



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 2015 and for the six months
ended 30 June 2015 and 2014**



This report contains an overview of the financial position and operating results of PJSOC Bashneft and includes operating results of Bashneft Group for the six months ended 30 June 2015. The terms “Bashneft”, “the Company”, “Bashneft Group” and “the Group” in various forms mean PJSOC Bashneft and its subsidiaries. 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. The words “expect”, “estimate”, “intend”, “will”, “could”, negations thereof or other similar expressions identify forward-looking statements. 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 194 oil and gas fields in the Republic of Bashkortostan, the Khanty-Mansi Autonomous District, the Nenets Autonomous District, the Orenburg Region and the Republic of Tatarstan. 176 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 2014 amounted to 304.2 million tonnes. Bashneft Group has a reserves-to-production ratio of 17 years. Proved and probable (2P) reserves totalled 397.8 million tonnes. Overall reserves of Bashneft Group (including possible reserves) reached 517.9 million tonnes. During the six months ended 30 June 2015, production at the developed licence areas totalled 9.5 million tonnes.

Bashneft Group includes three refineries, which rank among the most technologically advanced facilities in Russia and are leaders in terms of refining depth and quality of petroleum products, and a petrochemical plant, OJSC Ufaorgsintez. The refineries' installed capacity totals 24.1 million tonnes of hydrocarbons per year.

OJSC Ufaorgsintez is a major producer of phenol, acetone, high-density polyethylene and polypropylene.

During the six months ended 30 June 2015, the Group's refineries processed 9.2 million tonnes of hydrocarbons. Refining depth averaged 85.2%, which is one of the best results among Russian vertically integrated oil companies.

During the six months ended 30 June 2015, Bashneft Group sold 4.5 million tonnes of petroleum products on the domestic market and exported 4.1 million tonnes of petroleum products. The Group also sold 4.3 million tonnes of crude oil, including 3.4 million tonnes of exported crude oil.

As of 30 June 2015, Bashneft Group's retail network comprised 578 operating petrol stations and 166 partner petrol stations operating under the Bashneft brand name.

KEY FINANCIAL AND OPERATING RESULTS

	2Q		1Q	1H		
	2015	2015	Change	2015	2014 ¹	Change
Revenue (million roubles)	152,745	142,930	6.9%	295,675	309,844	-4.6%
EBITDA (million roubles)	35,512	26,501	34.0%	62,013	53,811	15.2%
Adjusted EBITDA (million roubles) ²	35,854	26,737	34.1%	62,591	54,995	13.8%
Operating profit (million roubles)	28,032	19,408	44.4%	47,440	43,026	10.3%
Profit for the period attributable to the owners of the parent company (million roubles)	17,908	11,390	57.2%	29,298	29,814	-1.7%
Net debt (million roubles)	106,041	129,169	-17.9%	106,041	107,124	-1.0%
Oil production (thousand tonnes)	4,831	4,709	2.6%	9,540	8,489	12.4%
Oil refining (thousand tonnes)	4,478	4,715	-5.0%	9,193	10,799	-14.9%

Significant events during the six months of 2015:

- in February 2015, the Group acquired LLC Yanaulskoye Administration of Neftestroyontazh (LLC Bashneft-Stroy since April 2015);
- in March 2015, Fitch Ratings affirmed Bashneft's long-term foreign and local currency issuer default ratings at BB. The outlook on the ratings is 'Stable';
- in April 2015, Moody's upgraded Bashneft's corporate family rating (CFR) to Ba1 following the decision to assign the company the government related issuer (GRI) status; the outlook on the ratings is negative;
- in June 2015, Bashneft's preferred shares were included in the Top Tier quotation list of the Moscow Exchange;
- in June 2015, the Company cancelled 2,724,173 ordinary shares previously held in treasury stock;
- In June 2015, meeting of shareholders of Bashneft resolved to pay dividends of 20,073 million roubles for the 2014 fiscal year (113 roubles per one ordinary and per one preferred registered share). All payments were made in July and August 2015 on time and in full.

¹ Certain comparative information has been reclassified to ensure its consistency with the method of presentation in financial statements adopted in the current period.

² Adjusted EBITDA excludes the impact of other operating expenses and income, which include financial results from sales of property, plant and equipment and inventories, disposal of assets and other.

