



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 2015 and 31 December 2014 and for the three
months ended 31 March 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 three months ended 31 March 2015. The terms “Bashneft”, “the Company”, “Bashneft Group” and “the Group” in various forms mean JSOC Bashneft and its subsidiaries. The financial position and operating results analysed in this document are consolidated data on Bashneft Group.

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

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

OVERVIEW

Bashneft Group is one of Russia's leading vertically integrated oil companies involved in crude oil production and refining, as well as in selling oil and petroleum products.

The Company was established as an open joint-stock company on 13 January 1995 after the privatization of Bashneft production association.

The Group holds licences for the development of 194 oil and gas fields in the Republic of Bashkortostan, the Khanty-Mansi Autonomous District, the Nenets Autonomous District, the Orenburg Region and the Republic of Tatarstan. 176 of the Group's fields are in commercial production.

According to the results of an audit conducted by Miller & Lents Ltd. using international PRMS (SPE) criteria, the Group's proved oil reserves as of 31 December 2014 amounted to 304.2 million tonnes. Bashneft Group has a reserves-to-production ratio of 17 years. Proved and probable (2P) reserves totalled 397.8 million tonnes. Overall reserves of Bashneft Group (including possible reserves) amounted to 517.9 million tonnes. In the 1st quarter of 2015, production at the developed licence areas totalled 4.7 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, OJSC Ufaorgsintez. The refineries' installed capacity totals 24.1 million tonnes of hydrocarbons per year.

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

In the 1st quarter of 2015, the Group's refineries processed 4.7 million tonnes of hydrocarbons. Refining depth averaged 83.7%, which is one of the best results among Russian vertically integrated oil companies.

In the 1st quarter of 2015, Bashneft Group sold 2.2 million tonnes of petroleum products on the domestic market and exported 2.1 million tonnes of petroleum products. The Group also sold 2.1 million tonnes of crude oil, including 1.7 million tonnes of exported crude oil.

As of 31 March 2015, Bashneft Group's retail network comprised 580 operating petrol stations and 212 partner petrol stations operating under the Bashneft brand name.

KEY FINANCIAL AND OPERATING RESULTS

	1Q		Change	1Q		
	2015	2014		2015	2014*	Change
Revenue (million roubles)	142,930	164,566	-13.1%	142,930	146,668	-2.5%
EBITDA (million roubles)	26,501	17,028	55.6%	26,501	25,258	4.9%
Adjusted EBITDA (million roubles) ¹	26,737	17,236	55.1%	26,737	25,475	5.0%
Operating profit (million roubles)	19,408	9,918	95.7%	19,408	20,203	-3.9%
Profit/(loss) for the period attributable to the owners of the parent company (million roubles)	11,390	(2,279)	n/a	11,390	13,959	-18.4%
Net debt (million roubles)	129,169	113,637	13.7%	129,169	114,024	13.3%
Oil production (thousand tonnes)	4,709	4,723	-0.3%	4,709	4,115	14.4%
Oil refining (thousand tonnes)	4,715	5,339	-11.7%	4,715	5,318	-11.3%

Major events during the 1st quarter of 2015 that had an impact on the performance of Bashneft Group:

- in February 2015, the Group acquired LLC Yanaulskoye Administration of Neftestroyontazh;
- 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 March 2015, an Extraordinary General Meeting of Shareholders of JSOC Bashneft decided to reduce Bashneft's authorized share capital by cancelling 2,724,173 ordinary treasury shares with a par value of one rouble each.

¹Adjusted 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		Change	1Q		
	2015	2014		2015	2014*	Change
EBITDA	26,501	17,028	55.6%	26,501	25,258	4.9%
Other operating expenses, net	236	208	13.5%	236	217	8.8%
Adjusted EBITDA	26,737	17,236	55.1%	26,737	25,475	5.0%

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

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.

