



**BASHNEFT**  
JOINT STOCK OIL COMPANY

**Management's analysis of the financial position and  
operating results of Bashneft Group for the three months  
ended 31 December and 30 September 2013  
and for the twelve months ended  
31 December 2013, 2012 and 2011**



This report contains an overview of the financial position and operating results of JSOC Bashneft and includes operating results of Bashneft Group for the twelve months ended 31 December 2013. The terms “Bashneft”, “the Company”, “Bashneft Group” and “the Group” in various forms mean JSOC Bashneft and its subsidiaries and structured entities. The financial position and operating results analysed in this document are consolidated data on Bashneft Group.

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

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

The financial results of Bashneft Group for the twelve months of 2011 have been adjusted for the financial results of OJSC Bashkirenergo, which was deconsolidated in May 2011.

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

## **OVERVIEW**

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

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

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

According to the results of an audit conducted by Miller & Lents Ltd. using international PRMS (SPE) criteria, the Group's proved oil reserves as of 31 December 2013 amounted to 287.4 million tonnes. Bashneft Group has a reserves-to-production ratio of 18 years. Proved and probable (2P) reserves totalled 361.6 million tonnes. Overall reserves of Bashneft Group (including possible reserves) amounted to 454.3 million tonnes. In 2013 production at the developed licence areas totalled 16.1 million tonnes.

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

In 2013 the Group's refineries processed 21.4 million tonnes of hydrocarbons. Refining depth averaged 84.7%, which is one of the best results among Russian vertically integrated oil companies.

In 2013 Bashneft Group produced approximately 12% of gasoline manufactured in Russia.

In 2013 Bashneft Group sold 10.4 million tonnes of petroleum products and petrochemicals on the domestic market and exported 9.4 million tonnes of petroleum products and petrochemicals. The Group also sold 5.1 million tonnes of crude oil, including 4.7 million tonnes of exported crude oil.

As of 31 December 2013, Bashneft Group's retail network comprised 485 operating petrol stations and 279 partner petrol stations operating under the Bashneft brand name.

## KEY FINANCIAL AND OPERATING RESULTS

	4Q		Change	12 months			Change, 2013 vs. 2012	Change, 2012 vs. 2011
	2013	3Q 2013		2013	2012	2011		
Revenue (million roubles)	146,242	156,571	-6.6%	563,296	532,502	486,328	5.8%	9.5%
EBITDA (million roubles)	25,280	32,216	-21.5%	101,449	98,965	93,899	2.5%	5.4%
Adjusted EBITDA (million roubles) <sup>1</sup>	26,991	32,840	-17.8%	103,972	100,395	96,746	3.6%	3.8%
Operating profit (million roubles)	19,469	27,134	-28.2%	81,421	80,588	75,802	1.0%	6.3%
Profit for the period attributable to owners of the Company (million roubles)	13,628	7,388	84.5%	46,170	52,291	49,886	-11.7%	4.8%
Net debt (million roubles)	74,375	57,504	29.3%	74,375	78,018	61,248	-4.7%	27.4%
ROACE	n/a	n/a	n/a	24%	23%	21%	1 p.p.	2 p.p.
Oil production (thousand tonnes)	4,173	4,132	1.0%	16,073	15,437	15,106	4.1%	2.2%
Oil refining (thousand tonnes)	5,346	5,552	-3.7%	21,399	20,773	21,062	3.0%	-1.4%

### Major events during 2013:

- in February 2013, the Group issued 10,000,000 non-convertible RUB-denominated bonds (Series 06), 10,000,000 non-convertible RUB-denominated bonds (Series 07), 5,000,000 non-convertible RUB-denominated bonds (Series 08) and 5,000,000 non-convertible RUB-denominated bonds (Series 09) at par value of 1,000 roubles maturing in 2023. The Series 06 and 08 bonds have a coupon of 8.65% per annum and subsequent coupon rates are to be determined in February 2018. The Series 07 and 09 bonds have a coupon of 8.85% per annum and subsequent coupon rates are to be determined in February 2020. When new coupon rates are determined bondholders have the right to redeem the bonds at par value;
- in May 2013, Fitch Ratings confirmed Bashneft's long-term foreign and local currency issuer default ratings at "BB". The outlook for the ratings was revised from "Stable" to "Positive";
- in May 2013, in order to reduce debt servicing costs and diversify its loan portfolio, Bashneft closed a transaction with a group of international banks to obtain a pre-export financing facility of up to 600 million US dollar. The facility has a three-year tenure and is to be repaid in equal instalments after a one-year grace period. The facility is secured with future revenue from the export of petroleum products. The interest rate was the dollar-denominated Libor 1M + 2.35%. The loan was withdrawn in November, and the rate was changed to the dollar-denominated Libor 1M + 1.70%;
- in May 2013, the Bashneft-Novoil Branch put a complex of sulphuric acid alkylation and sulphuric acid regeneration units into full operation. Alkylate gasoline (alkylate) produced by the sulphuric acid alkylation unit is used for manufacturing high-octane gasoline meeting Euro 5 emission standards;

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

(million roubles)	4Q		Change	12 months			Change, 2013 vs. 2012	Change, 2012 vs. 2011
	2013	3Q 2013		2013	2012	2011		
EBITDA	25,280	32,216	-21.5%	101,449	98,965	93,899	2.5%	5.4%
Other operating expenses, net	1,711	624	174.2%	2,523	1,430	2,847	76.4%	-49.8%
<b>Adjusted EBITDA</b>	<b>26,991</b>	<b>32,840</b>	<b>-17.8%</b>	<b>103,972</b>	<b>100,395</b>	<b>96,746</b>	<b>3.6%</b>	<b>3.8%</b>

- in June 2013, JSOC Bashneft held the Annual General Meeting of Shareholders. The Meeting of Shareholders confirmed dividends for 2012 amounting to 24 roubles per ordinary and preferred share and elected a new membership of the Board of Directors of JSOC Bashneft;
- in August 2013, the Group started oil production at the R. Trebs and A. Titov fields in the Nenets Autonomous District;
- in September 2013, Bashneft Group sold its 98% interest in OJSC United Petrochemical Company ("UPC") and its 100% interest in LLC Bashneft-Service Assets ("BNSA") to JSFC Sistema. UPC is a holding company of the petrochemical assets, including OJSC Ufaorgsintez ("Ufaorgsintez"). BNSA is the oilfield service holding company which comprised 11 oilfield service companies. These companies provide services related to drilling, current and major workover of wells, the manufacture of oilfield and mechanical equipment, transport and construction;
- in September 2013, Bashneft Group sold a 38.5% interest in OJSC Belkamneft to a group of private investors;
- in December 2013, the Group exercised a mandatory buy-back from bondholders willing to redeem the bond at par value, as a result 6,984,097 series BO-01 bonds were bought back at par value and new maturity date of December 2014 was established for the remaining bonds, and the coupon rate was set at 0.1% per annum;
- in December 2013, Bashneft Group completed the acquisition of LLC Bashneftegazrazvedka, which holds a licence for geological exploration of subsoil blocks aimed at prospecting and evaluating hydrocarbon reserves at the Vostochno-Ikiski licence area in the Bakalinsky District of the Republic of Bashkortostan;
- in December 2013, JSOC Bashneft held the Extraordinary General Meeting of Shareholders. The Meeting of Shareholders confirmed dividends for 9 months 2013 amounting to 199 roubles per ordinary and preferred share;
- in December 2013, Bashneft Group announced the start of a reorganization programme involving consolidation of CJSC Bashneft-Invest with Bashneft. CJSC Bashneft-Invest is Bashneft's wholly owned subsidiary created through a spinoff from CJSC Sistema-Invest, whose shares were owned by OJSC JSFC Sistema and JSOC Bashneft (their stakes in its authorized share capital totalled 50.6% and 49.4% respectively).

