



BASHNEFT
JOINT STOCK OIL COMPANY

**Management's analysis of the financial position and
operating results of Bashneft Group for the three months
ended 31 March 2013 and 31 December 2012,
and for the three months ended 31 March 2013 and 2012**



This report contains a review of the financial position and operating results of JSOC Bashneft and includes operating results of Bashneft Group for the three months ended 31 March 2013. The terms “Bashneft”, “the Company”, “Bashneft Group” and “the Group” in various forms mean JSOC Bashneft and its subsidiaries and special purpose entities. The financial position and operating results analysed in this document are consolidated data on Bashneft Group.

Certain statements in this report may contain assumptions or forecasts with respect to forthcoming events within Bashneft Group. Such statements may contain the words “is expected”, “is estimated”, “intends”, “will”, “could”, negations of these expressions 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 Group 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 192 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. 171 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 2012 amounted to 282.1 million tonnes. Bashneft Group has a reserves-to-production ratio of 18.3 years. Proved and probable (2P) reserves totalled 356.4 million tonnes. Overall reserves of Bashneft Group (including possible reserves) amounted to 448.8 million tonnes. In the 1st quarter of 2013, production at the developed licence areas totalled 3.8 million tonnes.

Bashneft Group includes three refineries and one petrochemical plant. The Group has some of the most technologically advanced facilities in Russia that are leaders in terms of refining depth and quality of petroleum products and petrochemicals. The refineries' installed capacity totals 24.1 million tonnes of hydrocarbons per year.

In the 1st quarter of 2013, the Group's refineries processed 5.2 million tonnes of hydrocarbons. The average refining depth amounted to 84.5%, which is one of the best results among Russian vertically integrated oil companies.

In 2012 Bashneft Group produced about 12% of gasoline manufactured in Russia. In July 2012, the Group's own retail network completed full transition to sales of high-octane gasoline and diesel fuel complying with the Euro 5 standard.

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

In the 1st quarter of 2013, Bashneft Group sold 2.4 million tonnes of petroleum products and petrochemicals on the domestic market and exported 2.0 tonnes of petroleum products and petrochemicals. The Group also sold 1.2 million tonnes of crude oil, including 1.1 million tonnes of exported crude oil.

As of 31 March 2010, distribution base of Bashneft Group consists of 470 operating petrol stations, and 261 partner's petrol stations operating under Bashneft brand.

KEY FINANCIAL AND OPERATING RESULTS

	1Q		Change	1Q		
	2013	2012		2013	2012	Change
Revenue (million roubles)	125,580	139,814	-10.2%	125,580	118,737	5.8%
EBITDA (million roubles)	21,223	19,427	9.2%	21,223	24,933	-14.9%
Adjusted EBITDA (million roubles) ¹	21,223	23,620	-10.1%	21,223	22,669	-6.4%
Operating profit (million roubles)	16,812	15,256	10.2%	16,812	20,501	-18.0%
Profit for the period attributable to the owners of the Company (million roubles)	11,992	10,756	11.5%	11,992	13,333	-10.1%
Net debt (million roubles)	81,804	78,018	4.9%	81,804	68,816	18.9%
Oil production (thousand tonnes)	3,844	3,908	-1.6%	3,844	3,840	0.1%
Oil refining (thousand tonnes)	5,216	5,376	-3.0%	5,216	5,120	1.9%

Major events during 2013 that had an impact on the performance of Bashneft Group:

- in February 2013, the Group issued 10,000,000 series 06 non-convertible interest-bearing bonds, 10,000,000 series 07 non-convertible interest-bearing bonds, 5,000,000 series 08 non-convertible interest-bearing bonds and 5,000,000 series 09 non-convertible interest-bearing bonds with a par value of 1,000 roubles per bond with maturity date in 2023. The coupon rate on series 06 and 08 bonds was set at 8.65% and will be revised in February 2018. The coupon rate on series 07 and 09 bonds was set at 8.85% and will be revised in February 2020. At the date of coupon rate revision the bondholders have the right to redeem the bonds at par value.

¹ Adjusted EBITDA excludes the impact of one-off transactions on property, plant and equipment impairment accruals and reverse of provisions in relation to legal claims.

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 profitability of the Group. This 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.