	1Q			1Q		
	2015	2014	Change	2015	2014	Change
Prices for crude oil and petroleum products²						
Brent crude oil (US\$ per barrel)	53.9	76.6	-29.6%	53.9	108.2	-50.2%
Brent crude oil (roubles per barrel)	3,354	3,632	-7.7%	3,354	3,783	-11.3%
Urals crude oil (US\$ per barrel)	53.3	76.0	-29.9%	53.3	106.8	-50.1%
Urals crude oil (roubles per barrel)	3,312	3,603	-8.1%	3,312	3,734	-11.3%
Fuel oil (average FOB Rotterdam/CIF NWE) (US\$ per tonne)	273.0	398.3	-31.5%	273.0	571.4	-52.2%
Fuel oil (average FOB Rotterdam/CIF NWE) (roubles per tonne)	16,977	18,890	-10.1%	16,977	19,975	-15.0%
Diesel fuel (average FOB Rotterdam/CIF NWE) (US\$ per tonne)	516.9	682.3	-24.2%	516.9	914.1	-43.5%
Diesel fuel (average FOB Rotterdam/CIF NWE) (roubles per tonne)	32,144	32,355	-0.7%	32,144	31,957	0.6%
Naphtha (average FOB Rotterdam/CIF NWE) (US\$ per tonne)	466.0	611.7	-23.8%	466.0	916.9	-49.2%
Naphtha (average FOB Rotterdam/CIF NWE) (roubles per tonne)	28,982	29,008	-0.1%	28,982	32,053	-9.6%
Vacuum gas oil (FOB NWE) (US\$ per tonne)	383.5	517.4	-25.9%	383.5	784.9	-51.1%
Vacuum gas oil (FOB NWE) (roubles per tonne)	23,851	24,538	-2.8%	23,851	27,438	-13.1%
Russian market (roubles per tonne, with excises, net of VAT)³						
Crude oil	12,819	10,925	17.3%	12,819	11,607	10.4%
Fuel oil	7,842	8,545	-8.2%	7,842	8,663	-9.5%
Diesel fuel (summer gasoil)	27,025	26,140	3.4%	27,025	25,875	4.4%
Diesel fuel (winter gasoil)	28,472	30,230	-5.8%	28,472	28,806	-1.2%
High-octane gasoline	28,250	32,179	-12.2%	28,250	28,335	-0.3%
Low-octane gasoline	27,804	30,558	-9.0%	27,804	27,101	2.6%

²Source: Platts.

³Source: 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.

	1Q		4Q	Change	1Q		Change
	2015	2014			2015	2014	
Rouble inflation (Consumer Price Index) during the stated periods ⁴	7.4%	4.8%		2.6 p.p.	7.4%	2.3%	5.1 p.p.
Rouble/dollar exchange rate at the end of the period	58.5	56.3		3.9%	58.5	35.7	63.9%
Rouble/dollar exchange rate, period average	62.2	47.4		31.2%	62.2	35.0	77.7%

Taxation

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

	1Q		4Q	Change	1Q		Change
	2015	2014			2015	2014	
Mineral extraction tax (roubles per tonne)							
Crude oil	6,834	5,265		29.8%	6,834	6,078	12.4%
Export duty (US\$ per tonne)							
Crude oil	130.2	312.9		-58.4%	130.2	390.7	-66.7%
Gasoline	101.5	281.6		-64.0%	101.5	351.6	-71.1%
Light and medium distillates	62.4	206.5		-69.8%	62.4	257.8	-75.8%
Diesel fuel	62.4	203.3		-69.3%	62.4	252.5	-75.3%
Fuel oil	98.9	206.5		-52.1%	98.9	257.8	-61.6%
Export duty (roubles per tonne)							
Crude oil	8,097	14,840		-45.4%	8,097	13,659	-40.7%
Gasoline	6,312	13,355		-52.7%	6,312	12,291	-48.6%
Light and medium distillates	3,881	9,793		-60.4%	3,881	9,013	-56.9%
Diesel fuel	3,881	9,641		-59.7%	3,881	8,827	-56.0%
Fuel oil	6,151	9,793		-37.2%	6,151	9,013	-31.8%

⁴Source: Federal State Statistics Service (Rosstat).



In 2014 the following excise rates were set in the Russian Federation:

(roubles per tonne)	2014
Gasoline	
non-compliant with classes 3, 4, 5	11,110
compliant with class 3	10,725
compliant with class 4	9,916
compliant with class 5	6,450
Naphtha	11,252
Diesel fuel	
non-compliant with classes 3, 4, 5	6,446
compliant with class 3	6,446
compliant with class 4	5,427
compliant with class 5	4,767
Lubricants	8,260

In accordance with Federal Law No. 366-FZ dated 24 November 2014, the following rates of excise on petroleum products have been set as from 2015:

