

Bashneft Group

**Interim Condensed
Consolidated Financial Statements
for the three and the nine months
ended 30 September 2015 (unaudited)**

BASHNEFT GROUP

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STATEMENT OF MANAGEMENT'S RESPONSIBILITIES FOR THE PREPARATION AND APPROVAL OF THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS FOR THE THREE AND THE NINE MONTHS ENDED 30 SEPTEMBER 2015

The following statement, which should be read in conjunction with the independent auditors' report on review of the interim condensed consolidated financial statements set out on page 2, is made with a view to distinguish the respective responsibilities of management and those of the independent auditors in relation to the interim condensed consolidated financial statements of Public Joint Stock Oil Company Bashneft (the "Company") and its subsidiaries (the "Group").

Management is responsible for the preparation of the interim condensed consolidated financial statements that present fairly in all material respects the consolidated financial position of the Group as at 30 September 2015, the results of its operations for the three and the nine months then ended, cash flows and changes in shareholders' equity for the nine months then ended, in accordance with International Accounting Standard 34 *Interim Financial Reporting* ("IAS 34").

In preparing the interim condensed consolidated financial statements, management is responsible for:

- Properly selecting and applying accounting policies;
- Presenting information, including accounting policies, in a manner that provides relevant, reliable, comparable and understandable information;
- Providing additional disclosures when compliance with the specific requirements in International Financial Reporting Standards ("IFRS") are insufficient to enable users to understand the impact of particular transactions, other events and conditions on the Group's consolidated financial position and financial performance;
- Making judgements and estimates that are reasonable and prudent;
- Stating whether IAS 34 has been followed, subject to any material departures disclosed and explained in the interim condensed consolidated financial statements; and
- Making an assessment of the Group's ability to continue as a going concern.

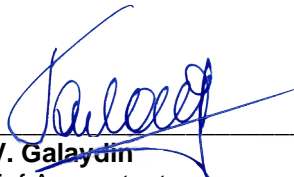
Management is also responsible for:

- Designing, implementing and maintaining an effective and sound system of internal controls, throughout the Group;
- Maintaining adequate accounting records that are sufficient to show and explain the Group's transactions and disclose with reasonable accuracy at any time the consolidated financial position of the Group, and which enable them to ensure that the interim condensed consolidated financial statements of the Group comply with IAS 34;
- Maintaining statutory accounting records in compliance with Russian Federation legislation and accounting standards;
- Taking such steps as are reasonably available to them to safeguard the assets of the Group; and
- Preventing and detecting fraud and other irregularities.

The interim condensed consolidated financial statements for the three and the nine months ended 30 September 2015 were approved by:



A.L. Korsik
President



Y.V. Galaydin
Chief Accountant

Ufa, Russian Federation
23 November 2015

INDEPENDENT AUDITORS' REPORT ON REVIEW OF THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

To: Shareholders and Board of Directors of Public Joint Stock Oil Company Bashneft

Introduction

We have reviewed the accompanying interim condensed consolidated statement of financial position of Public Joint Stock Oil Company Bashneft and its subsidiaries (the "Group") as at 30 September 2015 and the related interim condensed consolidated statements of profit or loss and other comprehensive income for the three and the nine months then ended, changes in equity and cash flows for the nine months then ended, and a summary of significant accounting policies and other explanatory notes. Management is responsible for the preparation and presentation of these interim condensed consolidated financial statements in accordance with International Accounting Standard ("IAS") 34, *Interim Financial Reporting*. Our responsibility is to express a conclusion on these interim condensed consolidated financial statements based on our review.

Scope of Review

We conducted our review in accordance with International Standard on Review Engagements 2410, *Review of Interim Financial Information Performed by the Independent Auditor of the Entity*. A review of interim financial statements consists of making inquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with International Standards on Auditing and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

Conclusion

Based on our review, nothing has come to our attention that causes us to believe that the accompanying interim condensed consolidated financial statements are not prepared, in all material respects, in accordance with IAS 34 *Interim Financial Reporting*.



Moscow, Russian Federation
23 November 2015

BASHNEFT GROUP

INTERIM CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME FOR THE THREE AND THE NINE MONTHS ENDED 30 SEPTEMBER 2015 (UNAUDITED)

Millions of Russian roubles, except for earnings per share data

	Notes	Three months ended 30 September		Nine months ended 30 September	
		2015	2014*	2015	2014*
Revenue	7	167,629	162,861	463,304	472,705
Cost of purchased crude oil, gas and petroleum products		(35,967)	(34,929)	(99,862)	(104,083)
Taxes other than income tax	8	(27,691)	(19,527)	(83,790)	(58,188)
Export tariffs and excise		(29,678)	(47,866)	(80,860)	(141,008)
Production and operating expenses		(21,516)	(18,674)	(56,810)	(50,249)
Transportation expenses		(10,048)	(7,276)	(27,873)	(22,404)
Depletion and depreciation		(7,297)	(5,886)	(21,870)	(16,671)
Selling, general and administrative expenses		(5,262)	(4,291)	(14,051)	(11,480)
Other operating income/(expenses), net		233	(359)	(345)	(1,543)
Operating profit		30,403	24,053	77,843	67,079
Reversal of impairment/(impairment) of assets, net		1,248	46	1,151	(413)
Finance income	9	1,613	676	5,193	3,193
Finance costs	9	(4,442)	(3,800)	(13,651)	(9,075)
Foreign exchange gain/(loss), net		772	(603)	(2,549)	(2,778)
Share of (loss)/profit of joint ventures, net of income tax		(70)	(1)	(857)	58
Profit before income tax		29,524	20,371	67,130	58,064
Income tax	10	(6,898)	(4,578)	(14,404)	(12,459)
Profit for the period and total comprehensive income		22,626	15,793	52,726	45,605
Attributable to:					
Owners of the Company		21,980	15,611	51,278	45,425
Non-controlling interests		646	182	1,448	180
		22,626	15,793	52,726	45,605
EARNINGS PER SHARE					
Weighted average number of ordinary shares in issue during the period		144,417,602	144,417,602	144,417,602	149,991,906
Basic and diluted earnings per share attributable to shareholders of the parent company (Russian roubles per share)		129.80	92.19	302.81	254.78

*Certain comparative figures have been reclassified to conform with the financial statements presentation adopted for the current period.

