

Bashneft Group

**Interim Condensed
Consolidated Financial Statements
for the three months ended 31 March 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 MONTHS ENDED 31 MARCH 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 31 March 2014, its financial performance, cash flows and changes in equity for the three 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 months ended 31 March 2014 were approved by:



A.L. Korsik
President



A.Y. Lisovenko
Chief Accountant

Ufa, Russian Federation
30 May 2014

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 31 March 2014 and the related interim condensed consolidated statements of profit or loss and other comprehensive income, changes in equity and cash flows for the three 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*.

The signature is written in a blue, cursive script. It reads "Deloitte + Touche".

Moscow, Russian Federation
30 May 2014

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INTERIM CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME FOR THE THREE MONTHS ENDED 31 MARCH 2014 (UNAUDITED)

Millions of Russian roubles, except for earnings per share data

	Notes	Three months ended 31 March 2014	Three months ended 31 March 2013
Revenue	6	146,668	125,580
Export tariffs and excise		(46,596)	(36,577)
Cost of purchased crude oil, gas and petroleum products		(31,976)	(28,705)
Taxes other than income tax	7	(17,948)	(16,504)
Production and operating expenses		(14,232)	(12,459)
Transportation expenses		(7,075)	(6,759)
Depletion and depreciation		(5,055)	(4,411)
Selling, general and administrative expenses		(3,366)	(3,479)
Other operating (expenses)/income, net		(716)	126
Operating profit		19,704	16,812
Finance income	8	1,292	1,028
Finance costs	8	(1,935)	(2,736)
Foreign exchange (loss)/gain, net		(1,538)	231
Share of loss of associate and joint venture, net of income tax		(60)	(129)
Profit before income tax		17,463	15,206
Income tax	9	(3,519)	(3,184)
Profit for the period and total comprehensive income		13,944	12,022
Attributable to:			
Owners of the Company		13,959	11,992
Non-controlling interests		(15)	30
		13,944	12,022
EARNINGS PER SHARE			
Weighted average number of ordinary shares in issue during the period		157,085,505	157,085,505
Basic and diluted earnings per share attributable to shareholders of the parent company (Russian roubles per share)		73.18	62.87

The accompanying notes on pages 8-20 form an integral part of these interim condensed consolidated financial statements

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INTERIM CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION AT 31 MARCH 2014 (UNAUDITED) Millions of Russian roubles

	Notes	31 March 2014	31 December 2013
ASSETS			
Non-current assets			
Property, plant and equipment	10	321,030	277,369
Advances paid for acquisition of property, plant and equipment		819	805
Intangible assets		1,948	1,981
Financial assets	11	3,930	4,019
Investments in joint venture		16,268	18,848
Long-term inventories		2,898	3,022
Other non-current assets		849	380
		347,742	306,424
Current assets			
Inventories		26,019	21,450
Financial assets	11	5,077	5,066
Trade and other receivables		31,332	27,317
Advances to suppliers and prepaid expenses		5,819	5,906
Income tax prepaid		121	289
Other taxes receivable		29,183	25,990
Cash and cash equivalents		31,449	16,395
		129,000	102,413
Assets classified as held for sale		38,910	38,962
TOTAL ASSETS		515,652	447,799
EQUITY AND LIABILITIES			
Capital and reserves			
Share capital		2,501	2,501
Treasury shares		(38,147)	(38,147)
Additional paid-in capital		72,682	72,682
Retained earnings		195,221	199,131
Equity attributable to owners of the Company		232,257	236,167
Non-controlling interests		184	155
		232,441	236,322
Non-current liabilities			
Borrowings	13	67,516	78,902
Decommissioning provision		6,297	6,145
Deferred tax liabilities		40,394	33,489
Other non-current liabilities		6,178	6,164
		120,385	124,700
Current liabilities			
Borrowings	13	78,003	11,914
Trade and other payables		64,026	50,372
Dividends payable		301	275
Advances received		6,914	12,066
Provisions		871	895
Income tax payable		467	32
Other taxes payable		11,412	10,340
		161,994	85,894
Liabilities directly associated with assets classified as held for sale		832	883
TOTAL LIABILITIES		283,211	211,477
TOTAL EQUITY AND LIABILITIES		515,652	447,799

The accompanying notes on pages 8-20 form an integral part of these interim condensed consolidated financial statements

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INTERIM CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS FOR THE THREE MONTHS ENDED 31 MARCH 2014 (UNAUDITED)