## **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/US dollar exchange rate and inflation rate;
- taxation and government regulation of tariffs of natural monopolies.

### **Prices for crude oil and petroleum products**

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

	4Q		3Q	12 months			Change, 2013 vs. 2012	Change, 2012 vs. 2011
	2013	2013	Change	2013	2012	2011		
<b>Prices for crude oil and petroleum products<sup>2</sup></b>								
Brent crude oil (US dollar per barrel)	109.2	110.3	-1.0%	108.7	111.7	111.1	-2.7%	0.5%
Brent crude oil (roubles per barrel)	3,554	3,617	-1.7%	3,461	3,472	3,264	-0.3%	6.4%
Urals crude oil (US dollar per barrel)	108.8	109.8	-0.9%	108.0	110.5	109.1	-2.3%	1.3%
Urals crude oil (roubles per barrel)	3,539	3,603	-1.8%	3,441	3,437	3,206	0.1%	7.2%
Fuel oil (average FOB Rotterdam/CIF NWE) (US dollar per tonne)	577.5	595.1	-3.0%	591.4	630.9	608.4	-6.3%	3.7%
Fuel oil (average FOB Rotterdam/CIF NWE) (roubles per tonne)	18,788	19,518	-3.7%	18,836	19,617	17,880	-4.0%	9.7%
Diesel fuel (average FOB Rotterdam/CIF NWE) (US dollar per tonne)	929.8	929.2	0.1%	921.5	955.0	932.5	-3.5%	2.4%
Diesel fuel (average FOB Rotterdam/CIF NWE) (roubles per tonne)	30,251	30,475	-0.7%	29,350	29,693	27,405	-1.2%	8.3%
Naphtha (average FOB Rotterdam/CIF NWE) (US dollar per tonne)	928.0	905.9	2.4%	902.5	934.8	927.6	-3.5%	0.8%
Naphtha (average FOB Rotterdam/CIF NWE) (roubles per tonne)	30,192	29,712	1.6%	28,744	29,067	27,259	-1.1%	6.6%
Vacuum gas oil (FOB NWE) (US dollar per tonne)	743.7	770.3	-3.5%	762.8	783.1	769.0	-2.6%	1.8%
Vacuum gas oil (FOB NWE) (roubles per tonne)	24,196	25,264	-4.2%	24,292	24,350	22,600	-0.2%	7.7%
<b>Russian market (roubles per tonne, with excises, net of VAT)<sup>3</sup></b>								
Crude oil	10,684	11,325	-5.7%	10,553	10,189	8,945	3.6%	13.9%
Fuel oil	8,832	9,808	-10.0%	8,869	9,288	8,736	-4.5%	6.3%
Diesel fuel (summer gasoil)	25,581	25,022	2.2%	24,696	22,735	19,679	8.6%	15.5%
Diesel fuel (winter gasoil)	30,413	28,405	7.1%	28,273	25,460	21,786	11.0%	16.9%
High-octane gasoline	28,603	29,151	-1.9%	27,348	25,084	24,025	9.0%	4.4%
Low-octane gasoline	27,165	26,208	3.7%	25,900	23,429	22,131	10.5%	5.9%

<sup>2</sup> Source: Platts.

<sup>3</sup> Source: Kortes.



## Rouble/US 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/foreign currency exchange rates have a direct impact on the financial and operating results of Bashneft Group.

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

	4Q	3Q	Change	12 months			Change, 2013 vs. 2012	Change, 2012 vs. 2011
	2013	2013		2013	2012	2011		
Rouble inflation (Consumer Price Index) during the stated periods <sup>4</sup>	1.7%	1.2%	0.5 p.p.	6.5%	6.6%	6.1%	-0.1 p.p.	0.5 p.p.
Rouble/US dollar exchange rate at the end of the period	32.7	32.3	1.2%	32.7	30.4	32.2	7.6%	-5.6%
Rouble/US dollar exchange rate, period average	32.5	32.8	-0.9%	31.8	31.1	29.4	2.3%	5.8%

## Taxation

Price fluctuations abroad affect export duties and the mineral extraction tax.

	4Q	3Q	Change	12 months			Change, 2013 vs. 2012	Change, 2012 vs. 2011
	2013	2013		2013	2012	2011		
<b>Mineral extraction tax (roubles per tonne)</b>								
Crude oil	5,471	5,631	-2.8%	5,329	5,066	4 455	5.2%	13.7%
<b>Export duty (US dollar per tonne)</b>								
Crude oil	399.3	383.2	4.2%	392.2	404.3	408.9	-3.0%	-1.1%
Gasoline	359.4	344.9	4.2%	353.0	363.8	341.0	-3.0%	6.7%
Light and medium distillates	263.5	252.9	4.2%	258.8	266.8	274.0	-3.0%	-2.6%
Fuel oil	263.5	252.9	4.2%	258.8	266.8	208.0	-3.0%	28.3%
<b>Export duty (roubles per tonne)</b>								
Crude oil	12,992	12,569	3.4%	12,491	12,570	12,017	-0.6%	4.6%
Gasoline	11,691	11,311	3.4%	11,241	11,312	10,029	-0.6%	12.8%
Light and medium distillates	8,573	8,293	3.4%	8,243	8,295	8,054	-0.6%	3.0%
Fuel oil	8,573	8,293	3.4%	8,243	8,295	6,119	-0.6%	35.6%

<sup>4</sup> Source: Federal State Statistics Service (Rosstat).



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

(roubles per tonne)	1 January – 30 June 2012	1 July – 31 December 2012	1 January – 30 June 2013	1 July – 31 December 2013	2014	2015	2016
<b>Gasoline</b>							
non-compliant with classes 3, 4, 5	7,725	8,225	10,100	10,100	11,110	13,332	13,332
compliant with class 3	7,382	7,882	9,750	9,750	10,725	12,879	12,879
compliant with class 4	6,822	6,822	8,560	8,960	9,916	10,858	10,858
compliant with class 5	6,822	5,143	5,143	5,750	6,450	7,750	9,500
<b>Naphtha</b>	<b>7,824</b>	<b>7,824</b>	<b>10,229</b>	<b>10,229</b>	<b>11,252</b>	<b>13,502</b>	<b>14,665</b>
<b>Diesel fuel</b>							
non-compliant with classes 3, 4, 5	4,098	4,300	5,860	5,860	6,446	7,735	7,735
compliant with class 3	3,814	4,300	5,860	5,860	6,446	7,735	7,735
compliant with class 4	3,562	3,562	4,934	5,100	5,427	5,970	5,970
compliant with class 5	3,562	2,962	4,334	4,500	4,767	5,244	5,970
<b>Lubricants</b>	<b>6,072</b>	<b>6,072</b>	<b>7,509</b>	<b>7,509</b>	<b>8,260</b>	<b>9,086</b>	<b>9,577</b>

### **Mineral extraction tax**

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

The Tax Code of the Russian Federation stipulates a reduced or zero mineral extraction tax rate for certain fields. Actual mineral extraction tax expenses for 2013 are 29% lower than the current mineral extraction tax rate due to the following facts that:

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

	4Q		3Q	12 months			Change, 2013 vs. 2012	Change, 2012 vs. 2011
	2013	2013	Change	2013	2012	2011		
<b>Mineral extraction tax</b>								
Current mineral extraction tax rates (roubles per barrel)	749.5	771.4	-2.8%	730.0	694.0	610.3	5.2%	13.7%
Actual mineral extraction tax expenses (roubles per barrel)	517.3	538.1	-3.9%	514.9	508.1	474.2	1.3%	7.1%





## **OPERATING RESULTS**

### **Oil and gas reserves**

In accordance with the valuation of reserves performed by an independent reserves appraiser Miller and Lents, Ltd. under the Petroleum Resources Management System (PRMS) of the Society of Petroleum Engineers (SPE), changes in the balances of oil reserves in 2013 are presented in the table below:

(million tonnes)	31 December			Change, 2013 vs. 2012	Change, 2012 vs. 2011
	2013	2012	2011		
Proved reserves	287.4	282.1	278.5	1.9%	1.3%
Probable reserves	74.2	74.3	59.0	-0.1%	25.9%
<b>Total proved and probable reserves</b>	<b>361.6</b>	<b>356.4</b>	<b>337.5</b>	<b>1.5%</b>	<b>5.6%</b>
Possible reserves	92.7	92.4	81.7	0.3%	13.1%
<b>Total reserves</b>	<b>454.3</b>	<b>448.8</b>	<b>419.2</b>	<b>1.2%</b>	<b>7.1%</b>

Miller and Lents, Ltd. also evaluated contingent and prospective oil resources at the R. Trebs and A. Titov oilfields. Technically recoverable 3C contingent resources totalled 87.2 million tonnes, while technically recoverable prospective resources totalled 8.4 million tonnes.

### **Exploration drilling and discovery of oilfields**

	12 months			Change, 2013 vs. 2012	Change, 2012 vs. 2011
	2013	2012	2011		
Exploration drilling (thousand metres) <sup>5</sup>	39.5	20.3	30.9	94.6%	-34.3%
Number of exploration wells drilled	24	18	18	33.3%	0.0%
Number of oilfields discovered	1	1	-	0.0%	n/a
Number of oil and gas deposits discovered	8	11	2	-27.3%	n/a

An increase in the amount of exploration drilling in 2013 was related to an increase in volume of drilling on R. Trebs and A. Titov fields and on other new licence areas.

In 2012 the amount of exploration drilling decreased as LLC Bashneft-Polyus was classified as a joint venture.

### **Production drilling**

	12 months			Change, 2013 vs. 2012	Change, 2012 vs. 2011
	2013	2012	2011		
Production drilling (thousand metres)	68.3	54.8	129.6	24.6%	-57.7%
Number of wells drilled	23	32	73	-28.1%	-56.2%
Average output of existing wells (tonnes per day)	3.0	2.9	2.8	3.4%	3.6%
including average output of new wells (tonnes per day)	53.0	40.6	14.5	30.5%	180.0%
Water cut (%)	90.40%	90.37%	90.40%	0.03 p.p.	-0.03 p.p.

In 2013 the amount of production drilling increased by 24.6% to 68.3 thousand metres. At the same time, the number of wells drilled decreased to 23 wells.

<sup>5</sup> Including deepening for additional exploration.



The decline in the number of wells drilled in 2013 and 2012 was due to an improvement in the efficiency of production drilling through selection of wells with a higher potential.

The main oilfields developed by the Group are the Arlanskoye, Tuimazinskoye and Yugomashevskoye fields. The development of these oilfields began between 1939 and 1966. Peak production at these oilfields was achieved in 1967. As the oilfields have been exploited for a long time, there is a high water cut.

## **Production**

	4Q		3Q	12 months			Change, 2013 vs, 2012	Change, 2012 vs, 2011
	2013	2013	Change	2013	2012	2011		
Crude oil production (thousand tonnes)	4,173	4,132	1.0%	16,073	15,437	15,106	4.1%	2.2%
including at the R. Trebs field	171	120	42.5%	291	-	-	n/a	n/a
Daily average production of crude oil (thousand barrels per day)	331.1	327.9	1.0%	321.5	307.9	302.1	4.4%	1.9%

An increase in crude oil production in 2013 and 2012 was due to higher efficiency of production drilling and the use of enhanced oil recovery techniques in 2011, and the start of oil production at the R. Trebs field.

## **Refining**

(thousand tonnes)	4Q		3Q	12 months			Change, 2013 vs. 2012	Change, 2012 vs. 2011
	2013	2013	Change	2013	2012	2011		
<b>Crude oil refining</b>	<b>5,346</b>	<b>5,552</b>	<b>-3.7%</b>	<b>21,399</b>	<b>20,773</b>	<b>21,062</b>	<b>3.0%</b>	<b>-1.4%</b>
<b>Production of petroleum products</b>								
Gasolines (including naphtha <sup>6</sup> )	1,251	1,181	5.9%	4,876	4,780	4,919	2.0%	-2.8%
Diesel fuel	1,796	1,957	-8.2%	7,479	7,233	7,413	3.4%	-2.4%
Fuel oil	798	735	8.6%	2,968	2,861	2,610	3.7%	9.6%
Vacuum gas oil	402	561	-28.3%	1,758	1,624	1,891	8.3%	-14.1%
Other	631	726	-13.1%	2,568	2,408	2,351	6.6%	2.4%
<b>Total production of petroleum products</b>	<b>4,878</b>	<b>5,160</b>	<b>-5.5%</b>	<b>19,649</b>	<b>18,906</b>	<b>19,184</b>	<b>3.9%</b>	<b>-1.4%</b>
Refining depth (%)	82.4%	85.8%	-3.4 p.p.	84.7%	84.9%	85.9%	-0.2 p.p.	-1.0 p.p.
Share of light products (%)	60.6%	59.8%	0.8 p.p.	60.4%	59.7%	59.9%	0.7 p.p.	-0.2 p.p.

In the 4th quarter of 2013, crude oil refining volume decreased by 3.7% as compared to the 3rd quarter of 2013 due to decrease in petroleum products demand.

In 2013 the refining volume totalled 21,399 thousand tonnes, having increased by 3.0% as compared to 2012 due to major repairs at the Ufinsky refinery plant and repair works at Novoil in the 2nd quarter of 2012.

In 2012 the refining volume totalled 20,773 thousand tonnes, having decreased by 1.4% as compared to 2011 due to the factors mentioned above.

