



BASHNEFT
JOINT STOCK OIL COMPANY

Management's analysis of the financial position and operating results of Bashneft Group for the three months ended 30 September and 30 June 2015 and for the nine months ended 30 September 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 nine months ended 30 September 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. 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 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) amounted to 517.9 million tonnes. During the nine months ended 30 September 2015, production at the developed licence areas totalled 14.7 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, PJSC Ufaorgsintez. The refineries' installed capacity totals 24.1 million tonnes of hydrocarbons per year.

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

During the nine months ended 30 September 2015, the Group's refineries processed 14.3 million tonnes of hydrocarbons. Refining depth averaged 86.0%, which is one of the best results among Russian vertically integrated oil companies.

During the nine months ended 30 September 2015, Bashneft Group sold 7.3 million tonnes of petroleum products on the domestic market and exported 6.2 million tonnes of petroleum products. The Group also sold 6.8 million tonnes of crude oil, including 5.1 million tonnes of exported crude oil.

As of 30 September 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

	3Q		Change	9M		
	2015	2015		2015	2014 ¹	Change
Revenue (million roubles)	167,629	152,745	9.7%	463,304	472,705	-2.0%
EBITDA (million roubles)	37,700	35,512	6.2%	99,713	83,750	19.1%
Adjusted EBITDA (million roubles) ²	37,467	35,854	4.5%	100,058	85,293	17.3%
Operating profit (million roubles)	30,403	28,032	8.5%	77,843	67,079	16.0%
Profit for the period attributable to the owners of the parent company (million roubles)	21,980	17,908	22.7%	51,278	45,425	12.9%
Net debt (million roubles)	101,745	106,041	-4.1%	101,745	127,577	-20.2%
Oil production (thousand tonnes)	5,134	4,831	6.3%	14,674	13,085	12.1%
Oil refining (thousand tonnes)	5,120	4,478	14.3%	14,313	16,323	-12.3%

Significant events during the nine months of 2015:

- in February 2015, the Group acquired LLC Yanaulsk Division 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 rating 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, the Meeting of Shareholders of Bashneft resolved to pay dividends of 20,073 million roubles for the 2014 fiscal year (113 roubles per ordinary share and per preferred registered share). All payments were made in July and August 2015 on time and in full;
- in July 2015, the Republic of Bashkortostan represented by the Ministry of Land and Property Relations became the owner of 38,128,551 ordinary shares and 6,280,076 preferred shares of PJSOC Bashneft (25.0% of its authorized share capital), while the interest of the Federal Agency for State Property Management in the Company's share capital decreased proportionally to 88,951,379 ordinary shares (50.08% of the Company's authorized share capital).

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

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

(million roubles)	3Q		Change	9M		
	2015	2015		2015	2014	Change
EBITDA	37,700	35,512	6.2%	99,713	83,750	19.1%
Other operating (income)/expenses, net	(233)	342	n/a	345	1,543	-77.6%
Adjusted EBITDA	37,467	35,854	4.5%	100,058	85,293	17.3%



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.