Millions of Russian roubles

	Notes	Three months ended 31 March 2014	Three months ended 31 March 2013
OPERATING ACTIVITIES			
Profit before income tax		17,463	15,206
Adjustments for:			
Depletion and depreciation		5,055	4,411
Loss/(gain) on disposal of property, plant and equipment		104	(120)
Finance income		(1,292)	(1,028)
Finance costs		1,935	2,736
Impairment of property, plant and equipment	10	38	126
Share of loss of associate and joint venture		60	129
Foreign exchange loss/(gain), net		2,173	(67)
Change in provisions and allowances, net		481	(207)
Group's share of gain eliminated on transaction with joint-venture		(46)	-
Other, net		(606)	(216)
Operating cash flows before working capital changes		25,365	20,970
Movements in working capital:			
Inventories		(4,140)	(4,198)
Trade and other receivables		(3,435)	(4,234)
Advances to suppliers and prepaid expenses		199	(776)
Other taxes receivable		(3,081)	254
Trade and other payables		(449)	222
Advances received		(5,337)	(6,068)
Other taxes payable		77	972
Cash generated from operations		9,199	7,142
Interest paid		(2,440)	(2,047)
Income tax paid		(1,638)	(2,154)
NET CASH GENERATED FROM OPERATING ACTIVITIES		5,121	2,941

The accompanying notes on pages 8-20 form an integral part of these interim condensed consolidated financial statements

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INTERIM CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS (CONTINUED) FOR THE THREE MONTHS ENDED 31 MARCH 2014 (UNAUDITED)

Millions of Russian roubles

	Notes	Three months ended 31 March 2014	Three months ended 31 March 2013
INVESTING ACTIVITIES			
Payments for acquisition of property, plant and equipment		(9,053)	(5,820)
Proceeds from disposal of property, plant and equipment		17	1,042
Proceeds from joint ventures		3,133	-
Additional contribution to joint venture		(1,317)	(1,482)
Acquisition of subsidiaries, net of cash acquired	4	(36,095)	-
Disposal of structured entity		(24)	(9)
Payments for acquisition of intangible assets		(263)	(110)
Payments for acquisition of financial assets		-	(3,152)
Proceeds from disposal of financial assets		-	1,251
Interest received		682	654
		<u>(42,920)</u>	<u>(7,626)</u>
FINANCING ACTIVITIES			
Payments for acquisition of non-controlling interests in subsidiary and structured entity		-	(105)
Proceeds from borrowings		53,544	30,950
Repayments of borrowings		(1,326)	(16,142)
Dividends paid by the Company		-	(7)
		<u>52,218</u>	<u>14,696</u>
Net increase in cash and cash equivalents		14,419	10,011
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		635	193
Cash and cash equivalents at end of the period		<u>31,449</u>	<u>30,308</u>

The accompanying notes on pages 8-20 form an integral part of these interim condensed consolidated financial statements

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INTERIM CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY FOR THE THREE MONTHS ENDED 31 MARCH 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		-	-	-	11,992	11,992	30	12,022
Total comprehensive income for the period		-	-	-	11,992	11,992	30	12,022
Acquisition of additional interests in subsidiary and structured entity		-	-	114	-	114	(219)	(105)
Balance at 31 March 2013		2,501	(38,147)	83,765	206,967	255,086	4,739	259,825
Balance at 1 January 2014		2,501	(38,147)	72,682	199,131	236,167	155	236,322
Profit for the period		-	-	-	13,959	13,959	(15)	13,944
Total comprehensive income for the period		-	-	-	13,959	13,959	(15)	13,944
Disposal of structured entity		-	-	-	-	-	44	44
Obligation to purchase treasury shares	12	-	-	-	(17,869)	(17,869)	-	(17,869)
Balance at 31 March 2014		2,501	(38,147)	72,682	195,221	232,257	184	232,441

The accompanying notes on pages 8-20 form an integral part of these interim condensed consolidated financial statements

BASHNEFT GROUP

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS FOR THE THREE MONTHS ENDED 31 MARCH 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 31 March 2014 and 31 December 2013:

Company	Principal activities	Group’s effective interest	
		31 March 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	Production of crude oil and gas	100%	n/a

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

At 31 March 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 MONTHS ENDED 31 MARCH 2014 (UNAUDITED)

2. BASIS OF PREPARATION AND SIGNIFICANT ACCOUNTING POLICIES

Statement of compliance

These interim condensed consolidated financial statements for the three months ended 31 March 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 months ended 31 March 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 MONTHS ENDED 31 MARCH 2014 (UNAUDITED)

Millions of Russian roubles

4. BUSINESS COMBINATIONS

LLC Burneftegaz ("Burneftegaz")

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

The initial 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 175 million of revenue, RUB 25 million of profit before tax and RUB 20 million of profit from the date of acquisition to 31 March 2014.