	1Q		Change	1Q		Change
	2013	2012		2013	2012	
Prices for crude oil and petroleum products ²						
Brent crude oil (US\$ per barrel)	112.6	110.1	2.3%	112.6	118.6	-5.1%
Brent crude oil (roubles per barrel)	3,424	3,421	0.1%	3,424	3,589	-4.6%
Urals crude oil (US\$ per barrel)	111.1	109.0	1.9%	111.1	117.0	-5.0%
Urals crude oil (roubles per barrel)	3,378	3,386	-0.2%	3,378	3,542	-4.6%
Fuel oil (average FOB Rotterdam/CIF NWE) (US\$ per tonne)	613.1	590.0	3.9%	613.1	686.3	-10.7%
Fuel oil (average FOB Rotterdam/CIF NWE) (roubles per tonne)	18,646	18,336	1.7%	18,646	20,770	-10.2%
Diesel fuel (average FOB Rotterdam/CIF NWE) (US\$ per tonne)	958.0	953.4	0.5%	958.0	993.6	-3.6%
Diesel fuel (average FOB Rotterdam/CIF NWE) (roubles per tonne)	29,138	29,627	-1.7%	29,138	30,069	-3.1%
Naphtha (average FOB Rotterdam/CIF NWE) (US\$ per tonne)	944.5	939.7	0.5%	944.5	1,014.3	-6.9%
Naphtha (average FOB Rotterdam/CIF NWE) (roubles per tonne)	28,728	29,203	-1.6%	28,728	30,696	-6.4%
Vacuum gas oil (FOB NWE) (US\$ per tonne)	807.6	737.7	9.5%	807.6	833.8	-3.1%
Vacuum gas oil (FOB NWE) (roubles per tonne)	24,564	22,926	7.1%	24,564	25,235	-2.7%
Russian market (roubles per tonne, with excises, net of VAT)³						
Crude oil	10,449	10,246	2.0%	10,449	10,671	-2.1%
Fuel oil	8,370	9,375	-10.7%	8,370	8,955	-6.5%
Diesel fuel (summer gasoil)	23,972	24,061	-0.4%	23,972	21,374	12.2%
Diesel fuel (winter gasoil)	27,752	27,971	-0.8%	27,752	24,553	13.0%
High-octane gasoline	26,127	26,993	-3.2%	26,127	23,195	12.6%
Low-octane gasoline	25,011	23,969	4.3%	25,011	22,628	10.5%

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.

² Source: Platts.

³ Source: Kortes.



In addition, the Consumer Price Index also affects the financial position of Bashneft Group; the inflation rate affects both the capital and operating expenses of the Group.

	1Q		Change	1Q		
	2013	2012		2013	2012	Change
Rouble inflation (Consumer Price Index) during the stated periods ⁴	1.9%	1.4%	0.5 p.p.	1.9%	1.5%	0.4 p.p.
Rouble/dollar exchange rate at the end of the period	31.1	30.4	2.3%	31.1	29.3	6.1%
Rouble/dollar exchange rate, period average	30.4	31.1	-2.3%	30.4	30.3	0.3%

Taxation

Price fluctuations on foreign markets affect export tariffs and the mineral extraction tax.

	1Q		Change	1Q		
	2013	2012		2013	2012	Change
Mineral extraction tax (roubles per tonne)						
Crude oil	5,261	5,007	5.1%	5,261	5,284	-0.4%
Export tariffs (roubles per tonne)						
Crude oil	12,363	12,637	-2.2%	12,363	12,130	1.9%
Gasoline	11,128	11,373	-2.2%	11,128	10,916	1.9%
Light and medium distillates	8,160	8,340	-2.2%	8,160	8,005	1.9%
Fuel oil	8,160	8,340	-2.2%	8,160	8,005	1.9%

In accordance with the amendments to tax legislation that became effective in December 2010, excise rates are increased and differentiated in accordance with requirements for fuel quality:

(roubles per tonne)	1 January – 30 June 2012	1 July – 31 December 2012	1 January – 30 June 2013	1 July – 31 December 2013	2014	2015
Gasoline						
non-compliant with classes 3, 4, 5	7,725	8,225	10,100	10,100	11,110	13,332
compliant with class 3	7,382	7,882	9,750	9,750	10,725	12,879
compliant with class 4	6,822	6,822	8,560	8,960	9,416	10,358
compliant with class 5	6,822	5,143	5,143	5,750	5,750	6,223
Naphtha	7,824	7,824	10,229	10,229	11,252	13,502
Diesel fuel						
non-compliant with classes 3, 4, 5	4,098	4,300	5,860	5,860	6,446	7,735
compliant with class 3	3,814	4,300	5,860	5,860	6,446	7,735
compliant with class 4	3,562	3,562	4,934	5,100	5,427	5,970
compliant with class 5	3,562	2,962	4,334	4,500	4,767	5,244
Lubricants	6,072	6,072	7,509	7,509	8,260	9,086

Mineral extraction tax

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

The Tax Code of the Russian Federation stipulates a reduced or zero mineral extraction tax rate for certain fields. A number of Bashneft Group's fields have a level of depletion exceeding 80%;

⁴ Source: Federal State Statistics Service (Rosstat).

as a result, actual mineral extraction tax expenses in the 1st quarter of 2013 are 28% lower than the current mineral extraction tax rate.