(roubles per tonne)	2015	2016	As from 1 January 2017
Gasoline			
non-compliant with classes 3, 4, 5 and compliant with classes 3 and 4	7,300	7,530	5,830
compliant with class 5	5,530	7,530	5,830
Naphtha	11,300	10,500	9,700
Diesel fuel	3,450	4,150	3,950
Lubricants	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 in the 1st quarter of 2015 were 25% 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		Change	1Q		
	2015	2014		2015	2014	Change
Current mineral extraction tax rates (roubles per barrel)	936.2	721.2	29.8%	936.2	832.6	12.4%
Actual mineral extraction tax expenses (roubles per barrel)	706.1	485.5	45.4%	706.1	555.4	27.1%

OPERATING RESULTS

Production

	1Q		Change	1Q		
	2015	2014		2015	2014	Change
Oil production (thousand tonnes)	4,709	4,723	-0.3%	4,709	4,115	14.4%
including at the R. Trebs and A. Titov fields	304	256	18.8%	304	177	71.8%
including at the fields of Burneftegaz Group	290	268	8.2%	290	9	n/a
Daily average production of crude oil (thousand barrels per day)	382.0	374.7	1.9%	382.0	332.9	14.7%

In the 1st quarter of 2015, production remained at the same level as in the 4th quarter 2014 and totalled 4,709 thousand tonnes.

In the 1st quarter of 2015, production increased by 14.4% compared to the same period in 2014 due to higher efficiency of production drilling, the acquisition of Burneftegaz Group and further development of the R. Trebs and A. Titov fields.

Refining

(thousand tonnes)	1Q		Change	1Q		
	2015	2014		2015	2014	Change
Crude oil refining	4,715	5,339	-11.7%	4,715	5,318	-11.3%
Petroleum product output						
Gasoline (including naphtha and alkylate ⁵)	1,211	1,407	-13.9%	1,211	1,161	4.3%
Diesel fuel	1,898	1,860	2.0%	1,898	1,799	5.5%
Fuel oil	706	738	-4.3%	706	869	-18.8%
Vacuum gas oil	27	300	-91.0%	27	430	-93.7%
Other	541	617	-12.3%	541	588	-8.0%
Total production of petroleum products	4,383	4,922	-11.0%	4,383	4,847	-9.6%
Refining depth (%)	83.7%	84.6%	-0.9 p.p.	83.7%	83.1%	0.6 p.p.
Share of light products (%)	68.6%	64.2%	4.4 p.p.	68.6%	58.6%	10.0 p.p.
Production of petrochemicals	225	218	3.2%	225	n/a	n/a

In the 1st quarter of 2015, refining declined by 11.7% and 11.3% compared to the 4th quarter and the 1st quarter of 2014 respectively and totalled 4,715 thousand tonnes, which was related to unfavourable macroeconomic conditions and the fact that the tax manoeuvre came into force in 2015. The decline in refining in the 1st quarter of 2015 made it possible to reduce the production output of heavy petroleum products, which are less profitable.

⁵Stable natural gasoline.



FINANCIAL RESULTS

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME FOR THE THREE MONTHS ENDED 31 MARCH 2015

