



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 2014 and 31 December 2013
and for the three months ended
31 March 2014 and 2013**



This report contains an overview of the financial position and operating results of JSOC Bashneft and includes operating results of Bashneft Group for the three months ended 31 March 2014. The terms “Bashneft”, “the Company”, “Bashneft Group” and “the Group” in various forms mean JSOC Bashneft and its subsidiaries and structured entities. The financial position and operating results analysed in this document are consolidated data on Bashneft Group.

Certain statements in this report may contain assumptions or forecasts with respect to forthcoming events within Bashneft Group. Such statements may contain the words “is expected”, “is estimated”, “intends”, “will”, “could”, negations thereof or other similar expressions. These statements are only assumptions, and actual events or results may differ materially from them. The actual results of Bashneft Group may differ substantially from what is declared in our assumptions and forecasts as a result of a large number of factors. Such factors may include general economic conditions, Bashneft’s competitive environment, risks associated with operating in Russia, rapid technological and market changes in the Company’s areas of business, as well as many other risks directly related to Bashneft Group.

The barrel-tonne conversion factor used in this report is 7.3.

Comparable financial data on production and operating expenses, and depletion and depreciation were revised due to a change in the approach to disclosing segment information by separating operations of the Petrochemical complex and Service organizations into the Other segment.

OVERVIEW

Bashneft Group is one of Russia's leading vertically integrated oil companies involved in crude oil production, refining and sale of 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 195 oil and gas fields in the Republic of Bashkortostan, the Khanty-Mansi Autonomous District, the Nenets Autonomous District, the Orenburg Region, the Tyumen Region and the Republic of Tatarstan. 174 of the Group's fields are in commercial production.

According to the results of an audit conducted by Miller & Lents Ltd. using international PRMS (SPE) criteria, the Group's proved oil reserves as of 31 December 2013 amounted to 287.4 million tonnes. Bashneft Group has a reserves-to-production ratio of 18 years. Proved and probable (2P) reserves totalled 361.6 million tonnes. Overall reserves of Bashneft Group (including possible reserves) amounted to 454.3 million tonnes. In the 1st quarter of 2014, production at the developed licence areas totalled 4.1 million tonnes.

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

In the 1st quarter of 2014, the Group's refineries processed 5.3 million tonnes of hydrocarbons. Refining depth averaged 83.1%, which is one of the best results among Russian vertically integrated oil companies.

In the 1st quarter of 2014, Bashneft Group sold 2.2 million tonnes of petroleum products on the domestic market and exported 2.4 million tonnes of petroleum products. The Group also sold 1.6 million tonnes of crude oil, including 1.4 million tonnes of exported crude oil.

As of 31 March 2014, Bashneft Group's retail network comprised 486 operating petrol stations and 279 partner petrol stations operating under the Bashneft brand name.

KEY FINANCIAL AND OPERATING RESULTS

	1Q			1Q		
	2014	2013	Change	2014	2013	Change
Revenue (million roubles)	146,668	146,242	0.3%	146,668	125,580	16.8%
EBITDA (million roubles)	24,759	25,280	-2.1%	24,759	21,223	16.7%
Adjusted EBITDA (million roubles) ¹	25,475	26,991	-5.6%	25,475	21,097	20.8%
Operating profit (million roubles)	19,704	19,469	1.2%	19,704	16,812	17.2%
Profit for the period attributable to the owners of the parent company (million roubles)	13,959	13,628	2.4%	13,959	11,992	16.4%
Net debt (million roubles)	114,024	74,375	53.3%	114,024	81,804	39.4%
Oil production (thousand tonnes)	4,115	4,173	-1.4%	4,115	3,844	7.0%
Oil refining (thousand tonnes)	5,318	5,346	-0.5%	5,318	5,216	2.0%

Major events during the 1st quarter of 2014 that had an impact on the performance of Bashneft Group:

- On 3 February 2014, the Extraordinary General Meeting of Shareholders (EGMS) of Bashneft approved the decision on reorganization which was approved by the Board of Directors on 17 December 2013. On 25 March 2014, the Board of Directors of Bashneft approved the report on the results of submission of buyback requests by shareholders who abstained or voted against the reorganization at the EGMS. In accordance with the approved report, Bashneft is to buy back 2,724,173 ordinary shares and 8,885,866 preferred shares of the Group worth a total of 17,869 million roubles before 21 April 2014;
- In March 2014, the Group completed the acquisition of a 100% stake in LLC Promenergoresurs, which owns 5 petrol stations operating under the Red Oil brand name and 7 land plots located in Magnitogorsk, a large industrial city in the Chelyabinsk Region;
- In March 2014, the Group acquired a 100% outstanding interest in LLC Burneftegaz, which is engaged in exploration and production of crude oil in the Tyumen District for a total cash consideration of 35,953 million roubles.