	1Q		Change	1Q		Change
	2013	2012		2013	2012	
Mineral extraction tax						
Current mineral extraction tax rates (roubles per barrel)	720.7	685.9	5.1%	720.7	723.8	-0.4%
Actual mineral extraction tax expenses (roubles per barrel)	517.3	502.2	3.0%	517.3	518.1	-0.2%



OPERATING RESULTS

Production

	1Q		Change	1Q		
	2013	2012		2013	2012	Change
Crude oil production (thousand tonnes)	3,844	3,908	-1.6%	3,844	3,840	0.1%
Daily average production of crude oil (thousand barrels per day)	311.8	310.1	0.5%	311.8	308.0	1.2%

Starting from the 4th quarter of 2011, crude oil production remained at the same level reaching a plateau of 3.8 million tonnes.

Refining

(thousand tonnes)	1Q		Change	1Q		
	2013	2012		2013	2012	Change
Crude oil refining	5,216	5,376	-3.0%	5,216	5,120	1.9%
Production of petroleum products						
Gasolines (including SNG ⁵)	1,229	1,275	-3.6%	1,229	1,201	2.3%
Diesel fuel	1,812	1,833	-1.1%	1,812	1,777	2.0%
Fuel oil	702	763	-8.0%	702	765	-8.2%
Vacuum gas oil	390	429	-9.1%	390	320	21.9%
Other	563	537	4.8%	563	506	11.3%
Total production of petroleum products	4,696	4,837	-2.9%	4,696	4,569	2.8%
Refining depth (%)	84.5%	84.0%	0.5 p.p.	84.5%	84.3%	0.2 p.p.
Share of light products (%)	60.2%	59.5%	0.7 p.p.	60.2%	59.9%	0.3 p.p.

In the 1st quarter of 2013, crude oil refining volume remained almost the same as in the 4th and 1st quarters of 2012.

⁵ Stable natural gasoline.



FINANCIAL RESULTS

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME FOR THE THREE MONTHS ENDED 31 MARCH 2013

(million roubles)	1Q		Change	1Q		Change
	2013	2012		2013	2012	
Revenue						
Crude oil sales	27,078	28,451	-4.8%	27,078	28,020	-3.4%
Petroleum products and petrochemicals sales	95,881	108,824	-11.9%	95,881	86,857	10.4%
Other sales	2,621	2,539	3.2%	2,621	3,860	-32.1%
Total revenue	125,580	139,814	-10.2%	125,580	118,737	5.8%
Operating expenses						
Export tariffs and excise	(36,577)	(39,803)	-8.1%	(36,577)	(30,250)	20.9%
Cost of purchased crude oil, gas and petroleum products	(28,705)	(33,206)	-13.6%	(28,705)	(29,490)	-2.7%
Taxes other than income tax	(16,504)	(16,183)	2.0%	(16,504)	(16,289)	1.3%
Production and operating expenses	(12,459)	(14,886)	-16.3%	(12,459)	(11,297)	10.3%
Transportation expenses	(6,759)	(6,939)	-2.6%	(6,759)	(5,425)	24.6%
Depletion and depreciation	(4,411)	(4,171)	5.8%	(4,411)	(4,432)	-0.5%
Selling, general and administrative expenses	(3,479)	(4,795)	-27.4%	(3,479)	(3,065)	13.5%
Other operating income/(expenses), net	126	(4,575)	-102.8%	126	2,012	-93.7%
Total costs and expenses	(108,768)	(124,558)	-12.7%	(108,768)	(98,236)	10.7%
Operating profit	16,812	15,256	10.2%	16,812	20,501	-18.0%
Financial income	1,028	1,154	-10.9%	1,028	1,089	-5.6%
Financial costs	(2,736)	(2,986)	-8.4%	(2,736)	(2,857)	-4.2%
Foreign exchange gain/(loss), net	231	(5)	-4720.0%	231	15	1440.0%
Share in the (loss)/profit of associates and joint ventures, net of income tax	(129)	900	-114.3%	(129)	351	-136.8%
Total other expenses	(1,606)	(937)	71.4%	(1,606)	(1,402)	14.6%
Profit before income tax	15,206	14,319	6.2%	15,206	19,099	-20.4%
Income tax	(3,184)	(3,271)	-2.7%	(3,184)	(4,123)	-22.8%
Profit for the period	12,022	11,048	8.8%	12,022	14,976	-19.7%
Profit for the period attributable to non-controlling interests	30	292	-89.7%	30	1,643	-98.2%
Profit for the period attributable to owners of the Company	11,992	10,756	11.5%	11,992	13,333	-10.1%



