

Bashneft Group

**Interim Condensed
Consolidated Financial Statements
for the three and the six months ended
30 June 2014 (unaudited)**

BASHNEFT GROUP

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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 2014

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 Joint Stock Oil Company Bashneft (the "Company"), its subsidiaries and its structured entities (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 at 30 June 2014, its financial performance for the three and the six months then ended, cash flows and changes in equity for the six months then ended, in accordance with International Accounting Standard 34 *Interim Financial Reporting* ("IAS 34").

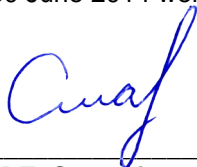
In preparing the interim condensed consolidated financial statements, management is responsible for:

- 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 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 legislation and accounting standards in the Russian Federation;
- 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 2014 were approved by:



M.E. Stavskiy
Acting on behalf of the President

Ufa, Russian Federation
25 August 2014



A.Y. Lisovenko
Chief Accountant

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

To the shareholders and Board of Directors of Joint Stock Oil Company Bashneft:

Introduction

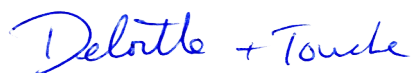
We have reviewed the accompanying interim condensed consolidated statement of financial position of Joint Stock Oil Company Bashneft and its subsidiaries (the "Group") as of 30 June 2014 and the related interim condensed consolidated statements of profit or loss and other comprehensive income for the 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 this interim condensed consolidated financial information 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 information consists of making inquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with International Standards on Auditing and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

Conclusion

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



Moscow, Russian Federation
25 August 2014

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INTERIM CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME FOR THE THREE AND THE SIX MONTHS ENDED 30 JUNE 2014 (UNAUDITED)

Millions of Russian roubles, except for earnings per share data

	Notes	Three months ended 30 June		Six months ended 30 June	
		2014	2013	2014	2013
Revenue	7	163,176	134,903	309,844	260,483
Export tariffs and excise		(46,546)	(38,558)	(93,142)	(75,135)
Cost of purchased crude oil, gas and petroleum products		(37,178)	(29,696)	(69,154)	(58,401)
Taxes other than income tax	8	(20,713)	(16,813)	(38,661)	(33,317)
Production and operating expenses		(17,343)	(15,301)	(31,575)	(27,760)
Transportation expenses		(8,053)	(7,552)	(15,128)	(14,311)
Depletion and depreciation		(5,730)	(4,724)	(10,785)	(9,135)
Selling, general and administrative expenses		(3,823)	(3,939)	(7,189)	(7,418)
Other operating expenses, net		(927)	(314)	(1,643)	(188)
Operating profit		22,863	18,006	42,567	34,818
Finance income	9	1,225	1,299	2,517	2,327
Finance costs	9	(3,340)	(2,520)	(5,275)	(5,256)
Foreign exchange (loss)/gain, net		(637)	368	(2,175)	599
Share of profit of associate and joint venture, net of income tax		119	272	59	143
Profit before income tax		20,230	17,425	37,693	32,631
Income tax	10	(4,362)	(4,157)	(7,881)	(7,341)
Profit for the period and total comprehensive income		15,868	13,268	29,812	25,290
Attributable to:					
Owners of the Company		15,855	13,162	29,814	25,154
Non-controlling interests		13	106	(2)	136
		15,868	13,268	29,812	25,290
EARNINGS PER SHARE					
Weighted average number of ordinary shares in issue during the period		148,611,817	157,085,505	152,825,253	157,085,505
Basic and diluted earnings per share attributable to shareholders of the parent company (Russian roubles per share)		90.58	69.01	163.06	131.88

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INTERIM CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION AT 30 JUNE 2014 (UNAUDITED) Millions of Russian roubles

	Notes	30 June 2014	31 December 2013
ASSETS			
Non-current assets			
Property, plant and equipment	11	337,958	277,369
Advances paid for acquisition of property, plant and equipment		953	805
Intangible assets		2,046	1,981
Financial assets	13	3,508	4,019
Investments in joint ventures	12	200	18,848
Long-term inventories		2,884	3,022
Other non-current assets		393	380
		347,942	306,424
Current assets			
Inventories		25,687	21,450
Financial assets	13	5,028	5,066
Trade and other receivables		32,396	27,317
Advances to suppliers and prepaid expenses		5,504	5,906
Income tax prepaid		184	289
Other taxes receivable		28,631	25,990
Cash and cash equivalents		57,480	16,395
		154,910	102,413
Assets classified as held for sale	5	-	38,962
TOTAL ASSETS		502,852	447,799
EQUITY AND LIABILITIES			
Capital and reserves			
Share capital	14	1,984	2,501
Treasury shares	5	(18,122)	(38,147)
Additional paid-in capital		73,834	72,682
Retained earnings		117,186	199,131
Equity attributable to owners of the Company		174,882	236,167
Non-controlling interests		3,752	155
		178,634	236,322
Non-current liabilities			
Loans and borrowings	15	140,525	78,902
Decommissioning provision		6,450	6,145
Deferred tax liabilities		39,200	33,489
Prepayment on oil products supply agreement	16	17,347	-
Other non-current liabilities	17	1,564	6,164
		205,086	124,700
Current liabilities			
Loans and borrowings	15	24,079	11,914
Trade and other payables		35,897	50,372
Dividends payable	14	36,006	275
Advances received		7,209	12,066
Provisions		692	895
Income tax payable		2,369	32
Other taxes payable		12,880	10,340
		119,132	85,894
Liabilities directly associated with assets classified as held for sale	5	-	883
TOTAL LIABILITIES		324,218	211,477
TOTAL EQUITY AND LIABILITIES		502,852	447,799

