



BASHNEFT
JOINT STOCK OIL COMPANY

**Management's analysis of the financial position and
operating results of Bashneft Group for the three months
ended 30 June and 31 March 2014 and for the six months
ended 30 June 2014 and 2013**



This report contains an overview of the financial position and operating results of JSOC Bashneft and includes operating results of Bashneft Group for the six months ended 30 June 2014. 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.



OVERVIEW

Bashneft Group is one of Russia's leading vertically integrated oil companies involved in crude oil production and refining, as well as in selling 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, the Tyumen Region and the Republic of Tatarstan. 173 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. During the six months ended 30 June 2014, production at the developed licence areas totalled 8.5 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.

During the six months ended 30 June 2014, the Group's refineries processed 10.8 million tonnes of hydrocarbons. Refining depth averaged 84.9%, which is one of the best results among Russian vertically integrated oil companies.

During the six months ended 30 June 2014, Bashneft Group sold 5.0 million tonnes of petroleum products on the domestic market and exported 4.7 million tonnes of petroleum products. The Group also sold 3.3 million tonnes of crude oil, including 2.8 million tonnes of exported crude oil.

As of 30 June 2014, Bashneft Group's retail network comprised 487 operating petrol stations and 279 partner petrol stations operating under the Bashneft brand name.

KEY FINANCIAL AND OPERATING RESULTS

	2Q		Change	1H		Change
	2014	2014		2014	2013	
Revenue (million roubles)	163,176	146,668	11.3%	309,844	260,483	18.9%
EBITDA (million roubles)	28,593	24,759	15.5%	53,352	43,953	21.4%
Adjusted EBITDA (million roubles) ¹	29,520	25,475	15.9%	54,995	44,141	24.6%
Operating profit (million roubles)	22,863	19,704	16.0%	42,567	34,818	22.3%
Profit for the period attributable to the owners of the parent company (million roubles)	15,855	13,959	13.6%	29,814	25,154	18.5%
Net debt (million roubles)	107,124	114,024	-6.1%	107,124	77,839	37.6%
Oil production (thousand tonnes)	4,374	4,115	6.3%	8,489	7,768	9.3%
Oil refining (thousand tonnes)	5,481	5,318	3.1%	10,799	10,501	2.8%

Major events during the six months of 2014 that had an impact on the performance of Bashneft Group:

- On 3 February 2014, the Extraordinary General Meeting of Shareholders (EGMS) of Bashneft approved the decision on reorganization approved by the Board of Directors on 17 December 2013. On 25 March 2014, the Board of Directors of Bashneft approved the report on the results of submission of buyback requests by shareholders who abstained or voted against the reorganization at the EGMS. In April 2014, as part of the reorganization of the Group, Bashneft bought back 2,724,173 own ordinary shares and 8,885,866 own preferred shares for a total cash consideration of 17,869 million roubles. The reorganization was completed on 6 May 2014, when the Company cancelled 38,139,925 ordinary shares and 8,885,866 preferred shares which were obtained through reorganisation of CJSC Sistema-invest and buy back transactions, respectively;
- In March 2014, the Group completed the acquisition of a 100% stake in LLC Promenergoresurs, which owns a network of five petrol stations operating under the Red Oil brand name and seven land plots located in Magnitogorsk, a large industrial city in the Chelyabinsk Region;
- In March 2014, the Group acquired 100% of outstanding interest of LLC Burneftegaz, an exploration and production company based in the Tyumen Region, for a total cash consideration of 35,953 million roubles;
- In May 2014, the Group and OJSC Lukoil signed an agreement under which effective control over operational and financial activities of LLC Bashneft-Polyus was transferred to the Group;
- In May 2014, as a result of the Federal Agency for Subsoil Use (Rosnedra) order Trebs and Titov oilfield license was transferred from Bashneft to its subsidiary LLC Bashneft-Polyus;

¹ 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)	2Q		Change	1H		Change
	2014	2014		2014	2013	
EBITDA	28,593	24,759	15.5%	53,352	43,953	21.4%
Other operating expenses, net	927	716	29.5%	1,643	188	n/a
Adjusted EBITDA	29,520	25,475	15.9%	54,995	44,141	24.6%

- In May 2014, Bashneft and LLC Lukoil-Komi set up a new joint venture, LLC Vostok NAO Oil Company, to conduct geological exploration and prospecting and produce hydrocarbons at the companies' licence areas in the Nenets Autonomous District;
- In June 2014, the General Meeting of Shareholders of Bashneft decided to pay dividends for 2013 amounting to 211 roubles per share;
- In June 2014, Bashneft started pilot operation of a catalytic cracking gasoline hydrotreater at the Bashneft-UNPZ Branch. The catalytic cracking gasoline hydrotreater is the latest large-scale project forming part of the programme to upgrade Bashneft's refining complex in Ufa; the project is aimed at ensuring compliance with the requirements of the Technical Regulations for fuel quality. The launch of the hydrotreater will enable the Group to completely switch over to producing ultra-low sulphur gasoline meeting Euro 5 emission standards, with sulphur content totalling less than 10 ppm (0.001%).