REVENUE

In the 1st quarter of 2013, the revenue of Bashneft Group totalled 125,580 million roubles, which is 10.2% less than in the 4th quarter of 2012. The reduction in revenue was caused mainly by a decline in sales volume of petroleum products and petrochemicals.

In the 1st quarter of 2013, revenue increased by 5.8% as compared to the 1st quarter of 2012.

(million roubles)	4Q			1Q		
	2013	2012	Change	2013	2012	Change
Revenue						
Export sales of crude oil outside the CIS	24,975	27,513	-9.2%	24,975	26,380	-5.3%
Export sales of crude oil to CIS countries	1,217	-	n/a	1,217	-	n/a
Domestic sales of crude oil	886	938	-5.5%	886	1,640	-46.0%
Total sales of crude oil	27,078	28,451	-4.8%	27,078	28,020	-3.4%
Export sales of petroleum products and petrochemicals outside the CIS	45,376	46,592	-2.6%	45,376	26,022	74.4%
Export sales of petroleum products and petrochemicals to CIS countries	3,147	6,655	-52.7%	3,147	14,647	-78.5%
Domestic sales of petroleum products and petrochemicals	47,358	55,577	-14.8%	47,358	46,188	2.5%
<i>wholesale</i>	37,604	44,983	-16.4%	37,604	37,772	-0.4%
<i>retail</i>	9,754	10,594	-7.9%	9,754	8,416	15.9%
Total sales of petroleum products and petrochemicals	95,881	108,824	-11.9%	95,881	86,857	10.4%
Other sales	2,621	2,539	3.2%	2,621	3,860	-32.1%
Total revenue	125,580	139,814	-10.2%	125,580	118,737	5.8%

(thousand tonnes)	4Q			1Q		
	2013	2012	Change	2013	2012	Change
Sales volumes						
Export sales of crude oil outside the CIS	1,037	1,139	-9.0%	1,037	1,060	-2.2%
Export sales of crude oil to CIS countries	102	-	n/a	102	-	n/a
Domestic sales of crude oil	77	85	-9.4%	77	146	-47.3%
Total sales of crude oil	1,216	1,224	-0.6%	1,216	1,206	0.8%
Export sales of petroleum products and petrochemicals outside the CIS	1,868	1,924	-2.9%	1,868	1,063	75.7%
Export sales of petroleum products and petrochemicals to CIS countries	157	272	-42.3%	157	741	-78.8%
Domestic sales of petroleum products and petrochemicals	2,412	2,675	-9.8%	2,412	2,533	-4.8%
<i>wholesale</i>	2,106	2,327	-9.5%	2,106	2,242	-6.1%
<i>retail</i>	306	348	-12.1%	306	291	5.2%
Total sales of petroleum products and petrochemicals	4,437	4,871	-8.9%	4,437	4,337	2.3%
Total sales of crude oil, petroleum products and petrochemicals	5,653	6,095	-7.3%	5,653	5,543	2.0%

Export and domestic sales of crude oil

In the 1st quarter of 2013, revenue from export sales of crude oil totalled 26,192 million roubles, which is 4.8% less than in the 4th quarter of 2012 and 0.7% less than in the 1st quarter of 2012. The decrease in revenue was caused by a shift of focus from export outside the CIS to sales to CIS countries in the 1st quarter of 2013.