(million roubles)	1Q		Change	1Q		Change
	2015	2014		2015	2014*	
Revenue						
Crude oil sales	40,668	40,738	-0.2%	40,668	38,647	5.2%
Petroleum products and petrochemicals sales	101,226	122,819	-17.6%	101,226	106,194	-4.7%
Other sales	1,036	1,009	2.7%	1,036	1,827	-43.3%
Total revenue	142,930	164,566	-13.1%	142,930	146,668	-2.5%
Operating expenses						
Cost of purchased crude oil, gas and petroleum products	(31,034)	(35,755)	-13.2%	(31,034)	(31,976)	-2.9%
Export tariffs and excises	(27,029)	(58,016)	-53.4%	(27,029)	(46,596)	-42.0%
Taxes other than income tax	(26,986)	(19,583)	37.8%	(26,986)	(17,948)	50.4%
Production and operating expenses	(18,415)	(20,584)	-10.5%	(18,415)	(14,232)	29.4%
Transportation expenses	(8,770)	(8,853)	-0.9%	(8,770)	(7,075)	24.0%
Depletion and depreciation	(7,093)	(7,110)	-0.2%	(7,093)	(5,055)	40.3%
Selling, general and administrative expenses	(3,959)	(4,539)	-12.8%	(3,959)	(3,366)	17.6%
Other operating expenses, net	(236)	(208)	13.5%	(236)	(217)	8.8%
Total costs and expenses	(123,522)	(154,648)	-20.1%	(123,522)	(126,465)	-2.3%
Operating profit	19,408	9,918	95.7%	19,408	20,203	-3.9%
Impairment of assets	(345)	(12,617)	-97.3%	(345)	(499)	-30.9%
Finance income	1,988	1,554	27.9%	1,988	1,292	53.9%
Finance costs	(4,280)	(3,983)	7.5%	(4,280)	(1,935)	121.2%
Foreign exchange (loss)/gain, net	(1,951)	4,077	n/a	(1,951)	(1,538)	26.9%
Share of loss of joint ventures, net of income tax	(40)	(175)	-77.1%	(40)	(60)	-33.3%
Total other expenses	(4,628)	(11,144)	-58.5%	(4,628)	(2,740)	68.9%
Profit/(loss) before tax	14,780	(1,226)	n/a	14,780	17,463	-15.4%
Income tax	(3,101)	(1,358)	128.4%	(3,101)	(3,519)	-11.9%
Profit/(loss) for the period	11,679	(2,584)	n/a	11,679	13,944	-16.2%
Other comprehensive expenses net of income tax	-	(25)	-100.0%	-	-	-
Total comprehensive income/(loss) for the period	11,679	(2,609)	n/a	11,679	13,944	-16.2%
Profit/(loss) for the period attributable to non-controlling interests	289	(305)	n/a	289	(15)	n/a
Profit/(losses) for the period attributable to owners of the parent company	11,390	(2,279)	n/a	11,390	13,959	-18.4%
Total comprehensive income/(loss) for the period attributable to non-controlling interests	289	(305)	n/a	289	(15)	n/a
Total comprehensive income/(loss) for the period attributable to owners of the parent company	11,390	(2,304)	n/a	11,390	13,959	-18.4%

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



REVENUE

In the 1st quarter of 2015, the revenue of Bashneft Group decreased by 13.1% compared to the 4th quarter of 2014 and totalled 142,930 million roubles. This change was caused by a decline in sales volume of petroleum products and a fall in prices.

Revenue fell by 2.5% compared to the 1st quarter of 2014. This change was related mainly to a reduction in sales volume of petroleum products.

(million roubles)	1Q		Change	1Q		Change
	2015	2014		2015	2014	
Revenue						
Export sales of crude oil outside the Customs Union	32,809	33,561	-2.2%	32,809	34,872	-5.9%
Export sales of crude oil to the Customs Union	2,942	2,006	46.7%	2,942	2,034	44.6%
Domestic sales of crude oil	4,917	5,171	-4.9%	4,917	1,741	182.4%
Total sales of crude oil	40,668	40,738	-0.2%	40,668	38,647	5.2%
Export sales of petroleum products and petrochemicals outside the Customs Union	49,906	50,106	-0.4%	49,906	58,327	-14.4%
Export sales of petroleum products and petrochemicals to the Customs Union	3,070	8,069	-62.0%	3,070	1,963	56.4%
Domestic sales of petroleum products and petrochemicals	48,250	64,644	-25.4%	48,250	45,904	5.1%
<i>wholesale</i>	35,436	50,096	-29.3%	35,436	34,759	1.9%
<i>retail</i>	12,814	14,548	-11.9%	12,814	11,145	15.0%
Total sales of petroleum products and petrochemicals	101,226	122,819	-17.6%	101,226	106,194	-4.7%
Other sales	1,036	1,009	2.7%	1,036	1,827	-43.3%
Total revenue	142,930	164,566	-13.1%	142,930	146,668	-2.5%

(thousand tonnes)	1Q		Change	1Q		Change
	2015	2014		2015	2014	
Sales volume						
Export sales of crude oil outside the Customs Union	1,477	1,359	8.7%	1,477	1,288	14.7%
Export sales of crude oil to the Customs Union	192	191	0.5%	192	152	26.3%
Domestic sales of crude oil	397	457	-13.1%	397	148	168.2%
Total sales of crude oil	2,066	2,007	2.9%	2,066	1,588	30.1%
Export sales of petroleum products and petrochemicals outside the Customs Union	1,962	2,233	-12.1%	1,962	2,315	-15.2%
Export sales of petroleum products and petrochemicals to the Customs Union	155	305	-49.2%	155	118	31.4%
Domestic sales of petroleum products and petrochemicals	2,237	2,651	-15.6%	2,237	2,172	3.0%
<i>wholesale</i>	1,877	2,244	-16.4%	1,877	1,837	2.2%
<i>retail</i>	360	407	-11.5%	360	335	7.5%
Total sales of petroleum products and petrochemicals	4,354	5,189	-16.1%	4,354	4,605	-5.5%
Total sales of crude oil, petroleum products and petrochemicals	6,420	7,196	-10.8%	6,420	6,193	3.7%



Export and domestic sales of crude oil

In the 1st quarter of 2015, revenue from export sales of crude oil remained at the level reached in the 4th quarter of 2014 and amounted to 35,751 million roubles.