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 of oil production profitability of the Group, which, in turn, 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.

	2Q	1Q		1H		
	2014	2014	Change	2014	2013	Change
Prices for crude oil and petroleum products²						
Brent crude oil (US\$ per barrel)	109.7	108.2	1.4%	108.9	107.5	1.3%
Brent crude oil (roubles per barrel)	3,838	3,783	1.5%	3,810	3,334	14.3%
Urals crude oil (US\$ per barrel)	108.0	106.8	1.1%	107.4	106.7	0.7%
Urals crude oil (roubles per barrel)	3,781	3,734	1.3%	3,757	3,309	13.5%
Fuel oil (average FOB Rotterdam/CIF NWE) (US\$ per tonne)	576.0	571.4	0.8%	572.5	596.7	-4.1%
Fuel oil (average FOB Rotterdam/CIF NWE) (roubles per tonne)	20,159	19,975	0.9%	20,025	18,507	8.2%
Diesel fuel (average FOB Rotterdam/CIF NWE) (US\$ per tonne)	909.1	914.1	-0.5%	911.7	913.3	-0.2%
Diesel fuel (average FOB Rotterdam/CIF NWE) (roubles per tonne)	31,819	31,957	-0.4%	31,889	28,327	12.6%
Naphtha (average FOB Rotterdam/CIF NWE) (US\$ per tonne)	936.9	916.9	2.2%	924.5	887.6	4.2%
Naphtha (average FOB Rotterdam/CIF NWE) (roubles per tonne)	32,790	32,053	2.3%	32,340	27,530	17.5%
Vacuum gas oil (FOB NWE) (US\$ per tonne)	776.5	784.9	-1.1%	781.2	768.6	1.6%
Vacuum gas oil (FOB NWE) (roubles per tonne)	27,176	27,438	-1.0%	27,327	23,841	14.6%
Russian market (roubles per tonne, with excises, net of VAT)³						
Crude oil	12,164	11,607	4.8%	11,886	10,103	17.6%
Fuel oil	9,923	8,663	14.5%	9,293	8,418	10.4%
Diesel fuel (summer gasoil)	27,275	25,875	5.4%	26,575	24,526	8.4%
Diesel fuel (winter gasoil)	28,469	28,806	-1.2%	28,638	27,137	5.5%
High-octane gasoline	30,080	28,335	6.2%	29,207	25,820	13.1%
Low-octane gasoline	28,683	27,101	5.8%	27,892	25,113	11.1%

² Source: Platts.

³ 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 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 performance of Bashneft Group; the inflation rate affects both capital and operating expenses of the Group.

	2Q	1Q	Change	1H		Change
	2014	2014		2014	2013	
Rouble inflation (Consumer Price Index) during the stated periods ⁴	2.5%	2.3%	0.2 p.p.	4.8%	3.5%	1.3 p.p.
Rouble/US dollar exchange rate at the end of the period	33.6	35.7	-5.9%	33.6	32.7	2.8%
Rouble/US dollar exchange rate, period average	35.0	35.0	0.0%	35.0	31.0	12.9%

Taxation

Price fluctuations on the global market affect export duties and the mineral extraction tax.

	2Q	1Q	Change	1H		Change
	2014	2014		2014	2013	
Mineral extraction tax (roubles per tonne)						
Crude oil	6,135	6,078	0.9%	6,107	5,104	19.7%
Export duty (US\$ per tonne)						
Crude oil	382.6	390.7	-2.1%	386.6	393.1	-1.7%
Gasoline	344.4	351.6	-2.0%	347.9	353.8	-1.7%
Light and medium distillates	252.6	257.8	-2.0%	255.2	259.4	-1.6%
Fuel oil	252.6	257.8	-2.0%	255.2	259.4	-1.6%
Export duty (roubles per tonne)						
Crude oil	13,392	13,659	-2.0%	13,525	12,192	10.9%
Gasoline	12,052	12,291	-1.9%	12,171	10,974	10.9%
Light and medium distillates	8,838	9,013	-1.9%	8,925	8,047	10.9%
Fuel oil	8,838	9,013	-1.9%	8,925	8,047	10.9%

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

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

⁴ Source: Federal State Statistics Service (Rosstat).