The accompanying notes on pages 8-26 form an integral part of these interim condensed consolidated financial statements

BASHNEFT GROUP

INTERIM CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION AT 30 SEPTEMBER 2015 (UNAUDITED)

Millions of Russian roubles

	Notes	30 September 2015	31 December 2014
ASSETS			
Non-current assets			
Property, plant and equipment	11	391,177	369,925
Advances paid for acquisition of property, plant and equipment		961	1,617
Intangible assets		3,362	2,982
Financial assets	12	3,504	3,567
Investments in joint ventures and related financial assets		3,460	3,791
Long-term inventories		3,282	2,846
Deferred tax assets		1,765	1,959
Other non-current assets		2,332	1,619
		409,843	388,306
Current assets			
Inventories		27,673	26,359
Financial assets	12	5,000	1,330
Trade and other receivables		16,623	14,696
Advances to suppliers and prepaid expenses		7,606	8,881
Income tax prepaid		254	469
Other taxes receivable		21,543	30,822
Cash and cash equivalents		44,341	52,818
		123,040	135,375
TOTAL ASSETS		532,883	523,681
EQUITY AND LIABILITIES			
Capital and reserves			
Share capital	13	1,954	1,984
Treasury shares	13	(12,720)	(18,122)
Additional paid-in capital		81,462	81,462
Retained earnings		157,265	130,494
Equity attributable to owners of the Company		227,961	195,818
Non-controlling interests		9,282	7,834
		237,243	203,652
Non-current liabilities			
Loans and borrowings	14	124,071	139,232
Decommissioning provision		8,184	7,473
Deferred tax liabilities		41,130	43,038
Prepayment on oil products supply agreement		14,938	17,347
Other non-current liabilities		1,728	1,722
		190,051	208,812
Current liabilities			
Borrowings	14	27,015	28,553
Trade and other payables		41,363	37,340
Dividends payable	13	437	398
Advances received		13,606	25,614
Current portion of prepayment on oil products supply agreement		2,409	-
Provisions		585	824
Income tax payable		1,974	1,722
Other taxes payable		18,200	16,766
		105,589	111,217
TOTAL LIABILITIES		295,640	320,029
TOTAL EQUITY AND LIABILITIES		532,883	523,681

The accompanying notes on pages 8-26 form an integral part of these interim condensed consolidated financial statements

BASHNEFT GROUP

INTERIM CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS FOR THE NINE MONTHS ENDED 30 SEPTEMBER 2015 (UNAUDITED)

Millions of Russian roubles

	Nine months ended 30 September	
	2015	2014*
OPERATING ACTIVITIES		
Profit before income tax	67,130	58,064
Adjustments for:		
Depletion and depreciation	21,870	16,671
Loss on disposal of property, plant and equipment	752	741
Finance income	(5,193)	(3,193)
Finance costs	13,651	9,075
(Reversal of impairment)/impairment of assets, net	(1,151)	413
Share of loss/(profit) of joint ventures, net of income tax	857	(58)
Foreign exchange loss, net	2,549	2,778
Change in provisions, net	(292)	(171)
Other, net	(45)	198
Operating cash flows before working capital changes	100,128	84,518
Movements in working capital:		
Inventories	(1,666)	(4,363)
Trade and other receivables	(2,582)	(5,856)
Advances to suppliers and prepaid expenses	1,300	402
Other taxes receivable	9,256	1,216
Trade and other payables	1,901	731
Advances received	(12,009)	3,296
Prepayment on oil products supply agreement	-	17,347
Other taxes payable	1,419	(292)
Cash generated from operations	97,747	96,999
Interest paid	(11,890)	(8,539)
Income tax paid	(15,609)	(10,763)
NET CASH GENERATED FROM OPERATING ACTIVITIES	70,248	77,697

*Certain comparative figures have been reclassified to conform with the financial statements presentation adopted for the current period.

*The accompanying notes on pages 8-26 form an integral part of these
interim condensed consolidated financial statements*

BASHNEFT GROUP

INTERIM CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS (CONTINUED) FOR THE NINE MONTHS ENDED 30 SEPTEMBER 2015 (UNAUDITED)

Millions of Russian roubles

	Notes	Nine months ended 30 September	
		2015	2014
INVESTING ACTIVITIES			
Payments for acquisition of property, plant and equipment		(42,862)	(31,643)
Proceeds from disposal of property, plant and equipment		54	3
Investments in and loans to joint venture		(891)	(2,961)
Repayment of contributions and loans to joint venture		190	3,133
Acquisition of subsidiaries, net of cash acquired	4	282	(40,219)
Disposal of structured entity		-	(24)
Payments for acquisition of intangible assets		(1,267)	(585)
Cash placed on bank deposits and payments for acquisition of other financial assets		(20,034)	(346)
Proceeds from disposal of financial assets		19,185	2,476
Interest received		5,095	1,610
Dividends received		2	-
NET CASH USED IN INVESTING ACTIVITIES		(40,246)	(68,556)
FINANCING ACTIVITIES			
Proceeds from loans and borrowings		16,751	95,833
Repayments of loans and borrowings		(36,405)	(31,573)
Dividends paid by the Company		(19,091)	(35,597)
Purchase of treasury shares	5	-	(17,869)
NET CASH (USED IN)/GENERATED FROM FINANCING ACTIVITIES		(38,745)	10,794
Net (decrease)/increase in cash and cash equivalents		(8,743)	19,935
Cash and cash equivalents at beginning of the period		52,818	16,395
Effect of exchange rate changes on the balance of cash and cash equivalents held in foreign currencies		266	1,290
Cash and cash equivalents at end of the period		44,341	37,620

*The accompanying notes on pages 8-26 form an integral part of these
interim condensed consolidated financial statements*

BASHNEFT GROUP

INTERIM CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY FOR THE NINE MONTHS ENDED 30 SEPTEMBER 2015 (UNAUDITED)

Millions of Russian roubles

	Notes	Share capital	Treasury shares	Additional paid-in capital	Retained earnings	Equity attributable to owners of the Company	Non-controlling interests	Total
Balance at 1 January 2014		2,501	(38,147)	72,682	199,131	236,167	155	236,322
Profit for the period		-	-	-	45,425	45,425	180	45,605
Total comprehensive income for the period		-	-	-	45,425	45,425	180	45,605
Dividends	13	-	-	-	(35,730)	(35,730)	-	(35,730)
Transactions with the Controlling shareholder	4	-	-	7,575	-	7,575	4,205	11,780
Effect of reorganisation of CJSC Sistema-Invest and the Group	5	(517)	20,025	-	(76,028)	(56,520)	-	(56,520)
Non-controlling interests arising on change of control over LLC Bashneft-Polyus	4	-	-	-	-	-	27	27
Transfer of license on Trebs and Titov deposit to LLC Bashneft-Polyus		-	-	1,152	-	1,152	3,616	4,768
Other equity transactions		-	-	-	-	-	(44)	(44)
Balance at 30 September 2014		1,984	(18,122)	81,409	132,798	198,069	8,139	206,208
Balance at 1 January 2015		1,984	(18,122)	81,462	130,494	195,818	7,834	203,652
Profit for the period		-	-	-	51,278	51,278	1,448	52,726
Total comprehensive income for the period		-	-	-	51,278	51,278	1,448	52,726
Dividends	13	-	-	-	(19,130)	(19,130)	-	(19,130)
Cancellation of treasury shares	13	(30)	5,402	-	(5,372)	-	-	-
Other equity transactions		-	-	-	(5)	(5)	-	(5)
Balance at 30 September 2015		1,954	(12,720)	81,462	157,265	227,961	9,282	237,243

The accompanying notes on pages 8-26 form an integral part of these interim condensed consolidated financial statements

BASHNEFT GROUP

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS FOR THE THREE AND THE NINE MONTHS ENDED 30 SEPTEMBER 2015 (UNAUDITED)

1. GENERAL INFORMATION

Organisation and operations

Public Joint Stock Oil Company Bashneft (the “Company” or “Bashneft”) and its subsidiaries (together referred to as the “Group” or the “Bashneft Group”) are primarily involved in oil production, refining, marketing and distribution of petroleum products in the Russian Federation. The Group’s oil production, refining, marketing and distribution base includes oil and gas fields, refineries and petrol stations. Bashneft is the parent company of a vertically integrated group of oil and gas companies.