<sup>6</sup> Stable natural gasoline



## FINANCIAL RESULTS

### CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME FOR THE TWELVE MONTHS ENDED 31 DECEMBER 2013

(million roubles)	4Q		Change	12 months			Change, 2013 vs. 2012	Change, 2012 vs. 2011
	2013	3Q 2013		2013	2012	2011		
<b>Revenue</b>								
Crude oil sales	31,908	29,948	6.5%	113,655	113,043	92,348	0.5%	22.4%
Petroleum products and petrochemicals sales	111,780	123,847	-9.7%	438,783	406,428	382,199	8.0%	6.3%
Other sales	2,554	2,776	-8.0%	10,858	13,031	11,781	-16.7%	10.6%
<b>Total revenue</b>	<b>146,242</b>	<b>156,571</b>	<b>-6.6%</b>	<b>563,296</b>	<b>532,502</b>	<b>486,328</b>	<b>5.8%</b>	<b>9.5%</b>
<b>Operating expenses</b>								
Export tariffs and excise	(42,817)	(42,303)	1.2%	(160,255)	(144,307)	(124,329)	11.1%	16.1%
Cost of purchased crude oil, gas and petroleum products	(31,379)	(36,658)	-14.4%	(126,438)	(124,857)	(117,363)	1.3%	6.4%
Taxes other than income tax	(17,276)	(18,812)	-8.2%	(69,405)	(66,709)	(60,302)	4.0%	10.6%
Production and operating expenses	(17,153)	(14,970)	14.6%	(59,883)	(53,365)	(49,887)	12.2%	7.0%
Transportation expenses	(6,996)	(6,973)	0.3%	(28,280)	(26,784)	(23,152)	5.6%	15.7%
Depletion and depreciation	(5,811)	(5,082)	14.3%	(20,028)	(18,377)	(18,097)	9.0%	1.5%
Selling, general and administrative expenses	(3,630)	(4,015)	-9.6%	(15,063)	(16,085)	(14,549)	-6.4%	10.6%
Other operating expenses, net	(1,711)	(624)	174.2%	(2,523)	(1,430)	(2,847)	76.4%	-49.8%
<b>Total costs and expenses</b>	<b>(126,773)</b>	<b>(129,437)</b>	<b>-2.1%</b>	<b>(481,875)</b>	<b>(451,914)</b>	<b>(410,526)</b>	<b>6.6%</b>	<b>10.1%</b>
<b>Operating profit</b>	<b>19,469</b>	<b>27,134</b>	<b>-28.2%</b>	<b>81,421</b>	<b>80,588</b>	<b>75,802</b>	<b>1.0%</b>	<b>6.3%</b>
Impairment of investment in associate	-	(15,752)	-100.0%	(15,752)	-	-	n/a	n/a
Financial income	1,528	1,308	16.8%	5,163	4,808	2,179	7.4%	120.7%
Financial costs	(1,998)	(2,206)	-9.4%	(9,460)	(11,883)	(14,926)	-20.4%	-20.4%
Foreign exchange gain/(loss), net	643	(148)	n/a	1,094	107	(379)	n/a	-128.2%
Share in the profit/(loss) of associates and joint ventures, net of income tax	677	(328)	n/a	492	(361)	2,211	n/a	-116.3%
<b>Total other income/(loss)</b>	<b>850</b>	<b>(17,126)</b>	<b>-105.0%</b>	<b>(18,463)</b>	<b>(7,329)</b>	<b>(10,915)</b>	<b>151.9%</b>	<b>-32.9%</b>
<b>Profit before tax</b>	<b>20,319</b>	<b>10,008</b>	<b>103.0%</b>	<b>62,958</b>	<b>73,259</b>	<b>64,887</b>	<b>-14.1%</b>	<b>12.9%</b>
Income tax	(6,722)	(2,496)	169.3%	(16,559)	(16,469)	(15,098)	0.5%	9.1%
<b>Profit for the period from continuing operations</b>	<b>13,597</b>	<b>7,512</b>	<b>81.0%</b>	<b>46,399</b>	<b>56,790</b>	<b>49,789</b>	<b>-18.3%</b>	<b>14.1%</b>
Profit for the period from discontinued operations	-	-	n/a	-	-	3,546	n/a	-100.0%
Other comprehensive income/(loss), net of income tax	37	-	n/a	37	(220)	(43)	n/a	411.6%
<b>Total comprehensive income for the period (Loss)/profit for the period attributable to non-controlling interests</b>	<b>13,634</b>	<b>7,512</b>	<b>81.5%</b>	<b>46,436</b>	<b>56,570</b>	<b>53,292</b>	<b>-17.9%</b>	<b>6.2%</b>
Profit for the period attributable to owners of the Company	(31)	124	n/a	229	4,499	3,449	-94.9%	30.4%
<b>Profit for the period attributable to owners of the Company</b>	<b>13,628</b>	<b>7,388</b>	<b>84.5%</b>	<b>46,170</b>	<b>52,291</b>	<b>49,886</b>	<b>-11.7%</b>	<b>4.8%</b>
Total comprehensive (loss)/income for the period attributable to non-controlling interests	(29)	124	n/a	231	4,482	3,446	-94.8%	30.1%
<b>Total comprehensive income for the period attributable to owners of the Company</b>	<b>13,663</b>	<b>7,388</b>	<b>84.9%</b>	<b>46,205</b>	<b>52,088</b>	<b>49,846</b>	<b>-11.3%</b>	<b>4.5%</b>



## REVENUE

In the 4th quarter of 2013, the revenue of Bashneft Group totalled 146,242 million roubles, which is 6.6% less than in the 3rd quarter of 2013. The reduction in revenue was caused mainly by a decline in sale volumes of petroleum products and due to the disposal of Ufaorgsintez.

In 2013 revenue increased by 5.8% as compared to 2012, while in 2012 revenue increased by 9.5% as compared to 2011.

(million roubles)	4Q		Change	12 months			Change, 2013 vs. 2012	Change, 2012 vs. 2011
	2013	3Q 2013		2013	2012	2011		
<b>Revenue</b>								
Export sales of crude oil outside the Customs Union*	28,372	25,686	10.5%	101,555	108,534	82,695	-6.4%	31.2%
Export sales of crude oil to the Customs Union*	1,376	2,018	-31.8%	6,457	-	-	n/a	n/a
Domestic sales of crude oil	2,160	2,244	-3.7%	5,643	4,509	9,653	25.1%	-53.3%
<b>Total sales of crude oil</b>	<b>31,908</b>	<b>29,948</b>	<b>6.5%</b>	<b>113,655</b>	<b>113,043</b>	<b>92,348</b>	<b>0.5%</b>	<b>22.4%</b>
Export sales of petroleum products and petrochemicals outside the Customs Union*	50,245	59,600	-15.7%	207,650	155,023	161,009	33.9%	-3.7%
Export sales of petroleum products and petrochemicals to the Customs Union*	3,526	2,212	59.4%	11,836	39,511	34,904	-70.0%	13.2%
Domestic sales of petroleum products and petrochemicals	<b>58,009</b>	<b>62,035</b>	<b>-6.5%</b>	<b>219,297</b>	<b>211,894</b>	<b>186,286</b>	<b>3.5%</b>	<b>13.7%</b>
<i>wholesale</i>	45,739	49,559	-7.7%	173,628	170,929	157,776	1.6%	8.3%
<i>retail</i>	12,270	12,476	-1.7%	45,669	40,965	28,510	11.5%	43.7%
<b>Total sales of petroleum products and petrochemicals</b>	<b>111,780</b>	<b>123,847</b>	<b>-9.7%</b>	<b>438,783</b>	<b>406,428</b>	<b>382,199</b>	<b>8.0%</b>	<b>6.3%</b>
Other sales	2,554	2,776	-8.0%	10,858	13,031	11,781	-16.7%	10.6%
<b>Total revenue</b>	<b>146,242</b>	<b>156,571</b>	<b>-6.6%</b>	<b>563,296</b>	<b>532,502</b>	<b>486,328</b>	<b>5.8%</b>	<b>9.5%</b>