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 the six months ended 30 June 2014 are 33% lower than the current mineral extraction tax rate due to the fact that:

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

	2Q	1Q		1H		
	2014	2014	Change	2014	2013	Change
Mineral extraction tax						
Current mineral extraction tax rates (roubles per barrel)	840.4	832.6	0.9%	836.6	699.2	19.7%
Actual mineral extraction tax expenses (roubles per barrel)	570.9	555.4	2.8%	563.4	501.3	12.4%



OPERATING RESULTS

Production

	2Q	1Q	Change	1H		Change
	2014	2014		2014	2013	
Oil production (thousand tonnes)	4,374	4,115	6.3%	8,489	7,768	9.3%
including at the R. Trebs and A. Titov fields	184	177	4.0%	361	-	n/a
Including at the fields of Burneftegaz Group	165	9	n/a	174	-	n/a
Daily average production of crude oil (thousand barrels per day)	350.9	332.9	5.4%	349.3	313.3	11.5%

In the 2nd quarter of 2014, crude oil production increased by 6.3% compared to the 1st quarter of 2014 and totalled 4,374 thousand tonnes due to the acquisition of Burneftegaz Group at the end of the 1st quarter of 2014 and an increased amount of highly efficient geological and engineering operations performed at the Group's brownfields.

During the six months ended 30 June 2014, production increased by 9.3% compared to the same period in 2013 and amounted to 8,489 thousand tonnes due to the start of production at the R. Trebs field, the acquisition of Burneftegaz Group and a considerable amount of highly efficient geological and engineering operations performed at the Group's brownfields.

Refining

(thousand tonnes)	2Q	1Q	Change	1H		Change
	2014	2014		2014	2013	
Crude oil refining	5,481	5,318	3.1%	10,799	10,501	2.8%
Production of petroleum products						
Gasoline (including naphtha ⁵ and alkylate)	1,268	1,161	9.2%	2,429	2,444	-0.6%
Diesel fuel	1,950	1,799	8.4%	3,749	3,726	0.6%
Fuel oil	671	869	-22.8%	1,540	1,435	7.3%
Vacuum gas oil	459	430	6.7%	889	795	11.8%
Other	764	588	29.9%	1,352	1,211	11.6%
Total production of petroleum products	5,112	4,847	5.5%	9,959	9,611	3.6%
Refining depth (%)	86.6%	83.1%	3.5 p.p.	84.9%	85.3%	-0.4 p.p.
Share of light products (%)	62.3%	58.6%	3.7 p.p.	60.5%	60.7%	-0.2 p.p.

In the 2nd quarter of 2014, refining increased by 3.1% compared to the 1st quarter of 2014 to 5,481 thousand tonnes due to an improvement in market conditions. A change in the petroleum product mix was related to the start of the spring and summer period.

During the six months ended 30 June 2014, refining increased by 2.8% compared to the same period in 2013 and amounted to 10,799 thousand tonnes due to an improvement in market conditions and the launch of alkylation units and a catalytic cracking gasoline hydrotreater.

⁵ Stable natural gasoline.



FINANCIAL RESULTS

PRELIMINARY CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME FOR THE SIX MONTHS ENDED 30 JUNE 2014

(million roubles)	2Q	1Q	Change	1H		Change
	2014	2014		2014	2013	
Revenue						
Crude oil sales	38,081	38,647	-1.5%	76,728	51,799	48.1%
Petroleum products and petrochemicals sales	122,981	106,194	15.8%	229,175	203,156	12.8%
Other sales	2,114	1,827	15.7%	3,941	5,528	-28.7%
Total revenue	163,176	146,668	11.3%	309,844	260,483	18.9%
Operating expenses						
Export duties and excises	(46,546)	(46,596)	-0.1%	(93,142)	(75,135)	24.0%
Cost of purchased crude oil, gas and petroleum products	(37,178)	(31,976)	16.3%	(69,154)	(58,401)	18.4%
Taxes other than income tax	(20,713)	(17,948)	15.4%	(38,661)	(33,317)	16.0%
Production and operating expenses	(17,343)	(14,232)	21.9%	(31,575)	(27,760)	13.7%
Transportation expenses	(8,053)	(7,075)	13.8%	(15,128)	(14,311)	5.7%
Depletion and depreciation	(5,730)	(5,055)	13.4%	(10,785)	(9,135)	18.1%
Selling, general and administrative expenses	(3,823)	(3,366)	13.6%	(7,189)	(7,418)	-3.1%
Other operating expenses, net	(927)	(716)	29.5%	(1,643)	(188)	n/a
Total costs and expenses	(140,313)	(126,964)	10.5%	(267,277)	(225,665)	18.4%
Operating profit	22,863	19,704	16.0%	42,567	34,818	22.3%
Financial income	1,225	1,292	-5.2%	2,517	2,327	8.2%
Financial costs	(3,340)	(1,935)	72.6%	(5,275)	(5,256)	0.4%
Foreign exchange (losses)/gains, net	(637)	(1,538)	-58.6%	(2,175)	599	n/a
Share in the profit/(losses) of associates and joint ventures, net of income tax	119	(60)	n/a	59	143	-58.7%
Total other expenses	(2,633)	(2,241)	17.5%	(4,874)	(2,187)	122.9%
Profit before tax	20,230	17,463	15.8%	37,693	32,631	15.5%
Income tax	(4,362)	(3,519)	24.0%	(7,881)	(7,341)	7.4%
Profit for the period	15,868	13,944	13.8%	29,812	25,290	17.9%
Profit/(losses) for the period attributable to non-controlling interests	13	(15)	n/a	(2)	136	n/a
Profit for the period attributable to owners of the parent company	15,855	13,959	13.6%	29,814	25,154	18.5%