(million roubles)	2Q		1Q	1H		
	2015	2015	Change	2015	2014	Change
EBITDA	35,512	26,501	34.0%	62,013	53,811	15.2%
Other operating expenses, net	342	236	44.9%	578	1,184	-51.2%
Adjusted EBITDA	35,854	26,737	34.1%	62,591	54,995	13.8%

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/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. This, 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		
	2015	2015	Change	2015	2014	Change
Prices for crude oil and petroleum products³						
Brent crude oil (US\$ per barrel)	61.9	53.9	14.8%	57.8	108.9	-46.9%
Brent crude oil (roubles per barrel)	3,258	3,354	-2.9%	3,320	3,810	-12.9%
Urals crude oil (US\$ per barrel)	62.2	53.3	16.7%	57.7	107.4	-46.3%
Urals crude oil (roubles per barrel)	3,278	3,312	-1.0%	3,311	3,757	-11.9%
Fuel oil (average FOB Rotterdam/CIF NWE) (US\$ per tonne)	320.0	273.0	17.2%	296.1	572.5	-48.3%
Fuel oil (average FOB Rotterdam/CIF NWE) (roubles per tonne)	16,849	16,977	-0.8%	16,996	20,025	-15.1%
Diesel fuel (average FOB Rotterdam/CIF NWE) (US\$ per tonne)	572.6	516.9	10.8%	544.3	911.7	-40.3%
Diesel fuel (average FOB Rotterdam/CIF NWE) (roubles per tonne)	30,150	32,144	-6.2%	31,240	31,889	-2.0%
Naphtha (average FOB Rotterdam/CIF NWE) (US\$ per tonne)	536.0	466.0	15.0%	500.4	924.5	-45.9%
Naphtha (average FOB Rotterdam/CIF NWE) (roubles per tonne)	28,221	28,982	-2.6%	28,723	32,340	-11.2%
Vacuum gas oil (FOB NWE) (US\$ per tonne)	433.7	383.5	13.1%	408.2	781.2	-47.7%
Vacuum gas oil (FOB NWE) (roubles per tonne)	22,834	23,851	-4.3%	23,428	27,327	-14.3%
Russian market (roubles per tonne, with excises, net of VAT)⁴						
Crude oil	13,609	12,819	6.2%	13,214	11,886	11.2%
Fuel oil	9,081	7,842	15.8%	8,462	9,293	-8.9%
Diesel fuel (summer gasoil)	28,788	27,025	6.5%	27,906	26,575	5.0%
Diesel fuel (winter gasoil)	30,057	28,472	5.6%	29,264	28,638	2.2%
High-octane gasoline	30,415	28,250	7.7%	29,333	29,207	0.4%
Low-octane gasoline	28,689	27,804	3.2%	28,247	27,892	1.3%

³Source: Platts.

⁴Source: Kortess.



Rouble/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, changes in the Consumer Price Index also affect the financial results of Bashneft Group; the inflation rate affects both capital and operating expenses of the Group.

	2Q		1Q	1H		
	2015	2015	Change	2015	2014	Change
Rouble inflation (Consumer Price Index) during the stated periods ⁵	1.1%	7.4%	-6.3 p.p.	8.5%	4.8%	3.7 p.p.
Rouble/dollar exchange rate at the end of the period	55.5	58.5	-5.1%	55.5	33.6	65.2%
Rouble/dollar exchange rate, period average	52.7	62.2	-15.3%	57.4	35.0	64.0%

Taxation

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

	2Q		1Q	1H		
	2015	2015	Change	2015	2014	Change
Mineral extraction tax (roubles per tonne)						
Crude oil	7,073	6,834	3.5%	6,954	6,107	13.9%
Export tariff (US\$ per tonne)						
Crude oil	130.4	130.2	0.2%	130.3	386.6	-66.3%
Gasoline	101.7	101.5	0.2%	101.6	347.9	-70.8%
Light and medium distillates	62.6	62.4	0.3%	62.5	255.2	-75.5%
Diesel fuel	62.6	62.4	0.3%	62.5	250.6	-75.1%
Fuel oil	99.1	98.9	0.2%	99.0	255.2	-61.2%
Export tariff (roubles per tonne)						
Crude oil	6,866	8,097	-15.2%	7,479	13,525	-44.7%
Gasoline	5,355	6,312	-15.2%	5,832	12,171	-52.1%
Light and medium distillates	3,296	3,881	-15.1%	3,587	8,925	-59.8%
Diesel fuel	3,296	3,881	-15.1%	3,587	8,766	-59.1%
Fuel oil	5,218	6,151	-15.2%	5,682	8,925	-36.3%

⁵Source: Federal State Statistics Service (Rosstat).



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

(roubles per tonne)	2014	2015	2016	As from 1 January 2017
Gasoline				
non-compliant with classes 3, 4, 5	11,110	7,300	7,530	5,830
compliant with class 3	10,725	7,300	7,530	5,830
compliant with class 4	9,916	7,300	7,530	5,830
compliant with class 5	6,450	5,530	7,530	5,830
Naphtha	11,252	11,300	10,500	9,700
Diesel fuel				
non-compliant with classes 3, 4, 5	6,446	3,450	4,150	3,950
compliant with class 3	6,446	3,450	4,150	3,950
compliant with class 4	5,427	3,450	4,150	3,950
compliant with class 5	4,767	3,450	4,150	3,950
Lubricants	8,260	6,500	6,000	5,400

Mineral extraction tax

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

From 1 January 2015 the tax code has been amended in relation to the calculation of mineral extraction tax on oil. As a result mineral extraction tax on oil is calculated using the following formula:

$766 \times K_c - 530 \times K_c \times (1 - K_v \times K_z \times K_d \times K_{dv} \times K_{kan})$, where

K_c is a coefficient reflecting changes in global oil prices.