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INTERIM CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS FOR THE SIX MONTHS ENDED 30 JUNE 2014 (UNAUDITED)

Millions of Russian roubles

	Notes	Six months ended 30 June	
		2014	2013
OPERATING ACTIVITIES			
Profit before income tax		37,693	32,631
Adjustments for:			
Depletion and depreciation		10,785	9,135
Loss on disposal of property, plant and equipment		326	2
Finance income		(2,517)	(2,327)
Finance costs		5,275	5,256
Impairment of property, plant and equipment	11	38	126
Share of profit of associate and joint venture		(59)	(143)
Loss on disposal of subsidiaries		-	24
Foreign exchange loss/(gain), net		1,468	(140)
Change in provisions and allowances, net		454	755
Other, net		1,064	(377)
Operating cash flows before working capital changes		54,527	44,942
Movements in working capital:			
Inventories		(2,922)	(2,763)
Trade and other receivables		(3,296)	(3,154)
Advances to suppliers and prepaid expenses		929	101
Other taxes receivable		(187)	2,586
Trade and other payables		(3,571)	(648)
Advances received		(5,059)	(8,100)
Prepayment on oil products supply agreement	16	17,347	-
Other taxes payable		(367)	(630)
Cash generated from operations		57,401	32,334
Interest paid		(4,621)	(3,855)
Income tax paid		(5,658)	(5,722)
NET CASH GENERATED FROM OPERATING ACTIVITIES		47,122	22,757
INVESTING ACTIVITIES			
Payments for acquisition of property, plant and equipment		(18,811)	(14,282)
Proceeds from disposal of property, plant and equipment		18	1,025
Contributions to joint ventures		(2,961)	(7,393)
Repayment of contributions from joint-venture	12	3,133	-
Acquisition of subsidiaries, net of cash acquired	4	(36,084)	-
Disposal of structured entities and subsidiaries		(24)	(152)
Payments for acquisition of intangible assets		(382)	(188)
Payments for acquisition of financial assets		(346)	(11,093)
Proceeds from disposal of financial assets		469	11,561
Interest received		930	2,163
Dividends received		-	118
NET CASH USED IN INVESTING ACTIVITIES		(54,058)	(18,241)

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INTERIM CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS (CONTINUED) FOR THE SIX MONTHS ENDED 30 JUNE 2014 (UNAUDITED)

Millions of Russian roubles

	Notes	Six months ended 30 June	
		2014	2013
FINANCING ACTIVITIES			
Payments for acquisition of non-controlling interests in subsidiaries and structured entities		-	(527)
Purchase of treasury shares	5	(17,869)	-
Proceeds from loans and borrowings		94,344	31,450
Repayments of borrowings		(27,747)	(36,338)
Dividends paid by the Company		-	(15)
NET CASH GENERATED FROM/(USED IN) FINANCING ACTIVITIES		48,728	(5,430)
Net increase/(decrease) in cash and cash equivalents		41,792	(914)
Cash and cash equivalents at beginning of the period		16,395	20,104
Effect of exchange rate changes on the balance of cash and cash equivalents held in foreign currencies		(707)	459
Cash and cash equivalents at end of the period		57,480	19,649

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INTERIM CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY FOR THE SIX MONTHS ENDED 30 JUNE 2014 (UNAUDITED)

Millions of Russian roubles

	Notes	Share capital	Treasury shares	Additional paid-in capital	Retained earnings	Equity attributable to owners of the Company	Non-controlling interests	Total
Balance at 1 January 2013		2,501	(38,147)	83,651	194,975	242,980	4,928	247,908
Profit for the period		-	-	-	25,154	25,154	136	25,290
Total comprehensive income for the period		-	-	-	25,154	25,154	136	25,290
Dividends	14	-	-	-	(4,573)	(4,573)	(5)	(4,578)
Acquisition of additional interests in subsidiaries		-	-	-	490	490	(1,017)	(527)
Other equity transactions		-	-	102	(24)	78	(159)	(81)
Balance at 30 June 2013		2,501	(38,147)	83,753	216,022	264,129	3,883	268,012
Balance at 1 January 2014		2,501	(38,147)	72,682	199,131	236,167	155	236,322
Profit for the period		-	-	-	29,814	29,814	(2)	29,812
Total comprehensive income for the period		-	-	-	29,814	29,814	(2)	29,812
Dividends	14	-	-	-	(35,731)	(35,731)	-	(35,731)
Effect of reorganisation of CJSC Sistema-Invest and the Group	5	(517)	20,025	-	(76,028)	(56,520)	-	(56,520)
Non-controlling interests arising on change of control over LLC Bashneft-Polyus	4	-	-	-	-	-	27	27
Transfer of license on Trebs and Titov deposit to Bashneft-Polyus	17	-	-	1,152	-	1,152	3,616	4,768
Other equity transactions		-	-	-	-	-	(44)	(44)
Balance at 30 June 2014		1,984	(18,122)	73,834	117,186	174,882	3,752	178,634

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NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS FOR THE THREE AND THE SIX MONTHS ENDED 30 JUNE 2014 (UNAUDITED)

1. GENERAL INFORMATION

Organisation and operations

Joint Stock Oil Company Bashneft (the “Company” or “Bashneft”), its subsidiaries and structured entities (together referred to as the “Group” or the “Bashneft Group”) are primarily involved in oil production, refining, marketing and distribution of petroleum products in the Russian Federation. 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 2014 and 31 December 2013:

Company	Principal activities	Group’s effective interest	
		30 June 2014	31 December 2013
LLC Bashneft-Dobycha	Production of crude oil and gas	100%	100%
LLC Bashneft-Udmurtia	Petroleum products trading	100%	100%
LLC Burneftegaz ⁽¹⁾	Production of crude oil and gas	100%	n/a
LLC Bashneft-Polyus ⁽²⁾	Production of crude oil and gas	74.9%	n/a

⁽¹⁾ In March 2014 the Group acquired a 100% interest in LLC Burneftegaz (“Burneftegaz”), which is engaged in exploration and production of crude oil in the Tyumen District (refer to note 4).

