

Bashneft Group

**Interim Condensed
Consolidated Financial Statements
for the three months ended 31 March 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 MONTHS ENDED 31 MARCH 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 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 of 31 March 2015, the results of its operations, cash flows and changes in shareholders' equity for the three 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 months ended 31 March 2015 were approved by:



A.L. Korsik
President

Ufa, Russian Federation
5 June 2015



A.Y. Lisovenko
Chief Accountant

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

To the shareholders and Board of Directors of Public Joint Stock Oil Company Bashneft
(formerly Joint Stock Oil Company Bashneft):

Introduction

We have reviewed the accompanying interim condensed consolidated statement of financial position of Joint Stock Oil Company Bashneft and its subsidiaries (the "Group") as of 31 March 2015 and the related interim condensed consolidated statements of profit or loss and other comprehensive income, changes in equity and cash flows for the three months then ended, and a summary of significant accounting policies and other explanatory notes. Management is responsible for the preparation and presentation of this interim condensed consolidated financial information in accordance with International Accounting Standard ("IAS") 34, *Interim Financial Reporting*. Our responsibility is to express a conclusion on this interim condensed consolidated financial information 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 information 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 information is not prepared, in all material respects, in accordance with IAS 34 *Interim Financial Reporting*.



Moscow, Russian Federation
5 June 2015

BASHNEFT GROUP

INTERIM CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

FOR THE THREE MONTHS ENDED 31 MARCH 2015 (UNAUDITED)

Millions of Russian roubles, except for earnings per share data

	Notes	Three months ended 31 March 2015	Three months ended 31 March 2014*
Revenue	6	142,930	146,668
Cost of purchased crude oil, gas and petroleum products		(31,034)	(31,976)
Export tariffs and excise		(27,029)	(46,596)
Taxes other than income tax	7	(26,986)	(17,948)
Production and operating expenses		(18,415)	(14,232)
Transportation expenses		(8,770)	(7,075)
Depletion and depreciation		(7,093)	(5,055)
Selling, general and administrative expenses		(3,959)	(3,366)
Other operating expenses, net		(236)	(217)
Operating profit		19,408	20,203
Impairment of assets		(345)	(499)
Finance income	8	1,988	1,292
Finance costs	8	(4,280)	(1,935)
Foreign exchange loss, net		(1,951)	(1,538)
Share of loss of joint ventures, net of income tax		(40)	(60)
Profit before income tax		14,780	17,463
Income tax	9	(3,101)	(3,519)
Profit for the period and total comprehensive income		11,679	13,944
Attributable to:			
Owners of the Company		11,390	13,959
Non-controlling interests		289	(15)
		11,679	13,944
EARNINGS PER SHARE			
Weighted average number of ordinary shares in issue during the period		144,417,602	157,085,505
Basic and diluted earnings per share attributable to shareholders of the parent company (Russian roubles per share)		67.26	73.18

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

The accompanying notes on pages 8-19 form an integral part of these interim condensed consolidated financial statements

BASHNEFT GROUP

INTERIM CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION AT 31 MARCH 2015 (UNAUDITED) Millions of Russian roubles