	3Q		2Q	9M		
	2015	2015	Change	2015	2014	Change
Prices for crude oil and petroleum products³						
Brent crude oil (US\$ per barrel)	50.5	61.9	-18.4%	55.3	106.5	-48.1%
Brent crude oil (roubles per barrel)	3,179	3,258	-2.4%	3,278	3,769	-13.0%
Urals crude oil (US\$ per barrel)	49.9	62.2	-19.8%	55.0	105.4	-47.8%
Urals crude oil (roubles per barrel)	3,144	3,278	-4.1%	3,261	3,730	-12.6%
Fuel oil (average FOB Rotterdam/CIF NWE) (US\$ per tonne)	240.3	320.0	-24.9%	276.9	565.7	-51.1%
Fuel oil (average FOB Rotterdam/CIF NWE) (roubles per tonne)	15,131	16,849	-10.2%	16,414	20,020	-18.0%
Diesel fuel (average FOB Rotterdam/CIF NWE) (US\$ per tonne)	476.7	572.6	-16.7%	521.0	895.7	-41.8%
Diesel fuel (average FOB Rotterdam/CIF NWE) (roubles per tonne)	30,020	30,150	-0.4%	30,885	31,698	-2.6%
Naphtha (average FOB Rotterdam/CIF NWE) (US\$ per tonne)	428.6	536.0	-20.0%	475.7	909.3	-47.7%
Naphtha (average FOB Rotterdam/CIF NWE) (roubles per tonne)	26,992	28,221	-4.4%	28,200	32,178	-12.4%
Vacuum gas oil (FOB NWE) (US\$ per tonne)	356.5	433.7	-17.8%	390.4	751.6	-48.1%
Vacuum gas oil (FOB NWE) (roubles per tonne)	22,449	22,834	-1.7%	23,141	26,599	-13.0%
Russian market (roubles per tonne, with excises, net of VAT)⁴						
Crude oil	12,561	13,609	-7.7%	12,997	11,752	10.6%
Fuel oil	7,930	9,081	-12.7%	8,284	9,499	-12.8%
Diesel fuel (summer gasoil)	28,771	28,788	-0.1%	28,195	26,726	5.5%
Diesel fuel (winter gasoil)	30,355	30,057	1.0%	29,628	28,701	3.2%
High-octane gasoline	34,978	30,415	15.0%	31,215	30,560	2.1%
Low-octane gasoline	32,410	28,689	13.0%	29,634	28,758	3.0%

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.

	3Q		2Q	9M		
	2015	2015	Change	2015	2014	Change
Rouble inflation (Consumer Price Index) during the stated periods ⁵	1.9%	1.1%	0.8 p.p.	10.4%	6.3%	4.1 p.p.
Rouble/dollar exchange rate at the end of the period	66.2	55.5	19.3%	66.2	39.4	68.0%
Rouble/dollar exchange rate, period average	63.0	52.7	19.5%	59.3	35.4	67.5%

Taxation

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

	3Q		2Q	9M		
	2015	2015	Change	2015	2014	Change
Mineral extraction tax (roubles per tonne)						
Crude oil	6,263	7,073	-11.5%	6,721	6,017	11.7%
Export tariff (US\$ per tonne)						
Crude oil	128.7	130.4	-1.3%	129.8	384.6	-66.3%
Gasoline	100.3	101.7	-1.4%	101.2	346.1	-70.8%
Light and medium distillates	61.7	62.6	-1.4%	62.2	253.8	-75.5%
Diesel fuel	61.7	62.6	-1.4%	62.2	249.5	-75.1%
Fuel oil	97.7	99.1	-1.4%	98.6	253.8	-61.2%
Export tariff (roubles per tonne)						
Crude oil	8,105	6,866	18.0%	7,694	13,610	-43.5%
Gasoline	6,317	5,355	18.0%	5,999	12,247	-51.0%
Light and medium distillates	3,886	3,296	17.9%	3,687	8,981	-58.9%
Diesel fuel	3,886	3,296	17.9%	3,687	8,829	-58.2%
Fuel oil	6,153	5,218	17.9%	5,845	8,981	-34.9%

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 for the nine 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.

	3Q		Change	9M		
	2015	2015		2015	2014	Change
Current mineral extraction tax rates (roubles per barrel)	857.9	968.9	-11.5%	920.7	824.2	11.7%
Actual mineral extraction tax expenses (roubles per barrel)	654.8	735.3	-10.9%	697.8	558.0	25.1%



OPERATING RESULTS

Production

	3Q	2Q	Change	9M		Change
	2015	2015		2015	2014	
Oil production (thousand tonnes)	5,134	4,831	6.3%	14,674	13,085	12.1%
<i>mature fields</i>	4,239	4,125	2.8%	12,479	12,116	3.0%
<i>fields of Burneftegaz Group</i>	546	396	37.9%	1,232	397	210.3%
<i>the R. Trebs and A. Titov fields</i>	349	310	12.6%	963	572	68.4%
Daily average production of crude oil (thousand barrels per day)	407.4	387.5	5.1%	392.4	355.1	10.5%

In the 3rd quarter of 2015, production volume increased by 6.3% compared to the 2nd quarter of 2015 and totalled 5,134 thousand tonnes, which was related primarily to an increase in the quantity of highly efficient geological and engineering operations performed at the Group's brownfields and to production growth at new fields.