⁽²⁾ In May 2014 the Company and OJSC Lukoil signed an amended agreement that transferred effective control over the operational and financial activities of LLC Bashneft-Polyus (“Bashneft-Polyus”) to the Company (refer to note 4).

At 30 June 2014, the Group had five structured entities (31 December 2013: six structured entities) which were established to provide supporting services to the Group and which are engaged in the supporting of production and refining of crude oil. Such structured entities have been consolidated.

JSFC Sistema (“Sistema”) is the controlling shareholder of Bashneft. The controlling shareholder of Sistema and the ultimate controlling party of Bashneft Group is Mr. Vladimir P. Evtushenkov.

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.

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NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS FOR THE THREE AND THE SIX MONTHS ENDED 30 JUNE 2014 (UNAUDITED)

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 2014 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 years ended 31 December 2013, 2012 and 2011, which have been prepared in accordance with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board.

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 years ended 31 December 2013, 2012 and 2011 except for amendments, related to application of new standards or interpretations described below.

Standards and interpretations effective in the current period

Several amendments including amended IAS 32 *Financial Instruments: Presentation*, IFRS 10 *Consolidated Financial Statements*, IFRS 12 *Disclosure of Interests in Other Entities*, IAS 27 *Separate Financial Statement*, IAS 36 *Impairment of assets*, IAS 39 *Financial instruments: Recognition and Measurement* and IFRIC 21 *Levies* were applied for the first time in these interim condensed consolidated financial statements. The application of these amendments did not result in significant changes to the Group's financial position or results of operations.

3. CRITICAL ACCOUNTING JUDGEMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY

The critical accounting judgements, estimates and assumptions made by management of the Group and applied in these interim condensed consolidated financial statements for the three and the six months ended 30 June 2014 are consistent with those applied in the preparation of annual consolidated financial statements of the Group for the years ended 31 December 2013, 2012 and 2011.

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NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS FOR THE THREE AND THE SIX MONTHS ENDED 30 JUNE 2014 (UNAUDITED)

Millions of Russian roubles

4. BUSINESS COMBINATIONS

LLC Burneftegaz

On 26 March 2014 the Group acquired a 100% interest in the outstanding charter capital of Burneftegaz, which is engaged in exploration and production of crude oil in the Tyumen District of the Russian Federation for total cash consideration of RUB 35,953 million.

The accounting for the acquisition of Burneftegaz has been provisionally determined at 26 March 2014.

At the date of acquisition, the provisional fair value of identifiable assets and liabilities of Burneftegaz was as follows:

	Provisional fair value at the acquisition date
ASSETS	
Property, plant and equipment	41,784
Advances paid for acquisition of property, plant and equipment	526
Inventories	293
Trade and other receivables	142
Advances to suppliers and prepaid expenses	110
Other taxes receivable	107
Cash and cash equivalents	208
Other assets	42
	43,212
LIABILITIES	
Deferred tax liabilities	(5,516)
Trade and other payables	(691)
Advances received	(185)
Other taxes payable	(478)
Borrowings	(363)
Other liabilities	(26)
	(7,259)
Fair value of net assets acquired	35,953
Cash consideration	35,953
Excess of the cost of acquisition over the Group's share in the fair value of net assets acquired	-
Net cash outflow arising on acquisition	
Consideration paid	35,953
Cash and cash equivalents acquired	(208)
Net cash outflow on acquisition	35,745

Burneftegaz contributed RUB 2,255 million of revenue, RUB 340 million of profit before tax and RUB 273 million of profit from the date of acquisition to 30 June 2014.

The Group's financial results if the combination had taken place at the beginning of the six months ended 30 June 2014 are not disclosed as Burneftegaz did not prepare standalone financial statements in accordance with IFRS before the acquisition.

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NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS FOR THE THREE AND THE SIX MONTHS ENDED 30 JUNE 2014 (UNAUDITED)

Millions of Russian roubles

LLC Bashneft-Polyus

Until 23 May 2014 Bashneft-Polyus was a joint venture between the Company and OJSC Lukoil established for the development of Trebs and Titov oil deposits. The Company holds 74.9% interest in the charter capital of Bashneft-Polyus.