The Company was incorporated in the Russian Federation as an open joint stock company on 13 January 1995, following the privatisation of Bashneft production association. In accordance with changes in the Civil Code of the Russian Federation, 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). The Company’s registered office is located at 30, bldg.1, Karl Marx Street, the City of Ufa, the Republic of Bashkortostan, 450077, Russian Federation.

The following principal subsidiaries incorporated in the Russian Federation were included in the scope of consolidation at 30 September 2015 and 31 December 2014:

Company	Principal activities	Group’s effective interest	
		30 September 2015	31 December 2014
LLC Bashneft-Dobycha	Production of crude oil and gas	100%	100%
LLC Bashneft-Retail Sales	Petroleum products trading	100%	100%
LLC Burneftegaz	Exploration and production of crude oil	100%	100%
LLC Bashneft-Polyus	Exploration and production of crude oil	74.9%	74.9%

Controlling shareholder

JSFC Sistema (“Sistema”) was the controlling shareholder of Bashneft during the nine months ended 30 September 2014 and Mr. Vladimir P. Evtushenkov, being the controlling shareholder of Sistema was the ultimate controlling party of Bashneft.

On 9 December 2014, in accordance with the decision of the Moscow Commercial Court dated 30 October 2014, 122,971,934 ordinary and 6,192,245 preferred shares of the Company representing 71.62% of the Company’s charter capital previously owned by Sistema and CJSC Sistema-invest were transferred to the Russian Federal Property Management Agency. As a result of the transfer, the effective control over the Company passed from Sistema to the Government of the Russian Federation, that became the ultimate controlling party of the Bashneft Group from 9 December 2014.

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

Going concern

In assessing its going concern status, the Group has taken into account its financial position, anticipated future trading performance, its borrowings and other facilities and its capital expenditure commitments and plans, together with other risks facing the Group. After making appropriate enquires, the Group considers that it has adequate resources to continue in operational existence for at least the next 12 months from the date of issuance of these interim condensed consolidated financial statements. Consequently, the Group has determined that it is appropriate to adopt the going concern basis in the preparation of these interim condensed consolidated financial statements.

BASHNEFT GROUP

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS FOR THE THREE AND THE NINE MONTHS ENDED 30 SEPTEMBER 2015 (UNAUDITED)

2. BASIS OF PREPARATION AND SIGNIFICANT ACCOUNTING POLICIES

Statement of compliance

These interim condensed consolidated financial statements for the three and the nine months ended 30 September 2015 have been prepared in accordance with IAS 34. These interim condensed consolidated financial statements do not include all the information and disclosure required in the annual consolidated financial statements and should be read in conjunction with the Group's annual consolidated financial statements for the year ended 31 December 2014, which have been prepared in accordance with International Financial Reporting Standards as issued by the International Accounting Standards Board ("IFRS").

The same accounting policies and methods of computation have been followed in these interim condensed consolidated financial statements as were applied in the preparation of the Group's consolidated financial statements for the year ended 31 December 2014, except for amendments, related to application of new standards or interpretations described below.

Standards and interpretations effective in the current period

The amendments to IAS 19 *Employee Benefits (Defined Benefit Plans: Employee contributions)* and *annual improvements 2010-2012 cycle and 2011-2013 cycle* were applied for the first time in these interim condensed consolidated financial statements. The application of these amendments did not result in significant changes to the Group's financial position or results of operations.

3. CRITICAL ACCOUNTING JUDGEMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY

The critical accounting judgements, estimates and assumptions made by management of the Group and applied in these interim condensed consolidated financial statements for the three and the nine months ended 30 September 2015 are consistent with those applied in the preparation of annual consolidated financial statements of the Group for the year ended 31 December 2014.

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NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS FOR THE THREE AND THE NINE MONTHS ENDED 30 SEPTEMBER 2015 (UNAUDITED)

Millions of Russian roubles

4. BUSINESS COMBINATIONS

Business combination during the nine months ended 30 September 2015

During the nine months ended 30 September 2015 the Group acquired a 49% stake in the Downstream segment joint venture in addition to the existing 51% stake. Total cash consideration paid for the acquisition was RUB 266 million. Fair value of the net assets acquired approximated the consideration paid and cost of previously held interest in joint venture. Cash and cash equivalents acquired were RUB 541 million.

Business combinations during the nine months ended 30 September 2014

LLC Burneftegaz

On 26 March 2014, the Group acquired a 100% interest in the outstanding charter capital of LLC Burneftegaz ("Burneftegaz"), which is engaged in exploration and production of crude oil in the Tyumen District of the Russian Federation for total cash consideration of RUB 35,953 million. The acquisition of Burneftegaz followed the Group's strategy for the upstream segment growth, which involved the expansion of the resource base of the Group by acquiring assets with considerable production potential.

At the date of acquisition, the fair values of identifiable assets and liabilities of Burneftegaz were as follows:

	Fair value at the acquisition date
ASSETS	
Property, plant and equipment	41,784
Advances paid for acquisition of property, plant and equipment	526
Inventories	293
Trade and other receivables	142
Advances to suppliers and prepaid expenses	110
Other taxes receivable	107
Cash and cash equivalents	208
Other assets	42
	43,212
LIABILITIES	
Deferred tax liabilities	(5,516)
Trade and other payables	(691)
Advances received	(185)
Other taxes payable	(478)
Borrowings	(363)
Other liabilities	(26)
	(7,259)
Fair value of net assets acquired	35,953
Cash consideration	35,953
Excess of the cost of acquisition over the Group's share in the fair value of net assets acquired	-
Net cash outflow arising on acquisition	
Consideration paid	35,953
Cash and cash equivalents acquired	(208)
Net cash outflow on acquisition	35,745

BASHNEFT GROUP

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS FOR THE THREE AND THE NINE MONTHS ENDED 30 SEPTEMBER 2015 (UNAUDITED)

Millions of Russian roubles

Burneftegaz contributed RUB 5,065 million of revenue, RUB 296 million of profit before tax and RUB 192 million of profit from the date of acquisition to 30 September 2014.