¹ Adjusted EBITDA excludes the impact of other operating expenses and income, which mainly include reserve accruals, financial results from sales of property, plant and equipment and inventories.

(million roubles)	1Q			1Q		
	2014	2013	Change	2014	2013	Change
EBITDA	24,759	25,280	-2.1%	24,759	21,223	16.7%
Other operating expenses /(income), net	716	1,711	-58.2%	716	(126)	n/a
Adjusted EBITDA	25,475	26,991	-5.6%	25,475	21,097	20.8%



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/US dollar exchange rate and inflation rate;
- taxation and government regulation of tariffs of natural monopolies.

Prices for crude oil and petroleum products

Prices for crude oil and petroleum products are the main factor determining the financial and, indirectly, operating results of Bashneft Group. The Group's ability to control the prices for its products is limited, as these prices mostly depend on the global market and on the supply and demand balance in particular regions of Russia. A decrease in prices for crude oil or petroleum products may adversely affect Bashneft's performance and financial position and lead to a reduction of oil production profitability of the Group, which, in turn, will result in a decline in the volume of Bashneft's economically viable hydrocarbon reserves for development and impact the economic efficiency of its geological exploration programmes and geological and engineering operations.

	1Q		Change	1Q		Change
	2014	2013		2014	2013	
Prices for crude oil and petroleum products²						
Brent crude oil (US\$ per barrel)	108.2	109.2	-0.9%	108.2	112.6	-3.9%
Brent crude oil (roubles per barrel)	3,783	3,554	6.4%	3,783	3,424	10.5%
Urals crude oil (US\$ per barrel)	106.8	108.8	-1.8%	106.8	111.1	-3.9%
Urals crude oil (roubles per barrel)	3,734	3,539	5.5%	3,734	3,378	10.5%
Fuel oil (average FOB Rotterdam/CIF NWE) (US\$ per tonne)	571.4	577.5	-1.1%	571.4	613.1	-6.8%
Fuel oil (average FOB Rotterdam/CIF NWE) (roubles per tonne)	19,975	18,788	6.3%	19,975	18,646	7.1%
Diesel fuel (average FOB Rotterdam/CIF NWE) (US\$ per tonne)	914.1	929.8	-1.7%	914.1	958.0	-4.6%
Diesel fuel (average FOB Rotterdam/CIF NWE) (roubles per tonne)	31,957	30,251	5.6%	31,957	29,138	9.7%
Naphtha (average FOB Rotterdam/CIF NWE) (US\$ per tonne)	916.9	928.0	-1.2%	916.9	944.5	-2.9%
Naphtha (average FOB Rotterdam/CIF NWE) (roubles per tonne)	32,053	30,192	6.2%	32,053	28,728	11.6%
Vacuum gas oil (FOB NWE) (US\$ per tonne)	776.8	743.7	4.5%	776.8	807.6	-3.8%
Vacuum gas oil (FOB NWE) (roubles per tonne)	27,154	24,196	12.2%	27,154	24,564	10.5%
Russian market (roubles per tonne, with excises, net of VAT)³						
Crude oil	11,607	10,684	8.6%	11,607	10,449	11.1%
Fuel oil	8,663	8,832	-1.9%	8,663	8,370	3.5%
Diesel fuel (summer gasoil)	27,471	25,581	7.4%	27,471	23,972	14.6%
Diesel fuel (winter gasoil)	28,806	30,413	-5.3%	28,806	27,752	3.8%
High-octane gasoline	28,335	28,603	-0.9%	28,335	26,127	8.5%
Low-octane gasoline	27,101	27,165	-0.2%	27,101	25,011	8.4%

² Source: Platts.

³ Source: Kortes.