	Notes	31 March 2015	31 December 2014
ASSETS			
Non-current assets			
Property, plant and equipment	10	373,595	369,925
Advances paid for acquisition of property, plant and equipment		2,168	1,617
Intangible assets		3,030	2,982
Financial assets		3,747	3,567
Investments in joint ventures		3,752	3,791
Long-term inventories		2,908	2,846
Deferred tax assets		2,243	1,959
Other non-current assets		2,019	1,619
		393,462	388,306
Current assets			
Inventories		29,995	26,359
Financial assets	11	16,334	1,330
Trade and other receivables		20,011	14,696
Advances to suppliers and prepaid expenses		7,782	8,881
Income tax prepaid		502	469
Other taxes receivable		29,995	30,822
Cash and cash equivalents		13,255	52,818
		117,874	135,375
TOTAL ASSETS		511,336	523,681
EQUITY AND LIABILITIES			
Capital and reserves			
Share capital		1,984	1,984
Treasury shares		(18,122)	(18,122)
Additional paid-in capital		81,462	81,462
Retained earnings		141,884	130,494
Equity attributable to owners of the Company		207,208	195,818
Non-controlling interests		8,123	7,834
		215,331	203,652
Non-current liabilities			
Loans and borrowings	12	139,246	139,232
Decommissioning provision		7,696	7,473
Deferred tax liabilities		44,730	43,038
Prepayment on oil products supply agreement		17,347	17,347
Other non-current liabilities		2,025	1,722
		211,044	208,812
Current liabilities			
Borrowings	12	19,337	28,553
Trade and other payables		36,043	37,340
Dividends payable		384	398
Advances received		14,102	25,614
Provisions		746	824
Income tax payable		240	1,722
Other taxes payable		14,109	16,766
		84,961	111,217
TOTAL LIABILITIES		296,005	320,029
TOTAL EQUITY AND LIABILITIES		511,336	523,681

The accompanying notes on pages 8-19 form an integral part of these interim condensed consolidated financial statements

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INTERIM CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS FOR THE THREE MONTHS ENDED 31 MARCH 2015 (UNAUDITED)

Millions of Russian roubles

	Three months ended 31 March 2015	Three months ended 31 March 2014*
OPERATING ACTIVITIES		
Profit before income tax	14,780	17,463
Adjustments for:		
Depletion and depreciation	7,093	5,055
Loss on disposal of property, plant and equipment	116	104
Finance income	(1,988)	(1,292)
Finance costs	4,280	1,935
Impairment of assets	345	499
Share of loss of joint ventures, net of income tax	40	60
Foreign exchange loss, net	1,951	1,538
Change in provisions, net	125	20
Other, net	(1)	(17)
Operating cash flows before working capital changes	26,741	25,365
Movements in working capital:		
Inventories	(3,405)	(4,140)
Trade and other receivables	(5,668)	(3,435)
Advances to suppliers and prepaid expenses	1,125	199
Other taxes receivable	829	(3,081)
Trade and other payables	(986)	(449)
Advances received	(11,513)	(5,337)
Other taxes payable	(2,957)	77
Cash generated from operations	4,166	9,199
Interest paid	(3,655)	(2,440)
Income tax paid	(3,208)	(1,638)
NET CASH (USED IN)/GENERATED FROM OPERATING ACTIVITIES	(2,697)	5,121

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

The accompanying notes on pages 8-19 form an integral part of these interim condensed consolidated financial statements

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INTERIM CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS (CONTINUED) FOR THE THREE MONTHS ENDED 31 MARCH 2015 (UNAUDITED) *Millions of Russian roubles*

	Three months ended 31 March 2015	Three months ended 31 March 2014
INVESTING ACTIVITIES		
Payments for acquisition of property, plant and equipment	(12,161)	(9,053)
Proceeds from disposal of property, plant and equipment	32	17
Repayment of contributions from joint venture	-	3,133
Additional contribution to joint venture	-	(1,317)
Acquisition of subsidiaries, net of cash acquired	7	(36,095)
Disposal of structured entity	-	(24)
Payments for acquisition of intangible assets	(449)	(263)
Placement of deposits and issue of loans	(15,187)	-
Interest received	2,163	682
NET CASH USED IN INVESTING ACTIVITIES	(25,595)	(42,920)
FINANCING ACTIVITIES		
Proceeds from loans and borrowings	508	53,544
Repayments of loans and borrowings	(11,730)	(1,326)
Dividends paid by the Company	(14)	-
NET CASH (USED IN)/GENERATED FROM FINANCING ACTIVITIES	(11,236)	52,218
Net (decrease)/increase in cash and cash equivalents	(39,528)	14,419
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	(35)	635
Cash and cash equivalents at end of the period	13,255	31,449