During the nine months ended 30 September 2015, production volume increased by 12.1% compared to the same period in 2014 and totalled 14,674 thousand tonnes due to higher efficiency of production drilling and further development of the R. Trebs and A. Titov fields and fields of Burneftegaz Group.

Refining

(thousand tonnes)	3Q	2Q	Change	9M		Change
	2015	2015		2015	2014	
Crude oil refining	5,120	4,478	14.3%	14,313	16,323	-12.3%
Petroleum product output						
Gasoline (including naphtha and alkylate ⁶)	1,363	1,177	15.8%	3,751	3,598	4.3%
Diesel fuel	1,950	1,763	10.6%	5,611	5,629	-0.3%
Fuel oil	579	577	0.3%	1,862	2,315	-19.6%
Vacuum gas oil	-	-	-	27	1,348	-98.0%
Other	801	611	31.1%	1,953	2,125	-8.1%
Total production of petroleum products	4,693	4,128	13.7%	13,204	15,015	-12.1%
including those used in the production of petrochemicals	143	133	7.6%	406	-	n/a
Refining depth (%)	87.3%	86.8%	0.5 p.p.	86.0%	84.9%	1.1 p.p.
Share of light products (%)	68.7%	68.5%	0.2 p.p.	68.6%	60.1%	8.5 p.p.
Production of petrochemicals	218	195	11.8%	638	-	n/a

In the 3rd quarter of 2015, refining volume increased by 14.3% compared to the 2nd quarter of 2015 and totalled 5,120 thousand tonnes due to an improvement in macroeconomic conditions in the 3rd quarter of 2015 as a result of a significant rise in gasoline prices in the domestic market.

During the nine months ended 30 September 2015, refining volume decreased by 12.3% compared to the same period in 2014 and totalled 14,313 thousand tonnes, which was related to unfavourable macroeconomic conditions and changes in tax legislation that came into force in 2015.

⁶Stable natural gasoline.



FINANCIAL RESULTS⁷

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

(million roubles)	3Q		Change	9M		
	2015	2015		2015	2014 ⁸	Change
Revenue						
Crude oil sales	45,678	44,133	3.5%	130,479	118,750	9.9%
Petroleum products and petrochemicals sales	120,712	107,527	12.3%	329,465	348,477	-5.5%
Other sales	1,239	1,085	14.2%	3,360	5,478	-38.7%
Total revenue	167,629	152,745	9.7%	463,304	472,705	-2.0%
Operating expenses						
Cost of purchased crude oil, gas and petroleum products	(35,967)	(32,861)	9.5%	(99,862)	(104,083)	-4.1%
Taxes other than income tax	(27,691)	(29,113)	-4.9%	(83,790)	(58,188)	44.0%
Export tariffs and excises	(29,678)	(24,153)	22.9%	(80,860)	(141,008)	-42.7%
Production and operating expenses	(21,516)	(16,879)	27.5%	(56,810)	(50,249)	13.1%
Transportation expenses	(10,048)	(9,055)	11.0%	(27,873)	(22,404)	24.4%
Depletion and depreciation	(7,297)	(7,480)	-2.4%	(21,870)	(16,671)	31.2%
Selling, general and administrative expenses	(5,262)	(4,830)	8.9%	(14,051)	(11,480)	22.4%
Other operating income/(expenses), net	233	(342)	n/a	(345)	(1,543)	-77.6%
Total costs and expenses	(137,226)	(124,713)	10.0%	(385,461)	(405,626)	-5.0%
Operating profit	30,403	28,032	8.5%	77,843	67,079	16.0%
Reversal of impairment/(impairment) of assets, net	1,248	248	n/a	1,151	(413)	n/a
Financial income	1,613	1,592	1.3%	5,193	3,193	62.6%
Financial costs	(4,442)	(4,929)	-9.9%	(13,651)	(9,075)	50.4%
Foreign exchange gains/(losses), net	772	(1,370)	n/a	(2,549)	(2,778)	-8.2%
Share of (loss)/profit of joint ventures, net of income tax	(70)	(747)	-90.6%	(857)	58	n/a
Total other expenses	(879)	(5,206)	-83.1%	(10,713)	(9,015)	18.8%
Profit before tax	29,524	22,826	29.3%	67,130	58,064	15.6%
Income tax	(6,898)	(4,405)	56.6%	(14,404)	(12,459)	15.6%
Profit for the period	22,626	18,421	22.8%	52,726	45,605	15.6%
Total comprehensive income for the period	22,626	18,421	22.8%	52,726	45,605	15.6%
Profit for the period attributable to non-controlling interests	646	513	25.9%	1,448	180	n/a
Profit for the period attributable to owners of the parent company	21,980	17,908	22.7%	51,278	45,425	12.9%
Total comprehensive income for the period attributable to non-controlling interests	646	513	25.9%	1,448	180	n/a
Total comprehensive income for the period attributable to owners of the parent company	21,980	17,908	22.7%	51,278	45,425	12.9%