(thousand tonnes)	4Q		Change	12 months			Change, 2013 vs. 2012	Change, 2012 vs. 2011
	2013	3Q 2013		2013	2012	2011		
<b>Sales volumes</b>								
Export sales of crude oil outside the Customs Union*	1,123	993	13.1%	4,128	4,479	3,599	-7.8%	24.5%
Export sales of crude oil to the Customs Union	109	146	-25.3%	522	-	-	n/a	n/a
Domestic sales of crude oil	191	192	-0.5%	496	409	1,026	21.3%	-60.1%
<b>Total sales of crude oil</b>	<b>1,423</b>	<b>1,331</b>	<b>6.9%</b>	<b>5,146</b>	<b>4,888</b>	<b>4,625</b>	<b>5.3%</b>	<b>5.7%</b>
Export sales of petroleum products and petrochemicals outside the Customs Union*	2,126	2,414	-11.9%	8,697	6,429	7,112	35.3%	-9.6%
Export sales of petroleum products and petrochemicals to the Customs Union*	207	128	61.7%	696	2,123	2,066	-67.2%	2.8%
Domestic sales of petroleum products and petrochemicals	<b>2,617</b>	<b>2,805</b>	<b>-6.7%</b>	<b>10,423</b>	<b>10,699</b>	<b>10,171</b>	<b>-2.6%</b>	<b>5.2%</b>
<i>wholesale</i>	2,247	2,425	-7.3%	9,021	9,335	9,148	-3.4%	2.0%
<i>retail</i>	370	380	-2.6%	1,402	1,364	1,023	2.8%	33.3%
<b>Total sales of petroleum products and petrochemicals</b>	<b>4,950</b>	<b>5,347</b>	<b>-7.4%</b>	<b>19,816</b>	<b>19,251</b>	<b>19,349</b>	<b>2.9%</b>	<b>-0.5%</b>
<b>Total sales of crude oil, petroleum products and petrochemicals</b>	<b>6,373</b>	<b>6,678</b>	<b>-4.6%</b>	<b>24,962</b>	<b>24,139</b>	<b>23,974</b>	<b>3.4%</b>	<b>0.7%</b>

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

## Export and domestic sales of crude oil

In the 4th quarter of 2013, revenue from export sales of crude oil totalled 29,748 million roubles, which is 7.4% more than in the 3rd quarter of 2013. The increase in revenue was caused primarily by a 8.2% rise in oil export volumes.



In 2013 revenue from export sales of crude oil decreased by 0.5% as compared to 2012 and totalled 108,012 million roubles, mainly due to a fall in prices on global markets.

In 2012 revenue from export sales of crude oil grew by 31.2% as compared to 2011 and totalled 108,534 million roubles. The increase in revenue was caused primarily by a 24.5% rise in oil export volumes.

### **Export sales of petroleum products and petrochemicals**

(thousand tonnes)	4Q		Change	12 months			Change, 2013 vs. 2012	Change, 2012 vs. 2011
	2013	3Q 2013		2013	2012	2011		
Diesel fuel	1,165	1,246	-6.5%	4,946	5,023	5,327	-1.5%	-5.7%
Vacuum gas oil	396	561	-29.4%	1,752	1,625	1,896	7.8%	-14.3%
Fuel oil	459	417	10.1%	1,501	972	961	54.4%	1.1%
Naphtha	51	36	41.7%	124	120	370	3.3%	-67.6%
High-octane gasoline	192	176	9.1%	715	503	425	42.1%	18.4%
Low-octane gasoline	-	-	-	-	3	-	-100.0%	n/a
Other	70	69	1.4%	251	186	115	34.9%	61.7%
<b>Total sales of petroleum products</b>	<b>2,333</b>	<b>2,505</b>	<b>-6.9%</b>	<b>9,289</b>	<b>8,432</b>	<b>9,094</b>	<b>10.2%</b>	<b>-7.3%</b>
Petrochemicals sales	-	37	-100.0%	104	120	84	-13.3%	42.9%
<b>Total sales of petroleum products and petrochemicals</b>	<b>2,333</b>	<b>2,542</b>	<b>-8.2%</b>	<b>9,393</b>	<b>8,552</b>	<b>9,178</b>	<b>9.8%</b>	<b>-6.8%</b>

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

In the 4th quarter of 2013, revenue from export sales of petroleum products and petrochemicals outside the Customs Union totalled 50,245 million roubles, which is 15.7% less than in the 3rd quarter of 2013. This decrease was caused mainly by an 11.9% reduction in export volumes of petroleum products outside the Customs Union (2,126 thousand tonnes in the 4th quarter of 2013 versus 2,414 thousand tonnes in the 3rd quarter of 2013) due to a shift of focus from sales of petroleum products outside the Customs Union to export to the Customs Union, and by the disposal of Ufaorgsintez.

In 2013 revenue from export sales of petroleum products and petrochemicals outside the Customs Union increased by 33.9% as compared to 2012 and totalled 207,650 million roubles. This increase was caused by a 35.3% increase in export volumes, which was mainly related to a shift of focus from sales of petroleum products to the Customs Union to export outside the Customs Union.

In 2012 revenue from export sales of petroleum products and petrochemicals outside the Customs Union totalled 155,023 million roubles, which is 3.7% less than in the same period in 2011. This reduction was caused mainly by a 9.6% decrease in export volumes.

### **Export sales of petroleum products and petrochemicals to the Customs Union**

In the 4th quarter of 2013, revenue from export sales of petroleum products and petrochemicals to the Customs Union amounted to 3,526 million roubles, which is 59.4% higher than in the 3rd quarter of 2013. This increase was mainly related to a shift of export sale focus.

In 2013 revenue from export sales of petroleum products and petrochemicals to the Customs Union decreased by 70.0% as compared to 2012 and amounted to 11,836 million roubles. The reduction in revenue was primarily caused by a 67.2% decrease in sale volumes due to a shift of export sale focus.



In 2012 revenue from export sales of petroleum products and petrochemicals to the Customs Union amounted to 39,511 million roubles, which is 13.2% more than in 2011. The increase in revenue was caused both by a 2.8% increase in sale volumes and by price growth.

### **Domestic sales of petroleum products and petrochemicals**

(thousand tonnes)	4Q	3Q	Change	12 months			Change,	Change,
	2013	2013		2013	2012	2011	2013 vs. 2012	2012 vs. 2011
High-octane gasoline	1,005	1,021	-1.6%	3,997	3,993	3,824	0.1%	4.4%
Diesel fuel	651	743	-12.4%	2,475	2,459	2,201	0.7%	11.7%
Fuel oil	326	352	-7.4%	1,477	1,872	1,687	-21.1%	11.0%
Low-octane gasoline	26	31	-16.1%	113	196	312	-42.3%	-37.2%
Naphtha	27	-	n/a	27	-	-	n/a	n/a
Vacuum gas oil	2	-	n/a	2	2	-	0.0%	n/a
Other	580	561	3.4%	2,055	1,833	1,719	12.1%	6.6%
<b>Total sales of petroleum products</b>	<b>2,617</b>	<b>2,708</b>	<b>-3.4%</b>	<b>10,146</b>	<b>10,355</b>	<b>9,743</b>	<b>-2.0%</b>	<b>6.3%</b>
Petrochemicals sales	-	97	-100.0%	277	344	428	-19.5%	-19.6%
<b>Total sales of petroleum products and petrochemicals</b>	<b>2,617</b>	<b>2,805</b>	<b>-6.7%</b>	<b>10,423</b>	<b>10,699</b>	<b>10,171</b>	<b>-2.6%</b>	<b>5.2%</b>

### **Wholesale of petroleum products and petrochemicals**

In the 4th quarter of 2013, revenue from wholesale of petroleum products and petrochemicals on the domestic market declined by 7.7% and totalled 45,739 million roubles, which is due to a 7.3% reduction in sale volumes related to the disposal of Ufaorgsintez and a seasonal decline in demand.