Export sales of petroleum products and petrochemicals

(thousand tonnes)	1Q		4Q	1Q		
	2013	2012		Change	2013	2012
Diesel fuel	1,190	1,336	-10.9%	1,190	1,069	11.3%
Vacuum gas oil	388	428	-9.3%	388	320	21.3%
Fuel oil	216	219	-1.4%	216	168	28.6%
High-octane gasoline	114	107	6.5%	114	149	-23.5%
Naphtha	35	28	25.0%	35	46	-23.9%
Low-octane gasoline	-	3	-100.0%	-	-	n/a
Other	52	45	15.6%	52	10	420.0%
Total sales of petroleum products	1,995	2,166	-7.9%	1,995	1,762	13.2%
Petrochemicals sales	30	30	0.0%	30	42	-28.6%
Total sales of petroleum products and petrochemicals	2,025	2,196	-7.8%	2,025	1,804	12.3%

Export sales of petroleum products and petrochemicals outside the CIS

In the 1st quarter of 2013, revenue from export sales of petroleum products and petrochemicals outside the CIS totalled 45,376 million roubles, which is 2.6% less than in the 4th quarter of 2012. This was caused primarily by a 2.9% decrease in exports volume of petroleum products and petrochemicals outside the CIS (1,868 thousand tonnes in the 1st quarter of 2013 versus 1,924 thousand tonnes in the 4th quarter of 2012).

Revenue from export sales of petroleum products and petrochemicals outside the CIS increased by 74.4% as compared to the 1st quarter of 2012 due to a shift of focus from sales to the CIS to export outside the CIS.

Export sales of petroleum products and petrochemicals to CIS countries

In the 1st quarter of 2013, revenue from export sales of petroleum products and petrochemicals to CIS countries amounted to 3,147 million roubles, which is 52.7% less than in the 4th quarter of 2012. The decline in revenue from export sales of petroleum products and petrochemicals to the CIS was primarily caused by decrease in exports volume of petroleum products and petrochemicals to the CIS.

In the 1st quarter of 2013, revenue from export sales of petroleum products and petrochemicals to CIS countries fell by 78.5% as compared to the 1st quarter of 2012. The reduction in revenue was primarily caused by a 78.8% decrease in sales to CIS countries.

Domestic sales of petroleum products and petrochemicals

(thousand tonnes)	1Q		4Q	1Q		
	2013	2012		Change	2013	2012
High-octane gasoline	944	1,006	-6.2%	944	950	-0.6%
Diesel fuel	477	595	-19.8%	477	527	-9.5%
Fuel oil	452	554	-18.4%	452	538	-16.0%
Low-octane gasoline	29	39	-25.6%	29	43	-32.6%
Vacuum gas oil	-	2	-100.0%	-	-	-
Other	426	384	10.9%	426	397	7.3%
Total sales of petroleum products	2,328	2,580	-9.8%	2,328	2,455	-5.2%
Petrochemicals sales	84	95	-11.6%	84	78	7.7%
Total sales of petroleum products and petrochemicals	2,412	2,675	-9.8%	2,412	2,533	-4.8%



In the 1st quarter of 2013, revenue from wholesale of petroleum products and petrochemicals on the domestic market declined by 16.4% and totalled 37,604 million roubles due to a 9.5% reduction in sales volumes and a fall in wholesale prices.

In the 1st quarter of 2013, revenue from retail sales fell by 7.9% and totalled 9,754 million roubles due to a 12.1% decrease in retail sales volume on the domestic market caused by a seasonal decline in demand.

In the 1st quarter of 2013, revenue from wholesale of petroleum products and petrochemicals on the domestic market decreased by 0.4% as compared to the 1st quarter of 2012 and totalled 37,604 million roubles. The reduction in revenue was caused by lower wholesale volumes, which was partially offset by a rise in prices on the domestic market.

In the 1st quarter of 2013, revenue from retail sales increased by 15.9% as compared to the 1st quarter of 2012 and totalled 9,754 million roubles. The increase in revenue from retail sales was related to higher retail sales volume and a rise in prices.

Other sales

Revenue from other sales includes revenue from sales of goods and services that are not related to the Group's core business, such as maintenance and drilling services provided to external customers.

In the 1st quarter of 2013, other revenue increased by 3.2% as compared to the 4th quarter of 2012 and totalled 2,621 million roubles.

In the 1st quarter of 2013, other revenue decreased by 32.1% as compared to the 1st quarter of 2012. This happened mainly because Bashneft discontinued non-core operations related to transportation services by transferring the railcars and tank cars to LLC Financial Alliance.



COSTS AND EXPENSES

Production and operating expenses

The breakdown of production and operating expenses of Bashneft Group by business segments is shown in the table below.

