



BASHNEFT
JOINT STOCK OIL COMPANY

**Management's analysis of the financial position and
operating results of Bashneft Group for the three months
ended 30 September and 30 June 2016 and
for the nine months ended
30 September 2016 and 2015**



This report contains an overview of the financial position and operating results of PJSOC Bashneft and includes operating results of Bashneft Group for the nine months ended 30 September 2016 and 2015, and for the three months ended 30 September and 30 June 2016, and should be read in conjunction with the Interim Condensed Consolidated Financial Statements and notes thereto, which were prepared in accordance with International Financial Reporting Standards ("IFRS"). The terms "Bashneft", "the Company", "Bashneft Group" and "the Group" in various forms mean PJSOC Bashneft and its subsidiaries. The financial position and operating results analysed in this document are consolidated data on Bashneft Group.

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

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



OVERVIEW

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

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

The Group holds licences for the development of 194 oil and gas fields in the Republic of Bashkortostan, the Khanty-Mansi Autonomous District, the Nenets Autonomous District, the Orenburg Region and the Republic of Tatarstan. 180 of the Group's fields are in commercial production.

According to the results of an audit conducted by Miller & Lents Ltd. using international PRMS (SPE) criteria, the Group's proved oil reserves as of 31 December 2015 amounted to 324.5 million tonnes. Bashneft Group has a reserves-to-production ratio of 16 years. Proved and probable (2P) reserves totalled 436.0 million tonnes. Overall reserves of Bashneft Group (including possible reserves) amounted to 587.5 million tonnes. During the nine months ended 30 September 2016, production at the developed licence areas totalled 15.9 million tonnes.

Bashneft Group includes three refineries, which rank among the most technologically advanced facilities in Russia and are leaders in terms of refining depth and quality of petroleum products, and a petrochemical plant, PJSC Ufaorgsintez. PJSC Ufaorgsintez is a major producer of phenol, acetone, high-density polyethylene and polypropylene. The refineries' installed capacity totals 23.2 million tonnes of hydrocarbons per year.

During the nine months ended 30 September 2016, the Group's refineries processed 13.6 million tonnes of hydrocarbons. Refining depth averaged 86.6%, which is one of the best results among Russian vertically integrated oil companies.

During the nine months ended 30 September 2016, Bashneft Group sold 7.1 million tonnes of petroleum products on the domestic market and exported 5.7 million tonnes of petroleum products. The Group also sold 8.4 million tonnes of crude oil, including 6.3 million tonnes of exported crude oil.

As of 30 September 2016, Bashneft Group's retail network comprised 574 operating petrol stations and 120 partner petrol stations, including 78 petrol stations operating under the Bashneft brand name under a franchise agreement.

KEY FINANCIAL AND OPERATING RESULTS

	3Q		Change	9M		
	2016	2016		2016	2015	Change
Revenue (million roubles)	161,875	141,868	14.1%	435,002	463,304	-6.1%
EBITDA (million roubles)	28,012	33,405	-16.1%	89,962	99,713	-9.8%
Adjusted EBITDA (million roubles) ¹	28,881	33,161	-12.9%	90,207	100,058	-9.8%
Operating profit (million roubles)	16,598	22,639	-26.7%	57,574	77,843	-26.0%
Profit for the period attributable to the owners of the parent company (million roubles)	4,767	14,833	-67.9%	34,034	51,278	-33.6%
CAPEX (million roubles)	21,564	20,918	3.1%	59,709	42,862	39.3%
Operating cash flow (million roubles)	22,978	22,506	2.1%	104,906	70,248	49.3%
Oil production (thousand tonnes)	5,355	5,294	1.2%	15,935	14,674	8.6%
Oil refining (thousand tonnes)	4,734	4,092	15.7%	13,558	14,313	-5.3%

	30 September		Change	30 September		
	2016	2016		2016	2015	Change
Net debt (million roubles)	85,506	84,594	1.1%	85,506	106,745	-19.9%

Major events during the nine months of 2016 that had an impact on the performance of Bashneft Group:

- in January 2016, the Group closed a financing transaction worth US\$ 500 million (39,243 million roubles). Financing was to be provided in the form of prepayment under a long-term contract for the supply of crude oil and petroleum products;
- in January and February 2016, the Group fully repaid the outstanding amount of a secured floating-rate loan and the corresponding outstanding amount of accrued interest denominated in US dollars and totalling 5,239 million roubles;
- in February 2016, the Group completed the purchase of bonds worth a total of 9,859 million roubles under a put option;
- in March 2016, the Group completed the acquisition of 21,505,680 ordinary shares (19.043% of the authorized share capital) of PJSC Ufaorgsintez from CJSC Sistema-Invest for 3,550 million roubles. The transaction enabled the Group to consolidate 100% of voting shares in PJSC Ufaorgsintez;
- in May 2016, the Group exercised early redemption of bonds worth a total of 15,000 million roubles with the coupon rates of 12.0% - 12.1% per annum. At the same time, the Group placed bonds with the total par value of 25,000 million roubles, with the coupon rates of 10.5% - 10.9% per annum;