In 2013 revenue from wholesale of petroleum products and petrochemicals on the domestic market increased by 1.6% as compared to 2012 and totalled 173,628 million roubles. The increase in revenue was caused by price growth.

In 2012 revenue from wholesale of petroleum products and petrochemicals on the domestic market totalled 170,929 million roubles, which is 8.3% higher than in the same period in 2011. This was related both to an increase in wholesale volumes and to a rise in prices.

### **Retail sales of petroleum products**

In the 4th quarter of 2013, revenue from retail sales of petroleum products decreased by 1.7% and amounted to 12,270 million roubles, which was related to a 2.6% decrease in retail sale volumes on the domestic market due to a seasonal decline in demand.

In 2013 revenue from retail sales of petroleum products increased by 11.5% as compared to 2012 and totalled 45,669 million roubles. The increase in revenue from retail sales in 2013 was caused mainly by a rise in prices for petroleum products.

In 2012 revenue from retail sales of petroleum products rose by 43.7% as compared to 2011 and totalled 40,965 million roubles, which was related primarily to the acquisition of OJSC Orenburgnefteprodukt (in April 2011) and the consolidation of BN-Nefteprodukt Group (in July 2011).

### **Other sales**

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



In the 4th quarter of 2013, other revenue fell by 8.0% as compared to the 3rd quarter of 2013 and totalled 2,554 million roubles, which was caused mainly by the disposal of BNSA.

In 2013 other revenue decreased by 16.7% to 10,858 million roubles, mainly because Bashneft discontinued operations related to transportation services.

In 2012 other revenue increased by 10.6% to 13,031 million roubles, primarily due to an increase in the amount of capital services provided by the Group.



## **COSTS AND EXPENSES**

### **Production and operating expenses**

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

(million roubles)	4Q		3Q	12 months			Change, 2013 vs. 2012	Change, 2012 vs. 2011
	2013	2013		Change	2013	2012*		
<b>Production and operating expenses</b>								
Production	8,407	8,202	2.5%	30,129	24,277	23,827	24.1%	1.9%
Refining	6,033	4,980	21.1%	21,214	21,436	19,893	-1.0%	7.8%
Other (including change in WIP and finished products)	2,713	1,788	51.7%	8,540	7,652	6,167	11.6%	24.1%
<b>Total production and operating expenses</b>	<b>17,153</b>	<b>14,970</b>	<b>14.6%</b>	<b>59,883</b>	<b>53,365</b>	<b>49,887</b>	<b>12.2%</b>	<b>7.0%</b>

\* Comparable financial data on production and operating expenses were revised as the petrochemical complex and oilfield service companies were separated into the Other segment.

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

	4Q		3Q	12 months			Change, 2013 vs. 2012	Change, 2012 vs. 2011
	2013	2013		Change	2013	2012*		
Crude oil production expenses (million roubles)	8,407	8,202	2.5%	30,129	24,277	23,827	24.1%	1.9%
Unit costs for production of crude oil (roubles per barrel)	276.0	271.9	1.5%	256.8	215.4	216.1	19.2%	-0.3%

\* Comparable financial data on production and operating expenses were revised as oilfield service companies were separated into the Other segment.

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

In the 4th quarter of 2013, unit costs for production of crude oil increased by 1.5% as compared to the 3rd quarter of 2013 and amounted to 276.0 roubles per barrel due to an increase in heat and electricity consumption in winter.

In 2013 unit costs for production of crude oil increased by 19.2% as compared to 2012 and amounted to 256.8 roubles per barrel. This was related to an increase in the amount of geological and engineering operations and seismic surveys, higher cost of services provided by contractors and a rise in heat and electricity prices, as well as a high cost of oil production at the initial stage of development of the R. Trebs field.

In 2012 unit costs for production of crude oil remained at the level reached in 2011.

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

	4Q		3Q	12 months			Change, 2013 vs. 2012	Change, 2012 vs. 2011
	2013	2013		Change	2013	2012*		
Refining expenses (million roubles)	6,033	4,980	21.1%	21,214	21,436	19,893	-1.0%	7.8%
Unit refining costs (roubles per barrel)	154.6	122.9	25.8%	135.8	141.4	129.4	-4.0%	9.3%

\* Comparable financial data on production and operating expenses were revised as the petrochemical complex was separated into the Other segment.

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



In the 4th quarter of 2013, unit refining costs increased by 25.8% as compared to the 3rd quarter of 2013 and amounted to 154.6 roubles per barrel. This was caused by an increase in the amount of repairs and heat and electricity consumption in winter.

In 2013 unit refining costs decreased by 4.0% compared to 2012 and amounted to 135.8 roubles per barrel due to the shutdown of the Ufimsky refinery plant for scheduled major repairs and repair works at Novoil in the 2nd quarter of 2012. The reduction was partially offset by a rise in heat and electricity prices and inflation.

In 2012 unit refining costs increased by 9.3% as compared to 2011 and amounted to 141.4 roubles per barrel.

### **Cost of purchased crude oil, gas and petroleum products**

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

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

(thousand tonnes)	4Q		Change	12 months			Change, 2013 vs. 2012	Change, 2012 vs. 2011
	2013	2013		2013	2012	2011		
Purchased crude oil, gas, and gas condensate	2,724	2,991	-8.9%	11,028	10,543	10,665	4.6%	-1.1%
Purchased petroleum products	25	38	-34.2%	135	248	378	-45.6%	-34.4%
<b>Total</b>	<b>2,749</b>	<b>3,029</b>	<b>-9.2%</b>	<b>11,163</b>	<b>10,791</b>	<b>11,043</b>	<b>3.4%</b>	<b>-2.3%</b>

In the 4th quarter of 2013, the cost of purchased crude oil, gas and petroleum products fell by 14.4% to 31,379 million roubles. This change was caused mainly by a decrease in the volume of purchased crude oil, gas and petroleum products due to a decline in refining and sales of petroleum products.

In 2013 the cost of purchased crude oil, gas and petroleum products rose by 1.3% as compared to 2012 and totalled 126,438 million roubles.

In 2012 the cost of purchased crude oil, gas and petroleum products increased by 6.4% as compared to 2011 and totalled 124,857 million roubles. This change was related to a rise in oil prices, which was partially offset by a reduction in the volume of purchased crude oil, gas and petroleum products.

### **Transportation costs**

In the 4th quarter of 2013, transportation costs of Bashneft Group remained at the level in the 3rd quarter of 2013 and totalled 6,996 million roubles.

In 2013 transportation costs of Bashneft Group increased by 5.6% as compared to 2012 and amounted to 28,280 million roubles. The increase in transportation costs was related primarily to an increase in export volumes of petroleum products.

In 2012 transportation costs of Bashneft Group increased by 15.7% as compared to 2011 and amounted to 26,784 million roubles. The increase in transportation costs was caused mainly by higher tariffs.



## Depletion and depreciation

(million roubles)	4Q		3Q	12 months			Change, 2013 vs. 2012	Change, 2012 vs. 2011
	2013	2013		Change	2013	2012*		
<b>Depletion and depreciation</b>								
Exploration and production	2,784	1,808	54.0%	7,571	5,715	5,955	32.5%	-4.0%
Refining and marketing	2,823	2,439	15.7%	9,729	8,990	9,577	8.2%	-6.1%
Other	204	835	-75.6%	2,728	3,672	2,565	-25.7%	43.2%
<b>Total depletion and depreciation</b>	<b>5,811</b>	<b>5,082</b>	<b>14.3%</b>	<b>20,028</b>	<b>18,377</b>	<b>18,097</b>	<b>9.0%</b>	<b>1.5%</b>

\* Comparable financial data on depletion and depreciation were revised as the petrochemical complex and oilfield service companies were separated into the Other segment.