(million roubles)	1Q		Change	1Q		Change
	2013	2012		2013	2012	
Production and operating expenses						
Oil production	6,076	6,850	-11.3%	6,076	5,352	13.5%
Refining	6,275	6,466	-3.0%	6,275	5,120	22.6%
Other (including change in WIP and finished products)	108	1,570	-93.1%	108	825	-86.9%
Total production and operating expenses	12,459	14,886	-16.3%	12,459	11,297	10.3%

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

	1Q		Change	1Q		Change
	2013	2012		2013	2012	
Crude oil production expenses (million roubles)	6,076	6,850	-11.3%	6,076	5,352	13.5%
Unit costs for production of crude oil (roubles per barrel)	216.5	240.1	-9.8%	216.5	190.9	13.4%

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 1st quarter of 2013, unit costs for production of crude oil decreased by 9.8% as compared to the 4th quarter of 2012 and amounted to 216.5 roubles per barrel. This is due to significant increase in the amount of geological and engineering operations hold in 4th quarter of 2012.

In the 1st quarter of 2013, unit costs for production of crude oil increased by 13.4% as compared to the 1st quarter of 2012 and amounted to 216.5 roubles per barrel. This was related mainly to an increase in the amount of geological and engineering operations, the prices of the contractors and a rise in heat and electricity prices.

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

	1Q		Change	1Q		Change
	2013	2012		2013	2012	
Refining expenses (million roubles)	6,275	6,466	-3.0%	6,275	5,120	22.6%
Unit refining costs (roubles per barrel)	164.8	164.8	0.0%	164.8	137.0	20.3%

Refining expenses include labour costs, expenditure on raw and other materials (excluding crude oil, gas and petroleum products), as well as the acquisition of heat and electricity, repairs and maintenance of oil refining assets.

In the 1st quarter of 2013, unit refining costs remained the same as in the 4th quarter of 2012.

In the 1st quarter of 2013, unit refining costs increased by 20.3% as compared to the 1st quarter of 2012 and totalled 164.8 roubles per barrel mainly due to increase of tariffs for heating and electricity and inflation.



Cost of purchased crude oil, gas and petroleum products

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

Volumes of purchased crude oil, gas and petroleum products which formed the cost of goods sold are shown in the table below.

(thousand tonnes)	1Q		Change	1Q		
	2013	2012		2013	2012	Change
Purchased crude oil, gas, and gas condensate	2,510	2,890	-13.1%	2,510	2,307	8.8%
Purchased petroleum products	36	59	-39.0%	36	45	-20.0%
Total	2,546	2,949	-13.7%	2,546	2,352	8.2%

In the 1st quarter of 2013, the cost of purchased crude oil, gas and petroleum products fell by 13.6% as compared to the 4th quarter of 2012 and totalled 28,705 million roubles. This change was caused mainly by a decrease in the volume of purchased crude oil due to an increase of petroleum products and petrochemicals stocks.

In the 1st quarter of 2013, the cost of purchased crude oil, gas and petroleum products decreased by 2.7% as compared to the 1st quarter of 2012. This change was caused by a fall in oil prices, which was partially offset by an increase in the volume of purchased crude oil and gas.

Transportation costs

In the 1st quarter of 2013, transportation costs of Bashneft Group went down by 2.6% as compared to the 4th quarter of 2012 and amounted to 6,759 million roubles. This was caused primarily by an overall decrease in sales volumes, which was partially offset by higher transportation tariffs.

In the 1st quarter of 2013, transportation costs of Bashneft Group increased by 24.6% as compared to the 1st quarter of 2012. This was caused mainly a shift of focus to exporting petroleum products outside the CIS, as well as an overall increase in sales of crude oil and petroleum products and higher transportation tariffs.

Depletion and depreciation

(million roubles)	1Q		Change	1Q		
	2013	2012		2013	2012	Change
Depletion and depreciation						
Exploration and production	1,823	1,591	14.6%	1,823	1,936	-5.8%
Refining	2,235	2,261	-1.1%	2,235	2,227	0.4%
Other	353	319	10.7%	353	269	31.2%
Total depletion and depreciation	4,411	4,171	5.8%	4,411	4,432	-0.5%

In the 1st quarter of 2013, depletion and depreciation costs totalled 4,411 million roubles versus 4,171 million roubles in the 4th quarter of 2012. This was mainly due to the revaluation of the Group's hydrocarbon reserves as of 31 December 2012 conducted in the 4th quarter of 2012.

In the 1st quarter of 2013, depletion and depreciation costs decreased slightly by 0.5% as compared to the 1st quarter of 2012.