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

	1Q		Change	1Q		
	2014	2013		2014	2013	Change
Rouble inflation (Consumer Price Index) during the stated periods ⁴	2.3%	1.7%	0.6 p.p.	2.3%	1.9%	0.4 p.p.
Rouble/US\$ exchange rate at the end of the period	35.7	32.7	9.2%	35.7	31.1	14.8%
Rouble/dollar exchange rate, period average	35.0	32.5	7.7%	35.0	30.4	15.1%

Taxation

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

	1Q		Change	1Q		
	2014	2013		2014	2013	Change
Mineral extraction tax (roubles per tonne)						
Crude oil	6,081	5,471	11.1%	6,081	5,261	15.6%
Export duty (US\$ per tonne)						
Crude oil	390.6	399.3	-2.2%	390.6	406.5	-3.9%
Gasoline	351.5	359.4	-2.2%	351.5	365.9	-3.9%
Light and medium distillates	257.7	263.5	-2.2%	257.7	268.3	-4.0%
Fuel oil	257.7	263.5	-2.2%	257.7	268.3	-4.0%
Export duty (roubles per tonne)						
Crude oil	13,654	12,992	5.1%	13,654	12,363	10.4%
Gasoline	12,287	11,691	5.1%	12,287	11,128	10.4%
Light and medium distillates	9,010	8,573	5.1%	9,010	8,160	10.4%
Fuel oil	9,010	8,573	5.1%	9,010	8,160	10.4%

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

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

⁴ Source: Federal State Statistics Service (Rosstat).

Mineral extraction tax

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

The Tax Code of the Russian Federation stipulates a reduced or zero mineral extraction tax rate for certain fields. Actual mineral extraction tax expenses for the 1st quarter of 2014 are 33% lower than the current mineral extraction tax rate due to the fact that:

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

	1Q		4Q	1Q		
	2014	2013	Change	2014	2013	Change
Current mineral extraction tax rates (roubles per barrel)	833.0	749.5	11.1%	833.0	720.7	15.6%
Actual mineral extraction tax expenses (roubles per barrel)	555.4	517.3	7.4%	555.4	517.3	7.4%

OPERATING RESULTS

Production

	1Q		4Q	1Q		
	2014	2013	Change	2014	2013	Change
Oil production (thousand tonnes)	4,115	4,173	-1.4%	4,115	3,844	7.0%
including at the R. Trebs and A. Titov fields	177	171	3.5%	177	-	n/a
Daily average production of crude oil (thousand barrels per day)	332.9	331.1	0.5%	332.9	311.8	6.8%

In the 1st quarter of 2014, crude oil production increased by 6.8% compared to the same period in 2013 due to the start of production at the R. Trebs field in August 2013.

Refining

(thousand tonnes)	1Q		4Q	1Q		
	2014	2013	Change	2014	2013	Change
Crude oil refining	5,318	5,346	-0.5%	5,318	5,216	2.0%
Production of petroleum products						
Gasoline (including naphtha ⁵ and alkylate)	1,161	1,251	-7.2%	1,161	1,229	-5.5%
Diesel fuel	1,799	1,796	0.2%	1,799	1,812	-0.7%
Fuel oil	869	798	8.9%	869	702	23.8%
Vacuum gas oil	430	402	7.0%	430	390	10.3%
Other	588	631	-6.8%	588	563	4.4%
Total production of petroleum products	4,847	4,878	-0.6%	4,847	4,696	3.2%
Refining depth (%)	83.1%	82.4%	0.7 p.p.	83.1%	84.5%	-1.4 p.p.
Share of light products (%)	58.6%	60.6%	-2.0 p.p.	58.6%	60.2%	-1.6 p.p.

In the 1st quarter of 2014, refining totalled 5,318 thousand tonnes, which is comparable to previous periods.

⁵ Stable natural gasoline.