K_v is a depletion coefficient for a specific subsoil area.

K_z is a coefficient reflecting the amount of reserves at a specific subsoil area.

K_d is a coefficient reflecting the complexity of oil production.

K_{dv} is a depletion coefficient for a specific hydrocarbon deposit.

K_{kan} is a coefficient characterizing the oil-producing region and the properties of oil.

Actual mineral extraction tax expenses during the six months of 2015 were 24% 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		
	2015	2015		Change	2015	2014
Current mineral extraction tax rates (roubles per barrel)	968.9	936.2	3.5%	952.6	836.6	13.9%
Actual mineral extraction tax expenses (roubles per barrel)	735.3	706.1	4.1%	720.9	563.4	28.0%



OPERATING RESULTS

Production

	2Q	1Q	Change	1H		
	2015	2015		2015	2014	Change
Oil production (thousand tonnes)	4,831	4,709	2.6%	9,540	8,489	12.4%
<i>mature fields</i>	4,125	4,115	0.2%	8,240	7,954	3.6%
<i>Burneftegaz Group fields</i>	396	290	36.6%	686	174	294.3%
<i>R. Trebs and A. Titov fields</i>	310	304	2.0%	614	361	70.1%
Daily average production of crude oil (thousand barrels per day)	387.5	382.0	1.4%	384.8	349.3	10.2%

In the 2nd quarter of 2015, production volume increased slightly by 2.6% compared to the 1st quarter of 2015 and totalled 4,831 thousand tonnes.

During the six months ended 30 June 2015, production volume increased by 12.4% compared to the same period in 2014 and totalled 9,540 thousand tonnes due to higher efficiency of production drilling, the acquisition of Burneftegaz Group in the 1st quarter of 2014 and further development of the R. Trebs and A. Titov fields.

Refining

(thousand tonnes)	2Q	1Q	Change	1H		
	2015	2015		2015	2014	Change
Crude oil refining	4,478	4,715	-5.0%	9,193	10,799	-14.9%
Petroleum product output						
Gasoline (including naphtha and alkylate ⁶)	1,177	1,211	-2.8%	2,388	2,429	-1.7%
Diesel fuel	1,763	1,898	-7.1%	3,661	3,749	-2.3%
Fuel oil	577	706	-18.3%	1,283	1,540	-16.7%
Vacuum gas oil	-	27	-100.0%	27	889	-97.0%
Other	611	541	12.9%	1,152	1,352	-14.8%
Total production of petroleum products	4,128	4,383	-5.8%	8,511	9,959	-14.5%
including those used in the production of petrochemicals	133	130	2.3%	263	-	n/a
Refining depth (%)	86.8%	83.7%	3.1 p.p.	85.2%	84.9%	0.3 p.p.
Share of light products (%)	68.5%	68.6%	-0.1 p.p.	68.5%	60.5%	8.0 p.p.
Production of petrochemicals	195	225	-13.3%	420	-	n/a

In the 2nd quarter of 2015, refining volume declined by 5.0% compared to the 1st quarter of 2015 and totalled 4,478 thousand tonnes, which was related to unfavourable macroeconomic conditions.

During the six months ended 30 June 2015, refining volume decreased by 14.9% compared to the same period in 2014 and totalled 9,193 thousand tonnes, which was related to unfavourable macroeconomic conditions and changes in tax legislation that came into force in 2015.

⁶ Stable natural gasoline.



FINANCIAL RESULTS⁷

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME FOR THE SIX MONTHS ENDED 30 JUNE 2015