On 23 May 2014 the Company and OJSC Lukoil agreed to change their participation agreement which substantially altered effective control over the operational and financial activities of Bashneft-Polyus in favour of the Company. At the date of acquisition of control, the fair value of identifiable assets and liabilities of Bashneft-Polyus was as follows:

	<u>Fair value at the acquisition date</u>
ASSETS	
Property, plant and equipment	11,644
Advances paid for acquisition of property, plant and equipment	46
Inventories	846
Trade and other receivables	15,436
Advances to suppliers and prepaid expenses	412
Other taxes receivable	2,351
Cash and cash equivalents	11
Other assets	2
	<u>30,748</u>
LIABILITIES	
Trade and other payables	(4,606)
Advances received	(17)
Other taxes payable	(2,232)
Borrowings from OJSC Lukoil and JSOC Bashneft	(23,334)
Deferred tax liabilities	(386)
Other liabilities	(67)
	<u>(30,642)</u>
Fair value of net assets obtained	<u>106</u>
Fair value of previously held share of investment in joint venture, net of loans from the Group treated as additional contribution to the joint venture	451
Non-controlling interests' share in fair value of net assets	<u>27</u>
Excess of the cost of acquisition over the Group's share in the fair value of net assets acquired, recognised in Other operating expenses, net	<u>372</u>
Net cash inflow arising on acquisition	
Cash and cash equivalents acquired	11
Net cash inflow on acquisition	<u>11</u>

Following the consolidation of Bashneft-Polyus, loans issued by the Group to Bashneft-Polyus in the amount of RUB 17,380 million at the date of acquisition, which were previously presented as an additional contribution to the joint-venture, were eliminated in full as intra-group balances.

Bashneft-Polyus contributed RUB 1,148 million of revenue, RUB 48 million of profit before tax and RUB 93 million of profit from the date of acquisition to 30 June 2014.

If the acquisition of control had taken place at the beginning of the six months ended 30 June 2014, the Group's revenue would have been RUB 311,457 million, profit for the six months would have been RUB 29,952 million.

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NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS FOR THE THREE AND THE SIX MONTHS ENDED 30 JUNE 2014 (UNAUDITED)

Millions of Russian roubles

Other acquisition

During the six months ended 30 June 2014 the Group also acquired a subsidiary in the Downstream segment for total cash consideration of RUB 350 million. The fair value of the net assets acquired approximated the consideration paid.

5. REORGANISATION OF CJSC SISTEMA-INVEST AND THE GROUP

On 3 February 2014 at an Extraordinary General Shareholders' Meeting of the Company, a reorganisation programme was approved involving establishment of CJSC Bashneft-Invest ("Bashneft-invest") through a spinoff from CJSC Sistema-Invest ("Sistema-invest") and its consolidation with Bashneft.

In April 2014 as part of the reorganisation of the Group, the Company acquired 2,724,173 of its own ordinary shares and 8,885,866 of its own preferred shares for total cash consideration of RUB 17,869 million.

Bashneft-invest was created on 5 May 2014 as a wholly owned subsidiary of the Company through a spinoff from Sistema-invest. Sistema-invest is a legal entity controlled by Sistema that owned equity interests in the Company, OJSC Ufaorgsintez and OJSC Bashkirian Power Grid Company. Bashneft's effective interest of 49.41% in the assets and liabilities of Sistema-invest were accounted for as held for sale from 31 December 2013. On the date of the spinoff Bashneft-invest effectively obtained 9,943,730 ordinary shares of the Company and legally acquired 28,196,195 ordinary shares previously recognised as assets effectively owned, but held by Sistema-invest. Those shares are accounted for as treasury shares in the financial statements of the Group at the date of the transaction. Additionally, Bashneft-invest assumed the liabilities that existed under the loan payable by Sistema-invest to the Company.

As a result of the reorganisation the Company no longer owns any shares in Sistema-invest.

The result from the reorganisation of Sistema-invest is summarised in the following table:

	<u>5 May 2014</u>
Decrease in assets classified as held for sale	(39,483)
Decrease in liabilities directly associated with assets classified as held for sale	<u>832</u>
Increase in treasury shares	<u><u>38,651</u></u>

On 6 May 2014 Bashneft-invest was legally merged with the Company. The reorganisation of the Group was completed on the date of the merger when the Company cancelled 38,139,925 ordinary shares and 8,885,866 preferred shares which were obtained through reorganisation of Sistema-invest and buy back transactions, respectively.

The result from the cancellation of treasury shares is:

	<u>6 May 2014</u>
Decrease in treasury shares	(76,545)
Decrease in share capital	<u>517</u>
Decrease in retained earnings	<u><u>(76,028)</u></u>

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NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS FOR THE THREE AND THE SIX MONTHS ENDED 30 JUNE 2014 (UNAUDITED)

Millions of Russian roubles

6. 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 and oil products on export and domestic markets.

The information about other subsidiaries and business units of the Company engaged in non-core activities, none of which meet the criteria for separate reporting, is presented as All other segments.

During the three and the six months ended 30 June 2013 the operations of OJSC United Petrochemical Company and its subsidiaries were included in the "Reconciling item" column below as the information about their operations was not included in the reports provided to the Board.

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

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

Information about the Group's reportable segments for the three months ended 30 June 2014 is as follows:

	<u>Upstream</u>	<u>Down-stream</u>	<u>All other segments</u>	<u>Eliminations</u>	<u>Consolidated</u>
External revenues	1,328	161,560	288	-	163,176
Inter-segment revenues	<u>51,567</u>	<u>357</u>	<u>1,157</u>	<u>(53,081)</u>	<u>-</u>
External expenses	(36,502)	(102,508)	(1,303)	-	(140,313)
Inter-segment expenses	<u>(337)</u>	<u>(52,252)</u>	<u>(53)</u>	<u>52,642</u>	<u>-</u>
Segment EBITDA	<u>18,584</u>	<u>10,179</u>	<u>269</u>	<u>(439)</u>	<u>28,593</u>
Depletion and depreciation					(5,730)
Finance income					1,225
Finance costs					(3,340)
Foreign exchange loss, net					(637)
Share of profit of joint venture, net of income tax					<u>119</u>
Profit before income tax					<u>20,230</u>
Income tax expense					<u>(4,362)</u>
Profit for the period					<u><u>15,868</u></u>