In the 4th quarter of 2013, depletion and depreciation costs amounted to 5,811 million roubles versus 5,082 million roubles in the 3rd quarter of 2013; this was related mainly to putting into operation of property, plant and equipment at refineries and at the R. Trebs and A. Titov fields, as well as revaluation of the Group's hydrocarbon reserves as of 31 December 2013.

In 2013 depletion and depreciation costs increased by 9.0% as compared to 2012 and totalled 20,028 million roubles due to an increase in production and sale volumes and construction of new property, plant and equipment put into operation in 2013.

## Taxes other than income tax

(million roubles)	4Q		3Q	12 months			Change, 2013 vs. 2012	Change, 2012 vs. 2011
	2013	2013		Change	2013	2012		
<b>Taxes other than income tax</b>								
Mineral extraction tax	15,629	16,492	-5.2%	60,049	57,183	51,508	5.0%	11.0%
Social taxes	1,110	1,742	-36.3%	6,894	6,938	6,270	-0.6%	10.7%
Property tax	394	393	0.3%	1,590	1,700	1,688	-6.5%	0.7%
Other	143	185	-22.7%	872	888	836	-1.8%	6.2%
<b>Total taxes other than income tax</b>	<b>17,276</b>	<b>18,812</b>	<b>-8.2%</b>	<b>69,405</b>	<b>66,709</b>	<b>60,302</b>	<b>4.0%</b>	<b>10.6%</b>

In the 4th quarter of 2013, taxes other than income tax decreased by 8.2% as compared to the 3rd quarter of 2013 and totalled 17,276 million roubles, which was related to a reduction in the mineral extraction tax rate, applying a regressive rate of social taxes and the disposal of UPC and BNSA.

In 2013 and 2012 taxes other than income tax increased by 4.0% and 10.6% respectively, which was related mainly to a higher mineral extraction tax rate.

## Export tariffs and excise

(million roubles)	4Q		3Q	12 months			Change, 2013 vs. 2012	Change, 2012 vs. 2011
	2013	2013		Change	2013	2012		
Export tariffs on crude oil	14,653	12,600	16.3%	51,859	56,030	43,062	-7.4%	30.1%
Export tariffs on petroleum products	18,733	19,872	-5.7%	71,769	52,698	52,634	36.2%	0.1%
Excise	9,431	9,831	-4.1%	36,627	35,579	28,633	2.9%	24.3%
<b>Total export duties and excises</b>	<b>42,817</b>	<b>42,303</b>	<b>1.2%</b>	<b>160,255</b>	<b>144,307</b>	<b>124,329</b>	<b>11.1%</b>	<b>16.1%</b>

In the 4th quarter of 2013, the total amount of export tariffs on oil and petroleum products increased by 2.8% as compared to the 3rd quarter of 2013 and reached 33,386 million roubles due to an increase in export sale volumes of crude oil and higher export duty rates.

In 2013 the total amount of export tariffs on oil and petroleum products increased by 13.7% as compared to 2012 due to an increase in export volumes of petroleum products outside the Customs Union.

In 2012 the total amount of export tariffs increased by 13.6% as compared to 2011 due to an increase in oil export volumes.

In the 4th quarter of 2013, the total amount of excise decreased by 4.1% as compared to the 3rd quarter of 2013 and totalled 9,431 million roubles due to a decline in domestic sale volumes.

In 2013 the total amount of excise increased by 2.9% as compared to 2012 mainly due to an increase in excise rates in 2013. This growth was partially offset by a reduction in sale volumes of petroleum products in Russia, as well as an increase in the share of high-octane gasoline and diesel fuel of higher grades taxed at lower rates in the Group's output as the Group's own petrol stations switched over completely to selling Euro 5 fuel in July 2012.

In 2012 the total amount of excises went up by 24.3% compared to the same period in 2011 due to an increase in excise rates.

## **CASH FLOW**

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

(million roubles)	4Q		3Q	Change	12 months			Change, 2013 vs. 2012	Change, 2012 vs. 2011
	2013	2013			2013	2012	2011		
<b>Cash flow</b>									
Net cash generated from operating activities	23,761	36,175	-34.3%	82,693	71,141	65,614	16.2%	8.4%	
Net cash generated from/(used in) investing activities	980	(8,599)	n/a	(25,860)	(39,160)	(29,519)	-34.0%	32.7%	
Net cash used in financing activities	(23,919)	(30,859)	-22.5%	(60,208)	(40,383)	(39,982)	49.1%	1.0%	

Net cash generated from operating activities:

(million roubles)	4Q		3Q	Change	12 months			Change, 2013 vs. 2012	Change, 2012 vs. 2011
	2013	2013			2013	2012	2011		
Operating cash flow before working capital changes	25,926	33,107	-21.7%	103,975	100,915	101,804	3.0%	-0.9%	
Movements in working capital less cash and cash equivalents	4,307	10,361	-58.4%	2,060	(3,148)	(7,799)	n/a	-59.6%	
Interest paid	(1,121)	(2,592)	-56.8%	(7,568)	(10,500)	(13,872)	-27.9%	-24.3%	
Income tax paid	(5,351)	(4,701)	13.8%	(15,774)	(16,126)	(14,519)	-2.2%	11.1%	
<b>Net cash generated from operating activities</b>	<b>23,761</b>	<b>36,175</b>	<b>-34.3%</b>	<b>82,693</b>	<b>71,141</b>	<b>65,614</b>	<b>16.2%</b>	<b>8.4%</b>	

In the 4th quarter of 2013, net cash generated from operating activities decreased by 34.3% as compared to the 3rd quarter of 2013 and totalled 23,761 million roubles. The main factor behind this change was a decrease in operating profit.

In 2013 net cash generated from operating activities increased by 16.2% as compared to 2012 and totalled 82,693 million roubles, which was related primarily to movements in working capital.

In 2012 net cash generated from operating activities increased by 8.4% to 71,141 million roubles due to a reduction in interest paid and movements in working capital.



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

(million roubles)	4Q		3Q	12 months			Change, 2013 vs. 2012	Change, 2012 vs. 2011
	2013	2013	Change	2013	2012	2011		
Capital expenditures	(7,452)	(8,707)	-14.4%	(30,441)	(30,789)	(25,007)	-1.1%	23.1%
Proceeds from disposal /(payments for acquisition) of financial assets, net	528	590	-10.5%	1,586	(8,743)	(3,975)	n/a	119.9%
Other	7,904	(482)	n/a	2,995	372	(537)	n/a	n/a
<b>Net cash generated from/(used in) investing activities</b>	<b>980</b>	<b>(8,599)</b>	<b>n/a</b>	<b>(25,860)</b>	<b>(39,160)</b>	<b>(29,519)</b>	<b>-34.0%</b>	<b>32.7%</b>

In the 4th quarter of 2013, net cash generated from investing activities totalled 980 million roubles. Proceeds included in the "Other" item include consideration received for the sale of interests in BNSA and LLC Financial Alliance.

In 2013 net cash used in investing activities decreased by 34.0% as compared to 2012 and amounted to 25,860 million roubles. The main factor that contributed to this change was proceeds from disposal of financial assets.