(million roubles)	2Q	1Q	Change	1H		Change
	2015	2015		2015	2014 ⁸	
Revenue						
Crude oil sales	44,133	40,668	8.5%	84,801	76,728	10.5%
Petroleum products and petrochemicals sales	107,527	101,226	6.2%	208,753	229,175	-8.9%
Other sales	1,085	1,036	4.7%	2,121	3,941	-46.2%
Total revenue	152,745	142,930	6.9%	295,675	309,844	-4.6%
Operating expenses						
Cost of purchased crude oil, gas and petroleum products	(32,861)	(31,034)	5.9%	(63,895)	(69,154)	-7.6%
Taxes other than income tax	(29,113)	(26,986)	7.9%	(56,099)	(38,661)	45.1%
Export tariffs and excises	(24,153)	(27,029)	-10.6%	(51,182)	(93,142)	-45.0%
Production and operating expenses	(16,879)	(18,415)	-8.3%	(35,294)	(31,575)	11.8%
Transportation expenses	(9,055)	(8,770)	3.2%	(17,825)	(15,128)	17.8%
Depletion and depreciation	(7,480)	(7,093)	5.5%	(14,573)	(10,785)	35.1%
Selling, general and administrative expenses	(4,830)	(3,959)	22.0%	(8,789)	(7,189)	22.3%
Other operating expenses, net	(342)	(236)	44.9%	(578)	(1,184)	-51.2%
Total costs and expenses	(124,713)	(123,522)	1.0%	(248,235)	(266,818)	-7.0%
Operating profit	28,032	19,408	44.4%	47,440	43,026	10.3%
Reversal of impairment/(impairment) of assets, net	248	(345)	n/a	(97)	(459)	-78.9%
Finance income	1,592	1,988	-19.9%	3,580	2,517	42.2%
Finance costs	(4,929)	(4,280)	15.2%	(9,209)	(5,275)	74.6%
Foreign exchange loss, net	(1,370)	(1,951)	-29.8%	(3,321)	(2,175)	52.7%
Share of (loss)/profit of joint ventures, net of income tax	(747)	(40)	n/a	(787)	59	n/a
Total other expenses	(5,206)	(4,628)	12.5%	(9,834)	(5,333)	84.4%
Profit before tax	22,826	14,780	54.4%	37,606	37,693	-0.2%
Income tax	(4,405)	(3,101)	42.1%	(7,506)	(7,881)	-4.8%
Profit for the period	18,421	11,679	57.7%	30,100	29,812	1.0%
Total comprehensive income for the period	18,421	11,679	57.7%	30,100	29,812	1.0%
Profit/(loss) for the period attributable to non-controlling interests	513	289	77.5%	802	(2)	n/a
Profit for the period attributable to owners of the parent company	17,908	11,390	57.2%	29,298	29,814	-1.7%
Total comprehensive income/(loss) for the period attributable to non-controlling interests	513	289	77.5%	802	(2)	n/a
Total comprehensive income for the period attributable to owners of the parent company	17,908	11,390	57.2%	29,298	29,814	-1.7%

⁷ Under IFRS consolidated financial statements.

⁸ Certain comparative information has been reclassified to ensure its consistency with the method of presentation in financial statements adopted in the current period.

REVENUE

In the 2nd quarter of 2015, the revenue of Bashneft Group increased by 6.9% compared to the 1st quarter of 2015 and totalled 152,745 million roubles. This change was caused by an increase in the volume of domestic sales of crude oil and petroleum products and a rise in prices on the domestic market.

During the six months ended 30 June 2015, revenue fell by 4.6% compared to the same period in 2014 and totalled 295,675 million roubles. This change was caused by a fall in prices.

(million roubles)	2Q		1Q	1H		
	2015	2015	Change	2015	2014	Change
Revenue						
Export sales of crude oil outside the Customs Union	33,655	32,809	2.6%	66,464	66,325	0.2%
Export sales of crude oil to the Customs Union	3,071	2,942	4.4%	6,013	4,231	42.1%
Domestic sales of crude oil	7,407	4,917	50.6%	12,324	6,172	99.7%
Total sales of crude oil	44,133	40,668	8.5%	84,801	76,728	10.5%
Export sales of petroleum products and petrochemicals outside the Customs Union	49,731	49,906	-0.4%	99,637	115,460	-13.7%
Export sales of petroleum products and petrochemicals to the Customs Union	997	3,070	-67.5%	4,067	3,432	18.5%
Domestic sales of petroleum products and petrochemicals	56,799	48,250	17.7%	105,049	110,283	-4.7%
<i>wholesale</i>	42,395	35,436	19.6%	77,831	86,410	-9.9%
<i>retail</i>	14,404	12,814	12.4%	27,218	23,873	14.0%
Total sales of petroleum products and petrochemicals	107,527	101,226	6.2%	208,753	229,175	-8.9%
Other sales	1,085	1,036	4.7%	2,121	3,941	-46.2%
Total revenue	152,745	142,930	6.9%	295,675	309,844	-4.6%

(thousand tonnes)	2Q		1Q	1H		
	2015	2015	Change	2015	2014	Change
Sales volume						
Export sales of crude oil outside the Customs Union	1,495	1,477	1.2%	2,972	2,466	20.5%
Export sales of crude oil to the Customs Union	189	192	-1.6%	381	310	22.9%
Domestic sales of crude oil	525	397	32.2%	922	488	88.9%
Total sales of crude oil	2,209	2,066	6.9%	4,275	3,264	31.0%
Export sales of petroleum products and petrochemicals outside the Customs Union	1,965	1,962	0.2%	3,927	4,531	-13.3%
Export sales of petroleum products and petrochemicals to the Customs Union	59	155	-61.9%	214	197	8.6%
Domestic sales of petroleum products and petrochemicals	2,281	2,237	2.0%	4,518	4,982	-9.3%
<i>wholesale</i>	1,881	1,877	0.2%	3,758	4,277	-12.1%
<i>retail</i>	400	360	11.1%	760	705	7.8%
Total sales of petroleum products and petrochemicals	4,305	4,354	-1.1%	8,659	9,710	-10.8%
Total sales of crude oil, petroleum products and petrochemicals	6,514	6,420	1.5%	12,934	12,974	-0.3%



Export and domestic sales of crude oil

In the 2nd quarter of 2015, revenue from export sales of crude oil increased slightly compared to the 1st quarter of 2015 and amounted to 36,726 million roubles.