The Group's financial results if the combination had taken place at the beginning of the three months ended 31 March 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 MONTHS ENDED 31 MARCH 2014 (UNAUDITED) *Millions of Russian roubles*

Other acquisition

During 3 months ended 31 March 2014 the Group also acquired subsidiary in Downstream segment for a total cash consideration of RUB 350 million. The fair value of the net assets acquired approximated the consideration paid.

5. SEGMENT INFORMATION

The Board of Directors (the "Board") is the Group's chief operating decision maker. Operating segments have been determined based on the information reviewed by the Board for the purposes of assessing performance. During the second quarter of 2013, following the amendments to internal regulations, the Group has changed the structure and content of the segment information provided to the Board for review. Accordingly, the comparative segment information for the three months ended 31 March 2013 was restated.

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 months ended 31 March 2013 the operations of OJSC United Petrochemical Company ("UPC") 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.

BASHNEFT GROUP

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS FOR THE THREE MONTHS ENDED 31 MARCH 2014 (UNAUDITED)

Millions of Russian roubles

Information about the Group's segments for the three months ended 31 March 2014 is as follows:

	<u>Upstream</u>	<u>Down- stream</u>	<u>All other segments</u>	<u>Elimi- nations</u>	<u>Consoli- dated</u>
External revenues	1,083	145,272	313	-	146,668
Inter-segment revenues	46,898	994	1,136	(49,028)	-
External expenses	(30,331)	(95,250)	(1,383)	-	(126,964)
Inter-segment expenses	(681)	(48,301)	(46)	49,028	-
Segment EBITDA	<u>19,096</u>	<u>5,454</u>	<u>209</u>	<u>-</u>	<u>24,759</u>
Depletion and depreciation					(5,055)
Finance income					1,292
Finance costs					(1,935)
Foreign exchange loss, net					(1,538)
Share of loss of joint venture, net of income tax					(60)
Profit before income tax					<u>17,463</u>
Income tax expense					<u>(3,519)</u>
Profit for the period					<u><u>13,944</u></u>

Information about the Group's segments for the three months ended 31 March 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	503	119,651	1,730	3,696	-	125,580
Inter-segment revenues	40,424	2,384	4,694	1,182	(48,684)	-
External expenses	(21,304)	(81,080)	(4,090)	(2,294)	-	(108,768)
Inter-segment expenses	(4,092)	(40,159)	(2,197)	(2,115)	48,563	-
Segment EBITDA	<u>17,280</u>	<u>2,927</u>	<u>285</u>	<u>852</u>	<u>(121)</u>	<u>21,223</u>
Depletion and depreciation						(4,411)
Finance income						1,028
Finance costs						(2,736)
Foreign exchange gain, net						231
Share of loss of associate and joint venture, net of income tax						(129)
Profit before income tax						<u>15,206</u>
Income tax expense						<u>(3,184)</u>
Profit for the period						<u><u>12,022</u></u>

BASHNEFT GROUP

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS FOR THE THREE MONTHS ENDED 31 MARCH 2014 (UNAUDITED)

Millions of Russian roubles

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 31 March 2014	Three months ended 31 March 2013
Export outside the Customs Union	93,199	71,240
Russian Federation	49,472	50,865
Export to other countries of the Customs Union	3,997	3,475
Total	146,668	125,580

6. REVENUE

	Three months ended 31 March 2014	Three months ended 31 March 2013
Petroleum products	106,194	95,881
Crude oil	38,647	27,078
Other revenue	1,827	2,621
Total	146,668	125,580

7. TAXES OTHER THAN INCOME TAX

	Three months ended 31 March 2014	Three months ended 31 March 2013
Mineral extraction tax	15,853	13,843
Contributions to Pension Fund of the Russian Federation	1,121	1,563
Other social contributions	391	444
Property tax	382	406
Other taxes	201	248
Total	17,948	16,504