FINANCIAL RESULTS

PRELIMINARY CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME FOR THE THREE MONTHS ENDED 31 MARCH 2014

(million roubles)	1Q		Change	1Q		Change
	2014	2013		2014	2013	
Revenue						
Crude oil sales	38,647	31,908	21.1%	38,647	27,078	42.7%
Petroleum products and petrochemicals sales	106,194	111,780	-5.0%	106,194	95,881	10.8%
Other sales	1,827	2,554	-28.5%	1,827	2,621	-30.3%
Total revenue	146,668	146,242	0.3%	146,668	125,580	16.8%
Operating expenses						
Export duties and excises	(46,596)	(42,817)	8.8%	(46,596)	(36,577)	27.4%
Cost of purchased crude oil, gas and petroleum products	(31,976)	(31,379)	1.9%	(31,976)	(28,705)	11.4%
Taxes other than income tax	(17,948)	(17,276)	3.9%	(17,948)	(16,504)	8.7%
Production and operating expenses	(14,232)	(17,153)	-17.0%	(14,232)	(12,459)	14.2%
Transportation expenses	(7,075)	(6,996)	1.1%	(7,075)	(6,759)	4.7%
Depletion and depreciation	(5,055)	(5,811)	-13.0%	(5,055)	(4,411)	14.6%
Selling, general and administrative expenses	(3,366)	(3,630)	-7.3%	(3,366)	(3,479)	-3.2%
Other operating (expenses)/income, net	(716)	(1,711)	-58.2%	(716)	126	n/a
Total costs and expenses	(126,964)	(126,773)	0.2%	(126,964)	(108,768)	16.7%
Operating profit	19,704	19,469	1.2%	19,704	16,812	17.2%
Financial income	1,292	1,528	-15.4%	1,292	1,028	25.7%
Financial costs	(1,935)	(1,998)	-3.2%	(1,935)	(2,736)	-29.3%
Foreign exchange (loss)/gain, net	(1,538)	643	n/a	(1,538)	231	n/a
Share in the (loss)/profit of associate and joint venture, net of income tax	(60)	677	n/a	(60)	(129)	-53.5%
Total other (expenses)/income	(2,241)	850	n/a	(2,241)	(1,606)	39.5%
Profit before tax	17,463	20,319	-14.1%	17,463	15,206	14.8%
Income tax	(3,519)	(6,722)	-47.6%	(3,519)	(3,184)	10.5%
Profit for the period	13,944	13,597	2.6%	13,944	12,022	16.0%
Other comprehensive income, net of income tax	-	37	-100.0%	-	-	n/a
Total comprehensive income for the period	13,944	13,634	2.3%	13,944	12,022	16.0%
(Loss)/profit for the period attributable to non-controlling interests	(15)	(31)	-51.6%	(15)	30	n/a
Profit for the period attributable to owners of the parent company	13,959	13,628	2.4%	13,959	11,992	16.4%
Total comprehensive (expenses)/income for the period attributable to non-controlling interests	(15)	(29)	-48.3%	(15)	30	n/a
Total comprehensive income for the period attributable to owners of the parent company	13,959	13,663	2.2%	13,959	11,992	16.4%



REVENUE

In the 1st quarter of 2014, the revenue of Bashneft Group remained at the level reached in the 4th quarter of 2013 and totalled 146,668 million roubles.

Revenue increased by 16.8% compared to the 1st quarter of 2013. This change was caused by an increase in sale volumes of crude oil and petroleum products and a rise in global prices, denominated in roubles.

(million roubles)	1Q	4Q	Change	1Q		
	2014	2013		2014	2013	Change
Revenue						
Export sales of crude oil outside the Customs Union*	34,872	28,372	22.9%	34,872	24,975	39.6%
Export sales of crude oil to the Customs Union*	2,034	1,376	47.8%	2,034	1,217	67.1%
Domestic sales of crude oil	1,741	2,160	-19.4%	1,741	886	96.5%
Total sales of crude oil	38,647	31,908	21.1%	38,647	27,078	42.7%
Export sales of petroleum products and petrochemicals outside the Customs Union*	58,327	50,245	16.1%	58,327	46,265	26.1%
Export sales of petroleum products and petrochemicals to the Customs Union*	1,963	3,526	-44.3%	1,963	2,258	-13.1%
Domestic sales of petroleum products and petrochemicals	45,904	58,009	-20.9%	45,904	47,358	-3.1%
<i>wholesale</i>	34,759	45,739	-24.0%	34,759	37,604	-7.6%
<i>retail</i>	11,145	12,270	-9.2%	11,145	9,754	14.3%
Total sales of petroleum products and petrochemicals	106,194	111,780	-5.0%	106,194	95,881	10.8%
Other sales	1,827	2,554	-28.5%	1,827	2,621	-30.3%
Total revenue	146,668	146,242	0.3%	146,668	125,580	16.8%

(thousand tonnes)	1Q	4Q	Change	1Q		
	2014	2013		2014	2013	Change
Sales volumes						
Export sales of crude oil outside the Customs Union*	1,288	1,123	14.7%	1,288	1,037	24.2%
Export sales of crude oil to the Customs Union*	152	109	39.4%	152	102	49.0%
Domestic sales of crude oil	148	191	-22.5%	148	77	92.2%
Total sales of crude oil	1,588	1,423	11.6%	1,588	1,216	30.6%
Export sales of petroleum products and petrochemicals outside the Customs Union*	2,315	2,126	8.9%	2,315	1,901	21.8%
Export sales of petroleum products and petrochemicals to other countries forming part of the Customs Union*	118	207	-43.0%	118	124	-4.8%
Domestic sales of petroleum products and petrochemicals	2,172	2,617	-17.0%	2,172	2,412	-10.0%
<i>wholesale</i>	1,837	2,247	-18.2%	1,837	2,106	-12.8%
<i>retail</i>	335	370	-9.5%	335	306	9.5%
Total sales of petroleum products and petrochemicals	4,605	4,950	-7.0%	4,605	4,437	3.8%
Total sales of crude oil, petroleum products and petrochemicals	6,193	6,373	-2.8%	6,193	5,653	9.6%

*The Customs Union is a union between Belarus, Kazakhstan and Russia which involves a single customs territory where no customs duties or economic restrictions are imposed on trade between the members of the Union.