REVENUE

In the 2nd quarter of 2014, the revenue of Bashneft Group totalled 163,176 million roubles, which is 11.3% higher than in the 1st quarter of 2014. The increase in the revenue was caused mainly by an increase in sales volumes of petroleum products and a rise in prices.

During the six months ended 30 June 2014, revenue grew by 18.9% compared to the same period in 2013 and amounted to 309,844 million roubles. This change was also related to an increase in sales volumes of crude oil and petroleum products and a rise in prices, denominated in roubles.

(million roubles)	2Q	1Q	Change	1H		Change
	2014	2014		2014	2013	
Revenue						
Export sales of crude oil outside the Customs Union*	31,453	34,872	-9.8%	66,325	47,497	39.6%
Export sales of crude oil to the Customs Union*	2,197	2,034	8.0%	4,231	3,063	38.1%
Domestic sales of crude oil	4,431	1,741	n/a	6,172	1,239	n/a
Total sales of crude oil	38,081	38,647	-1.5%	76,728	51,799	48.1%
Export sales of petroleum products and petrochemicals outside the Customs Union*	57,133	58,327	-2.0%	115,460	97,805	18.1%
Export sales of petroleum products and petrochemicals to the Customs Union*	1,469	1,963	-25.2%	3,432	6,098	-43.7%
Domestic sales of petroleum products and petrochemicals	64,379	45,904	40.2%	110,283	99,253	11.1%
<i>wholesale</i>	51,651	34,759	48.6%	86,410	78,330	10.3%
<i>retail</i>	12,728	11,145	14.2%	23,873	20,923	14.1%
Total sales of petroleum products and petrochemicals	122,981	106,194	15.8%	229,175	203,156	12.8%
Other sales	2,114	1,827	15.7%	3,941	5,528	-28.7%
Total revenue	163,176	146,668	11.3%	309,844	260,483	18.9%

(thousand tonnes)	2Q	1Q	Change	1H		Change
	2014	2014		2014	2013	
Sales volumes						
Export sales of crude oil outside the Customs Union*	1,178	1,288	-8.5%	2,466	2,012	22.6%
Export sales of crude oil to the Customs Union*	158	152	3.9%	310	267	16.1%
Domestic sales of crude oil	340	148	n/a	488	113	n/a
Total sales of crude oil	1,676	1,588	5.5%	3,264	2,392	36.5%
Export sales of petroleum products and petrochemicals outside the Customs Union*	2,216	2,315	-4.3%	4,531	4,157	9.0%
Export sales of petroleum products and petrochemicals to other countries forming part of the Customs Union*	79	118	-33.1%	197	361	-45.4%
Domestic sales of petroleum products and petrochemicals	2,810	2,172	29.4%	4,982	5,001	-0.4%
<i>wholesale</i>	2,440	1,837	32.8%	4,277	4,349	-1.7%
<i>retail</i>	370	335	10.4%	705	652	8.1%
Total sales of petroleum products and petrochemicals	5,105	4,605	10.9%	9,710	9,519	2.0%
Total sales of crude oil, petroleum products and petrochemicals	6,781	6,193	9.5%	12,974	11,911	8.9%

*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 2nd quarter of 2014, revenue from export sales of crude oil totalled 33,650 million roubles, which is 8.8% less than in the 1st quarter of 2014. The decrease in revenue was caused by a 7.2% decline in sales volumes of crude oil due to lower limits on access to main pipelines for exporting crude oil.