During the six months ended 30 June 2015, revenue from export sales of crude oil amounted to 72,477 million roubles, which is 2.7% more than in the same period in 2014. This change was caused by a 20.8% increase in the volume of crude oil exports, which, in turn, was offset by a fall in global oil prices.

In the 2nd quarter of 2015, revenue from domestic sales of crude oil totalled 7,407 million roubles, which is 50.6% more than in the 1st quarter of 2015. The increase in revenue was related to an increase in crude oil sales volume and a rise in prices on the domestic market.

During the six months ended 30 June 2015, revenue from domestic sales of crude oil totalled 12,324 million roubles, which is 99.7% higher than in the same period in 2014. This change was caused by an increase in crude oil sales volume and a rise in prices on the domestic market, as well as the acquisition of Burneftegaz Group and consolidation of LLC Bashneft-Polyus.

Export sales of petroleum products and petrochemicals

(thousand tonnes)	2Q	1Q	Change	1H		Change
	2015	2015		2015	2014	
Diesel fuel	1,399	1,482	-5.6%	2,881	2,512	14.7%
Fuel oil	375	310	21.0%	685	950	-27.9%
High-octane gasoline	110	148	-25.7%	258	221	16.7%
Naphtha	67	34	97.1%	101	70	44.3%
Vacuum gas oil	-	29	-100.0%	29	892	-96.7%
Other	22	27	-18.5%	49	83	-41.0%
Total sales of petroleum products	1,973	2,030	-2.8%	4,003	4,728	-15.3%
Petrochemicals sales	51	87	-41.4%	138	-	n/a
Total sales of petroleum products and petrochemicals	2,024	2,117	-4.4%	4,141	4,728	-12.4%

Export sales of petroleum products and petrochemicals outside the Customs Union

In the 2nd quarter of 2015, revenue from sales of petroleum products outside the Customs Union remained flat compared to the 1st quarter of 2015 and totalled 49,731 million roubles.

During the six months ended 30 June 2015, revenue from sales of petroleum products and petrochemicals outside the Customs Union fell by 13.7% compared to the same period in 2014 and totalled 99,637 million roubles. This change was caused by a 13.3% reduction in the sales volume of petroleum products related to a decrease in production of fuel oil and vacuum gas oil combined with a fall in prices.

Export sales of petroleum products and petrochemicals to the Customs Union

In the 2nd quarter of 2015, revenue from sales of petroleum products to the Customs Union amounted to 997 million roubles, which is 67.5% less than in the 1st quarter of 2015. The decline in revenue from export sales of petroleum products to the Customs Union was related to a 61.9% reduction in the sales volume of petroleum products to the Customs Union in the 2nd quarter of 2015.

During the six months ended 30 June 2015, revenue from sales of petroleum products and petrochemicals to the Customs Union increased by 18.5% compared to the same period in 2014



and totalled 4,067 million roubles. The increase in revenue was related to consolidation of OJSC United Petrochemical Company and its subsidiaries (UPC Group).

Domestic sales of petroleum products and petrochemicals

(thousand tonnes)	2Q		1Q	1H		
	2015	2015		Change	2015	2014
High-octane gasoline	997	916	8.8%	1,913	2,015	-5.1%
Diesel fuel	457	373	22.5%	830	1,108	-25.1%
Fuel oil	221	400	-44.8%	621	526	18.1%
Other	494	431	14.6%	925	1,333	-30.6%
Total sales of petroleum products	2,169	2,120	2.3%	4,289	4,982	-13.9%
Petrochemicals sales	112	117	-4.3%	229	-	n/a
Total sales of petroleum products and petrochemicals	2,281	2,237	2.0%	4,518	4,982	-9.3%

Wholesale of petroleum products and petrochemicals

In the 2nd quarter of 2015, revenue from wholesale of petroleum products on the domestic market increased by 19.6% compared to the 1st quarter of 2015 and totalled 42,395 million roubles due to a rise in prices for petroleum products on the domestic market.

During the six months ended 30 June 2015, revenue from wholesale of petroleum products on the domestic market decreased by 9.9% and totalled 77,831 million roubles compared to the same period in 2014. The decline in revenue was related to a 12.1% reduction in sales volume due to a decrease in the output of petroleum products.