⁷According to consolidated International Financial Reporting Standards ("IFRS") financial statements.

⁸Certain 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 3rd quarter of 2015, the revenue of Bashneft Group increased by 9.7% compared to the 2nd quarter of 2015 and totalled 167,629 million roubles. This change was caused by an increase in the volume of domestic sales of crude oil and petroleum products.

During the nine months ended 30 September 2015, revenue declined by 2.0% compared to the same period in 2014 and amounted to 463,304 million roubles. This change was caused by a fall in prices.

(million roubles)	3Q		Change	9M		
	2015	2Q 2015		2015	2014	Change
Revenue						
Export sales of crude oil outside the Customs Union	33,078	33,655	-1.7%	99,542	101,908	-2.3%
Export sales of crude oil to the Customs Union	2,712	3,071	-11.7%	8,725	6,278	39.0%
Domestic sales of crude oil	9,888	7,407	33.5%	22,212	10,564	110.3%
Total sales of crude oil	45,678	44,133	3.5%	130,479	118,750	9.9%
Export sales of petroleum products and petrochemicals outside the Customs Union	43,508	49,731	-12.5%	143,145	167,586	-14.6%
Export sales of petroleum products and petrochemicals to the Customs Union	1,984	997	99.0%	6,051	6,234	-2.9%
Domestic sales of petroleum products and petrochemicals	75,220	56,799	32.4%	180,269	174,657	3.2%
<i>wholesale</i>	59,244	42,395	39.7%	137,075	136,373	0.5%
<i>retail</i>	15,976	14,404	10.9%	43,194	38,284	12.8%
Total sales of petroleum products and petrochemicals	120,712	107,527	12.3%	329,465	348,477	-5.5%
Other sales	1,239	1,085	14.2%	3,360	5,478	-38.7%
Total revenue	167,629	152,745	9.7%	463,304	472,705	-2.0%

(thousand tonnes)	3Q		Change	9M		
	2015	2Q 2015		2015	2014	Change
Sales volume						
Export sales of crude oil outside the Customs Union	1,525	1,495	2.0%	4,497	3,811	18.0%
Export sales of crude oil to the Customs Union	193	189	2.1%	574	475	20.8%
Domestic sales of crude oil	759	525	44.6%	1,681	848	98.2%
Total sales of crude oil	2,477	2,209	12.1%	6,752	5,134	31.5%
Export sales of petroleum products and petrochemicals outside the Customs Union	1,920	1,965	-2.3%	5,847	6,693	-12.6%
Export sales of petroleum products and petrochemicals to the Customs Union	93	59	57.6%	307	317	-3.2%
Domestic sales of petroleum products and petrochemicals	2,824	2,281	23.8%	7,342	7,729	-5.0%
<i>wholesale</i>	2,395	1,881	27.3%	6,153	6,614	-7.0%
<i>retail</i>	429	400	7.3%	1,189	1,115	6.6%
Total sales of petroleum products and petrochemicals	4,837	4,305	12.4%	13,496	14,739	-8.4%
Total sales of crude oil, petroleum products and petrochemicals	7,314	6,514	12.3%	20,248	19,873	1.9%



Export and domestic sales of crude oil

In the 3rd quarter of 2015, revenue from export sales of crude oil decreased by 2.5% compared to the 2nd quarter of 2015 and amounted to 35,790 million roubles.

During the nine months ended 30 September 2015, revenue from export sales of crude oil remained at the level reached during the same period in 2014 and totalled 108,267 million roubles.