Taxes other than income tax

(million roubles)	1Q		Change	1Q		
	2013	2012		2013	2012	Change
Taxes other than income tax						
Mineral extraction tax	13,843	13,960	-0.8%	13,843	13,882	-0.3%
Social contributions	2,007	1,617	24.1%	2,007	1,794	11.9%
Property tax	406	369	10.0%	406	442	-8.1%
Other	248	237	4.6%	248	171	45.0%
Total taxes other than income tax	16,504	16,183	2.0%	16,504	16,289	1.3%

In the 1st quarter of 2013, taxes other than income tax increased by 2.0% as compared to the 4th quarter of 2012 and totalled 16,504 million roubles, mainly because of application of a regressive social contributions rate in the 4th quarter of 2012.

In the 1st quarter of 2013, taxes other than income tax increased by 1.3% as compared to the 1st quarter of 2012, mainly due to the introduction of additional insurance payments for employees working at harmful and hazardous production facilities.

Export tariffs and excise

(million roubles)	1Q		Change	1Q		
	2013	2012		2013	2012	Change
Export tariffs on crude oil	12,876	14,376	-10.4%	12,876	12,775	0.8%
Export tariffs on petroleum products	15,082	17,026	-11.4%	15,082	8,939	68.7%
Excise	8,619	8,401	2.6%	8,619	8,536	1.0%
Total export tariffs and excise	36,577	39,803	-8.1%	36,577	30,250	20.9%

In the 1st quarter of 2013, the total amount of export tariffs on oil and petroleum products decreased by 11.0% as compared to the 4th quarter of 2012 to 27,958 million roubles due to a reduction in export sales of oil and petroleum products to countries outside the CIS, as well as lower export tariffs rates.

In the 1st quarter of 2013, the total amount of excise increased by 2.6% as compared to the 4th quarter of 2012 to 8,619 million roubles due to an increase in excise rates in 2013. This increase was partially offset by a 19.8% reduction in diesel fuel sales and a 6.2% decrease in sales of high-octane gasoline.

In the 1st quarter of 2013, the total amount of export tariffs on oil and petroleum products increased by 28.8% as compared to the 1st quarter of 2012 due to an increase in exports of petroleum products outside the CIS.

In the 1st quarter of 2013, the total amount of excise went up by 1.0% as compared to the 1st quarter of 2012 mainly due to an increase in excise rates in 2013. This increase was partially offset by a 9.5% reduction in diesel fuel sales, as well as an increase in the share of high-octane gasoline and diesel fuel of higher grades taxed at lower rates in the Group's output as the Group's own petrol stations switched over completely to selling Euro 5 fuel in July 2012.



CASH FLOW

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

(million roubles)	1Q			1Q		
	2013	2012	Change	2013	2012	Change
Cash flow						
Net cash generated from operating activities	2,941	14,737	-80.0%	2,941	5,819	-49.5%
Net cash (used in)/generated from investing activities	(7,626)	4,477	-270.3%	(7,626)	(42,417)	-82.0%
Net cash generated from/(used in) financing activities	14,696	(22,093)	-166.5%	14,696	22,177	-33.7%

Net cash generated from operating activities:

(million roubles)	1Q			1Q		
	2013	2012	Change	2013	2012	Change
Operating cash flow before working capital changes	20,970	23,276	-9.9%	20,970	23,060	-9.1%
Movements in working capital less cash and cash equivalents	(13,828)	(1,093)	1165.1%	(13,828)	(11,799)	17.2%
Interest paid	(2,047)	(3,098)	-33.9%	(2,047)	(1,876)	9.1%
Income tax paid	(2,154)	(4,348)	-50.5%	(2,154)	(3,566)	-39.6%
Net cash generated from operating activities	2,941	14,737	-80.0%	2,941	5,819	-49.5%

In the 1st quarter of 2013, net cash flow generated from operating activities decreased by 80.0% as compared to the 4th quarter of 2012 and amounted to 2,941 million roubles. The main factor behind this change consisted in movements in working capital less cash and cash equivalents.

In the 1st quarter of 2013, net cash flow generated from operating activities decreased by 49.5% as compared to the 1st quarter of 2012, which was also related mainly to movements in working capital less cash and cash equivalents.

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

(million roubles)	1Q			1Q		
	2013	2012	Change	2013	2012	Change
Capital expenditures	(5 820)	(11,197)	-48.0%	(5 820)	(4,914)	18.4%
(Payments for acquisition)/proceeds from disposal of financial assets, net	(1 901)	15,142	-112.6%	(1 901)	(37,705)	-95.0%
Other	95	532	-82.1%	95	202	-53.0%
Net cash (used in)/generated from investing activities	(7 626)	4,477	-270.3%	(7 626)	(42,417)	-82.0%

In the 1st quarter of 2013, net cash used in investing activities amounted to 7,626 million roubles, which was mainly related to capital expenditures incurred by the Group.