The accompanying notes on pages 8-19 form an integral part of these interim condensed consolidated financial statements

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INTERIM CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY FOR THE THREE MONTHS ENDED 31 MARCH 2015 (UNAUDITED)

Millions of Russian roubles

	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/(loss) for the period	-	-	-	13,959	13,959	(15)	13,944
Total comprehensive income/(loss) for the period	-	-	-	13,959	13,959	(15)	13,944
Disposal of structured entity	-	-	-	-	-	44	44
Obligation to purchase treasury shares	-	-	-	(17,869)	(17,869)	-	(17,869)
Balance at 31 March 2014	2,501	(38,147)	72,682	195,221	232,257	184	232,441
Balance at 1 January 2015	1,984	(18,122)	81,462	130,494	195,818	7,834	203,652
Profit for the period	-	-	-	11,390	11,390	289	11,679
Total comprehensive income for the period	-	-	-	11,390	11,390	289	11,679
Balance at 31 March 2015	1,984	(18,122)	81,462	141,884	207,208	8,123	215,331

The accompanying notes on pages 8-19 form an integral part of these interim condensed consolidated financial statements

BASHNEFT GROUP

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS FOR THE THREE MONTHS ENDED 31 MARCH 2015 (UNAUDITED)

1. GENERAL INFORMATION

Organisation and operations

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. 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 31 March 2015 and 31 December 2014:

Company	Principal activities	Group’s effective interest	
		31 March 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 three months ended 31 March 2014 and Mr. Vladimir P. Evtushenkov, being the controlling shareholder of Sistema was ultimate controlling party of Bashneft.

On 9 December 2014 in accordance with the decision of the Moscow Commercial Court dated 30 October 2014 the 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 Russian Federal Property Management Agency. As a result of the transfer effective control over the Company passed from Sistema to the Government of the Russian Federation, that became the ultimate controlling party of Bashneft Group from 9 December 2014.

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 MONTHS ENDED 31 MARCH 2015 (UNAUDITED)

2. BASIS OF PREPARATION AND SIGNIFICANT ACCOUNTING POLICIES

Statement of compliance

These interim condensed consolidated financial statements for the three months ended 31 March 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 months ended 31 March 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 MONTHS ENDED 31 MARCH 2015 (UNAUDITED)

Millions of Russian roubles

4. BUSINESS COMBINATIONS

Business combination during the three months ended 31 March 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

Burneftegaz contributed RUB 175 million of revenue, RUB 25 million of profit before tax and RUB 20 million of profit from the date of acquisition to 31 March 2014.

The Group's financial results if the combination had taken place at the beginning of the three months ended 31 March 2014 are not disclosed as Burneftegaz did not prepare financial statements in accordance with IFRS before the acquisition.

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NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS FOR THE THREE MONTHS ENDED 31 MARCH 2015 (UNAUDITED)

Millions of Russian roubles

5. 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 segments for the three months ended 31 March 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	394	142,328	208	-	142,930
Inter-segment revenues	61,605	278	1,760	(63,643)	-
External expenses	(39,789)	(82,440)	(1,293)	-	(123,522)
Inter-segment expenses	(951)	(61,971)	(654)	63,576	-
Segment EBITDA	<u>24,460</u>	<u>1,863</u>	<u>245</u>	<u>(67)</u>	<u>26,501</u>
Depletion and depreciation					(7,093)
Impairment of assets					(345)
Finance income					1,988
Finance costs					(4,280)
Foreign exchange loss, net					(1,951)
Share of loss of joint venture, net of income tax					(40)
Profit before income tax					<u>14,780</u>
Income tax expense					<u>(3,101)</u>
Profit for the period					<u><u>11,679</u></u>

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NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS FOR THE THREE MONTHS ENDED 31 MARCH 2015 (UNAUDITED)