Retail sales of petroleum products

In the 2nd quarter of 2015, revenue from retail sales increased by 12.4% compared to the 1st quarter of 2015 and amounted to 14,404 million roubles, which was related to an 11.1% seasonal increase in the volume of retail sales on the domestic market.

During the six months ended 30 June 2015, revenue from retail sales increased by 14.0% compared to the same period in 2014 and totalled 27,218 million roubles. The increase in revenue from retail sales was related to a 7.8% increase in the retail sales volume due to expansion of the network of petrol stations and the ongoing rebranding programme, as well as 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 lease of property, sales of related goods at petrol stations and sales of other goods and services.

In the 2nd quarter of 2015, other revenue increased slightly compared to the 1st quarter of 2015 and amounted to 1,085 million roubles.

During the six months ended 30 June 2015, other revenue slumped by 46.2% compared to the same period in 2014, which was caused primarily by consolidation of the UPC 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		Change	1H		Change
	2015	2015		2015	2014	
Production and operating expenses						
Production	9,908	9,815	0.9%	19,723	16,392	20.3%
Refining	6,774	6,201	9.2%	12,975	10,718	21.1%
Other (including petrochemicals and change in WIP and finished product balances and other costs)	197	2,399	-91.8%	2,596	4,465	-41.9%
Total production and operating expenses	16,879	18,415	-8.3%	35,294	31,575	11.8%

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

	2Q		Change	1H		Change
	2015	2015		2015	2014	
Crude oil production expenses (million roubles)	9,908	9,815	0.9%	19,723	16,392	20.3%
Unit costs for production of crude oil (roubles per barrel)	280.9	285.5	-1.6%	283.2	264.5	7.1%

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 2015, unit costs for production of crude oil decreased slightly compared to the 1st quarter of 2015 and amounted to 280.9 roubles per barrel.

During the six months ended 30 June 2015, unit costs for production of crude oil grew by 7.1% compared to the same period in 2014 and totalled 283.2 roubles per barrel due to higher cost of raw and other materials, as well as services provided by oilfield service companies.

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

	2Q		Change	1H		Change
	2015	2015		2015	2014	
Refining expenses (million roubles)	6,774	6,201	9.2%	12,975	10,718	21.1%
Unit refining costs (roubles per barrel)	207.2	180.2	15.0%	193.3	136.0	42.1%

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 2015, unit refining costs increased by 15.0% compared to the 1st quarter of 2015 and amounted to 207.2 roubles per barrel due to an increase in the amount of repairs and decrease in the refining volume.

Unit refining costs increased by 42.1% compared to the same period in 2014. This increase was caused by an increase in the amount of repairs and higher cost of auxiliary materials.



Cost of purchased crude oil, gas and petroleum products

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

The table below shows the volume of purchased crude oil, gas and petroleum products which formed the cost of goods sold in the corresponding period.

(thousand tonnes)	2Q		1Q	1H		
	2015	2015	Change	2015	2014	Change
Purchased crude oil, gas, and gas condensate	2,269	2,068	9.7%	4,337	5,523	-21.5%
Purchased petroleum products	14	16	-12.5%	30	34	-11.8%
Total volume of purchased crude oil, gas, and petroleum products	2,283	2,084	9.5%	4,367	5,557	-21.4%

In the 2nd quarter of 2015, the cost of purchased crude oil, gas and petroleum products increased by 5.9% compared to the 1st quarter of 2015 and amounted to 32,861 million roubles. This change was related mainly to an increase in the volume of purchased crude oil, gas and gas condensate.

During the six months ended 30 June 2015, the cost of purchased crude oil, gas and petroleum products decreased by 7.6% compared to the same period in 2014 and amounted to 63,895 million roubles. This change was related to a reduction in the volume of purchased crude oil, gas and petroleum products due to a decrease in refining volume.

Transportation expenses

In the 2nd quarter of 2015, transportation costs increased slightly compared to the 1st quarter of 2015 and amounted to 9,055 million roubles.

During the six months ended 30 June 2015, transportation costs increased by 17.8% compared to the same period in 2014 and totalled 17,825 million roubles. The growth of transportation costs was driven mainly by an increase in export volume of crude oil combined with expansion of the geographical footprint of the wholesale business on the domestic market and consolidation of the UPC Group.

Depletion and depreciation

(million roubles)	2Q		1Q	1H		
	2015	2015	Change	2015	2014	Change
Exploration and production	3,438	3,235	6.3%	6,673	4,654	43.4%
Refining, petrochemicals and marketing	3,878	3,634	6.7%	7,512	5,762	30.4%
Other	164	224	-26.8%	388	369	5.1%
Total depletion and depreciation	7,480	7,093	5.5%	14,573	10,785	35.1%

In the 2nd quarter of 2015, depletion and depreciation costs rose by 5.5% compared to the 1st quarter of 2015 and totalled 7,480 million roubles.