The Group's financial results if the combination had taken place at the beginning of the nine months ended 30 September 2014 are not disclosed as Burneftegaz did not prepare financial statements in accordance with IFRS before the acquisition.

LLC Bashneft-Polyus

Until 23 May 2014, LLC Bashneft-Polyus ("Bashneft-Polyus") was a joint venture between the Company and OJSC Lukoil established for the development of Trebs and Titov oil deposits. The Company holds 74.9% interest in the charter capital of Bashneft-Polyus.

On 23 May 2014, the Company and OJSC Lukoil agreed to change their participation agreement which substantially altered effective control over the operational and financial activities of Bashneft-Polyus in favour of the Company. At the date of acquisition of control, the fair value of identifiable assets and liabilities of Bashneft-Polyus was as follows:

	Fair value at the acquisition date
ASSETS	
Property, plant and equipment	11,644
Advances paid for acquisition of property, plant and equipment	46
Inventories	846
Trade and other receivables	15,436
Advances to suppliers and prepaid expenses	412
Other taxes receivable	2,351
Cash and cash equivalents	11
Other assets	2
	30,748
LIABILITIES	
Trade and other payables	(4,606)
Advances received	(17)
Other taxes payable	(2,232)
Borrowings from OJSC Lukoil and JSOC Bashneft	(23,334)
Deferred tax liabilities	(386)
Other liabilities	(67)
	(30,642)
Fair value of net assets obtained	106
Fair value of previously held share of investment in joint venture, net of loans from the Group treated as additional contribution to the joint venture	451
Non-controlling interests' share in fair value of net assets	27
Excess of the cost of acquisition over the Group's share in the fair value of net assets acquired, recognised in Other operating expenses, net	372
Net cash inflow arising on acquisition	
Cash and cash equivalents acquired	11
Net cash inflow on acquisition	11

Following the consolidation of Bashneft-Polyus, loans issued by the Group to Bashneft-Polyus of RUB 17,380 million at the date of acquisition, which were previously presented as an additional contribution to the joint-venture, were eliminated in full as intra-group balances.

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NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS FOR THE THREE AND THE NINE MONTHS ENDED 30 SEPTEMBER 2015 (UNAUDITED)

Millions of Russian roubles

Bashneft-Polyus contributed RUB 5,261 million of revenue, RUB 969 million of profit before tax and RUB 998 million of profit from the date of acquisition to 30 September 2014.

If the acquisition of control had taken place at the beginning of the nine months ended 30 September 2014, the Group's revenue would have been RUB 474,318 million, profit for the nine months would have been RUB 45,640 million.

Optan group

In July and August 2014, Bashneft through a series of transactions acquired 100% stakes in five legal entities which own a network of 91 petrol stations operated under the "Optan" brand ("Optan group") and 11 land plots located in 12 regions of the Russian Federation for a total cash consideration of RUB 7,715 million. The acquisition of the Optan group is part of Bashneft's strategy to expand its own retail network. Optan Group's petrol stations are in high-priority regions in geographical proximity to the Group's refining complex in Ufa.

At the date of acquisition, the fair values of identifiable assets and liabilities of Optan group were as follows:

	Fair value at the acquisition date
ASSETS	
Property, plant and equipment	10,210
Intangible assets	277
Other assets	105
	10,592
LIABILITIES	
Deferred tax liabilities	(1,848)
Borrowings	(949)
Other liabilities	(80)
	(2,877)
Fair value of net assets acquired	7,715
Cash consideration	7,715
Excess of the cost of acquisition over the Group's share in the fair value of net assets acquired	-
Net cash outflow arising on acquisition	
Consideration paid	7,715
Cash and cash equivalents acquired	(8)
Net cash outflow on acquisition	7,707

The acquired petrol stations' network is utilized by the Company for its retail activities and, therefore, revenue and profit contribution of Optan Group is insignificant to the Group.

The Group's financial results if the combination had taken place at the beginning of the nine months ended 30 September 2014, are not disclosed as Optan group did not prepare financial statements in accordance with IFRS before the acquisition.

BASHNEFT GROUP

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS FOR THE THREE AND THE NINE MONTHS ENDED 30 SEPTEMBER 2015 (UNAUDITED)

Millions of Russian roubles

OJSC United Petrochemical Company

On 17 September 2013, the Group entered into agreement to sell its 98% interest in OJSC United Petrochemical Company ("UPC") to Sistema for cash consideration of RUB 6,200 million payable in one year. UPC was the holding company of the petrochemical assets of the Group, including OJSC Ufaorgsintez ("Ufaorgsintez"). On 24 September 2014, this agreement was terminated and the Group re-obtained the control over UPC.

Both transactions were under common control so the assets and liabilities are recorded at their historical carrying values. As a result of the termination of the sale agreement the Group recognised a gain on acquisition of RUB 7,575 million, net of related income taxes in the amount of RUB 831 million, within additional paid-in capital in the interim condensed consolidated statement of changes in equity being the result of the transaction with the Group's controlling shareholder.

The result of transaction is set out below:

	<u>Carrying value at the acquisition date</u>
ASSETS	
Property, plant and equipment	13,441
Intangible assets	207
Investments in joint venture	506
Inventories	1,973
Trade and other receivables	666
Advances to suppliers and prepaid expenses	542
Taxes receivable	1,079
Financial assets	1,240
Cash and cash equivalents	3,572
Other assets	88
	<u>23,314</u>
LIABILITIES	
Deferred tax liabilities	(1,468)
Trade and other payables	(2,361)
Advances received	(438)
Other liabilities	(236)
	<u>(4,503)</u>
Net assets acquired	18,811
Non-controlling interests	(4,205)
	<u>14,606</u>
Income tax expense recognised on acquisition of UPC	(831)
Consideration receivable on disposal of UPC	(6,200)
Gain on acquisition of UPC	7,575
Net cash inflow arising on acquisition	
Cash and cash equivalents acquired	3,572
Net cash inflow on acquisition	3,572

UPC contributed RUB 796 million of revenue, RUB 127 million of profit before tax and RUB 96 million of profit from the date of acquisition to 30 September 2014.

If the acquisition of control had taken place at the beginning of the nine months ended 30 September 2014, the Group's revenue would have been RUB 492,935 million and profit for the nine months would have been RUB 46,541 million.

BASHNEFT GROUP

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS FOR THE THREE AND THE NINE MONTHS ENDED 30 SEPTEMBER 2015 (UNAUDITED)

Millions of Russian roubles

Other acquisition

During the nine months ended 30 September 2014 the Group also acquired a subsidiary in the Downstream segment for total cash consideration of RUB 350 million. The fair value of the net assets acquired approximated the consideration paid.