Millions of Russian roubles

Information about the Group's segments for the three months ended 31 March 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	1,083	145,272	313	-	146,668
Inter-segment revenues	46,898	994	1,136	(49,028)	-
External expenses*	(30,321)	(94,763)	(1,381)	-	(126,465)
Inter-segment expenses	(681)	(48,301)	(46)	49,028	-
Segment EBITDA*	<u>19,106</u>	<u>5,941</u>	<u>211</u>	<u>-</u>	<u>25,258</u>
Depletion and depreciation					(5,055)
Impairment of assets*					(499)
Finance income					1,292
Finance costs					(1,935)
Foreign exchange loss, net					(1,538)
Share of loss of joint venture, net of income tax					<u>(60)</u>
Profit before income tax					<u>17,463</u>
Income tax expense					<u>(3,519)</u>
Profit for the period					<u><u>13,944</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. Therefore, the Group 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:

	<u>Three months ended 31 March 2015</u>	<u>Three months ended 31 March 2014</u>
Export outside the Customs Union**	82,715	93,199
Russian Federation	54,203	49,472
Export to other countries of the Customs Union**	<u>6,012</u>	<u>3,997</u>
Total	<u>142,930</u>	<u>146,668</u>

** the Customs Union means the customs union created between the states of Belarus, Kazakhstan, Russia and the Republic of Armenia (starting from 10 October 2014). Within a single customs territory there is free movement of goods and vehicles for domestic consumption in the territory of any member of the Customs Union.

6. REVENUE

	<u>Three months ended 31 March 2015</u>	<u>Three months ended 31 March 2014</u>
Petroleum products	101,226	106,194
Crude oil	40,668	38,647
Other revenue	<u>1,036</u>	<u>1,827</u>
Total	<u>142,930</u>	<u>146,668</u>

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NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS FOR THE THREE MONTHS ENDED 31 MARCH 2015 (UNAUDITED)

Millions of Russian roubles

7. TAXES OTHER THAN INCOME TAX

	Three months ended 31 March 2015	Three months ended 31 March 2014
Mineral extraction tax	24,099	15,853
Contributions to Pension Fund of the Russian Federation	1,481	1,121
Other social contributions	546	391
Property tax	534	382
Other taxes	326	201
Total	26,986	17,948

8. FINANCE INCOME AND FINANCE COSTS

	Three months ended 31 March 2015	Three months ended 31 March 2014
Finance income		
Interest income on cash and deposits	1,886	368
Interest income on loans, promissory notes and bonds	102	924
Total	1,988	1,292
Finance costs		
Interest expense on borrowings	4,018	1,759
Unwinding of discount	223	153
Other accretion expenses	39	23
Total	4,280	1,935

9. INCOME TAX

	Three months ended 31 March 2015	Three months ended 31 March 2014
Current period income tax expense	1,688	2,235
Adjustments relating to current income tax of prior years	5	8
Current income tax expense	1,693	2,243
Deferred tax expense	1,408	1,276
Income tax expense	3,101	3,519

BASHNEFT GROUP

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS FOR THE THREE MONTHS ENDED 31 MARCH 2015 (UNAUDITED)

Millions of Russian roubles

10. PROPERTY, PLANT AND EQUIPMENT

	Three months ended 31 March 2015	Three months ended 31 March 2014
Cost		
Balance at the beginning of the period	487,410	356,736
Acquisition of subsidiaries	713	42,188
Constructions and additions	10,865	6,819
Disposals	(838)	(832)
Balance at the end of the period	498,150	404,911
Accumulated depletion, depreciation and impairment		
Balance at the beginning of the period	(117,485)	(79,367)
Charge for the period	(7,085)	(5,186)
Disposals	690	710
Impairment	(675)	(38)
Balance at the end of the period	(124,555)	(83,881)
Net book value		
At the beginning of the period	369,925	277,369
At the end of the period	373,595	321,030

At 31 March 2015 balances of construction in progress included in Property, plant and equipment were RUB 51,356 million (31 December 2014: RUB 46,757 million).