Export and domestic sales of crude oil

In the 1st quarter of 2014, revenue from export sales of crude oil totalled 36,906 million roubles, which is 24.1% more than in the 4th quarter of 2013 and 40.9% more than in the 1st quarter of 2013. The increase in revenue was caused by a rise in sale volumes of crude oil and rouble prices growth on the global market.

In the 1st quarter of 2014, revenue from domestic sales of crude oil totalled 1,741 million roubles, which is 19.4% less than in the 4th quarter of 2013 and 96.5% more than in the 1st quarter of 2013. The increase in revenue in the 1st quarter of 2014 compared to the same period of the prior year was caused by an increase in oil production and rouble prices growth.

Export sales of petroleum products and petrochemicals

(thousand tonnes)	4Q			1Q		
	2014	2013	Change	2014	2013	Change
Diesel fuel	1,187	1,165	1.9%	1,187	1,190	-0.3%
Vacuum gas oil	434	396	9.6%	434	388	11.9%
Fuel oil	586	459	27.7%	586	216	171.3%
High-octane gasoline	149	192	-22.4%	149	114	30.7%
Naphtha	36	51	-29.4%	36	35	2.9%
Other	41	70	-41.4%	41	52	-21.2%
Total sales of petroleum products	2,433	2,333	4.3%	2,433	1,995	22.0%
Petrochemicals sales	-	-	n/a	-	30	-100.0%
Total sales of petroleum products and petrochemicals	2,433	2,333	4.3%	2,433	2,025	20.1%

Export sales of petroleum products and petrochemicals outside the Customs Union

In the 1st quarter of 2014, revenue from export sales of petroleum products outside the Customs Union totalled 58,327 million roubles, which is 16.1% more than in the 4th quarter of 2013. This increase was caused both by an 8.9% rise in the sale volumes of petroleum products (2,315 thousand tonnes in the 1st quarter of 2014 compared to 2,126 thousand tonnes in the 4th quarter of 2013) related to a shift of focus to export outside the Customs Union and by a rise in rouble prices for petroleum products on the global market.

Revenue from export sales of petroleum products and petrochemicals outside the Customs Union grew by 26.1% compared to the 1st quarter of 2013 due to a 21.8% increase in sale volumes of petroleum products related to a shift of focus to export outside the Customs Union.

Export sales of petroleum products and petrochemicals to the Customs Union

In the 1st quarter of 2014, revenue from export sales of petroleum products to the Customs Union amounted to 1,963 million roubles, which is 44.3% less than in the 4th quarter of 2013. The reduction in revenue from export sales of petroleum products to the Customs Union was caused by a decrease in sale volumes of petroleum products to the Customs Union in the 1st quarter of 2014 related to a shift of focus to export outside the Customs Union.

In the 1st quarter of 2014, revenue from sales of petroleum products and petrochemicals to the Customs Union fell by 13.1% compared to the 1st quarter of 2013. The reduction in revenue was related primarily to a 4.8% decline in sale volumes.



Domestic sales of petroleum products and petrochemicals

(thousand tonnes)	1Q			4Q			1Q		
	2014	2013	Change	2014	2013	Change	2014	2013	Change
High-octane gasoline	815	1,005	-18.9%	815	944	-13.7%	815	944	-13.7%
Diesel fuel	479	651	-26.4%	479	477	0.4%	479	477	0.4%
Fuel oil	288	326	-11.7%	288	452	-36.3%	288	452	-36.3%
Naphtha	30	27	11.1%	30	-	n/a	30	-	n/a
Low-octane gasoline	14	26	-46.2%	14	29	-51.7%	14	29	-51.7%
VGO	-	2	-100.0%	-	-	n/a	-	-	n/a
Other	546	580	-5.9%	546	426	28.2%	546	426	28.2%
Total sales of petroleum products	2,172	2,617	-17.0%	2,172	2,328	-6.7%	2,172	2,328	-6.7%
Petrochemicals sales	-	-	n/a	-	84	-100.0%	-	84	-100.0%
Total sales of petroleum products and petrochemicals	2,172	2,617	-17.0%	2,172	2,412	-10.0%	2,172	2,412	-10.0%

Wholesale of petroleum products and petrochemicals

In the 1st quarter of 2014, revenue from wholesale of petroleum products on the domestic market declined by 24.0% compared to the 4th quarter of 2013 and totalled 34,759 million roubles, which was caused mainly by an 18.2% seasonal decline in sale volumes.