In the 1st quarter of 2013, net cash used in investing activities decreased by 82.0% as compared to the 1st quarter of 2012. The main factor that contributed to this change consisted in placement of available cash in deposit accounts in the 1st quarter of 2012.



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

(million roubles)	1Q		Change	1Q		
	2013	2012		2013	2012	Change
Proceeds from borrowings	30,950	-	n/a	30,950	22,318	38.7%
Repayments of borrowings	(16,142)	(17,376)	-7.1%	(16,142)	(113)	14185.0%
Total issue and repayment of debt:	14,808	(17,376)	-185.2%	14,808	22,205	-33.3%
Dividends paid	(7)	(90)	-92.2%	(7)	(28)	-75.0%
Purchase of treasury shares	-	(4,627)	-100.0%	-	-	-
Payments for acquisition of additional interests in subsidiary and SPE	(105)	-	n/a	(105)	-	n/a
Net cash generated from/(used in) financing activities	14,696	(22,093)	-166.5%	14,696	22,177	-33.7%

In the 1st quarter of 2013, net cash generated from financing activities amounted to 14,696 million roubles.

FINANCING AND DEBT

(million roubles)	31 March		Change	31 March		
	2013	2012		2013	2012	Change
Net debt calculation						
Short-term borrowings	33,133	32,007	3.5%	33,133	16,876	96.3%
Long-term borrowings	92,053	78,201	17.7%	92,053	113,480	-18.9%
Total debt	125,186	110,208	13.6%	125,186	130,356	-4.0%
Cash and cash equivalents	(30,308)	(20,104)	50.8%	(30,308)	(13,664)	121.8%
Short-term financial investments	(13,074)	(12,086)	8.2%	(13,074)	(47,876)	-72.7%
Adjusted net debt	81,804	78,018	4.9%	81,804	68,816	18.9%

As of 31 March 2013, the total debt of the Group in the form of short-term and long-term borrowings amounted to 125,186 million roubles compared to 110,208 million roubles as of 31 December 2012. The increase in the total debt is due to the issue of series 06, 07, 08 and 09 Bonds in February 2013 worth a total of 30,000 million roubles, which was partially offset by the repayment of a loan.

In the 1st quarter of 2013, the Group issued 10,000,000 series 06 non-convertible interest-bearing bonds, 10,000,000 series 07 non-convertible interest-bearing bonds, 5,000,000 series 08 non-convertible interest-bearing bonds and 5,000,000 series 09 non-convertible interest-bearing bonds with a par value of 1,000 roubles per bond and a maturity date in 2023. The coupon rate on series 06 and 08 bonds was set at 8.65% and will be revised in February 2018. The coupon rate on series 07 and 09 bonds was set at 8.85% and will be revised in February 2020, at which point the bondholders have the right to redeem the bonds at par value.

As of 31 March 2013, the annual weighted average interest rate on loans remained at the level of 8.4%.

CAPITAL EXPENDITURES

(million roubles)	1Q		Change	1Q		
	2013	2012		2013	2012	Change
Capital expenditures						
Exploration and production	2,882	6,501	-55.7%	2,882	2,527	14.0%
Refining	2,849	4,353	-34.6%	2,849	2,294	24.2%
Other	89	343	-74.1%	89	93	-4.3%
Total cash used in capital expenditures	5,820	11,197	-48.0%	5,820	4,914	18.4%

In the 1st quarter of 2013, capital expenditures decreased by 48.0% as compared to the 4th quarter of 2012 and totalled 5,820 million roubles. This reduction was related mainly to the acquisition of an office building in Moscow for 3,414 million roubles in the 4th quarter of 2012 and partial completion of works in the Refining segment.

In the 1st quarter of 2013, capital expenditures increased by 18.4% as compared to the 1st quarter of 2012, which was related mainly to an increase in CAPEX in the Refining segment.

EVENTS SUBSEQUENT TO THE REPORTING PERIOD

In May 2013, the Group entered into a pre-export finance term loan facility agreement with a group of international banks allowing borrowings of US-dollar 600 million. The facility has a three-year maturity and is to be repaid in equal monthly installments after a one-year grace period. The facility is secured with future revenue from the export of petroleum products for the duration of the facility. The interest rate is USD Libor 1M + 2.35%.

In May 2013 Fitch Ratings has affirmed Long-term foreign and local currency Issuer Default Ratings at 'BB'. The Outlooks have been revised to Positive from Stable.