11. FINANCIAL ASSETS

	31 March 2015	31 December 2014
Deposits	14,829	-
Loans given, at amortised cost	1,505	1,330
Total	16,334	1,330

At 31 March 2015 deposits comprised of RUB-denominated deposits maturing in July 2015 and with interest rates varying from 15.20% to 16.15% per annum.

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NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS FOR THE THREE MONTHS ENDED 31 MARCH 2015 (UNAUDITED)

Millions of Russian roubles

12. LOANS AND BORROWINGS

	31 March 2015		31 December 2014	
	Rate, %	Outstanding balance	Rate, %	Outstanding balance
Non-current liabilities				
Unsecured fixed interest rate loans and borrowings	8.00%-20.05%	92,537	8.00%-10.55%	91,944
Unsecured non-convertible bonds issued in February 2013	8.65%-8.85%	29,972	8.65%-8.85%	29,969
Unsecured non-convertible bonds issued in May 2014	10.70%	10,000	10.70%	10,000
Unsecured non-convertible bonds issued in December 2009	8.35%	5,276	8.35%	5,274
Secured floating rate borrowings	Libor 1M+ 1.70%	1,461	Libor 1M+ 1.70%	2,045
Total		139,246		139,232
Current liabilities				
Unsecured non-convertible bonds issued in February 2012	16.0%	9,980	9.0%	9,998
Current portion of secured floating rate borrowings	Libor 1M+ 1.70%	9,357	Libor 1M+ 1.70%	18,555
Total		19,337		28,553

13. RELATED PARTIES

Government-related entities

The Government of Russian Federation is the ultimate controlling party of Bashneft Group 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 months ended 31 March 2015 and balances outstanding as at 31 March 2015 with government-controlled banks. All transactions are carried out on market rates. At 31 March 2015, balances of cash and cash equivalents in the amount of RUB 11,211 million (31 December 2014: RUB 47,865 million) and deposits in the amount of RUB 12,329 million (31 December 2014: RUB nil) were held in government-controlled banks. At 31 March 2015 borrowings owed to government-controlled banks were RUB 80,401 million (31 December 2014: RUB 80,314 million). For the three months ended 31 March 2015 interest income and expenses were RUB 1,714 million and RUB 2,124 million, respectively.

For the three months ended 31 March 2015 the only significant transactions with government-related entities were related to transportation of oil and oil products and purchase of heat and electricity and comprised approximately 62 percent of total transportation expenses and 9 percent of total production and operating expenses, respectively.

At 31 March 2015 balances of advances given to government-related parties were approximately 44 percent (31 December 2014: 42 percent) of total advances to suppliers and prepaid expenses and mainly comprised of advances for transportation services.

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Millions of Russian roubles

Joint ventures

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

	<u>31 March 2015</u>	<u>31 December 2014</u>
Amount owed by joint ventures	240	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.

No expense has been recognised in the current year 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 31 March 2015</u>	<u>Three months ended 31 March 2014</u>
Issue of loans	183	-
Interest income	2	343
Sale of goods and services	5	177
Purchase of property and construction services	-	1,805
Purchase of goods and services	-	677

Transactions with Sistema group companies during the three months ended 31 March 2014

	<u>Three months ended 31 March 2014</u>
Purchase of goods and services	5,216
Sale of goods and services	3,746
Purchase of property and construction services	1,507
Interest income	545

Compensation of key management personnel

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

	<u>Three months ended 31 March 2015</u>	<u>Three months ended 31 March 2014</u>
Wages and salaries	145	166
Phantom shares granted	112	134
Total	<u>257</u>	<u>300</u>

At 31 March 2015, outstanding balances in respect of wages and salaries of key management personnel were RUB 192 million (31 December 2014: RUB 47 million).