In the 3rd quarter of 2015, revenue from domestic sales of crude oil totalled 9,888 million roubles, which is 33.5% more than in the 2nd quarter of 2015. The increase in revenue was caused by a 44.6% increase in crude oil sales volume, which was partially offset by a fall in prices on the domestic market.

During the nine months ended 30 September 2015, revenue from domestic sales of crude oil totalled 22,212 million roubles, which is 110.3% 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)	3Q		Change	9M		
	2015	2015		2015	2014	Change
Diesel fuel	1,394	1,399	-0.4%	4,275	3,748	14.1%
Fuel oil	398	375	6.1%	1,083	1,405	-22.9%
High-octane gasoline	72	110	-34.5%	330	280	17.9%
Naphtha	51	67	-23.9%	152	98	55.1%
Vacuum gas oil	-	-	n/a	29	1,352	-97.9%
Other	31	22	40.9%	80	122	-34.4%
Total sales of petroleum products	1,946	1,973	-1.4%	5,949	7,005	-15.1%
Petrochemicals sales	67	51	31.4%	205	5	n/a
Total sales of petroleum products and petrochemicals	2,013	2,024	-0.5%	6,154	7,010	-12.2%

Export sales of petroleum products and petrochemicals outside the Customs Union

In the 3rd quarter of 2015, revenue from sales of petroleum products outside the Customs Union fell by 12.5% compared to the same period in 2014 and totalled 43,508 million roubles. This reduction was related primarily to a fall in global prices.

During the nine months ended 30 September 2015, revenue from sales of petroleum products and petrochemicals outside the Customs Union decreased by 14.6% compared to the same period in 2014 and totalled 143,145 million roubles. This change was caused by a 12.6% 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 3rd quarter of 2015, revenue from sales of petroleum products to the Customs Union amounted to 1,984 million roubles, which is 99.0% more than in the 2nd quarter of 2015. The increase in revenue from export sales of petroleum products to the Customs Union was caused by a 57.6% rise in the sales volume of petroleum products to the Customs Union in the 3rd quarter of 2015 (93 thousand tonnes in the 3rd quarter of 2015 compared to 59 thousand tonnes in the 2nd quarter of 2015) due to a shift of focus in the markets.



During the nine months ended 30 September 2015, revenue from sales of petroleum products and petrochemicals to the Customs Union decreased slightly compared to the same period in 2014 and amounted to 6,051 million roubles.

Domestic sales of petroleum products and petrochemicals

(thousand tonnes)	3Q		Change	9M		
	2015	2015		2015	2014	Change
High-octane gasoline	1,181	997	18.5%	3,094	3,047	1.5%
Diesel fuel	616	457	34.8%	1,446	1,712	-15.5%
Fuel oil	215	221	-2.7%	836	848	-1.4%
Other	670	494	35.6%	1,595	2,107	-24.3%
Total sales of petroleum products	2,682	2,169	23.7%	6,971	7,714	-9.6%
Petrochemicals sales	142	112	26.8%	371	15	n/a
Total sales of petroleum products and petrochemicals	2,824	2,281	23.8%	7,342	7,729	-5.0%

Wholesale of petroleum products and petrochemicals

In the 3rd quarter of 2015, revenue from wholesale of petroleum products on the domestic market increased by 39.7% compared to the 2nd quarter of 2015 and totalled 59,244 million roubles, which was related mainly to a 27.3% increase in the wholesale volume (2,395 thousand tonnes in the 3rd quarter of 2015 compared to 1,881 thousand tonnes in the 2nd quarter of 2015). Due to an increase in refining volume, additional output of refined products compared to the 2nd quarter of 2015 was supplied to the most profitable destination, i.e. sold on the domestic market.

During the nine months ended 30 September 2015, revenue from wholesale of petroleum products and petrochemicals on the domestic market remained at the level reached during the same period in 2014 and totalled 137,075 million roubles.

Retail sales of petroleum products

In the 3rd quarter of 2015, revenue from retail sales increased by 10.9% compared to the 2nd quarter of 2015 and totalled 15,976 million roubles, which was related to a 7.3% seasonal increase in retail sales volume on the domestic market.

