diluted)	14,833	17,908	29,267	29,298
Weighted average number of outstanding ordinary and preference shares	169,798,198	169,341,446	169,798,198	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	270,567	-	180,707	-
Weighted average number of outstanding ordinary and preference shares, assuming dilution	170,068,765	169,341,446	169,978,905	169,341,446
<b>Earnings per share attributable to shareholders of the parent company (Russian roubles per share):</b>				
<b>Basic</b>	<b>87.36</b>	<b>105.75</b>	<b>172.36</b>	<b>173.01</b>
<b>Diluted</b>	<b>87.22</b>	<b>105.75</b>	<b>172.18</b>	<b>173.01</b>

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### NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS FOR THE THREE AND THE SIX MONTHS ENDED 30 JUNE 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 and the six months ended 30 June 2016 and balances outstanding as at 30 June 2016 with government-controlled banks. All transactions are carried out on market rates.

At 30 June 2016 and 31 December 2015, the Group had the following outstanding balances in government-controlled banks:

	<u>30 June 2016</u>	<u>31 December 2015</u>
Borrowings	25,523	45,479
Cash and cash equivalents	25,403	30,887
Financial assets	16,015	5,000

For the three and the six months ended 30 June 2016 and 2015 the Group entered into the following transactions with the government-controlled banks:

	<u>Three months ended 30 June</u>		<u>Six months ended 30 June</u>	
	<u>2016</u>	<u>2015</u>	<u>2016</u>	<u>2015</u>
Repayment of borrowings	20,000	-	20,000	-
Cash placed on bank deposits	11,500	5,000	16,000	17,329
Proceeds from repayment of bank deposits	-	-	5,000	-
Finance costs	1,148	2,631	2,460	4,755
Finance income	1,192	1,286	2,329	3,000

For the three and the six months ended 30 June 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 30 June</u>		<u>Six months ended 30 June</u>	
	<u>2016</u>	<u>2015</u>	<u>2016</u>	<u>2015</u>
Transportation of crude oil and oil products	74%	79%	76%	81%
Purchase of heat and electricity	6%	6%	7%	8%
Purchase of crude oil, gas and petroleum products	5%	2%	3%	2%
Sale of petroleum products	2%	1%	2%	1%

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### NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS FOR THE THREE AND THE SIX MONTHS ENDED 30 JUNE 2016 (UNAUDITED)

Millions of Russian roubles

At 30 June 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 advances to suppliers, trade and other receivables and advances received:

	<u>30 June 2016</u>	<u>31 December 2015</u>
Advances to suppliers	67%	59%
Trade and other receivables	5%	8%
Advances received	8%	7%

#### Joint ventures

At 30 June 2016 and 31 December 2015, the Group had the following outstanding balances with joint ventures:

	<u>30 June 2016</u>	<u>31 December 2015</u>
Amount owed by joint ventures	1,632	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:

	<u>Three months ended 30 June</u>		<u>Six months ended 30 June</u>	
	<u>2016</u>	<u>2015</u>	<u>2016</u>	<u>2015</u>
Loans issued	621	550	830	733
Interest income	26	8	43	10
Sale of goods and services	3	23	6	28

#### Compensation of key management personnel

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

	<u>Three months ended 30 June</u>		<u>Six months ended 30 June</u>	
	<u>2016</u>	<u>2015</u>	<u>2016</u>	<u>2015</u>
Wages and salaries	153	176	276	321
Long-term remuneration program	239	111	496	223
Termination benefits	-	5	-	5
<b>Total</b>	<b><u>392</u></b>	<b><u>292</u></b>	<b><u>772</u></b>	<b><u>549</u></b>

At 30 June 2016, outstanding balances in respect of wages and salaries of key management personnel were RUB 547 million (31 December 2015: RUB 897 million).

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### NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS FOR THE THREE AND THE SIX MONTHS ENDED 30 JUNE 2016 (UNAUDITED)

Millions of Russian roubles

#### 16. FAIR VALUE OF FINANCIAL INSTRUMENTS

There were no financial instruments measured at fair value as at 30 June 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.

	Carried at	Level	30 June 2016		31 December 2015	
			Carrying value	Fair value	Carrying value	Fair value
<b>Financial assets</b>						
Loans given	Amortised cost	3	3,500	2,133	3,500	2,346
			<b>3,500</b>	<b>2,133</b>	<b>3,500</b>	<b>2,346</b>
<b>Financial liabilities</b>						
Unsecured non-convertible bonds traded on active market	Amortised cost	1	45,385	44,511	55,262	53,233
Unsecured floating (2015: fixed) and fixed interest rate loans and borrowings	Amortised cost	3	27,899	23,267	36,128	35,113
			<b>73,284</b>	<b>67,778</b>	<b>91,390</b>	<b>88,346</b>

There have been no transfers between levels during the six months ended 30 June 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.

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### NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS FOR THE THREE AND THE SIX MONTHS ENDED 30 JUNE 2016 (UNAUDITED)

Millions of Russian roubles

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#### 17. COMMITMENTS AND CONTINGENCIES

##### Capital commitments

At 30 June 2016, contractual capital commitments of the Group amounted to RUB 82,347 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 41,432 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 30 June 2016 were RUB 499 million (for the three months ended 30 June 2015: RUB 497 million) and for the six months ended 30 June 2016 were RUB 1,014 million (for the six months ended 30 June 2015: RUB 884 million).

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

	<b>30 June 2016</b>	<b>31 December 2015</b>
Due in one year	1,785	1,671
Due from one to five years	5,485	5,314
Thereafter	12,999	14,529
<b>Total</b>	<b>20,269</b>	<b>21,514</b>

##### 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 proceeding 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, recognised 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 recognised as active under the Russian tax law, their incomes do not increase taxable income of controlling entities.

##### Legal contingencies

At 30 June 2016, unresolved legal claims against the Group amounted to RUB 332 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.

## **BASHNEFT GROUP**

### **NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS FOR THE THREE AND THE SIX MONTHS ENDED 30 JUNE 2016 (UNAUDITED)**

*Millions of Russian roubles*

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#### **Performance guarantee**

At 30 June 2016 the Group had an outstanding performance guarantee issued to the South Oil Company of Iraq in connection with exploration and development services for Block 12 (Iraq) of USD 62 million or RUB 3,962 million equivalent (at 31 December 2015: USD 64 million or RUB 4,464 million equivalent) and an outstanding performance guarantee issued to Myanmar Oil and Gas Enterprise to perform exploration and development services for Block EP-4 (Mayaman Area) of USD 26 million or RUB 1,659 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.

#### **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 the six months ended 30 June 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**

#### **Partly early repayment of borrowing**

As a part of optimisation of the Group's credit portfolio in July 2016 the Company executed partly early repayment of an unsecured fixed interest rate borrowing in amount of RUB 5,000 million.

#### **"Bashneft-Ufaneftekhim" hydrocracking unit accident**

On 16 July 2016 an accident at the hydrocracking unit of the production site of "Bashneft-Ufaneftekhim" led to the partial destruction and temporary shutdown of the unit. Investigation of the cause of the accident, evaluation of damages and assessment of the associated insurance claim are underway.