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

(million roubles)	3Q		Change	9M		
	2016	2016		2016	2015	Change
EBITDA	28,012	33,405	-16.1%	89,962	99,713	-9.8%
Other operating expenses/(income), net	869	(244)	n/a	245	345	-29.0%
Adjusted EBITDA	28,881	33,161	-12.9%	90,207	100,058	-9.8%

- In June 2016, Bashneft annual shareholders meeting decided to declare dividends of 29,132 million roubles for the 2015 fiscal year (164 roubles per one ordinary and per one preferred registered share);
- In July 2016, the Group completed the reorganization of Burneftegaz Group aimed at simplifying its corporate structure and improving its management efficiency. The reorganization involved consolidation of LLC Burneftegaz, LLC Tortasinskneft, LLC Berezovskneftegaz and LLC OFIS-2010 with LLC Sorovskneft.



MAIN FACTORS INFLUENCING OPERATING RESULTS

Operating results of Bashneft Group can be significantly influenced by the following key external factors:

- international and domestic market prices for crude oil and petroleum products;
- the rouble/dollar exchange rate and inflation rate;
- taxation;
- transportation tariffs.

Prices for crude oil and petroleum products

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

	3Q	2Q		9M		
	2016	2016	Change	2016	2015	Change
Prices for crude oil and petroleum products²						
Brent crude oil (US\$ per barrel)	45.9	45.6	0.7%	41.9	55.3	-24.2%
Brent crude oil (roubles per barrel)	2,964	3,004	-1.3%	2,863	3,278	-12.7%
Urals crude oil (US\$ per barrel)	44.4	44.3	0.2%	40.5	55.0	-26.4%
Urals crude oil (roubles per barrel)	2,866	2,919	-1.8%	2,771	3,261	-15.0%
Fuel oil (average FOB Rotterdam/CIF NWE) (US\$ per tonne)	225.4	196.6	14.6%	185.5	276.9	-33.0%
Fuel oil (average FOB Rotterdam/CIF NWE) (roubles per tonne)	14,567	12,951	12.5%	12,683	16,414	-22.7%
Diesel fuel (average FOB Rotterdam/CIF NWE) (US\$ per tonne)	406.1	407.5	-0.3%	374.0	521.0	-28.2%
Diesel fuel (average FOB Rotterdam/CIF NWE) (roubles per tonne)	26,243	26,853	-2.3%	25,569	30,885	-17.2%
High-octane gasoline (FOB Rotterdam) (US\$ per tonne)	457.9	487.7	-6.1%	438.8	592.6	-26.0%
High-octane gasoline (FOB Rotterdam) (roubles per tonne)	29,592	32,134	-7.9%	29,999	35,128	-14.6%
Naphtha (average FOB Rotterdam/CIF NWE) (US\$ per tonne)	379.7	397.9	-4.6%	365.7	475.7	-23.1%
Naphtha (average FOB Rotterdam/CIF NWE) (roubles per tonne)	24,538	26,215	-6.4%	25,004	28,200	-11.3%
Vacuum gas oil (FOB NWE) (US\$ per tonne)	313.6	312.7	0.3%	283.7	390.4	-27.3%
Vacuum gas oil (FOB NWE) (roubles per tonne)	20,266	20,605	-1.6%	19,394	23,141	-16.2%
Russian market (roubles per tonne, with excises on petroleum products, net of VAT)³						
Crude oil	12,124	13,370	-9.3%	11,806	12,484	-5.4%
Fuel oil	7,017	5,637	24.5%	5,494	8,284	-33.7%
Diesel fuel (summer gasoil)	28,310	27,839	1.7%	27,312	28,195	-3.1%
Diesel fuel (winter gasoil)	30,209	28,942	4.4%	28,758	29,628	-2.9%
High-octane gasoline	34,859	33,794	3.2%	32,948	31,215	5.6%
Low-octane gasoline	32,769	32,487	0.9%	31,421	29,634	6.0%

² Source: Platts.

³ Source: Thomson Reuters KORTES.



Rouble/dollar exchange rate and inflation rate

Over 50% of the Group's revenue comes from exports of oil and petroleum products. Therefore, fluctuations in rouble exchange rates have a direct impact on the financial and operating results of Bashneft Group.

In addition, Bashneft Group's capital and operating expenses are affected by the inflation rate.