Revenue from export sales of crude oil decreased by 3.1% compared to the 1st quarter of 2014 due to a fall in prices.

In the 1st quarter of 2015, revenue from domestic sales of crude oil totalled 4,917 million roubles, which is 4.9% less than in the 4th quarter of 2014 (due to a reduction in sales) but much higher than in the 1st quarter of 2014. The increase in revenue compared to the same period in prior year was related to an increase in oil production and a rise in prices on the domestic market.

Export sales of petroleum products and petrochemicals

(thousand tonnes)	1Q			1Q		
	2015	2014	Change	2015	2014	Change
Diesel fuel	1,482	1,414	4.8%	1,482	1,187	24.9%
Fuel oil	310	443	-30.0%	310	586	-47.1%
High-octane gasoline	148	247	-40.1%	148	149	-0.7%
Naphtha	34	28	21.4%	34	36	-5.6%
Vacuum gas oil	29	298	-90.3%	29	434	-93.3%
Other	27	25	8.0%	27	41	-34.1%
Total sales of petroleum products	2,030	2,455	-17.3%	2,030	2,433	-16.6%
Petrochemicals sales	87	83	4.8%	87	-	n/a
Total sales of petroleum products and petrochemicals	2,117	2,538	-16.6%	2,117	2,433	-13.0%

Export sales of petroleum products and petrochemicals outside the Customs Union

In the 1st quarter of 2015, revenue from sales of petroleum products outside the Customs Union remained flat compared to the 4th quarter of 2014 and totalled 49,906 million roubles.

Revenue from sales of petroleum products and petrochemicals outside the Customs Union fell by 14.4% compared to the 1st quarter of 2014 due to a 15.2% reduction in sales of petroleum products related to a decrease in the production output of fuel oil and vacuum gas oil.

Export sales of petroleum products and petrochemicals to the Customs Union

In the 1st quarter of 2015, revenue from sales of petroleum products to the Customs Union amounted to 3,070 million roubles, which is 62.0% less than in the 4th quarter of 2014. The decline in revenue from export sales of petroleum products to the Customs Union was related to a 49.2% reduction in sales volume of petroleum products to the Customs Union in the 1st quarter of 2015 due to a decrease in the production output of petroleum products.

In the 1st quarter of 2015, revenue from sales of petroleum products and petrochemicals to the Customs Union increased by 56.4% compared to the 1st quarter of 2014. The growth of revenue was caused primarily by a 31.4% increase in sales volume related to growing exports of high-octane gasoline to the most profitable export destinations.



Domestic sales of petroleum products and petrochemicals

(thousand tonnes)	1Q		4Q	1Q		
	2015	2014		Change	2015	2014
High-octane gasoline	916	1,115	-17.8%	916	815	12.4%
Diesel fuel	373	502	-25.7%	373	479	-22.1%
Fuel oil	400	367	9.0%	400	288	38.9%
Other	431	508	-15.2%	431	590	-26.9%
Total sales of petroleum products	2,120	2,492	-14.9%	2,120	2,172	-2.4%
Petrochemicals sales	117	159	-26.4%	117	-	n/a
Total sales of petroleum products and petrochemicals	2,237	2,651	-15.6%	2,237	2,172	3.0%

Wholesale of petroleum products and petrochemicals

In the 1st quarter of 2015, revenue from wholesale of petroleum products on the domestic market fell by 29.3% compared to the 4th quarter of 2014 and amounted to 35,436 million roubles, which was related primarily to a 16.4% decrease in sales volume due to a reduction in the production output of petroleum products.

In the 1st quarter of 2015, revenue from wholesale of petroleum products and petrochemicals on the domestic market increased by 1.9% compared to the same period in 2014. The increase in revenue was related mainly to a 2.2% increase in sales volume.