In the 1st quarter of 2014, revenue from wholesale of petroleum products and petrochemicals on the domestic market decreased by 7.6% compared to the same period in 2013. The reduction in revenue was caused mainly by a 12.8% decrease in sale volumes related to a shift of focus to export outside the Customs Union.

Retail sales of petroleum products

In the 1st quarter of 2014, revenue from retail sales decreased by 9.2% compared to the 4th quarter of 2013 and totalled 11,145 million roubles, which was also related to a 9.5% seasonal decline in retail sale volumes on the domestic market.

In the 1st quarter of 2014, revenue from retail sales increased by 14.3% compared to the same period in 2013. The growth of revenue from retail sales was driven primarily by a 9.5% increase in retail sale volumes due to expansion of the sales network.

Other sales

Revenue from other sales includes revenue from sales of goods and services that are not related to the Group's core business.

In the 1st quarter of 2014, other revenue fell by 28.5% compared to the 4th quarter of 2013 and amounted to 1,827 million roubles due to a reduction in volumes of maintenance services provided by the Group.

In the 1st quarter of 2014, other revenue fell by 30.3% compared to the same period in 2013, which was caused mainly by the divestment of Bashneft-Service Assets Group.



COSTS AND EXPENSES

Production and operating expenses

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

(million roubles)	1Q		Change	1Q		Change
	2014	2013		2014	2013*	
Production	7,955	8,407	-5.4%	7,955	6,476	22.8%
Refining	5,175	6,033	-14.2%	5,175	5,050	2.5%
Other (including change in remaining WIP and finished products)	1,102	2,713	-59.4%	1,102	933	18.1%
Total production and operating expenses	14,232	17,153	-17.0%	14,232	12,459	14.2%

* Comparable financial data on production and operating expenses were revised as the petrochemical complex and oilfield service companies have been separated into the Other segment.

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

	1Q		Change	1Q		Change
	2014	2013		2014	2013*	
Crude oil production expenses (million roubles)	7,955	8,407	-5.4%	7,955	6,476	22.8%
Unit costs for production of crude oil (roubles per barrel)	264.8	276.0	-4.1%	264.8	230.8	14.7%

* Comparable financial data on production and operating expenses were revised as oilfield service companies have been separated into the Other segment.

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 2014, unit costs for production of crude oil decreased by 4.1% compared to the 4th quarter of 2013 and amounted to 264.8 roubles per barrel due to a reduction in the amount of geological and engineering operations.

Unit costs for production of crude oil rose by 14.7% compared to the 1st quarter of 2013, which was related to higher cost of services provided by contractors and a rise in heat and electricity prices, as well as the start of development of the R. Trebs field in August 2013.

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

	1Q		Change	1Q		Change
	2014	2013		2014	2013*	
Refining expenses (million roubles)	5,175	6,033	-14.2%	5,175	5,050	2.5%
Unit refining costs (roubles per barrel)	133.3	154.6	-13.8%	133.3	132.6	0.5%

* Comparable financial data on production and operating expenses were revised as the petrochemical complex has been separated into the Other segment.

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 1st quarter of 2014, unit refining costs declined by 13.8% to 133.3 roubles per barrel due to a reduction in the amount of repairs.

In the 1st quarter of 2014, unit refining costs remained at the similar level as for the same period of the prior year.



Cost of purchased crude oil, gas and petroleum products

In addition to the production of its own crude oil, 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		
	2014	2013		2014	2013	Change
Purchased crude oil, gas, and gas condensate	2,611	2,724	-4.1%	2,611	2,510	4.0%
Purchased petroleum products	15	25	-40.0%	15	36	-58.3%
Total volume of purchased crude oil, gas and petroleum products	2,626	2,749	-4.5%	2,626	2,546	3.1%

In the 1st quarter of 2014, the cost of purchased crude oil, gas and petroleum products increased by 1.9% compared to the 4th quarter of 2013 and totalled 31,976 million roubles. This change was related mainly to a rise in oil prices.

The cost of purchased crude oil, gas and petroleum products increased by 11.4% compared to the 1st quarter of 2013, which was caused by price growth and an increase in sale volumes of petroleum products.

Transportation costs

In the 1st quarter of 2014, transportation costs remained at the level reached in the 4th quarter of 2013 and totalled 7,075 million roubles.

Transportation costs increased by 4.7% compared to the 1st quarter of 2013. The rise in transportation costs was related primarily to an increase in export volumes of petroleum products.