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Millions of Russian roubles

Information about the Group's reportable segments for the three months ended 30 June 2013 is as follows:

	<u>Upstream</u>	<u>Down-stream</u>	<u>All other segments</u>	<u>Recon-ciling item</u>	<u>Elimi-nations</u>	<u>Consoli-dated</u>
External revenues	202	128,494	1,693	4,514	-	134,903
Inter-segment revenues	36,587	2,605	5,790	944	(45,926)	-
External expenses	(25,365)	(83,873)	(4,904)	(2,755)	-	(116,897)
Inter-segment expenses	(2,958)	(37,378)	(2,609)	(2,212)	45,157	-
Segment EBITDA	9,682	12,184	705	928	(769)	22,730
Depletion and depreciation						(4,724)
Finance income						1,299
Finance costs						(2,520)
Foreign exchange gain, net						368
Share of profit of associate and joint venture, net of income tax						272
Profit before income tax						17,425
Income tax expense						(4,157)
Profit for the period						13,268

Information about the Group's reportable segments for the six months ended 30 June 2014 is as follows:

	<u>Upstream</u>	<u>Down-stream</u>	<u>All other segments</u>	<u>Eliminations</u>	<u>Consoli-dated</u>
External revenues	2,411	306,832	601	-	309,844
Inter-segment revenues	98,465	1,351	2,293	(102,109)	-
External expenses	(66,833)	(197,758)	(2,686)	-	(267,277)
Inter-segment expenses	(1,018)	(100,553)	(99)	101,670	-
Segment EBITDA	37,680	15,633	478	(439)	53,352
Depletion and depreciation					(10,785)
Finance income					2,517
Finance costs					(5,275)
Foreign exchange loss, net					(2,175)
Share of profit of joint venture, net of income tax					59
Profit before income tax					37,693
Income tax expense					(7,881)
Profit for the period					29,812

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Information about the Group's reportable segments for the six months ended 30 June 2013 is as follows:

	Upstream	Down-stream	All other segments	Recon-ciling item	Elimi-nations	Consoli-dated
External revenues	705	248,145	3,423	8,210		260,483
Inter-segment revenues	77,011	4,989	10,484	2,126	(94,610)	-
External expenses	(46,669)	(164,953)	(8,994)	(5,049)		(225,665)
Inter-segment expenses	(7,050)	(77,537)	(4,806)	(4,327)	93,720	-
Segment EBITDA	26,962	15,111	990	1,780	(890)	43,953
Depletion and depreciation						(9,135)
Finance income						2,327
Finance costs						(5,256)
Foreign exchange gain, net						599
Share of profit of associate and joint venture, net of income tax						143
Profit before income tax						32,631
Income tax expense						(7,341)
Profit for the period						25,290

Substantially all of the Group's operations are conducted in the Russian Federation. Therefore, the Group has not presented any geographical 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	
	2014	2013	2014	2013
Export outside the Customs Union	88,586	74,062	181,785	145,302
Russian Federation	70,924	55,155	120,396	106,020
Export to countries of the Customs Union	3,666	5,686	7,663	9,161
Total	163,176	134,903	309,844	260,483

7. REVENUE

	Three months ended 30 June		Six months ended 30 June	
	2014	2013	2014	2013
Petroleum products	122,981	107,275	229,175	203,156
Crude oil	38,081	24,721	76,728	51,799
Other revenue	2,114	2,907	3,941	5,528
Total	163,176	134,903	309,844	260,483

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8. TAXES OTHER THAN INCOME TAX

	Three months ended 30 June		Six months ended 30 June	
	2014	2013	2014	2013
Mineral extraction tax	18,671	14,085	34,524	27,928
Contributions to Pension Fund of the Russian Federation	1,046	1,504	2,167	3,067
Property tax	410	359	792	803
Other social contributions	357	569	748	975
Other taxes	229	296	430	544
Total	20,713	16,813	38,661	33,317

9. FINANCE INCOME AND FINANCE COSTS

	Three months ended 30 June		Six months ended 30 June	
	2014	2013	2014	2013
Finance income				
Interest income on loans, promissory notes and bonds	703	729	1,627	1,377
Interest income on cash and deposits	522	452	890	832
Dividends income	-	118	-	118
Total	1,225	1,299	2,517	2,327
Finance costs				
Interest expense on borrowings	3,163	2,313	4,922	4,839
Unwinding of discount	152	196	305	393
Other accretion expenses	25	11	48	24
Total	3,340	2,520	5,275	5,256

10. INCOME TAX

	Three months ended 30 June		Six months ended 30 June	
	2014	2013	2014	2013
Current period income tax expense	5,853	4,058	8,088	7,057
Adjustments relating to current income tax of prior years	6	(5)	14	(2)
Current income tax expense	5,859	4,053	8,102	7,055
Deferred tax (benefit)/expense	(1,497)	104	(221)	286
Income tax expense	4,362	4,157	7,881	7,341

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11. PROPERTY, PLANT AND EQUIPMENT