Retail sales of petroleum products

In the 1st quarter of 2015, revenue from retail sales decreased by 11.9% compared to the 4th quarter of 2014 and totalled 12,814 million roubles, which was also related to a 11.5% seasonal decline in retail sales volume on the domestic market.

In the 1st quarter of 2015, revenue from retail sales increased by 15.0% compared to the same period in 2014. The increase in revenue from retail sales was mainly related to a 7.5% 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 1st quarter of 2015, other revenue increased slightly compared to the 4th quarter of 2014 and totalled 1,036 million roubles.

In the 1st quarter of 2015, other revenue slumped by 43.3% compared to the same period in 2014, which was caused primarily by consolidation of the UPC Group.



COSTS AND EXPENSES

Production and operating expenses

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

(million roubles)	1Q			1Q		
	2015	2014	Change	2015	2014	Change
Production and operating expenses						
Production	9,815	9,642	1.8%	9,815	7,955	23.4%
Refining	6,201	7,964	-22.1%	6,201	5,175	19.8%
Other (including petrochemicals and change in WIP and finished products balances)	2,399	2,978	-19.4%	2,399	1,102	117.7%
Total production and operating expenses	18,415	20,584	-10.5%	18,415	14,232	29.4%

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

	1Q			1Q		
	2015	2014	Change	2015	2014	Change
Crude oil production expenses (million roubles)	9,815	9,642	1.8%	9,815	7,955	23.4%
Unit costs for production of crude oil (roubles per barrel)	285.5	279.7	2.1%	285.5	264.8	7.8%

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 2015, unit costs for production of crude oil increased slightly compared to the 4th quarter of 2014 and totalled 285.5 roubles per barrel.

Unit costs for production of crude oil grew by 7.8% compared to the 1st quarter of 2014 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.

	1Q			1Q		
	2015	2014	Change	2015	2014	Change
Refining expenses (million roubles)	6,201	7,964	-22.1%	6,201	5,175	19.8%
Unit refining costs (roubles per barrel)	180.2	204.3	-11.8%	180.2	133.3	35.2%

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 2015, unit refining costs decreased by 11.8% compared to the 4th quarter of 2014 and totalled 180.2 roubles per barrel due to a reduction in the amount of repairs and a decrease in expenditure on raw and other materials.

Unit refining costs increased by 35.2% compared to the same period in 2014. This increase was caused by an increase in the amount of repairs, higher cost of electricity and auxiliary materials.

Cost of purchased crude oil, gas and petroleum products

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



Volume 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		Change
	2015	2014		2015	2014	
Purchased crude oil, gas, and gas condensate	2,068	2,991	-30.9%	2,068	2,611	-20.8%
Purchased petroleum products	16	27	-40.7%	16	15	6.7%
Total volume of purchased crude oil, gas, and petroleum products	2,084	3,018	-30.9%	2,084	2,626	-20.6%

In the 1st quarter of 2015, the cost of purchased crude oil, gas and petroleum products decreased by 13.2% compared to the 4th quarter of 2014 and amounted to 31,034 million roubles. This change was related mainly to a reduction in refining volume.

The cost of purchased crude oil, gas and petroleum products decreased by 2.9% compared to the 1st quarter of 2014, which was related to a reduction in the volume of purchased crude oil, gas and gas condensate (due to a decrease in refining volume); this was offset by a rise in prices on the domestic market.

Transportation expenses

In the 1st quarter of 2015, transportation costs remained at the level reached in the 4th quarter of 2014 and totalled 8,770 million roubles.

Transportation costs increased by 24.0% compared to the 1st quarter of 2014. The growth of transportation costs was driven mainly by an increase in export volume of crude oil combined with expansion of the geographical footprint of the wholesale business on the domestic market and consolidation of the UPC Group.

Depletion and depreciation

(million roubles)	1Q		Change	1Q		Change
	2015	2014		2015	2014	
Exploration and production	3,235	3,043	6.3%	3,235	2,137	51.4%
Refining, petrochemicals and marketing	3,634	3,857	-5.8%	3,634	2,729	33.2%
Other	224	210	6.7%	224	189	18.5%
Total depletion and depreciation	7,093	7,110	-0.2%	7,093	5,055	40.3%

In the 1st quarter of 2015, depletion and depreciation costs remained at the level reached in the 4th quarter of 2014 and totalled 7,093 million roubles.