5. REORGANISATION OF CJSC SISTEMA-INVEST AND THE GROUP

On 3 February 2014, at an Extraordinary General Shareholders' Meeting of the Company, a reorganisation programme was approved involving establishment of CJSC Bashneft-Invest ("Bashneft-invest") through a spinoff from CJSC Sistema-Invest ("Sistema-invest") and its consolidation with Bashneft.

In April 2014, as part of the reorganisation of the Group, the Company acquired 2,724,173 of its own ordinary shares and 8,885,866 of its own preferred shares for total cash consideration of RUB 17,869 million.

Bashneft-invest was created on 5 May 2014, as a wholly owned subsidiary of the Company through a spinoff from Sistema-invest. Sistema-invest is a legal entity controlled by Sistema that owned equity interests in the Company, OJSC Ufaorgsintez and OJSC Bashkirian Power Grid Company. Bashneft's effective interest of 49.41% in the assets and liabilities of Sistema-invest were accounted for as held for sale from 31 December 2013. On the date of the spinoff Bashneft-invest effectively obtained 9,943,730 ordinary shares of the Company and legally acquired 28,196,195 ordinary shares previously recognised as assets effectively owned, but held by Sistema-invest. Those shares are accounted for as treasury shares in the financial statements of the Group at the date of the transaction. Additionally, Bashneft-invest assumed the liabilities that existed under the loan payable by Sistema-invest to the Company.

As a result of the reorganisation the Company no longer owns any shares in Sistema-invest.

The result from the reorganisation of Sistema-invest is summarised in the following table:

	<u>5 May 2014</u>
Decrease in assets classified as held for sale	(39,483)
Decrease in liabilities directly associated with assets classified as held for sale	<u>832</u>
Increase in treasury shares	<u><u>38,651</u></u>

On 6 May 2014, Bashneft-invest was legally merged with the Company. The reorganisation of the Group was completed on the date of the merger when the Company cancelled 38,139,925 ordinary shares and 8,885,866 preferred shares which were obtained through reorganisation of Sistema-invest and buy back transactions, respectively.

The result from the cancellation of treasury shares is:

	<u>6 May 2014</u>
Decrease in treasury shares	(76,545)
Decrease in share capital	<u>517</u>
Decrease in retained earnings	<u><u>(76,028)</u></u>

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Millions of Russian roubles

6. SEGMENT INFORMATION

The Board of Directors (the "Board") is the Group's chief operating decision maker. Operating segments have been determined based on the information reviewed by the Board for the purposes of assessing performance.

The Board considers financial and operational results based on the stages of the production process and the marketing of associated products. The Group's reportable segments under IFRS 8 *Operating Segments* are, therefore, as follows:

- Upstream: this segment comprises subsidiaries and business units of the Company engaged in the exploration and production of crude oil; and
- Downstream: this segment comprises subsidiaries and business units of the Company engaged in processing and sale of crude oil, oil products and petrochemicals on export and domestic markets.

The information about other subsidiaries and business units of the Company engaged in non-core activities, none of which meets the criteria for separate reporting, is presented as All other segments.

There are varying levels of integration between the Group's operating segments. Inter-segment revenues of the Upstream segment represent oil transfer to the Downstream segment for the purpose of refining and crude oil sales and measured with a reference to market prices for crude oil. Inter-segment revenues of the Downstream segment and All other segments represent oil products deliveries and services provided. Inter-segment pricing is estimated to represent an arm's length basis.

Information regarding the results of each reportable segment is reviewed by the Board. Segment EBITDA is used to measure segment performance, as management believes that such information is the most relevant in evaluating the results of segments relative to other entities that operate within these industries. Segment EBITDA is determined as summation of Operating profit and Depletion and depreciation. Since Segment EBITDA is not a standard IFRS measure, the Group's definition of Segment EBITDA may differ from that of other companies. The significant accounting policies of the reportable and other segments are the same as the Group's accounting policies.

Information about the Group's reportable segments for the three months ended 30 September 2015 is as follows:

	<u>Upstream</u>	<u>Down- stream</u>	<u>All other segments</u>	<u>Eliminations</u>	<u>Consoli- dated</u>
External revenues	397	166,897	335	-	167,629
Inter-segment revenues	61,070	51	3,010	(64,131)	-
External expenses	(44,067)	(91,306)	(1,853)	-	(137,226)
Inter-segment expenses	(559)	(61,784)	(1,684)	64,027	-
Segment EBITDA	<u>20,120</u>	<u>17,680</u>	<u>4</u>	<u>(104)</u>	<u>37,700</u>
Depletion and depreciation					(7,297)
Reversal of impairment of assets, net					1,248
Finance income					1,613
Finance costs					(4,442)
Foreign exchange gain, net					772
Share of loss of joint venture, net of income tax					(70)
Profit before income tax					<u>29,524</u>
Income tax expense					<u>(6,898)</u>
Profit for the period					<u><u>22,626</u></u>

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Millions of Russian roubles

Information about the Group's reportable segments for the three months ended 30 September 2014 is as follows:

	<u>Upstream</u>	<u>Down- stream</u>	<u>All other segments</u>	<u>Eliminations</u>	<u>Consoli- dated</u>
External revenues	976	161,669	216	-	162,861
Inter-segment revenues	47,242	48	1,384	(48,674)	-
External expenses*	(34,501)	(102,788)	(1,519)	-	(138,808)
Inter-segment expenses	(1,203)	(47,843)	(67)	49,113	-
Segment EBITDA*	<u>15,156</u>	<u>14,145</u>	<u>199</u>	<u>439</u>	<u>29,939</u>
Depletion and depreciation					(5,886)
Reversal of impairment of assets, net*					46
Finance income					676
Finance costs					(3,800)
Foreign exchange loss, net					(603)
Share of loss of joint venture, net of income tax					<u>(1)</u>
Profit before income tax					<u>20,371</u>
Income tax expense					<u>(4,578)</u>
Profit for the period					<u><u>15,793</u></u>

*Certain comparative figures have been reclassified to conform with the financial statements presentation adopted for the current period.