During the six months ended 30 June 2014, revenue from export sales of crude oil totalled 70,556 million roubles, which is 39.5% more than in the same period in 2013. This change was caused by a 21.8% increase in oil exports volumes due to higher limits on access to main pipelines for exporting crude oil, and by a rise in global oil prices, denominated in roubles.

In the 2nd quarter of 2014, revenue from domestic sales of crude oil totalled 4,431 million roubles, which is considerably higher than in the 1st quarter of 2014. The increase was related to growing sales volumes of crude oil due to the acquisition of Burneftegaz Group.

During the six months ended 30 June 2014, revenue from domestic sales of crude oil totalled 6,172 million roubles, which is considerably higher than in the same period in 2013. This change was caused by an increase in sales volumes of crude oil due to the start of oil production at the R. Trebs field and the acquisition of Burneftegaz Group.

Export sales of petroleum products and petrochemicals

(thousand tonnes)	2Q		1Q	1H		
	2014	2014	Change	2014	2013	Change
Diesel fuel	1,325	1,187	11.6%	2,512	2,535	-0.9%
Vacuum gas oil	458	434	5.5%	892	795	12.2%
Fuel oil	364	586	-37.9%	950	625	52.0%
High-octane gasoline	72	149	-51.7%	221	347	-36.3%
Naphtha	34	36	-5.6%	70	37	89.2%
Other	42	41	2.4%	83	112	-25.9%
Total sales of petroleum products	2,295	2,433	-5.7%	4,728	4,451	6.2%
Petrochemicals sales	-	-	n/a	-	67	-100.0%
Total sales of petroleum products and petrochemicals	2,295	2,433	-5.7%	4,728	4,518	4.6%

Export sales of petroleum products and petrochemicals outside the Customs Union

In the 2nd quarter of 2014, revenue from export sales of petroleum products and petrochemicals outside the Customs Union totalled 57,133 million roubles, which is 2.0 % less than in the 1st quarter of 2014. This reduction was related primarily to a 4.3% decline in sales volumes of petroleum products (2,216 thousand tonnes in the 2nd quarter of 2014 compared to 2,315 thousand tonnes in the 1st quarter of 2014) due to a reduction in the output of fuel oil, which is one of the main types of petroleum products exported by Bashneft.

During the six months ended 30 June 2014, revenue from export sales of petroleum products and petrochemicals outside the Customs Union increased by 18.1% compared to the same period in 2013 and totalled 115,460 million roubles. The increase in revenue was caused by an increase in exports volumes to the most efficient areas of export of fuel oil and vacuum gas oil, and by a rise in global prices, denominated in roubles.

Export sales of petroleum products and petrochemicals to the Customs Union

In the 2nd quarter of 2014, revenue from export sales of petroleum products and petrochemicals to the Customs Union amounted to 1,469 million roubles, which is 25.2% less than in the 1st quarter of 2014. The decrease in revenue from export sales of petroleum products and petrochemicals to the Customs Union was caused by a 33.1% decline in sales volumes of petroleum products (79 thousand tonnes in the 2nd quarter of 2014 compared to 118 thousand tonnes in the 1st quarter of 2014) due to a shift of focus from exports sales to the Customs Union to domestic sales.



During the six months ended 30 June 2014, revenue from export sales of petroleum products and petrochemicals to the Customs Union fell by 43.7% compared to the same period in 2013 and amounted to 3,432 million roubles. The reduction in revenue was caused by a 45.4% decline in sales volumes of petroleum products due to a shift of focus to sales outside the Customs Union.

Domestic sales of petroleum products and petrochemicals

(thousand tonnes)	2Q		1Q	1H		
	2014	2014	Change	2014	2013	Change
High-octane gasoline	1,200	815	47.2%	2,015	1,971	2.2%
Diesel fuel	629	479	31.3%	1,108	1,081	2.5%
Fuel oil	238	288	-17.4%	526	799	-34.2%
Naphtha	32	30	6.7%	62	-	n/a
Low-octane gasoline	17	14	21.4%	31	56	-44.6%
Other	694	546	27.1%	1,240	914	35.7%
Total sales of petroleum products	2,810	2,172	29.4%	4,982	4,821	3.3%
Petrochemicals sales	-	-	n/a	-	180	-100.0%
Total sales of petroleum products and petrochemicals	2,810	2,172	29.4%	4,982	5,001	-0.4%

In the 2nd quarter of 2014, revenue from wholesale of petroleum products on the domestic market grew by 48.6% compared to the 1st quarter of 2014 and amounted to 51,651 million roubles, which was related mainly to a seasonal increase in sales volumes and favourable market conditions.