	Six months ended 30 June	
	2014	2013
Cost		
Balance at the beginning of the period	356,736	351,779
Acquisitions of subsidiaries	53,832	348
Disposal of structured entity	(1)	-
Constructions and additions	17,860	21,158
Disposals	(1,685)	(1,701)
Balance at the end of the period	426,742	371,584
Accumulated depletion, depreciation and impairment		
Balance at the beginning of the period	(79,367)	(74,630)
Charge for the period	(10,720)	(9,074)
Disposals	1,341	674
Impairment	(38)	(126)
Balance at the end of the period	(88,784)	(83,156)
Net book value		
At the beginning of the period	277,369	277,149
At the end of the period	337,958	288,428

12. INVESTMENTS IN JOINT VENTURES

	Six months ended 30 June 2014
Balance at the beginning of the period	18,848
Establishment of LLC Vostok NAO Oil Company	200
Repayment of contributions from Bashneft-Polyus	(3,133)
Additional contributions to Bashneft-Polyus	2,012
Obtaining of control over Bashneft-Polyus (refer to note 4)	(17,831)
Group's share of gain eliminated on transaction with joint venture	45
Share of profit for the period	59
Balance at the end of the period	200

In May 2014 the Group and LLC Lukoil-Komi established a joint venture, LLC Vostok NAO Oil Company, to conduct geological exploration and prospecting and produce hydrocarbons in the Nenets Autonomous District. The Group and LLC Lukoil-Komi have equal 50.0% stake in this joint venture.

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13. FINANCIAL ASSETS

	30 June 2014	31 December 2013
Non-current investments		
Loans given, at amortised cost	3,504	3,506
Deposits	4	-
Available-for-sale investment in Ufaorgsintez	-	423
Derivative financial instruments	-	90
Total	3,508	4,019
Current investments		
Loans given, at amortised cost	5,028	5,020
Deposits	-	46
Total	5,028	5,066

14. SHARE CAPITAL

Authorised, issued and fully paid share capital

	30 June 2014	31 December 2013
150,570,662 (31 December 2013: 188,710,587) ordinary shares with a par value of RUB 1.00	1,656	2,076
29,788,012 (31 December 2013: 38,673,878) preferred shares with a par value of RUB 1.00	328	425
Total	1,984	2,501

As a result of the Group reorganisation on 6 May 2014 (refer to note 5) the Company cancelled 38,139,925 ordinary and 8,885,866 preferred shares which obtained through reorganisation of Sistema-invest and buy back transactions in 2014, respectively.

Treasury shares

At 30 June 2014 the number of treasury shares was 11,017,228 shares (31 December 2013: 36,647,659 shares).

Dividends

On 27 June 2013, the Company declared a dividend of RUB 24 per ordinary and preferred share amounting to RUB 5,324 million. A part of the dividend declared was attributable to the companies of the Group.

On 10 June 2014, the Company declared a dividend of RUB 211 per ordinary and preferred share amounting to RUB 37,481 million. A part of the dividend declared was attributable to the companies of the Group. At 30 June 2014 dividends payable equaled RUB 36,006 million.

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15. LOANS AND BORROWINGS

	30 June 2014		31 December 2013	
	Rate, %	Outstanding balance	Rate, %	Outstanding balance
Non-current liabilities				
Unsecured fixed interest rate loans and borrowings	8.00%-10.55%	86,209	8.35%-8.85%	19,984
Unsecured non-convertible bonds issued in February 2013	8.65%-8.85%	29,964	8.65%-8.85%	29,960
Unsecured non-convertible bonds issued in May 2014	10.70%	10,000	-	-
Secured floating rate borrowings	Libor 1M+1.70%	9,079	Libor 1M+ 1.70%	13,697
Unsecured non-convertible bonds issued in December 2009	8.35%	5,273	8.35%	5,269
Unsecured non-convertible bonds issued in February 2012	-	-	9.0%	9,992
Total		140,525		78,902
Current liabilities				
Current portion of secured floating rate borrowings	Libor 1M+ 1.55%-1.70%	10,871	Libor 1M+ 1.55%-1.70%	8,904
Unsecured non-convertible bonds issued in February 2012	9.00%	9,995	-	-
Unsecured non-convertible bonds issued in December 2011	0.10%	3,014	0.10%	3,010
Unsecured floating rate loan	MosPrime	199	-	-
Total		24,079		11,914

Unsecured non-convertible bonds

In May 2014 the Group issued 10,000,000 non-convertible RUB-denominated bonds at a par value of RUB 1,000 and maturity in May 2024. These bonds have a coupon rate 10.7% per annum from the date of issuance to November 2018 payable semi-annually. Subsequent coupon rates are to be determined in November 2018 at which point the bondholders have the right to redeem the bonds at par value.

Unsecured fixed interest rate loans and borrowings

At 30 June 2014, unsecured fixed interest rate loans and borrowings were denominated in RUB and were obtained from a variety of lenders. The loans and borrowings mature from 2016 through 2019 (31 December 2013: denominated in RUB with maturity from 2016 through 2019).

16. PREPAYMENT ON OIL PRODUCTS SUPPLY AGREEMENT

In April 2014 the Company entered into a long-term oil products supply agreement and subsequently received an advance of US Dollar 500 million (RUB 17,347 million). The total minimum delivery volume approximates 3,150 thousand tons of oil products in the period from the date of the contract to July 2019.

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

The prepayments will be reimbursed starting from 2016. The Group considers this agreement to be a regular way sale contract which was entered into for the purpose of the delivery of a non-financial item in accordance with the Company's expected sale requirements.

The outstanding balance is subject to interest at LIBOR + 1.5% per annum.