Depletion and depreciation

(million roubles)	1Q		Change	1Q		
	2014	2013		2014	2013*	Change
Exploration and production	2,137	2,784	-23.2%	2,137	1,463	46.1%
Refining and marketing	2,729	2,823	-3.3%	2,729	2,131	28.1%
Other	189	204	-7.4%	189	817	-76.9%
Total depletion and depreciation	5,055	5,811	-13.0%	5,055	4,411	14.6%

* Comparable financial data on depletion and depreciation were revised as the petrochemical complex and oilfield service companies have been separated into the Other segment.

In the 1st quarter of 2014, depletion and depreciation amounted to 5,055 million roubles compared to 5,811 million roubles in the 4th quarter of 2013, which was related to revaluation of hydrocarbon reserves in the 4th quarter of 2013 and a decline in sale volumes.

In the 1st quarter of 2014, depletion and depreciation increased by 14.6% compared to the 1st quarter of 2013 due to an increase in production and sale volumes, as well as to construction of new property, plant and equipment put into operation in 2013.



Taxes other than income tax

(million roubles)	4Q			1Q		
	2014	2013	Change	2014	2013	Change
Mineral extraction tax	15,853	15,629	1.4%	15,853	13,843	14.5%
Social taxes	1,512	1,110	36.2%	1,512	2,007	-24.7%
Property tax	382	394	-3.0%	382	406	-5.9%
Other	201	143	40.6%	201	248	-19.0%
Total taxes other than income tax	17,948	17,276	3.9%	17,948	16,504	8.7%

In the 1st quarter of 2014, taxes other than income tax increased by 3.9% compared to the 4th quarter of 2013 and amounted to 17,948 million roubles as a regressive rate of social taxes was applied and an increase in the mineral extraction tax rate.

In the 1st quarter of 2014, taxes other than income tax increased by 8.7% compared to the 1st quarter of 2013. This change was caused by an increase in the mineral extraction tax rate; at the same time, social taxes and property tax decreased due to the divestment of the UPC and Bashneft-Service Assets Groups.

Export duties and excises

(million roubles)	4Q			1Q		
	2014	2013	Change	2014	2013	Change
Export duties on crude oil	17,678	14,653	20.6%	17,678	12,876	37.3%
Export duties on petroleum products	21,280	18,733	13.6%	21,280	15,082	41.1%
Excises	7,638	9,431	-19.0%	7,638	8,619	-11.4%
Total export duties and excises	46,596	42,817	8.8%	46,596	36,577	27.4%

In the 1st quarter of 2014, the total amount of export duties on oil and petroleum products increased by 16.7% compared to the 4th quarter of 2013 and reached 38,958 million roubles, which was related both to an increase in export sale volumes of oil and petroleum products outside the Customs Union and a rise in export duty rates.

In the 1st quarter of 2014, the total amount of excises decreased by 19.0% compared to the 4th quarter of 2013 and totalled 7,638 million roubles due to a decline in domestic sale volumes.

In the 1st quarter of 2014, the total amount of export duties on oil and petroleum products increased by 39.3% compared to the same period of 2013 due to an increase in export sale volumes of oil and petroleum products outside the Customs Union.

In the 1st quarter of 2014 compared to the same period of 2013, the total amount of excises decreased by 11.4% mainly due to a reduction in sale volumes of petroleum products in Russia.

CASH FLOW

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

(million roubles)	4Q			1Q		
	2014	2013	Change	2014	2013	Change
Net cash generated from operating activities	5,121	23,761	-78.4%	5,121	2,941	74.1%
Net cash (used in)/generated from investing activities	(42,920)	980	n/a	(42,920)	(7,626)	n/a
Net cash generated from/(used in) financing activities	52,218	(23,919)	n/a	52,218	14,696	n/a



Net cash generated from operating activities:

(million roubles)	1Q			1Q		
	2014	2013	Change	2014	2013	Change
Operating cash flow before working capital changes	25,365	25,926	-2.2%	25,365	20,970	21.0%
Movements in working capital less cash and cash equivalents	(16,166)	4,307	n/a	(16,166)	(13,828)	16.9%
Interest paid	(2,440)	(1,121)	117.7%	(2,440)	(2,047)	19.2%
Income tax paid	(1,638)	(5,351)	-69.4%	(1,638)	(2,154)	-24.0%
Net cash generated from operating activities	5,121	23,761	-78.4%	5,121	2,941	74.1%

In the 1st quarter of 2014, net cash generated from operating activities decreased by 78.4% compared to the 4th quarter of 2013 and totalled 5,121 million roubles. The main factor behind this change consisted in movements in working capital less cash and cash equivalents.