In the 2nd quarter of 2014, revenue from retail sales increased by 14.2% compared to the 1st quarter of 2014 and totalled 12,728 million roubles, which was also related to a 10.4% seasonal increase in retail sales volumes on the domestic market.

During the six months ended 30 June 2014, revenue from wholesale of petroleum products on the domestic market grew by 10.3% compared to the same period in 2013 and totalled 86,410 million roubles. The increase in revenue was caused by price growth on the domestic market.

During the six months ended 30 June 2014, revenue from retail sales increased by 14.1% compared to the same period in 2013 and totalled 23,873 million roubles. The growth of revenue from retail sales was related both to an 8.1% increase in retail sales volumes due to expansion of the network of petrol stations and performing the rebranding programme and to price growth on the domestic market.

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 services.

In the 2nd quarter of 2014, other revenue increased by 15.7% compared to the 1st quarter of 2014 and totalled 2,114 million roubles.

During the six months ended 30 June 2014, other revenue fell by 28.7% compared to the same period in 2013, which was caused mainly by the divestment of Bashneft-Service Assets 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)	2Q		1Q	1H		
	2014	2014	Change	2014	2013	Change
Production and operating expenses						
Production	8,437	7,955	6.1%	16,392	13,520	21.2%
Refining	5,543	5,175	7.1%	10,718	10,201	5.1%
Other (including change in remaining WIP and finished products)	3,363	1,102	n/a	4,465	4,039	10.5%
Total production and operating expenses	17,343	14,232	21.9%	31,575	27,760	13.7%

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

	2Q		1Q	1H		Change
	2014	2014	Change	2014	2013	
Crude oil production expenses (million roubles)	8,437	7,955	6.1%	16,392	13,520	21.2%
Unit costs for production of crude oil (roubles per barrel)	264.2	264.8	-0.2%	264.5	238.4	10.9%

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 2nd quarter of 2014, unit costs for production of crude oil remained at the level reached in the 1st quarter of 2014.

During the six months ended 30 June 2014, unit costs for production of crude oil increased by 10.9% compared to the same period in 2013 and amounted to 264.5 roubles per barrel, which was related to additional geological and engineering operations performed in order to increase production, as well as to a rise in electricity prices and an increase in expenditure on major repairs.

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

	2Q		1Q	1H		
	2014	2014	Change	2014	2013	Change
Refining expenses (million roubles)	5,543	5,175	7.1%	10,718	10,201	5.1%
Unit refining costs (roubles per barrel)	138.5	133.3	3.9%	136.0	133.1	2.2%

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 2nd quarter of 2014, unit refining costs increased by 3.9% compared to the 1st quarter of 2014 and amounted to 138.5 roubles per barrel due to an increase in the volume of repairs.

During the six months ended 30 June 2014, unit refining costs increased by 2.2% compared to the same period in 2013 and totalled 136.0 roubles per barrel due to an increase in expenditure on repairs.



Cost of purchased crude oil, gas and petroleum products

In addition to production of its own crude oil, JSOC 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)	2Q		1Q	1H		
	2014	2014	Change	2014	2013	Change
Purchased crude oil, gas, and gas condensate	2,912	2,611	11.5%	5,523	5,313	4.0%
Purchased petroleum products	19	15	26.7%	34	72	-52.8%
Total	2,931	2,626	11.6%	5,557	5,385	3.2%

In the 2nd quarter of 2014, the cost of purchased crude oil, gas and petroleum products increased by 16.3% compared to the 1st quarter of 2014 and totalled 37,178 million roubles. This change was caused by an increase in refining and sales volumes of petroleum products, as well as a rise in oil prices.

During the six months ended 30 June 2014, the cost of purchased crude oil, gas and petroleum products increased by 18.4% compared to the same period in 2013 and totalled 69,154 million roubles. This change was also caused by an increase in refining and sales volumes of petroleum products combined with a rise in oil prices.

Transportation costs

In the 2nd quarter of 2014, transportation costs increased by 13.8% compared to the 1st quarter of 2014 to 8,053 million roubles, which was caused primarily by an overall increase in sales volumes, including due to geographical expansion of the wholesale business in the domestic market.

During the six months ended 30 June 2014, transportation costs increased by 5.7% compared to the same period in 2013, which was caused primarily by an increase in exports of crude oil and petroleum products.