During the nine months ended 30 September 2015, revenue from retail sales increased by 12.8% compared to the same period in 2014 and totalled 43,194 million roubles. The increase in revenue from retail sales was related to a 6.6% increase in 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 3rd quarter of 2015, other revenue amounted to 1,239 million roubles compared to 1,085 million roubles in the 2nd quarter of 2015.

During the nine months ended 30 September 2015, other revenue fell by 38.7% compared to the same period in 2014, which was caused mainly 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)	3Q		Change	9M		
	2015	2015		2015	2014	Change
Production and operating expenses						
Production	11,604	9,908	17.1%	31,327	25,870	21.1%
Refining	6,749	6,774	-0.4%	19,724	16,552	19.2%
Other (including petrochemicals, change in WIP and finished product balances and other costs)	3,163	197	n/a	5,759	7,827	-26.4%
Total production and operating expenses	21,516	16,879	27.5%	56,810	50,249	13.1%

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

	3Q		Change	9M		
	2015	2015		2015	2014	Change
Crude oil production expenses (million roubles)	11,604	9,908	17.1%	31,327	25,870	21.1%
Unit costs for production of crude oil (roubles per barrel)	309.6	280.9	10.2%	292.4	270.8	8.0%

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 3rd quarter of 2015, unit costs for production of crude oil grew by 10.2% compared to the 2nd quarter of 2015 and totalled 309.6 roubles per barrel due to higher cost of services provided by oilfield service companies.

During the nine months ended 30 September 2015, unit costs for production of crude oil increased by 8.0% compared to the same period in 2014 and amounted to 292.4 roubles per barrel due to higher cost of raw and other materials and services provided by oilfield service companies.

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

	3Q		Change	9M		
	2015	2015		2015	2014	Change
Refining expenses (million roubles)	6,749	6,774	-0.4%	19,724	16,552	19.2%
Unit refining costs (roubles per barrel)	180.6	207.2	-12.8%	188.8	138.9	35.9%

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 3rd quarter of 2015, unit refining costs decreased by 12.8% compared to the 2nd quarter of 2015 and totalled 180.6 roubles per barrel due to a 14.3% increase in refining volume.

During the nine months ended 30 September 2015, unit refining costs grew by 35.9% 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)	3Q		Change	9M		
	2015	2015		2015	2014	Change
Purchased crude oil, gas, and gas condensate	2,740	2,269	20.8%	7,077	8,411	-15.9%
Purchased petroleum products	19	14	35.7%	49	80	-38.8%
Total volume of purchased crude oil, gas, and petroleum products	2,759	2,283	20.8%	7,126	8,491	-16.1%

In the 3rd quarter of 2015, the cost of purchased crude oil, gas and petroleum products increased by 9.5% compared to the 2nd quarter of 2015 and amounted to 35,967 million roubles. This change was related mainly to an increase in the volume of purchased crude oil, gas and gas condensate, which was partially offset by a decline in oil prices.

During the nine months ended 30 September 2015, the cost of purchased crude oil, gas and petroleum products decreased by 4.1% compared to the same period in 2014 and totalled 99,862 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 3rd quarter of 2015, transportation costs increased by 11.0% compared to the 2nd quarter of 2015 and amounted to 10,048 million roubles, which was caused primarily by an increase in the dollar/rouble exchange rate.

During the nine months ended 30 September 2015, transportation costs grew by 24.4% compared to the same period in 2014 and totalled 27,873 million roubles. The growth of transportation costs was driven mainly by an increase in the volume of crude oil exports combined with expansion of the geographical footprint of the wholesale business on the domestic market, consolidation of the UPC Group, as well as an increase in transportation tariffs and the dollar/rouble exchange rate.

Depletion and depreciation

(million roubles)	3Q		Change	9M		
	2015	2015		2015	2014	Change
Exploration and production	3,279	3,438	-4.6%	9,952	7,298	36.4%
Refining, petrochemicals and marketing	3,822	3,878	-1.4%	11,334	8,819	28.5%
Other	196	164	19.5%	584	554	5.4%
Total depletion and depreciation	7,297	7,480	-2.4%	21,870	16,671	31.2%

In the 3rd quarter of 2015, depletion and depreciation costs decreased by 2.4% compared to the 2nd quarter of 2015 and totalled 7,297 million roubles.