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Millions of Russian roubles

14. 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 31 March 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:

	31 March 2015		31 December 2014	
	Carrying value	Fair value	Carrying value	Fair value
Unsecured non-convertible bonds	55,228	49,382	55,241	48,717
Unsecured fixed interest rate loans and borrowings	92,537	84,907	91,944	85,283

At 31 March 2015 non-current loans given with carrying value of RUB 3,500 million (31 December 2014: RUB 3,500 million) had a fair value of RUB 2,216 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 31 March 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.

15. COMMITMENTS AND CONTINGENCIES

Capital commitments

At 31 March 2015, contractual capital commitments of the Group amounted to RUB 97,884 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 34,186 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 2063.

The amount of rental expenses for the three months ended 31 March 2015 were RUB 388 million (for the three months ended 31 March 2014: RUB 304 million).

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Millions of Russian roubles

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

	<u>31 March 2015</u>	<u>31 December 2014</u>
Due in one year	1,618	1,066
Due from one to five years	4,889	2,977
Thereafter	<u>14,968</u>	<u>11,951</u>
Total	<u>21,475</u>	<u>15,994</u>

Taxation contingencies in the Russian Federation

The taxation system in the Russian Federation is at a relatively early stage of development, and is characterised by numerous taxes, frequent changes and inconsistent enforcement at federal, regional and local levels.

The government of the Russian Federation has commenced a revision of the Russian tax system and passed certain laws implementing tax reform. The new laws reduce the number of taxes and overall tax burden on businesses and simplify tax litigation. However, these new tax laws continue to rely heavily on the interpretation of local tax officials and fail to address many existing problems. Many issues associated with practical implication of new legislation are unclear and complicate the Group's tax planning and related business decisions.

In terms of Russian tax legislation, authorities have a period of up to three years to re-open tax declarations for further inspection. Changes in the tax system that may be applied retrospectively by authorities could affect the Group's previously submitted and assessed tax declarations.

While management believes that it has adequately provided for tax liabilities based on its interpretation of current and previous legislation, the risk remains that tax authorities in the Russian Federation could take differing positions with regard to interpretive issues. This uncertainty may expose the Group to additional taxation, fines and penalties that could be significant.

With regard to matters where practice concerning payment of taxes is unclear, management estimated nil possible tax exposure at 31 March 2015 and 31 December 2014.

Russian transfer pricing legislation was amended starting from 1 January 2012 to introduce additional reporting and documentation requirements. The new legislation allows the tax authorities to impose additional tax liabilities in respect of certain transactions, including but not limited to transactions with related parties, if they consider transaction to be priced not at arm's length. As the practice of implementation of the new transfer pricing rules has not yet developed and wording of some clauses of the rules is unclear, the impact of challenge of the Group's transfer pricing positions by the tax authorities cannot be reliably estimated. The Group's management believes that taxes payable are calculated in compliance with the applicable tax regulations relating to transfer pricing. However there is a risk that the tax authorities may take a different view and impose additional tax liabilities. At 31 March 2015 and 31 December 2014, no provision was recorded in the interim condensed consolidated financial statements in respect of such additional claims.

Legal contingencies

At 31 March 2015, unresolved legal claims against the Group amounted to RUB 239 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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Millions of Russian roubles

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.

Starting from March 2014, sanctions have been imposed in several packages by the U.S. and the E.U. on certain Russian officials, businessmen and companies. In April 2014, an international credit agency Standard & Poor's downgraded Russia's long-term foreign currency sovereign rating from BBB to BBB- with a negative outlook. Fitch credit agency has also revised Russia's creditworthiness outlook from stable to negative. These developments, particularly if sanctions are further extended, may result in reduced access of the Russian businesses to international capital and export markets, capital flight, weakening of the Rouble and other negative economic consequences. The impact of these developments on future operations and financial position of the Group is at this stage difficult to determine.

16. 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 RUB 1,000 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 RUB 70,411 million 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.