Depletion and depreciation

(million roubles)	2Q		1Q	1H		
	2014	2014	Change	2014	2013	Change
Depletion and depreciation						
Exploration and production	2,517	2,137	17.8%	4,654	2,979	56.2%
Refining and marketing	3,033	2,729	11.1%	5,762	4,467	29.0%
Other	180	189	-4.8%	369	1,689	-78.2%
Total depletion and depreciation	5,730	5,055	13.4%	10,785	9,135	18.1%

In the 2nd quarter of 2014, depletion and depreciation costs increased by 13.4% compared to the 1st quarter of 2014 and amounted to 5,730 million roubles, which was related mainly to an increase in sales volumes, as well as the acquisition of Burneftegaz Group and consolidation of LLC Bashneft-Polyus.

During the six months ended 30 June 2014, depletion and depreciation costs increased by 18.1% compared to the same period in 2013, primarily due to an increase in production and sales volumes, as well as to commissioning of new property, plant and equipment, the acquisition of Burneftegaz Group and consolidation of LLC Bashneft-Polyus.



Taxes other than income tax

(million roubles)	2Q		Change	1Q		Change
	2014	2014		2014	2013	
Taxes other than income tax						
Mineral extraction tax	18,671	15,853	17.8%	34,524	27,928	23.6%
Social contributions	1,403	1,512	-7.2%	2,915	4,042	-27.9%
Property tax	410	382	7.3%	792	803	-1.4%
Other	229	201	13.9%	430	544	-21.0%
Total taxes other than income tax	20,713	17,948	15.4%	38,661	33,317	16.0%

In the 2nd quarter of 2014, taxes other than income tax increased by 15.4% compared to the 1st quarter of 2014 and amounted to 20,713 million roubles. This change was caused by an increase in mineral extraction tax payments due to an increase in production and sales volumes.

During the six months ended 30 June 2014, taxes other than income tax increased by 16.0% compared to the same period in 2013 and amounted to 38,661 million roubles due to an increase in mineral extraction tax payments caused by a rise in the mineral extraction tax rate combined with production growth. At the same time, social contributions and property tax decreased due to the divestment of the UPC Group and Bashneft-Service Assets Group.

Export duties and excises

(million roubles)	2Q		Change	1H		Change
	2014	2014		2014	2013	
Export duties on crude oil	15,773	17,678	-10.8%	33,451	24,606	35.9%
Export duties on petroleum products	19,844	21,280	-6.7%	41,124	33,164	24.0%
Excises	10,929	7,638	43.1%	18,567	17,365	6.9%
Total export duties and excises	46,546	46,596	-0.1%	93,142	75,135	24.0%

In the 2nd quarter of 2014, the total amount of export duties on oil and petroleum products declined by 8.6% to 35,617 million roubles, which was caused by a reduction in export sales volumes of oil and petroleum products and a decrease in export duty rates.

In the 2nd quarter of 2014, the total amount of excises increased by 43.1% compared to the 1st quarter of 2014 to 10,929 million roubles due to an increase in domestic sales volumes.

During the six months ended 30 June 2014, the total amount of export duties on oil and petroleum products increased by 29.1% compared to the same period in 2013 due to an increase in exports volumes of oil and petroleum products outside the Customs Union and a rise in rouble-denominated export duty rates.

During the six months ended 30 June 2014, the total amount of excises increased by 6.9% compared to the same period in 2013, which was caused mainly by a rise in excise rates.



CASH FLOW

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

(million roubles)	2Q		1Q	1H		
	2014	2014	Change	2014	2013	Change
Cash flow						
Net cash generated from operating activities	42,001	5,121	n/a	47,122	22,757	107.1%
Net cash used in investing activities	(11,138)	(42,920)	-74.0%	(54,058)	(18,241)	196.4%
Net cash (used in)/generated from financing activities	(3,490)	52,218	n/a	48,728	(5,430)	n/a

Net cash generated from operating activities:

(million roubles)	2Q		1Q	1H		
	2014	2014	Change	2014	2013	Change
Operating cash flow before working capital changes	29,162	25,365	15.0%	54,527	44,942	21.3%
Movements in working capital less cash and cash equivalents	19,040	(16,166)	n/a	2,874	(12,608)	n/a
Interest paid	(2,181)	(2,440)	-10.6%	(4,621)	(3,855)	19.9%
Income tax paid	(4,020)	(1,638)	n/a	(5,658)	(5,722)	-1.1%
Net cash generated from operating activities	42,001	5,121	n/a	47,122	22,757	107.1%

In the 2nd quarter of 2014, net cash generated from operating activities increased considerably compared to the 1st quarter of 2014 and totalled 42,001 million roubles. The main factor behind this change consisted in movements in working capital less cash and cash equivalents, including those related to receiving a prepayment under a long-term contract for supply of petroleum products.

In April 2014 the Company entered into a long-term oil products supply agreement and subsequently received an advance of 500 million US dollar (17,347 million roubles). 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.