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17. OTHER NON-CURRENT LIABILITIES

	30 June 2014	31 December 2013
Defined benefit obligation	1,314	1,216
Constructive obligation to OJSC Lukoil	-	4,768
Other non-current liabilities	250	180
Total	1,564	6,164

Constructive obligation to OJSC Lukoil

In 2012 as a result of the Federal Agency for Subsoil Use ("Rosnedra") order Trebs and Titov oilfield license was transferred to the Company from Bashneft-Polyus, which was a joint venture of the Group and OJSC Lukoil. As a result of that the license with a carrying value of RUB 18,490 million was recognised at Bashneft with the corresponding decrease in the investment in Bashneft-Polyus. Cash consideration in the amount of RUB 4,768 million paid to the Group by OJSC Lukoil for 25.1% shares of Bashneft-Polyus was recognised in other non-current liabilities as a constructive obligation.

On 23 May 2014, as a result of the Rosnedra's order Trebs and Titov oilfield license was transferred from Bashneft to its subsidiary Bashneft-Polyus. This transaction resulted in an increase in non-controlling interests in the amount of RUB 3,616 million with the corresponding decrease in constructive obligation to OJSC Lukoil in the amount of RUB 4,768 million. As a result of this transaction the Group recognised a gain in the amount of RUB 1,152 million within Additional paid-in Capital in the interim condensed consolidated statement of changes in equity.

18. RELATED PARTIES

At 30 June 2014 and 31 December 2013, the Group had the following outstanding balances with related parties:

	Amount owed by related parties	
	30 June 2014	31 December 2013
Other Sistema Group companies	21,781	15,754
Sistema-invest	-	30,166
Joint venture of the Group	-	402
Total	21,781	46,322

	Amount owed to related parties	
	30 June 2014	31 December 2013
Other Sistema Group companies	29,290	5,290
Sistema-invest	4,061	655
Joint ventures of the Group	200	16,922
Total	33,551	22,867

The amounts outstanding were unsecured and are 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.

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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 related parties:

	Three months ended 30 June		Six months ended 30 June	
	2014	2013	2014	2013
Sistema-invest				
Dividends declared	4,061	702	4,061	702
Loans issued	-	6,886	-	10,024
Proceeds from repayment of loans issued	-	4,636	-	5,856
Dividends received	-	117	-	117
Interest income	139	259	519	502
Other Sistema Group companies and its affiliates				
Dividends declared	24,037	2,739	24,037	2,739
Cash placed on bank deposits	-	106	-	137
Proceeds from repayment of bank deposits	-	3,981	-	3,996
Sale of goods and services	4,113	110	7,859	250
Purchase of goods and services	5,665	4,159	10,881	8,214
Purchase of property and construction services	2,145	40	3,652	99
Interest income	236	288	401	552
Proceeds from short-term borrowing	901	-	901	-
Repayment of short-term borrowing	901	-	901	-
Dividends received	-	1	-	1
Associate and joint venture of the Group				
Sale of goods and services	130	628	307	1,628
Construction services and purchase of property	1,098	8,023	2,903	8,030
Purchase of goods and services	497	348	1,174	809
Loans received from joint venture	199	-	199	-
Interest expense	1	-	1	-
Interest income	222	256	565	434

Compensation of key management personnel

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

	Three months ended 30 June		Six months ended 30 June	
	2014	2013	2014	2013
Wages and salaries	178	217	344	421
Phantom shares granted	124	167	258	308
Termination bonuses	4	-	4	4
Total	306	384	606	733

At 30 June 2014, outstanding balances in respect of wages and salaries of key management personnel were RUB 251 million (31 December 2013: RUB 574 million).

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19. FAIR VALUE OF FINANCIAL INSTRUMENTS

The fair value of financial assets and liabilities is determined as follows:

- The fair value of financial assets and financial liabilities with standard terms and conditions and traded on active liquid markets are determined with reference to quoted market prices;
- The fair value of other financial assets and financial liabilities are determined in accordance with generally accepted pricing models based on discounted cash flow analysis using prices from observable current market transactions; and
- The fair value of derivative financial instruments is based on market quotes.

At 30 June 2014 and 31 December 2013 management believes that the carrying values of all significant financial assets and financial liabilities recorded at amortised cost in the consolidated financial statements approximated their fair values, except for the unsecured non-convertible bonds with carrying value of RUB 58,299 million and fair value RUB 57,264 million (31 December 2013: carrying value of RUB 48,299 million and fair value RUB 48,740 million) and unsecured fixed interest rate borrowings obtained in 2013 and earlier with carrying value of RUB 20,000 million and fair value RUB 19,117 million.

Management believes that the carrying value of financial assets and liabilities approximated their fair values due to (i) their short-term nature for current financial assets and liabilities, (ii) the fact that interest rates on loans receivable approximate current market rates for similar debt instruments, and (iii) the fact that the interest rates on long-term liabilities approximate the current market rates for similar instruments as the majority of loans and borrowings which were obtained in 2014.

At 30 June 2014 assets and liabilities of the Group that are measured at fair value in accordance with the fair value hierarchy were as follows:

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Current liabilities				
Derivative financial instruments	-	(452)	-	(452)
Total	<u>-</u>	<u>(452)</u>	<u>-</u>	<u>(452)</u>

At 31 December 2013 assets and liabilities of the Group that are measured at fair value in accordance with the fair value hierarchy were as follows:

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Non-current assets				
Available-for-sale investment	-	-	423	423
Derivative financial instruments	-	90	-	90
Total	<u>-</u>	<u>90</u>	<u>423</u>	<u>513</u>

20. COMMITMENTS AND CONTINGENCIES

Capital commitments

At 30 June 2014, contractual capital commitments of the Group amounted to RUB 55,374 million. Included in total capital commitments is RUB 35,948 million of capital commitments in respect to drilling services based on the Group's capital construction programme, which is re-evaluated on an annual basis.