8. FINANCE INCOME AND FINANCE COSTS

	Three months ended 31 March 2014	Three months ended 31 March 2013
Finance income		
Interest income on loans, promissory notes and bonds	924	648
Interest income on cash and deposits	368	380
Total	1,292	1,028
Finance costs		
Interest expense on borrowings	1,759	2,515
Unwinding of discount	153	197
Other accretion expenses	23	24
Total	1,935	2,736

BASHNEFT GROUP

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS FOR THE THREE MONTHS ENDED 31 MARCH 2014 (UNAUDITED)

Millions of Russian roubles

9. INCOME TAX

	Three months ended 31 March 2014	Three months ended 31 March 2013
Current period income tax expense	2,235	2,999
Adjustments relating to current income tax of prior years	8	3
Current income tax expense	2,243	3,002
Deferred tax expense	1,276	182
Income tax expense	3,519	3,184

10. PROPERTY, PLANT AND EQUIPMENT

	Three months ended 31 March 2014	Three months ended 31 March 2013
Cost		
Balance at the beginning of the period	356,736	351,779
Acquisition of subsidiaries	42,188	-
Constructions and additions	6,819	6,075
Disposal of structured entity	(1)	-
Disposals	(831)	(1,205)
Balance at the end of the period	404,911	356,649
Accumulated depletion, depreciation and impairment		
Balance at the beginning of the period	(79,367)	(74,630)
Charge for the period	(5,186)	(4,680)
Disposals	710	283
Impairment	(38)	(126)
Balance at the end of the period	(83,881)	(79,153)
Net book value		
At the beginning of the period	277,369	277,149
At the end of the period	321,030	277,496

11. FINANCIAL ASSETS

	31 March 2014	31 December 2013
Non-current investments		
Loans given, at amortised cost	3,507	3,506
Available-for-sale investment in OJSC Ufaorgsintez	423	423
Derivative financial instruments	-	90
Total	3,930	4,019
Current investments		
Loans given, at amortised cost	5,031	5,020
Deposits	46	46
Total	5,077	5,066

BASHNEFT GROUP

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS FOR THE THREE MONTHS ENDED 31 MARCH 2014 (UNAUDITED)

Millions of Russian roubles

12. OBLIGATION TO PURCHASE TREASURY SHARES

On 3 February 2014, an Extraordinary General Shareholders' Meeting of the Company ("EGMS") was held where the shareholders approved a reorganisation programme involving the spin off of the assets and liabilities of CJSC Sistema-Invest to the shareholders. The reorganisation was approved by the Board on 17 December 2013.

Shareholders who voted against the reorganisation or abstained from voting at the EGMS and requested buy-back were entitled to have their shares repurchased by the Company, subject to a limit representing 10% of net assets of the Company determined in accordance with Russian Accounting Standards. On 25 March 2014 the Board of Directors of Bashneft has approved buy-back of 2,724,173 ordinary shares and 8,885,866 preferred shares of the Company for a total cash consideration of RUB 17,869 million. At 31 March 2014, the Group recognised a constructive obligation to shareholders entitled to buy-back, with the corresponding effect on Retained earnings, in the amount of RUB 17,869 million.

13. BORROWINGS

	31 March 2014		31 December 2013	
	Rate, %	Outstanding balance	Rate, %	Outstanding balance
Non-current liabilities				
Unsecured non-convertible bonds issued in February 2013	8.65%-8.85%	29,962	8.65%-8.85%	29,960
Unsecured fixed interest rate borrowings	8.35%-8.85%	19,984	8.35%-8.85%	19,984
Secured floating rate borrowings	Libor 1M+1.70%	12,299	Libor 1M+ 1.70%	13,697
Unsecured non-convertible bonds issued in December 2009	8.35%	5,271	8.35%	5,269
Unsecured non-convertible bonds issued in February 2012	-	-	9.0%	9,992
Total		67,516		78,902
Current liabilities				
Current portion of secured floating rate borrowings	Libor 1M+ 1.55%-1.70%	11,080	Libor 1M+ 1.55%-1.70%	8,904
Unsecured non-convertible bonds issued in February 2012	9.00%	9,993	-	-
Unsecured non-convertible bonds issued in December 2011	0.10%	3,013	0.10%	3,010
Unsecured fixed rate borrowings	8.24%-9.75%	53,917	-	-
Total		78,003		11,914

14. RELATED PARTIES

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

	Amount owed by related parties	
	31 March 2014	31 December 2013
CJSC Sistema-Invest	30,540	30,166
Other Sistema Group companies	19,878	15,754
Joint venture of the Group	554	402
Total	50,972	46,322

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	Amount owed to related parties	
	31 March 2014	31 December 2013
Joint venture of the Group	13,261	16,922
Sistema Group companies	4,414	5,290
CJSC Sistema-Invest	655	655
Total	18,330	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.