Information about the Group's segments for the nine months ended 30 September 2015 is as follows:

	<u>Upstream</u>	<u>Down- stream</u>	<u>All other segments</u>	<u>Eliminations</u>	<u>Consoli- dated</u>
External revenues	1,181	461,427	696	-	463,304
Inter-segment revenues	188,858	403	7,205	(196,466)	-
External expenses	(127,443)	(253,865)	(4,153)	-	(385,461)
Inter-segment expenses	(2,143)	(190,507)	(3,751)	196,401	-
Segment EBITDA	<u>70,405</u>	<u>28,792</u>	<u>581</u>	<u>(65)</u>	<u>99,713</u>
Depletion and depreciation					(21,870)
Reversal of impairment of assets, net					1,151
Finance income					5,193
Finance costs					(13,651)
Foreign exchange loss, net					(2,549)
Share of loss of joint venture, net of income tax					<u>(857)</u>
Profit before income tax					<u>67,130</u>
Income tax expense					<u>(14,404)</u>
Profit for the period					<u><u>52,726</u></u>

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Millions of Russian roubles

Information about the Group's segments for nine months ended 30 September 2014 is as follows:

	Upstream	Down- stream	All other segments	Eliminations	Consoli- dated
External revenues	3,387	468,501	817	-	472,705
Inter-segment revenues	145,707	1,399	3,677	(150,783)	-
External expenses*	(101,339)	(300,080)	(4,207)	-	(405,626)
Inter-segment expenses	(2,221)	(148,396)	(166)	150,783	-
Segment EBITDA*	<u>52,831</u>	<u>30,244</u>	<u>675</u>	<u>-</u>	83,750
Depletion and depreciation					(16,671)
Impairment of assets, net*					(413)
Finance income					3,193
Finance costs					(9,075)
Foreign exchange loss, net					(2,778)
Share of profit of joint venture, net of income tax					<u>58</u>
Profit before income tax					<u>58,064</u>
Income tax expense					<u>(12,459)</u>
Profit for the period					<u><u>45,605</u></u>

*Certain comparative figures have been reclassified to conform with the financial statements presentation adopted for the current period.

Substantially all of the Group's operations are conducted in the Russian Federation. The Group therefore has not presented any geographical disclosure about its non-current assets by geographical area, as amounts not pertaining to the Russian Federation are immaterial.

The Group's revenue from external customers by geographical location is as follows:

	Three months ended 30 September		Nine months ended 30 September	
	2015	2014	2015	2014
Export outside the Customs Union**	76,586	87,709	242,687	269,494
Russian Federation	86,347	70,303	205,841	190,699
Export to the Customs Union**	<u>4,696</u>	<u>4,849</u>	<u>14,776</u>	<u>12,512</u>
Total	<u>167,629</u>	<u>162,861</u>	<u>463,304</u>	<u>472,705</u>

**The Customs Union means the customs union established by the states of Belarus, Kazakhstan, Russia, the Republic of Armenia (starting from 10 October 2014) and the Kyrgyz Republic (starting from 8 May 2015). Within the single customs territory there is a free movement of goods for domestic consumption.

7. REVENUE

	Three months ended 30 September		Nine months ended 30 September	
	2015	2014	2015	2014
Petroleum products	120,712	119,302	329,465	348,477
Crude oil	45,678	42,022	130,479	118,750
Other revenue	<u>1,239</u>	<u>1,537</u>	<u>3,360</u>	<u>5,478</u>
Total	<u>167,629</u>	<u>162,861</u>	<u>463,304</u>	<u>472,705</u>

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Millions of Russian roubles

8. TAXES OTHER THAN INCOME TAX

	Three months ended 30 September		Nine months ended 30 September	
	2015	2014	2015	2014
Mineral extraction tax	24,682	17,615	75,028	52,139
Contributions to Pension Fund of the Russian Federation	1,397	1,016	4,275	3,183
Property tax	537	372	1,604	1,164
Other social contributions	572	322	1,637	1,070
Other taxes	503	202	1,246	632
Total	27,691	19,527	83,790	58,188

9. FINANCE INCOME AND FINANCE COSTS

	Three months ended 30 September		Nine months ended 30 September	
	2015	2014	2015	2014
Finance income				
Interest income on cash and deposits	1,521	544	4,874	1,434
Interest income on loans, promissory notes and bonds	92	132	317	1,759
Dividends income	-	-	2	-
Total	1,613	676	5,193	3,193
Finance costs				
Interest expense on borrowings	4,181	3,625	12,866	8,547
Unwinding of discount	223	153	669	458
Other accretion expenses	38	22	116	70
Total	4,442	3,800	13,651	9,075

10. INCOME TAX

	Three months ended 30 September		Nine months ended 30 September	
	2015	2014	2015	2014
Current period income tax expense	7,892	4,560	16,068	12,648
Adjustments relating to current income tax of prior years	(18)	(3)	50	11
Current income tax expense	7,874	4,557	16,118	12,659
Deferred tax (benefit)/expense	(976)	21	(1,714)	(200)
Income tax expense	6,898	4,578	14,404	12,459

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Millions of Russian roubles

11. PROPERTY, PLANT AND EQUIPMENT

	Nine months ended 30 September	
	2015	2014
Cost		
Balance at the beginning of the period	487,410	356,736
Acquisitions of subsidiaries	776	89,179
Constructions and additions	44,425	31,658
Disposals	(2,030)	(2,512)
Contribution to LLC Vostok NAO Oil Company	-	(4,775)
Balance at the end of the period	530,581	470,286
Accumulated depletion, depreciation and impairment		
Balance at the beginning of the period	(117,485)	(79,367)
Acquisition of subsidiaries	-	(11,696)
Charge for the period	(21,304)	(16,739)
Disposals	1,224	1,767
Impairment	(1,839)	(44)
Balance at the end of the period	(139,404)	(106,079)
Net book value		
At the beginning of the period	369,925	277,369
At the end of the period	391,177	364,207

At 30 September 2015 balances of construction in progress included in property, plant and equipment were RUB 56,307 million (31 December 2014: RUB 46,757 million).

12. FINANCIAL ASSETS

	30 September 2015	31 December 2014
Non-current investments		
Loans given, at amortised cost	3,504	3,559
Deposits	-	8
Total	3,504	3,567
Current investments		
Deposits	5,000	-
Loans given, at amortised cost	-	1,330
Total	5,000	1,330

At 30 September 2015, deposits were denominated in rubles, maturing in February 2016 with an interest rate of 12.33% per annum.

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Millions of Russian roubles

13. SHARE CAPITAL

Authorised, issued and fully paid share capital

	<u>30 September 2015</u>	<u>31 December 2014</u>
147,846,489 (31 December 2014: 150,570,662) ordinary shares with a par value of RUB 1.00	1,626	1,656
29,788,012 (31 December 2014: 29,788,012) preferred shares with a par value of RUB 1.00	<u>328</u>	<u>328</u>
Total	<u>1,954</u>	<u>1,984</u>

As a result of the Group reorganisation on 6 May 2014 (refer to note 5), the Company cancelled 38,139,925 ordinary and 8,885,866 preferred shares which were obtained through reorganisation of Sistema-invest and buy back transactions in 2014, respectively.

On 5 June 2015, the Company cancelled 2,724,173 ordinary shares previously held as treasury shares. As a result, the number of treasury shares decreased to 8,293,055 (31 December 2014: 11,017,228 shares). Upon cancellation of treasury shares, the Group recognised a decrease in share capital of RUB 30 million representing the nominal value of shares cancelled, the difference between the cost and nominal value of the treasury shares of RUB 5,372 million was recognised in retained earnings.

Dividends

On 10 June 2014, the Company declared a dividend of RUB 211 per ordinary and preferred share amounting to RUB 37,481 million. A part of the dividend declared was attributable to companies of the Group.