During the nine months ended 30 September 2015, depletion and depreciation costs increased by 31.2% compared to the same period in 2014, primarily due to an increase in the volume of production and sales 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)	3Q		Change	9M		
	2015	2015		2015	2014	Change
Mineral extraction tax	24,682	26,247	-6.0%	75,028	52,139	43.9%
Social taxes	1,969	1,916	2.8%	5,912	4,253	39.0%
Property tax	537	533	0.8%	1,604	1,164	37.8%
Other	503	417	20.6%	1,246	632	97.2%
Total taxes other than income tax	27,691	29,113	-4.9%	83,790	58,188	44.0%

In the 3rd quarter of 2015, taxes other than income tax decreased by 4.9% compared to the 2nd quarter of 2015 and amounted to 27,691 million roubles. This change was caused by a decrease in mineral extraction tax payments due to a reduction in the mineral extraction tax rate.

During the nine months ended 30 September 2015, taxes other than income tax grew by 44.0% compared to the same period in 2014 and totalled 83,790 million roubles. This change was caused by an increase in mineral extraction tax payments due 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)	3Q		Change	9M		
	2015	2015		2015	2014	Change
Export tariffs on crude oil	11,849	10,951	8.2%	34,110	52,219	-34.7%
Export tariffs on petroleum products	9,164	6,036	51.8%	24,565	60,306	-59.3%
Total export tariffs:	21,013	16,987	23.7%	58,675	112,525	-47.9%
Excises	8,665	7,166	20.9%	22,185	28,483	-22.1%
Total export tariffs and excises	29,678	24,153	22.9%	80,860	141,008	-42.7%

In the 3rd quarter of 2015, the total amount of export tariffs on oil and petroleum products increased by 23.7% compared to the 2nd quarter of 2015 and totalled 21,013 million roubles, which was caused mainly by a rise in export duty rates in roubles.

In the 3rd quarter of 2015, the total amount of excises increased by 20.9% compared to the 2nd quarter of 2015 and amounted to 8,665 million roubles due to an increase in sales volume in the Russian Federation.

During the nine months ended 30 September 2015, the total amount of export tariffs on oil and petroleum products decreased by 47.9% compared to the same period in 2014, which was caused mainly by a reduction in export duty rates.

During the nine months ended 30 September 2015, the total amount of excises decreased by 22.1% compared to the same period in 2014, which was caused mainly by a reduction in applicable rates.



CASH FLOW

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

(million roubles)	3Q		Change	9M		
	2015	2015		2015	2014	Change
Net cash generated from operating activities	35,328	37,617	-6.1%	70,248	77,697	-9.6%
Net cash generated from/(used in) investing activities	3,539	(18,190)	n/a	(40,246)	(68,556)	-41.3%
Net cash (used in)/generated from financing activities	(41,183)	13,674	n/a	(38,745)	10,794	n/a

Net cash generated from operating activities:

(million roubles)	3Q		Change	9M		
	2015	2015		2015	2014	Change
Operating cash flow before working capital changes	37,404	35,983	3.9%	100,128	84,518	18.5%
Movements in working capital less cash and cash equivalents	9,824	10,370	-5.3%	(2,381)	12,481	n/a
Interest paid	(4,260)	(3,975)	7.2%	(11,890)	(8,539)	39.2%
Income tax paid	(7,640)	(4,761)	60.5%	(15,609)	(10,763)	45.0%
Net cash generated from operating activities	35,328	37,617	-6.1%	70,248	77,697	-9.6%

In the 3rd quarter of 2015, net cash generated from operating activities totalled 35,328 million roubles. The main factor behind the change compared to the 2nd quarter of 2015 consisted in an increase in income tax paid.

During the nine months ended 30 September 2015, net cash generated from operating activities decreased by 9.6% compared to the same period in 2014, which was mainly related to movements in working capital less cash and cash equivalents.