During the six months ended 30 June 2015, depletion and depreciation costs increased by 35.1% compared to the same period in 2014, which was mainly caused by an increase in production and sales volume of crude oil, as well as commissioning of new property, plant and equipment, the acquisition of Burneftegaz Group and consolidation of LLC Bashneft-Polyus and the UPC Group.



Taxes other than income tax

(million roubles)	2Q		1Q	1H		
	2015	2015	Change	2015	2014	Change
Mineral extraction tax	26,247	24,099	8.9%	50,346	34,524	45.8%
Social taxes	1,916	2,027	-5.5%	3,943	2,915	35.3%
Property tax	533	534	-0.2%	1,067	792	34.7%
Other	417	326	27.9%	743	430	72.8%
Total taxes other than income tax	29,113	26,986	7.9%	56,099	38,661	45.1%

In the 2nd quarter of 2015, taxes other than income tax increased by 7.9% compared to the 1st quarter of 2015 and amounted to 29,113 million roubles. This change was caused by an increase in mineral extraction tax payments due to a rise in the mineral extraction tax rate, as well as production growth.

During the six months ended 30 June 2015, taxes other than income tax increased by 45.1% compared to the same period in 2014 and totalled 56,099 million roubles. This change was caused by an increase in mineral extraction tax payments related to the adoption of a law on the tax manoeuvre, as well as production growth. An increase in social taxes was related to consolidation of the UPC Group.

Export tariffs and excises

(million roubles)	2Q		1Q	1H		
	2015	2015	Change	2015	2014	Change
Export tariffs on crude oil	10,951	11,310	-3.2%	22,261	33,451	-33.5%
Export tariffs on petroleum products	6,036	9,365	-35.5%	15,401	41,124	-62.5%
Total export tariffs	16,987	20,675	-17.8%	37,662	74,575	-49.5%
Excises	7,166	6,354	12.8%	13,520	18,567	-27.2%
Total export tariffs and excises	24,153	27,029	-10.6%	51,182	93,142	-45.0%

In the 2nd quarter of 2015, the total amount of export tariffs on oil and petroleum products decreased by 17.8% compared to the 1st quarter of 2015 to 16,987 million roubles, which was caused primarily by a reduction in export duty rates in roubles.

In the 2nd quarter of 2015, the total amount of excises grew by 12.8% compared to the 1st quarter of 2015 to 7,166 million roubles due to an increase in the sales volume in Russian Federation.

During the six months ended 30 June 2015, the total amount of export tariffs on oil and petroleum products fell by 49.5% compared to the same period in 2014, mainly due to a reduction in export duty rates.

During the six months ended 30 June 2015, the total amount of excises decreased by 27.2% compared to the same period in 2014, primarily due to a decrease 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		
	2015	2015	Change	2015	2014	Change
Net cash generated from/(used in) operating activities	37,617	(2,697)	n/a	34,920	47,122	-25.9%
Net cash used in investing activities	(18,190)	(25,595)	-28.9%	(43,785)	(54,058)	-19.0%
Net cash generated from/(used in) financing activities	13,674	(11,236)	n/a	2,438	48,728	-95.0%

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

(million roubles)	2Q		1Q	1H		
	2015	2015	Change	2015	2014	Change
Operating cash flow before working capital changes	35,983	26,741	34.6%	62,724	54,527	15.0%
Movements in working capital less cash and cash equivalents	10,370	(22,575)	n/a	(12,205)	2,874	n/a
Interest paid	(3,975)	(3,655)	8.8%	(7,630)	(4,621)	65.1%
Income tax paid	(4,761)	(3,208)	48.4%	(7,969)	(5,658)	40.8%
Net cash generated from/(used in) operating activities	37,617	(2,697)	n/a	34,920	47,122	-25.9%

In the 2nd quarter of 2015, net cash generated from operating activities totalled 37,617 million roubles. The main factor behind the change compared to the 1st quarter of 2015 consisted in a reduction of working capital.

During the six months ended 30 June 2015, net cash generated from operating activities decreased by 25.9% compared to the same period in 2014, which was also related mainly to a movement in working capital less cash and cash equivalents.

Net cash used in investing activities:

(million roubles)	2Q		1Q	1H		
	2015	2015	Change	2015	2014	Change
Capital expenditures	(15,402)	(12,161)	26.7%	(27,563)	(18,811)	46.5%
Acquisition of financial assets, less proceeds from disposal of financial assets	(3,046)	(15,187)	-79.9%	(18,233)	123	n/a
Acquisition of subsidiaries, net of cash of acquired companies	-	7	-100.0%	7	(36,084)	n/a
Other	258	1,746	-85.2%	2,004	714	180.7%
Net cash used in investing activities	(18,190)	(25,595)	-28.9%	(43,785)	(54,058)	-19.0%

In the 2nd quarter of 2015, net cash used in investing activities totalled 18,190 million roubles and was allocated for placement of deposits and for financing capital investments.