On 30 June 2015, the Company declared a dividend of RUB 113 per ordinary and preferred share amounting to RUB 20,073 million. A part of the dividend declared was attributable to companies of the Group. At 30 September 2015 dividends payable equaled to RUB 437 million.

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Millions of Russian roubles

14. LOANS AND BORROWINGS

	30 September 2015		31 December 2014	
	Rate, %	Outstanding balance	Rate, %	Outstanding balance
Non-current liabilities				
Unsecured fixed interest rate loans and borrowings	8.00%-12.50%	39,039	8.00%-10.55%	91,944
Unsecured non-convertible bonds issued in February 2013	8.65%-8.85%	29,977	8.65%-8.85%	29,969
Unsecured floating interest rate borrowing*	Central Bank key rate+1.00%	24,811	-	-
Unsecured non-convertible bonds issued in May 2014	10.70%	10,000	10.70%	10,000
Unsecured non-convertible bonds issued in June 2015	12.00%-12.10%	9,978	-	-
Unsecured non-convertible bonds issued in December 2009	8.35%	5,277	8.35%	5,274
Unsecured non-convertible bonds issued in May 2015	12.00%	4,989	-	-
Secured floating rate borrowings	-	-	Libor 1M+1.70%	2,045
Total		124,071		139,232
Current liabilities				
Current portion of unsecured fixed interest rate borrowings	11.35%	9,994	-	-
Unsecured non-convertible bonds issued in February 2012	16.00%	9,980	9.00%	9,998
Current portion of secured floating rate borrowings	Libor 1M+1.70%	7,041	Libor 1M+1.70%	18,555
Total		27,015		28,553

*The balance of this unsecured borrowing was presented at 31 December 2014 within unsecured fixed interest rate loans and borrowings and was reclassified in 2015 as described below.

In May 2015, the Group issued 5,000,000 non-convertible RUB-denominated bonds at par value of RUB 1,000 and maturity date in May 2025. The bonds have a coupon rate of 12.00% per annum from the issuance date to May 2020 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 at par value.

In June 2015, the Group issued 5,000,000 non-convertible RUB-denominated bonds at par value of RUB 1,000 and maturity date in May 2025. The bonds have a coupon rate of 12.00% per annum from the issuance date to May 2020 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 at par value.

In June 2015, the Group issued 5,000,000 non-convertible RUB-denominated bonds at par value of RUB 1,000 and maturity date in June 2025. The bonds have a coupon rate of 12.10% per annum from the issuance date to June 2021 payable semi-annually. Subsequent coupon rates are to be determined in June 2021 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 June 2017 at par value.

Following the increase of Central Bank key rate in late December 2014, interest rates for several borrowing facilities of the Group were increased in March-April 2015 with a further decrease in July-August 2015. In addition, during the period the interest rate for unsecured borrowing of RUB 24,811 million was changed from a fixed rate to a floating rate of Central Bank key rate + 1.00%.

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Millions of Russian roubles

15. RELATED PARTIES

Government-related entities and institutions

The Government of Russian Federation is the ultimate controlling party of Bashneft Group since 9 December 2014 and the Group has applied the exemption allowed by IAS 24 *Related Party Disclosures* not to disclose all government related transactions.

In the normal course of business the Group enters into transactions with the entities controlled by the government.

The Group had transactions during the three and the nine months ended 30 September 2015 and balances outstanding as at 30 September 2015 with government-controlled banks. All transactions are carried out on market rates.

At 30 September 2015 and 31 December 2014, the Group had the following outstanding balances in government-controlled banks:

	30 September 2015	31 December 2014
Borrowings	60,450	80,314
Cash and cash equivalents	35,082	47,865
Deposits	5,000	-

For the three and the nine months ended 30 September 2015 the Group entered into the following transactions with the government-controlled banks:

	Three months ended 30 September 2015	Nine months ended 30 September 2015
Repayments of borrowings	20,000	20,000
Cash placed on bank deposits	-	17,329
Proceeds from repayment of bank deposits	12,329	12,329
Interest expenses	1,976	6,731
Interest income	1,334	4,334

Dividends declared on 30 June 2015 attributable to the Russian Federation, represented by the Russian Federal Property Management Agency amounted to RUB 10,052 million. Dividends declared on 30 June 2015 attributable to the Republic of Bashkortostan, represented by the Ministry of Land and Property Relations amounted to RUB 5,018 million. As of 30 September 2015 the full amount of dividends declared on 30 June 2015 attributable to the Russian Federation and the Republic of Bashkortostan was paid.

For the three and the nine months ended 30 September 2015 significant transactions with government-related entities were related to transportation of oil and oil products, purchase of heat and electricity, sale of oil products and purchase of oil, gas and petroleum products and comprised approximately the following percentages of the total transportation expenses, production and operating expenses, sales and cost of purchased crude oil, gas and petroleum products, accordingly:

	Three months ended 30 September 2015	Nine months ended 30 September 2015
Transportation of oil and oil products	73%	78%
Purchase of heat and electricity	5%	7%
Purchase of crude oil, gas and petroleum products	2%	2%
Sale of oil products	2%	1%

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Millions of Russian roubles

At 30 September 2015 and 31 December 2014 the most significant balances owned by and owned to government-related parties were approximately the following percentages of the total balance of trade and other receivables and advances to suppliers:

	<u>30 September 2015</u>	<u>31 December 2014</u>
Advances to suppliers	47%	42%
Trade and other receivables	3%	2%

Joint ventures

At 30 September 2015 and 31 December 2014, the Group had the following outstanding balances with joint ventures:

	<u>30 September 2015</u>	<u>31 December 2014</u>
Amount owed by joint ventures	823	154
Amount owed to joint ventures	-	3

The amounts outstanding were unsecured and are expected to be settled in cash. The Group does not create an allowance for doubtful receivables in respect of outstanding balances of related parties. No balances owed by related parties were past due but not impaired.

During the nine months ended 30 September 2015 no expense has been recognised for bad debts in respect of amounts owed by related parties.

The Group entered into the following transactions with joint ventures of the Group:

	<u>Three months ended 30 September</u>		<u>Nine months ended 30 September</u>	
	<u>2015</u>	<u>2014</u>	<u>2015</u>	<u>2014</u>
Loans issued	158	-	891	-
Proceeds from repayment of loans issued	190	-	190	-
Sale of goods and services	49	1	77	308
Interest income	16	-	26	565
Purchase of property and construction services	-	-	-	2,903
Loans received	-	1,484	-	1,683
Purchase of goods and services	-	-	-	1,174
Interest expenses	-	15	-	16

Transactions with Sistema group companies during the three and the nine months ended 30 September 2014

	<u>Three months ended 30 September 2014</u>	<u>Nine months ended 30 September 2014</u>
Dividends declared	-	28,098
Purchase of goods and services	5,604	16,485
Sale of goods and services	2,796	10,655
Purchase of property and construction services	3,495	7,147
Obtaining control over UPC	6,200	6,200
Interest income	220	1,140
Proceeds from borrowing	-	901
Repayment of borrowing	-	901
Proceeds from repayment of loans issued	51	51
Proceeds from repayment of bank deposits	46	46

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Millions of Russian roubles

On 9 December 2014, effective control over the Company passed from Sistema to the Government of the Russian Federation and, from that date, the Russian Federation became the ultimate controlling party of the Group. As of the same date, Sistema and businesses controlled by Sistema (collectively "Sistema group companies") ceased to be related parties of the Bashneft Group.