In the 1st quarter of 2015, depletion and depreciation costs rose by 40.3% compared to the 1st quarter of 2014, which was caused mainly by an increase in production and sales volume of crude oil, as well as commissioning of new property, plant and equipment, the acquisition of Burneftegaz Group and consolidation of LLC Bashneft-Polyus and the UPC Group.



Taxes other than income tax

(million roubles)	1Q		Change	1Q		
	2015	2014		2015	2014	Change
Mineral extraction tax	24,099	16,938	42.3%	24,099	15,853	52.0%
Social taxes	2,027	1,667	21.6%	2,027	1,512	34.1%
Property tax	534	549	-2.7%	534	382	39.8%
Other	326	429	-24.0%	326	201	62.2%
Total taxes other than income tax	26,986	19,583	37.8%	26,986	17,948	50.4%

In the 1st quarter of 2015, taxes other than income tax increased by 37.8% compared to the 4th quarter of 2014 and totalled 26,986 million roubles, primarily due to an increase in the mineral extraction tax rate related to the adoption of a law on the tax manoeuvre. In addition, in the 1st quarter of 2015, social taxes were increased as a regressive tax rate was applied.

In the 1st quarter of 2015, taxes other than income tax increased by 50.4% compared to the 1st quarter of 2014. This change was also related to an increase in mineral extraction tax payments caused by a rise in the mineral extraction tax rate combined with production growth. An increase in social taxes was related to consolidation of the UPC Group.

Export tariffs and excises

(million roubles)	1Q		Change	1Q		
	2015	2014		2015	2014	Change
Export tariffs on crude oil	11,310	21,187	-46.6%	11,310	17,678	-36.0%
Export tariffs on petroleum products	9,365	27,214	-65.6%	9,365	21,280	-56.0%
Excises	6,354	9,615	-33.9%	6,354	7,638	-16.8%
Total export tariffs and excises	27,029	58,016	-53.4%	27,029	46,596	-42.0%

In the 1st quarter of 2015, the total amount of export tariffs on oil and petroleum products decreased by 57.3% compared to the 4th quarter of 2014 to 20,675 million roubles, which was caused primarily by a reduction in export duty rates related to the adoption of the law on the tax manoeuvre and a reduction in export sales volume of petroleum products.

In the 1st quarter of 2015, the total amount of excises decreased by 33.9% compared to the 4th quarter of 2014 to 6,354 million roubles due to a reduction in sales volume in Russian Federation and a decrease in excise rates.

In the 1st quarter of 2015, the total amount of export tariffs on oil and petroleum products fell by 46.9% compared to the same period in 2014 mainly due to a reduction in export duty rates.

In the 1st quarter of 2015, the total amount of excises decreased by 16.8% compared to the same period in 2014, primarily due to a decrease in excise rates.

CASH FLOW

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

(million roubles)	1Q		Change	1Q		
	2015	2014		2015	2014	Change
Net cash (used in)/generated from operating activities	(2,697)	28,362	n/a	(2,697)	5,121	n/a
Net cash used in investing activities	(25,595)	(16,636)	53.9%	(25,595)	(42,920)	-40.4%
Net cash (used in)/generated from financing activities	(11,236)	(6,826)	64.6%	(11,236)	52,218	n/a



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

(million roubles)	1Q		Change	1Q		
	2015	2014		2015	2014	Change
Operating cash flow before working capital changes	26,741	19,790	35.1%	26,741	25,365	5.4%
Movements in working capital less cash and cash equivalents	(22,575)	16,169	n/a	(22,575)	(16,166)	39.6%
Interest paid	(3,655)	(3,526)	3.7%	(3,655)	(2,440)	49.8%
Income tax paid	(3,208)	(4,071)	-21.2%	(3,208)	(1,638)	95.8%
Net cash(used in)/generated from operating activities	(2,697)	28,362	n/a	(2,697)	5,121	n/a

In the 1st quarter of 2015, net cash used in operating activities totalled 2,697 million roubles. The main factor behind the change compared to the 4th and 1st quarters of 2014 consisted in a movement in working capital less cash and cash equivalents.