In 2012 net cash used in investing activities increased by 32.7% as compared to 2011 and amounted to 39,160 million roubles. This change was related to placement of available cash on deposit accounts in the 1st quarter of 2012 and the acquisition of licences in the 2nd quarter of 2012.

Net cash used in financing activities:

(million roubles)	4Q		3Q	12 months			Change, 2013 vs. 2012	Change, 2012 vs. 2011
	2013	2013	Change	2013	2012	2011		
Proceeds from borrowings	19,497	-	n/a	50,947	25,388	111,051	100.7%	-77.1%
Repayments of borrowings	(8,206)	(26,218)	-68.7%	(70,762)	(23,766)	(122,833)	197.7%	-80.7%
<b>Total issue and repayment of debt:</b>	<b>11,291</b>	<b>(26,218)</b>	<b>n/a</b>	<b>(19,815)</b>	<b>1,622</b>	<b>(11,782)</b>	<b>n/a</b>	<b>n/a</b>
Dividends paid	(37,842)	(4,640)	n/a	(42,497)	(18,344)	(27,315)	131.7%	-32.8%
Purchase of the Company's treasury shares	-	-	-	-	(15,697)	-	-100.0%	n/a
Payments for acquisition of non- controlling interests	15	(1)	n/a	(513)	(7,964)	-	-93.6%	n/a
Other	2,617	-	n/a	2,617	-	(885)	n/a	-100.0%
<b>Net cash used in financing activities</b>	<b>(23,919)</b>	<b>(30,859)</b>	<b>-22.5%</b>	<b>(60,208)</b>	<b>(40,383)</b>	<b>(39,982)</b>	<b>49.1%</b>	<b>1.0%</b>

In the 4th quarter of 2013, net cash used in financing activities amounted to 23,919 million roubles due to interim dividend payments.

In 2013 net cash used in financing activities totalled 60,208 million roubles, which was related to optimization of the loan portfolio and dividend payments.



## **FINANCING AND DEBT**

(million roubles)	31 30		Change	31 December			Change, 2013 vs. 2012	Change, 2012 vs. 2011
	December	September		2013	2012	2011		
<b>Net debt calculation</b>								
Short-term borrowings	11,914	15,037	-20.8%	11,914	32,007	13,532	-62.8%	136.5%
Long-term borrowings	78,902	65,197	21.0%	78,902	78,201	95,454	0.9%	-18.1%
<b>Total debt</b>	<b>90,816</b>	<b>80,234</b>	<b>13.2%</b>	<b>90,816</b>	<b>110,208</b>	<b>108,986</b>	<b>-17.6%</b>	<b>1.1%</b>
Cash and cash equivalents	(16,395)	(15,988)	2.5%	(16,395)	(20,104)	(28,354)	-18.4%	-29.1%
Short-term financial investments	(46)	(6,742)	-99.3%	(46)	(12,086)	(19,384)	-99.6%	-37.6%
<b>Adjusted net debt</b>	<b>74,375</b>	<b>57,504</b>	<b>29.3%</b>	<b>74,375</b>	<b>78,018</b>	<b>61,248</b>	<b>-4.7%</b>	<b>27.4%</b>

As of 31 December 2013, the total debt of the Group in the form of short-term and long-term borrowings amounted to 90,816 million roubles compared to 80,234 million roubles as of 30 September 2013. The increase in the total debt was related to a pre-export financing facility obtained by Bashneft from a group of international banks, which was partially offset by redemption of series BO-01 bonds.

As of 31 December 2013, the annual weighted average interest rate on loans stood at 6.1% compared to 7.8% as of 30 September 2013.

In the 1st quarter of 2012, the Group issued interest-bearing non-convertible bonds with a total value of 10 billion roubles and a maturity date in 2022. The annual coupon rate of the bonds equals 9.0%; the coupon is paid twice a year. The next revision of the coupon rate may take place in February 2015, at which point the bondholders have the right to redeem the bonds at par value.

In May 2013, in order to reduce debt servicing costs and diversify its loan portfolio, the Group concluded an agreement with a group of international banks to obtain a pre-export financing facility of up to 600 million US dollar. The loan was withdrawn in November. The interest rate is the dollar-denominated Libor 1M + 1.70%.

## **CAPITAL EXPENDITURES**

(million roubles)	4Q 3Q		Change	12 months			Change, 2013 vs. 2012	Change, 2012 vs. 2011
	2013	2013		2013	2012*	2011*		
<b>Capital expenditures</b>								
Exploration and production incl. development of the R. Trebs and A. Titov fields <sup>7</sup>	3,167	4,948	-36.0%	15,144	15,464	14,113	-2.1%	9.6%
	558	1,573	-64.5%	4,108	880	-	n/a	n/a
Refining and marketing	4,242	2,881	47.2%	13,582	14,298	8,462	-5.0%	69.0%
Other	43	878	-95.1%	1,715	1,027	2,432	67.0%	-57.8%
<b>Total cash used in capital expenditures</b>	<b>7,452</b>	<b>8,707</b>	<b>-14.4%</b>	<b>30,441</b>	<b>30,789</b>	<b>25,007</b>	<b>-1.1%</b>	<b>23.1%</b>

\* Comparable financial data on capital expenditure were revised as the petrochemical complex and oilfield service companies were separated into the Other segment.

In the 4th quarter of 2013, capital expenditures decreased by 14.4% as compared to the 3rd quarter of 2013 and totalled 7,452 million roubles due to increase in payables for construction and acquisition of Property, plant and equipment and the disposal of UPC and BNSA. This

<sup>7</sup> Capital expenditures on development of the R. Trebs and A. Titov fields are included in JSOC Bashneft's financial statements as the Company holds the licence for these fields. LLC Bashneft-Polyus provides JSOC Bashneft with construction services.

decrease was partially offset by an increase in capital expenditures in the Refining and Marketing segment related to construction of a hydrogen production unit.

In 2013 capital expenditures remained at the similar level as in 2012 and totalled 30,441 million roubles.

In 2012 capital expenditures increased by 23.1% as compared to 2011, which was related mainly to the acquisition of an office building in Moscow in 2012 and an increase in capital expenditures in the Refining and marketing and Exploration and production segments.

## **EVENTS SUBSEQUENT TO THE REPORTING PERIOD**

### **Approval of the reorganisation by the Extraordinary Meeting of Shareholders**

On 3 February 2014, at the Extraordinary Meeting of Shareholders (“EGM”) the reorganisation which was previously approved by the Board of Directors on 17 December 2013 was confirmed. On 25 March 2014 the Board of Directors of Bashneft has approved a report on the results of submission of buy-back requests by shareholders, who abstained or voted against the reorganisation at the EGM. According to the report, Bashneft will acquire 2,724,173 ordinary shares and 8,885,866 preferred shares of the Company for a total cash consideration of 17,869 million roubles due by 21 April 2014.

### **Acquisition of LLC Burneftegaz (“Burneftegaz”)**

In March 2014 the Group acquired a 100% interest in Burneftegaz, a company engaged in exploration and production of crude oil in the Tyumen District for a total cash consideration of approximately 1,000 million US dollar. The entity will be accounted for and consolidated in the consolidated financial statements of the Group from the effective date of acquisition.

### **Bank borrowings**

In March 2014 the Group obtained short-term unsecured fixed interest rate borrowings from a variety of lenders in the amount of 53,700 million roubles. The interest rate varies from 8.24% to 9.75% per annum.