Compensation of key management personnel

The remuneration of directors and other key management personnel was as follows:

	Three months ended 30 September		Nine months ended 30 September	
	2015	2014	2015	2014
Wages and salaries	177	179	498	523
Phantom shares granted	90	187	313	445
Termination bonuses	-	-	5	4
Total	267	366	816	972

At 30 September 2015, outstanding balances in respect of wages and salaries of key management personnel were RUB 525 million (31 December 2014: RUB 47 million).

16. FAIR VALUE OF FINANCIAL INSTRUMENTS

The fair value of financial assets and liabilities is determined as follows:

- The fair value of financial assets and financial liabilities with standard terms and conditions and traded on active liquid markets are determined with reference to quoted market prices; and
- The fair value of other financial assets and financial liabilities are determined in accordance with generally accepted pricing models based on discounted cash flow analysis using prices from observable current market transactions.

At 30 September 2015 and 31 December 2014, management believes that the carrying values of financial liabilities recorded at amortised cost in the consolidated financial statements approximated their fair values, except for the unsecured non-convertible bonds and certain unsecured fixed interest rate loans and borrowings:

	30 September 2015		31 December 2014	
	Carrying value	Fair value	Carrying value	Fair value
Unsecured non-convertible bonds	70,201	67,319	55,241	48,717
Unsecured fixed interest rate loans and borrowings	39,039	36,806	91,944	85,283

At 30 September 2015 non-current loans given with carrying value of RUB 4,255 million (31 December 2014: RUB 3,500 million) had a fair value of RUB 3,711 million (31 December 2014: RUB 2,278 million).

Management believes that the carrying value of current financial assets and liabilities approximated their fair values due to their short-term nature.

At 30 September 2015 and 31 December 2014 there were no assets and liabilities of the Group that are measured at fair value in accordance with the fair value hierarchy.

BASHNEFT GROUP

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS FOR THE THREE AND THE NINE MONTHS ENDED 30 SEPTEMBER 2015 (UNAUDITED)

Millions of Russian roubles

17. COMMITMENTS AND CONTINGENCIES

Capital commitments

At 30 September 2015 contractual capital commitments of the Group amounted to RUB 77,635 million (31 December 2014: RUB 67,430 million). These commitments are expected to be settled during 2015-2025. Included in total capital commitments is RUB 27,864 million (31 December 2014: RUB 35,858 million) of capital commitments which mainly relates to drilling services based on the Group's capital construction programme, which is re-evaluated on an annual basis.

Operating leases: Group as a lessee

The Group leases certain production equipment, transport and office premises. The leases typically run for periods varying from 1 to 10 years with no renewal option at the end of the lease term.

The Group's extraction, refining, marketing and distribution and other facilities are located on land under operating leases, which expire in various years through 2064.

The amount of rental expenses for the three months ended 30 September 2015 were RUB 584 million (for the three months ended 30 September 2014: RUB 285 million) and for the nine months ended 30 September 2015 were RUB 1,469 million (for the nine months ended 30 September 2014: RUB 907 million).

Future minimum rental expenses under non-cancellable operating leases are as follows:

	<u>30 September 2015</u>	<u>31 December 2014</u>
Due in one year	1,595	1,066
Due from one to five years	5,269	2,977
Thereafter	<u>14,552</u>	<u>11,951</u>
Total	<u>21,416</u>	<u>15,994</u>

Taxation contingencies in the Russian Federation

Laws and regulations affecting business in the Russian Federation continue to change rapidly. Management's interpretation of such legislation as applied to the activity of the Group may be challenged by the relevant regional and federal authorities. Recent events suggest that the tax authorities are taking a more assertive position in their interpretation of the legislation and assessments and as a result, it is possible that transactions and activities that have not been challenged in the past may be challenged. Fiscal periods generally remain open to tax audit by the authorities in respect of taxes for three calendar years proceeding the year of tax audit. Under certain circumstances reviews may cover longer periods.

Management believes that it has provided adequately for tax liabilities based on its interpretations of tax legislation. Where uncertainty exists, the Group has accrued tax liabilities as management's best estimate of the probable outflow of resources which will be required to settle such liabilities. With regard to matters where practice concerning payment of taxes is unclear, management estimated that the Group had no material exposure at 30 September 2015 and 31 December 2014. However, the relevant authorities may have differing interpretations, and the effects on the financial statements could be significant.

Legal contingencies

At 30 September 2015, unresolved legal claims against the Group amounted to RUB 537 million (31 December 2014: RUB 289 million). Management estimates the unfavourable outcome of the legal claims to be possible, and consequently no provision has been raised. The Group is rigorously defending itself in relation to such legal claims.

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Insurance

The Group does not have full coverage for property damage or loss, for business interruption and third party liabilities in respect of damage on the Group's property or relating to the Group's operations. Until the Group obtains adequate insurance coverage, there is a risk that losses relating to such matters could have an adverse effect on the Group's operations and financial position.

Management believes that the Group has adequate property damage coverage for its main production assets.

Russian Federation economic environment

Emerging markets such as the Russian Federation are subject to different risks than more developed markets, including economic, political and social, and legal and legislative risks. Laws and regulations affecting businesses in the Russian Federation continue to change rapidly, tax and regulatory frameworks are subject to varying interpretations. The future economic direction of the Russian Federation is heavily influenced by the fiscal and monetary policies adopted by the government, together with developments in the legal, regulatory, and political environment.

Because the Russian Federation produces and exports large volumes of oil and gas, its economy is particularly sensitive to the price of oil and gas on the world market. During 2014-2015, the oil price decreased significantly, which led to substantial decrease of the Russian Rouble exchange rate.

Starting from March 2014, sanctions have been imposed by the U.S. and E.U. on certain Russian officials, businessmen and companies.

In December 2014, the Central Bank of the Russian Federation significantly increased its key interest rate, which resulted in growth of interest rates on domestic borrowings. International credit agencies downgraded Russia's long-term foreign currency sovereign rating.

During 2015 the economic situation is more stable, although the above mentioned events have led to reduced access of the Russian businesses to international capital markets, increased inflation, slackening of the economic growth rates and other negative economic consequences. The impact of further economic developments on future operations and financial position of the Group is at this stage difficult to determine.

18. EVENTS SUBSEQUENT TO THE REPORTING PERIOD

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

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

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