During the six months ended 30 June 2015, net cash used in investing activities decreased by 19.0% compared to the same period in 2014 and totalled 43,785 million roubles; it was allocated for placement of deposits and for financing capital investments.



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

(million roubles)	2Q		1Q	1H		
	2015	2015	Change	2015	2014	Change
Proceeds from borrowings	15,786	508	n/a	16,294	94,344	-82.7%
Repayment of borrowings	(2,108)	(11,730)	-82.0%	(13,838)	(27,747)	-50.1%
Total issue and repayment of debt:	13,678	(11,222)	n/a	2,456	66,597	-96.3%
Dividends paid	(4)	(14)	-71.4%	(18)	-	n/a
Purchase of treasury shares	-	-	-	-	(17,869)	-100.0%
Net cash generated from/(used in) financing activities	13,674	(11,236)	n/a	2,438	48,728	-95.0%

In the 2nd quarter of 2015, net cash generated from financing activities totalled 13,674 million roubles.

During the six months ended 30 June 2015, net cash generated from financing activities totalled 2,438 million roubles.

FINANCING AND DEBT

(million roubles)	30 June		31 March	Change	30 June		
	2015	2015			2015	2014	Change
Short-term borrowings	18,073	19,337	-6.5%	18,073	24,079	-24.9%	
Long-term loans and borrowings	153,581	139,246	10.3%	153,581	140,525	9.3%	
Total debt	171,654	158,583	8.2%	171,654	164,604	4.3%	
Cash and cash equivalents	(45,784)	(13,255)	n/a	(45,784)	(57,480)	-20.3%	
Short-term financial investments	(19,829)	(16,159)	22.7%	(19,829)	-	n/a	
Adjusted net debt	106,041	129,169	-17.9%	106,041	107,124	-1.0%	

As of 30 June 2015, the Group's total debt in the form of short-term and long-term loans and borrowings totalled 171,654 million roubles compared to 158,583 million roubles as of 31 March 2015.

As of 30 June 2015, the annual weighted average interest rate on loans and borrowings stood at 11.1% compared to 11.7% as of 31 March 2015.

CAPITAL EXPENDITURES

(million roubles)	2Q		1Q	1H		
	2015	2015	Change	2015	2014	Change
Production	12,431	9,107	36.5%	21,538	14,107	52.7%
<i>development of the R. Trebs and A. Titov fields</i>	6,861	1,186	n/a	8,047	7,181	12.1%
<i>development of the Burnefitegaz Group fields</i>	1,433	1,746	-17.9%	3,179	690	n/a
Refining, petrochemicals and marketing	2,474	2,646	-6.5%	5,120	4,624	10.7%
Other	497	408	21.8%	905	80	n/a
Total cash used in capital expenditures	15,402	12,161	26.7%	27,563	18,811	46.5%

In the 2nd quarter of 2015, capital expenditures increased by 26.7% compared to the 1st quarter of 2015 and amounted to 15,402 million roubles. This increase was mainly caused by growing capital expenditure on the development of the R. Trebs and A. Titov fields.



During the six months of 2015, capital expenditures increased by 46.5% compared to the same period in 2014, which was related mainly to an increase in capital expenditures in the Production segment, including those related to acquisition of Burneftegaz Group.

EVENTS SUBSEQUENT TO THE REPORTING PERIOD

Change in shareholders structure

On 3 July 2015 in accordance with the Decree of the President of the Russian Federation 38,128,551 ordinary shares and 6,280,076 preferred shares of Bashneft (25% of the authorised capital) were transferred to the Republic of Bashkortostan, represented by the Ministry of Land and Property Relations.

The Bashneft Shareholders meeting held in June 2015 set the deadline for dividend claims registration on 17 July 2015. Therefore, the Republic of Bashkortostan, represented by the Ministry of Land and Property Relations became entitled to the dividends declared on 30 June 2015 of 5,018 million roubles.

Borrowings

In July 2015 the Group renegotiated with banks the interest rates for unsecured fixed interest rate borrowings with a carrying value of 40,636 million roubles as of 30 June 2015. As a result interest rates for these unsecured borrowings are fixed interest rates varying from 12.0% to 12.5% per annum (previously, varying from 13.0% to 14.0% per annum).

In July 2015 the Group renegotiated with a bank the interest rate for unsecured floating interest rate borrowing with a carrying value of 29,797 million roubles as of 30 June 2015. As a result interest rate for this unsecured borrowing is a Central Bank key rate +1.0% per annum (previously, Central Bank key rate +1.5% per annum).

In July and August 2015 the Group made an early repayment of unsecured fixed interest rate borrowings of 15,000 million roubles and unsecured floating interest rate borrowings of 5,000 million roubles, which were classified as long-term borrowings as of 30 June 2015.