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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 extraction, refining, marketing and distribution and other facilities are located on land under operating leases, which expire in various years through 2062.

The amount of rental expenses for the three months ended 30 June 2014 were RUB 318 million (for the three months ended 30 June 2013: RUB 436 million) and for the six months ended 30 June 2014 were RUB 622 million (for the six months ended 30 June 2013: RUB 808 million).

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

	<u>30 June 2014</u>	<u>31 December 2013</u>
Due in one year	977	936
Due from one to five years	2,709	2,972
Thereafter	<u>12,572</u>	<u>11,972</u>
Total	<u>16,258</u>	<u>15,880</u>

Taxation contingencies in the Russian Federation

The taxation system in the Russian Federation is at a relatively early stage of development, and is characterised by numerous taxes, frequent changes and inconsistent enforcement at federal, regional and local levels.

The government of the Russian Federation has commenced a revision of the Russian tax system and passed certain laws implementing tax reform. The new laws reduce the number of taxes and overall tax burden on businesses and simplify tax litigation. However, these new tax laws continue to rely heavily on the interpretation of local tax officials and fail to address many existing problems. Many issues associated with practical implication of new legislation are unclear and complicate the Group's tax planning and related business decisions.

In terms of Russian tax legislation, authorities have a period of up to three years to re-open tax declarations for further inspection. Changes in the tax system that may be applied retrospectively by authorities could affect the Group's previously submitted and assessed tax declarations.

While management believes that it has adequately provided for tax liabilities based on its interpretation of current and previous legislation, the risk remains that tax authorities in the Russian Federation could take differing positions with regard to interpretive issues. This uncertainty may expose the Group to additional taxation, fines and penalties that could be significant.

Legal contingencies

At 30 June 2014, unresolved legal claims against the Group amounted to RUB 117 million (31 December 2013: RUB 151 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.

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Insurance

The Group does not have full coverage for property damage or loss, for business interruption and third party liabilities in respect of damage on the Group's property or relating to the Group's operations. Until the Group obtains adequate insurance coverage, there is a risk that losses relating to such matters 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 Russian Federation are subject to different risks than more developed markets, including economic, political and social, and legal and legislative risks. As has happened in the past, actual or perceived financial problems or an increase in the perceived risks associated with investing in emerging economies could adversely affect the investment climate in Russian Federation and the country's economy in general.

Laws and regulations affecting businesses in the Russian Federation continue to change rapidly. Tax, currency and customs legislation within the country are subject to varying interpretations, and other legal and fiscal impediments contribute to the challenges faced by entities currently operating in Russia. The future economic direction of the Russian Federation is heavily influenced by the economic, fiscal and monetary policies adopted by the government, together with developments in the legal, regulatory, and political environment.

The global financial system continues to exhibit signs of deep stress and many economies around the world are experiencing lesser or no growth than in prior years. Additionally there is increased uncertainty about the creditworthiness of some sovereign states in the Eurozone and financial institutions with exposure to the sovereign debt of such states. These conditions could slow or disrupt Russia's economy, adversely affect the Group's access to capital and cost of capital for the Group and, more generally, its business, results of operations, financial condition and prospects.

Because Russia produces and exports large volumes of oil and gas, country's economy is particularly sensitive to the price of oil and gas on the world market.

Starting from March 2014, sanctions have been imposed in several packages by the U.S. and E.U. on certain Russian officials, businessmen and companies. In addition, in April 2014 credit agency Standard & Poor's downgraded Russia's long-term foreign currency sovereign rating from BBB to BBB- with a negative outlook. Previously, Fitch credit agency has also revised Russia's creditworthiness outlook from stable to negative. These events, including official sanctions, particularly if further extended, may adversely affect the Russian economy through reduced access of the Russian businesses to international capital and export markets, capital flight, weakening of the Ruble and other negative economic consequences. The impact of these developments on the operations and financial position of the Company is at this stage difficult to predict.

21. EVENTS SUBSEQUENT TO THE REPORTING PERIOD

Business combinations

In July and August 2014 Bashneft through a series of transactions acquired 100% stakes in five legal entities which operate a network of petrol stations under the "Optan" brand for a total cash consideration of approximately RUB 7.8 billion. These entities will be accounted for and consolidated in the consolidated financial statements of the Group from the effective dates of acquisition. At the date of authorisation of these interim condensed consolidated financial statements the Group does not have sufficiently reliable information to present summary financial information for the acquired entities.

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Legal contingencies

On 7 July 2014 Moscow's arbitration court received a claim from a minority shareholder of the Company, against the Company and Rosnedra, requesting that the decision of the Company's Board of Directors on reissuing the license from the Company to Bashneft-Polyus, as well as changes made by Rosnedra to license agreement, to be declared invalid. The hearing of this case is still ongoing and at the stage the Group is unable to evaluate the potential outcome.

Restrictions on transactions with the shares of the Company

On 23 July 2014 the controlling shareholder, Sistema and its 100% subsidiary Sistema-invest received notification from OJSC Reestr, the Company's registrar, about restrictions on transactions with the shares of the Company. These restrictions do not limit Sistema's voting rights, rights to receive dividends or any other shareholder rights.