During the six months ended 30 June 2014, net cash generated from operating activities increased by 107.1% compared to the same period in 2013, which was also related to movements in working capital less cash and cash equivalents, including those related to receiving a prepayment under a long-term contract for supply of petroleum products.

Net cash used in investing activities:

(million roubles)	2Q		1Q	1H		
	2014	2014	Change	2014	2013	Change
Capital expenditures	(9,758)	(9,053)	7.8%	(18,811)	(14,282)	31.7%
Proceeds from disposal of financial assets, net	123	-	n/a	123	468	-73.7%
Other	(1,503)	(33,867)	-95.6%	(35,370)	(4,427)	n/a
Net cash used in investing activities	(11,138)	(42,920)	-74.0%	(54,058)	(18,241)	196.4%

In the 2nd quarter of 2014, net cash used in investing activities decreased by 74.0% compared to the 1st quarter of 2014 and amounted to 11,138 million roubles; it was allocated primarily for capital expenditure financing.

During the six months ended 30 June 2014, net cash used in investing activities increased by 196.4% compared to the same period in 2013 and totalled 54,058 million roubles; it was allocated primarily for capital expenditure financing and acquiring Burneftegaz Group.



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

(million roubles)	2Q		Change	1H		
	2014	2014		2014	2013	Change
Proceeds from borrowings	40,800	53,544	-23.8%	94,344	31,450	n/a
Repayments of borrowings	(26,421)	(1,326)	n/a	(27,747)	(36,338)	-23.6%
Total issue and repayment of debt:	14,379	52,218	-72.5%	66,597	(4,888)	n/a
Dividends paid	-	-	-	-	(15)	-100.0%
Purchase of treasury shares	(17,869)	-	n/a	(17,869)	-	n/a
Payments for acquisition of non-controlling interests in subsidiaries and special-purpose entities	-	-	-	-	(527)	-100.0%
Net cash (used in)/generated from financing activities	(3,490)	52,218	n/a	48,728	(5,430)	n/a

In the 2nd quarter of 2014, net cash used in financing activities amounted to 3,490 million roubles and was allocated primarily for the buyback of the Group's own shares, which was partially offset by new borrowings.

FINANCING AND DEBT

(million roubles)	30 June		Change	30 June		
	2014	2014		2014	2013	Change
Net debt calculation						
Short-term borrowings	24,079	78,003	-69.1%	24,079	14,879	61.8%
Long-term borrowings	140,525	67,516	108.1%	140,525	90,953	54.5%
Total debt	164,604	145,519	13.1%	164,604	105,832	55.5%
Cash and cash equivalents	(57,480)	(31,449)	82.8%	(57,480)	(19,649)	n/a
Short-term financial investments	-	(46)	-100.0%	-	(8,344)	-100.0%
Adjusted net debt	107,124	114,024	-6.1%	107,124	77,839	37.6%

As of 30 June 2014, the total debt of the Group in the form of short-term and long-term borrowings amounted to 164,604 million roubles compared to 145,519 million roubles as of 31 March 2014.

As of 30 June 2014, the annual weighted average interest rate on loans stood at 7.9% compared to 7.1% as of 31 March 2014.

CAPITAL EXPENDITURES

(million roubles)	2Q		Change	1H		
	2014	2014		2014	2013	Change
Capital expenditures						
Exploration and production incl. development of the R. Trebs and A. Titov fields	7,505	6,602	13.7%	14,107	7,029	100.7%
Refining and marketing	3,953	3,228	22.5%	7,181	1,977	n/a
Other	2,191	2,433	-9.9%	4,624	6,459	-28.4%
	62	18	n/a	80	794	-89.9%
Total cash used in capital expenditures	9,758	9,053	7.8%	18,811	14,282	31.7%

In the 2nd quarter of 2014, capital expenditures increased by 7.8% compared to the 1st quarter of 2014 and amounted to 9,758 million roubles. This increase was caused mainly by an increase

in expenditure on the development of the R. Trebs and A. Titov fields and the acquisition of Burneftegaz Group.

During the six months of 2014, capital expenditures increased by 31.7% compared to the same period in 2013, primarily due to an increase in capital expenditure in the Exploration and production segment driven by expenditure on the development of the R. Trebs and A. Titov fields and the acquisition of Burneftegaz Group, which was partially offset by a reduction in construction in the Refining and Marketing segment.

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 7.8 billion roubles. These entities will be accounted for and consolidated in the consolidated financial statements of the Group from the effective dates of acquisition.

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 LLC 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, JSFC Sistema and its 100% subsidiary CJSC 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 JSFC Sistema's voting rights, rights to receive dividends or any other shareholder rights.