In the 1st quarter of 2014, net cash generated from operating activities grew by 74.1% due to an increase in operating profit.

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

(million roubles)	1Q			1Q		
	2014	2013	Change	2014	2013	Change
Capital expenditures	(9,053)	(7,452)	21.5%	(9,053)	(5,820)	55.5%
Proceeds from disposal/(payments for acquisition) of financial assets, net	-	528	-100.0%	-	(1,901)	-100.0%
Other	(33,867)	7,904	n/a	(33,867)	95	n/a
Net cash (used in)/generated from investing activities	(42,920)	980	n/a	(42,920)	(7,626)	n/a

In the 1st quarter of 2014, net cash used in investing activities totalled 42,920 million roubles and was allocated for financing capital expenditures and acquiring Burneftegaz Group.

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

(million roubles)	1Q			1Q		
	2014	2013	Change	2014	2013	Change
Proceeds from borrowings	53,544	19,497	174.6%	53,544	30,950	73.0%
Repayments of borrowings	(1,326)	(8,206)	-83.8%	(1,326)	(16,142)	-91.8%
Total issue and repayment of debt:	52,218	11,291	n/a	52,218	14,808	n/a
Dividends paid	-	(37,842)	-100.0%	-	(7)	-100.0%
Payments for acquisition of non-controlling interests in subsidiaries and special-purpose entities	-	15	-100.0%	-	(105)	-100.0%
Other	-	2,617	-100.0%	-	-	n/a
Net cash generated from/(used in) financing activities	52,218	(23,919)	n/a	52,218	14,696	n/a

In the 1st quarter of 2014, net cash generated from financing activities totalled 52,218 million roubles due to borrowings.



FINANCING AND DEBT

(million roubles)	31 March	31 December	Change	31 March		
	2014	2013		2014	2013	Change
Short-term borrowings	78,003	11,914	n/a	78,003	33,133	135.4%
Long-term borrowings	67,516	78,902	-14.4%	67,516	92,053	-26.7%
Total debt	145,519	90,816	60.2%	145,519	125,186	16.2%
Cash and cash equivalents	(31,449)	(16,395)	91.8%	(31,449)	(30,308)	3.8%
Short-term financial investments	(46)	(46)	0.0%	(46)	(13,074)	-99.6%
Adjusted net debt	114,024	74,375	53.3%	114,024	81,804	39.4%

As of 31 March 2014, the total debt of the Group in the form of short-term and long-term borrowings amounted to 145,519 million roubles compared to 90,816 million roubles as of 31 December 2013.

In March 2014, the Group raised short-term unsecured loans totalling 53,700 million roubles with fixed interest rates ranging from 8.24% to 9.75% per annum from various lenders.

As of 31 March 2014, the annual weighted average interest rate on loans stood at 7.1% compared to 6.1% as of 31 December 2013.

CAPITAL EXPENDITURES

(million roubles)	1Q	4Q	Change	1Q		
	2014	2013		2014	2013	Change
Exploration and production incl. development of the R. Trebs and A. Titov fields	6,602	3,167	108.5%	6,602	2,689	145.5%
Refining and marketing	3,228	558	n/a	3,228	425	n/a
Other	2,433	4,242	-42.6%	2,433	2,747	-11.4%
	18	43	-58.1%	18	384	-95.3%
Total cash used in capital expenditures	9,053	7,452	21.5%	9,053	5,820	55.5%

In the 1st quarter of 2014, capital expenditures increased by 21.5% compared to the 4th quarter of 2013 and totalled 9,053 million roubles. This increase was related to repayment of accounts payable, which was partially offset by a reduction in construction volume in the Refining and Marketing segment.

In the 1st quarter of 2014, capital expenditures increased by 55.5% compared to the same period in 2013 due to an increase in capital expenditures in the Exploration and production segment, including expenditure on the development of the R. Trebs and A. Titov fields.

EVENTS SUBSEQUENT TO THE REPORTING PERIOD

The reorganisation of the Group

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



Control over LLC Bashneft-Polyus

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

Subsoil use license transfer to LLC Bashneft-Polyus

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

Borrowings

In May 2014 the Group issued 10,000,000 non-convertible RUB-denominated bonds at a par value of 1,000 roubles and maturity in May 2024. These bonds have a coupon rate 10.7% per annum from the date of issuance to November 2018 payable semi-annually. Subsequent coupon rates are to be determined in November 2018 at which point the bondholders have the right to redeem the bonds at par value.

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

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