Net cash used in investing activities:

(million roubles)	1Q		Change	1Q		
	2015	2014		2015	2014	Change
Capital expenditures	(12,161)	(16,701)	-27.2%	(12,161)	(9,053)	34.3%
Placement of deposits and issue of loans	(15,187)	(54)	n/a	(15,187)	-	n/a
Acquisition of subsidiaries, less cash of acquired companies	7	(1,064)	n/a	7	(36,095)	n/a
Other	1,746	1,183	47.6%	1,746	2,228	-21.6%
Net cash used in investing activities	(25,595)	(16,636)	53.9%	(25,595)	(42,920)	-40.4%

In the 1st quarter of 2015, net cash used in investing activities totalled 25,595 million roubles and was allocated for placement of deposits, and for financing capital investments.

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

(million roubles)	1Q		Change	1Q		
	2015	2014		2015	2014	Change
Proceeds from borrowings	508	5,674	-91.0%	508	53,544	-99.1%
Repayment of borrowings	(11,730)	(12,478)	-6.0%	(11,730)	(1,326)	n/a
Total issue and repayment of debt:	(11,222)	(6,804)	64.9%	(11,222)	52,218	n/a
Dividends paid	(14)	(22)	-36.4%	(14)	-	n/a
Net cash (used in)/generated from financing activities	(11,236)	(6,826)	64.6%	(11,236)	52,218	n/a

In the 1st quarter of 2015, net cash used in financing activities totalled 11,236 million roubles and was allocated for loan repayment.

FINANCING AND DEBT

(million roubles)	31 March	31 December	Change	31 March		
	2015	2014		2015	2014	Change
Short-term borrowings	19,337	28,553	-32.3%	19,337	78,003	-75.2%
Long-term borrowings	139,246	139,232	0.0%	139,246	67,516	106.2%
Total debt	158,583	167,785	-5.5%	158,583	145,519	9.0%
Cash and cash equivalents	(13,255)	(52,818)	-74.9%	(13,255)	(31,449)	-57.9%
Short-term financial investments	(16,159)	(1,330)	n/a	(16,159)	(46)	n/a
Adjusted net debt	129,169	113,637	13.7%	129,169	114,024	13.3%

As of 31 March 2015, the Group's total debt in the form of short-term and long-term borrowings totalled 158,583 million roubles compared to 167,785 million roubles as of 31 December 2014.

As of 31 March 2015, the annual weighted average interest rate on loans stood at 11.7% compared to 8.3% as of 31 December 2014.

CAPITAL EXPENDITURES

(million roubles)	1Q		4Q	Change	1Q		
	2015	2014			2015	2014	Change
Production	9,107	12,272	-25.8%	9,107	6,602	37.9%	
incl. development of the R. Trebs and A. Titov fields	1,186	5,428	-78.2%	1,186	3,228	-63.3%	
Refining, petrochemicals and marketing	2,646	4,131	-35.9%	2,646	2,433	8.8%	
Other	408	298	36.9%	408	18	n/a	
Total cash used in capital expenditures	12,161	16,701	-27.2%	12,161	9,053	34.3%	

In the 1st quarter of 2015, capital expenditures declined by 27.2% compared to the 4th quarter of 2014 and totalled 12,161 million roubles. This decrease was caused mainly by a reduction in capital expenditure on the development of the R. Trebs and A. Titov fields.

In the 1st quarter of 2015, capital expenditures increased by 34.3% compared to the same period in 2014 due 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 May and June 2015, the Group issued 10,000,000 non-convertible RUB-denominated bonds at a par value of 1,000 roubles and a maturity date in May 2025. The bonds have a coupon rate of 12.00% per annum from the issuance date to May 2020 per annum payable semi-annually. Subsequent coupon rates are to be determined in May 2020 at which point the bondholders have the right to redeem the bonds at par value. The bonds allow early redemption at the discretion of the Company in May 2017.

In April and May 2015 the Group has renegotiated with banks the interest rates for unsecured fixed interest rate borrowings with carrying value of 70,411 million roubles as of 31 March 2015. As a result interest rates for these unsecured borrowings is a mixture of fixed and variable interest rates varying from 13.00% to 14.00% per annum (previously, varying from 8.85% to 20.05% per annum).

On 27 May 2015 the Board of Directors recommended to the General Meeting of Shareholders to approve dividend payments for 2014 year amounting to 113 roubles per ordinary and preferred share.

In accordance with the changes in Civil Code of the Russian Federation that has recently become effective, the Company has registered changes to the Company's Charter on 5 June 2015 and changed its corporate name to Public Joint Stock Oil Company Bashneft (PJSOC Bashneft).

On 5 June 2015 the Company cancelled 2,724,173 ordinary shares previously held in treasury stock.