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 31 March 2014	Three months ended 31 March 2013
CJSC Sistema-Invest		
Loans issued	-	3,138
Proceeds from repayment of loans issued	-	1,220
Interest income	380	243
Other Sistema Group companies and its affiliates		
Cash placed on bank deposits	-	31
Proceeds from repayment of bank deposits	-	15
Sale of goods and services	3,746	140
Purchase of goods and services	5,216	4,055
Purchase of property and construction services	1,507	59
Interest income	165	264
Associate and joint venture of the Group		
Sale of goods and services	177	1,000
Purchase of property and construction services	1,805	7
Purchase of goods and services	677	461
Interest income	343	178

Compensation of key management personnel

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

	Three months ended 31 March 2014	Three months ended 31 March 2013
Wages and salaries	166	204
Share-based payments	134	141
Termination bonuses	-	4
Total	300	349

At 31 March 2014, outstanding balances in respect of wages and salaries of key management personnel were RUB 732 million (31 December 2013: RUB 574 million).

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Millions of Russian roubles

15. 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; and
- 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 31 March 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 48,299 million and fair value RUB 47,873 million (31 December 2013: carrying value of RUB 48,299 million and fair value RUB 48,740 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 were either obtained in 2013 or interest rate was renegotiated in 2013.

At 31 March 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>
Non-current assets				
Available-for-sale investment	-	-	423	423
Total	-	-	423	423
Current liabilities				
Derivative financial instruments	-	(945)	-	(945)
Total	-	(945)	-	(945)

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	-	90	423	513

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Millions of Russian roubles

16. COMMITMENTS AND CONTINGENCIES

Capital commitments

At 31 March 2014, contractual capital commitments of the Group amounted to RUB 11,548 million (31 December 2013: RUB 8,601 million). These commitments are expected to be settled during 2014-2017.

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 31 March 2014 were RUB 304 million (for the three months ended 31 March 2013: RUB 372 million).

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

	<u>31 March 2014</u>	<u>31 December 2013</u>
Due in one year	1,112	936
Due from one to five years	3,056	2,972
Thereafter	<u>11,101</u>	<u>11,972</u>
Total	<u>15,269</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 31 March 2014, unresolved legal claims against the Group amounted to RUB 108 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.

In March and April 2014, sanctions have been imposed by the U.S. and E.U. on certain Russian officials, businessmen and companies. In April 2014, an international credit agency Standard & Poor's downgraded Russia's long-term foreign currency sovereign rating from BBB to BBB- with a negative outlook. Fitch credit agency has also revised Russia's creditworthiness outlook from stable to negative. These developments, particularly if sanctions are further extended, may result in reduced access of the Russian businesses to international capital and export markets, capital flight, weakening of the Rouble and other negative economic consequences. The impact of these developments on future operations and financial position of the Group is at this stage difficult to determine.

17. EVENTS SUBSEQUENT TO THE REPORTING PERIOD

The reorganisation of the Group

In April 2014 as part of the reorganisation of the Group, the Company acquired an additional 2,724,173 of its own ordinary shares and 8,885,866 of its own preferred shares for a total cash consideration of RUB 17,869 million. The reorganisation of the Group was completed on 5 May 2014 when the Company cancelled 38,139,925 ordinary shares which were previously held by CJSC Bashneft-Invest, and 8,885,866 preferred shares which were bought back from the Company's shareholders as part of the reorganisation.

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Control over LLC Bashneft-Polyus

On 23 May 2014 the Company and OJSC Lukoil signed an agreement that transferred effective control over the operational and financial activities of LLC Bashneft-Polyus to the Company.

Subsoil use license transfer to LLC Bashneft-Polyus

On 23 May 2014, the Federal Subsoil Resources Management Agency (Rosnedra) granted to LLC Bashneft-Polyus a license for geological exploration, prospecting and production of hydrocarbons within the subsoil area of the Trebs and Titov deposits which previously was held by Bashneft.

Borrowings

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.

During April and May 2014 the Group repaid current fixed interest rate borrowings of RUB 13,000 million ahead of the repayment schedule.

In May 2014 the Group obtained RUB 20,000 million non-current borrowings and extended current fixed interest rate borrowings of RUB 30,700 million for 2 years.