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

(million roubles)	3Q		Change	9M		
	2015	2015		2015	2014	Change
Capital expenditures	(15,299)	(15,402)	-0.7%	(42,862)	(31,643)	35.5%
Acquisition of financial assets, less proceeds from disposal of financial assets	17,574	(3,046)	n/a	(659)	2,130	n/a
Acquisition of subsidiaries, net of cash of acquired companies	275	-	n/a	282	(40,219)	n/a
Other	989	258	n/a	2,993	1,176	154.5%
Net cash generated from/(used in) investing activities	3,539	(18,190)	n/a	(40,246)	(68,556)	-41.3%

In the 3rd quarter of 2015, net cash generated from investing activities amounted to 3,539 million roubles. The main factor that had an impact on this indicator consisted in proceeds from sale of financial assets.

During the nine months ended 30 September 2015, net cash used in investing activities decreased by 41.3% compared to the same period in 2014 and totalled 40,246 million roubles. The main factor that had an impact on this indicator consisted in the fact that there were no major acquisitions of companies during the nine months ended 30 September 2015.



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

(million roubles)	3Q		Change	9M		
	2015	2015		2015	2014	Change
Proceeds from borrowings	457	15,786	-97.1%	16,751	95,833	-82.5%
Repayment of borrowings	(22,567)	(2,108)	n/a	(36,405)	(31,573)	15.3%
Total issue and repayment of debt:	(22,110)	13,678	n/a	(19,654)	64,260	n/a
Dividends paid	(19,073)	(4)	n/a	(19,091)	(35,597)	-46.4%
Purchase of treasury shares	-	-	-	-	(17,869)	-100.0%
Net cash (used in)/generated from financing activities	(41,183)	13,674	n/a	(38,745)	10,794	n/a

In the 3rd quarter of 2015, net cash used in financing activities totalled 41,183 million roubles and was allocated for the repayment of borrowings and payment of dividends.

During the nine months ended 30 September 2015, net cash used in financing activities totalled 38,745 million roubles.

FINANCING AND DEBT

(million roubles)	30		Change	30 September		
	September	30 June		2015	2014	Change
Short-term borrowings	27,015	18,073	49.5%	27,015	27,227	-0.8%
Long-term loans and borrowings	124,071	153,581	-19.2%	124,071	139,209	-10.9%
Total debt	151,086	171,654	-12.0%	151,086	166,436	-9.2%
Cash and cash equivalents	(44,341)	(45,784)	-3.2%	(44,341)	(37,620)	17.9%
Short-term financial investments	(5,000)	(19,829)	-74.8%	(5,000)	(1,239)	n/a
Adjusted net debt	101,745	106,041	-4.1%	101,745	127,577	-20.2%

As of 30 September 2015, the Group's total debt in the form of short-term and long-term loans and borrowings totalled 151,086 million roubles compared to 171,654 million roubles as of 30 June 2015.

As of 30 September 2015, the annual weighted average interest rate on loans and borrowings stood at 10.6% compared to 11.1% as of 30 June 2015.

CAPITAL EXPENDITURES

(million roubles)	3Q		Change	9M		
	2015	2015		2015	2014	Change
Production including	12,247	12,431	-1.5%	33,785	23,948	41.1%
<i>development of the R. Trebs and A. Titov fields</i>	4,436	6,861	-35.3%	12,483	11,960	4.4%
<i>development of fields of Burneftegaz Group</i>	1,656	1,433	15.6%	4,835	1,486	n/a
Refining, petrochemicals and marketing	2,844	2,474	15.0%	7,964	7,483	6.4%
Other	208	497	-58.1%	1,113	212	n/a
Total cash used in capital expenditures	15,299	15,402	-0.7%	42,862	31,643	35.5%

In the 3rd quarter of 2015, capital expenditures remained at the level reached in the 2nd quarter of 2015 and totalled 15,299 million roubles.

During the nine months of 2015, capital expenditures increased by 35.5% 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

In October 2015, the Board of Directors of Bashneft approved a new Dividend Policy, according to which the Company plans to distribute not less than 25% of the Group's IFRS consolidated annual net profit.

In November 2015, Fitch Ratings upgraded Company's Long-Term Foreign and Local Currency Issuer Default Ratings (IDR) from 'BB' to 'BB+'. The outlook for both ratings is stable.

In November 2015 the Group made an early repayment of current and non-current portions of unsecured fixed interest rate borrowings in the amount of RUB 10,000 million and RUB 5,000 million, respectively.