	3Q		Change	9M		
	2016	2016		2016	2015	Change
Rouble inflation (Consumer Price Index) during the stated periods ⁴	0.7%	1.2%	-0.5 p.p.	4.1%	10.4%	-6.3 p.p.
Rouble/dollar exchange rate at the end of the period (roubles per US\$)	63.2	64.3	-1.7%	63.2	66.2	-4.5%
Average rouble/dollar exchange rate for the period (roubles per US\$)	64.6	65.9	-2.0%	68.4	59.3	15.3%

Taxation

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

	3Q		Change	9M		
	2016	2016		2016	2015	Change
Mineral extraction tax (roubles per tonne)						
Crude oil	6,098	6,139	-0.7%	5,441	6,721	-19.0%
Export tariff (US\$ per tonne)						
Crude oil	88.8	67.2	32.1%	70.4	129.8	-45.8%
Gasoline	54.1	40.9	32.3%	42.9	101.2	-57.6%
Light and medium distillates	35.5	26.8	32.5%	28.1	62.2	-54.8%
Diesel fuel	35.5	26.8	32.5%	28.1	62.2	-54.8%
Fuel oil	72.7	55.0	32.2%	57.7	98.6	-41.5%
Straight-run gasoline (naphtha)	63.0	47.6	32.4%	49.9	110,2	-54.7%
Export tariff (roubles per tonne)						
Crude oil	5,739	4,428	29.6%	4,813	7,694	-37.4%
Gasoline	3,496	2,695	29.7%	2,933	5,999	-51.1%
Light and medium distillates	2,294	1,766	29.9%	1,921	3,687	-47.9%
Diesel fuel	2,294	1,766	29.9%	1,921	3,687	-47.9%
Fuel oil	4,698	3,624	29.6%	3,945	5,845	-32.5%
Straight-run gasoline (naphtha)	4,071	3,136	29.8%	3,411	6,532	-47.8%

The following rates of excise on petroleum products (roubles per tonne) have been set in the Russian Federation:

	2015	1 January – 31 March 2016	1 April – 31 December 2016	As from 1 January 2017
	Motor gasoline			
non-compliant with class 5	7,300	10,500	13,100	12,300
compliant with class 5	5,530	7,530	10,130	7,430
Straight-run gasoline	11,300	10,500	13,100	12,300
Diesel fuel	3,450	4,150	5,293	5,093
Engine oil	6,500	6,000	6,000	5,400
Medium distillates	-	4,150	5,293	5,093

⁴ Source: Federal State Statistics Service (Rosstat).

Mineral extraction tax

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

In accordance with the Tax Code, as from 1 January 2015, mineral extraction tax per tonne of crude oil is calculated as follows:

$$\text{Mineral extraction tax} = \text{Tax rate} \times Kc - Dm$$

where Dm is calculated using the following formula: $DM = KNDPI \times KC \times (1 - KV \times KZ \times KD \times KDV \times KKAN)$,

where:

As from 1 January 2016, the tax rate for crude oil amounts to 857 roubles (766 roubles in 2015; 919 roubles in 2017);

Kc is a coefficient reflecting changes in global oil prices, which is calculated as $(C - 15) \times R / 261$, where C is the average price of Urals crude oil in US dollars and R is the average US dollar exchange rate set by the Central Bank of the Russian Federation;

KNDPI amounts to 559 starting from 1 January 2016 (530 roubles in 2015);

KV is a depletion coefficient for a specific subsoil area;

KZ is a coefficient reflecting the amount of reserves at a specific subsoil area;

KD is a coefficient reflecting the complexity of oil production;

KDV is a depletion coefficient for a specific hydrocarbon deposit;

KKAN is a coefficient characterizing the oil-producing region and the properties of oil.

Actual mineral extraction tax expenses for the nine months of 2016 were 27% lower than the current mineral extraction tax rate due to the fact that:

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

	3Q	2Q		9M		
	2016	2016	Change	2016	2015	Change
Current mineral extraction tax rates (roubles per barrel)	835.3	841.0	-0.7%	745.3	920.7	-19.1%
Actual mineral extraction tax expenses (roubles per barrel)	612.0	614.8	-0.5%	545.0	697.8	-21.9%

Export tariff on crude oil

Under applicable legislation, the rates of the export customs tariff on crude oil shall not exceed the maximum tariff rate, which is calculated as follows:

Average price for Urals crude oil (C), US\$ per tonne	Export tariff, US\$ per tonne
$C \leq 109.5$	No tariff is imposed
$109.5 < C \leq 146$	$35\% \times (C-109.5)$
$146 < C \leq 182.5$	$12.78 + 45\% \times (C-146)$ $29.2 + 42\% \times (C-182.5)$ (until 31 December 2016 inclusive)
$C > 182.5$	$29.2 + 30\% \times (C-182.5)$ (as from 1 January 2017)

C is the average price for Urals crude oil on the Mediterranean and Rotterdam crude oil markets during the monitoring period preceding the calendar month when the tariff rate was set. The monitoring period is a period from the 15th day of each calendar month until the 14th day of the next calendar month inclusive.

Export tariff on petroleum products

The rates of the export customs tariff on certain categories of petroleum products are calculated as the rate of the export tariff on crude oil multiplied by a calculation coefficient, which varies depending on the type of petroleum products. Under applicable legislation, the following calculation coefficients are used:

	2015	2016	As from 1 January 2017
Light and medium distillates (except for straight-run and commercial gasoline), benzene, toluene, xylene, lubricants	48%	40%	30%
Straight-run gasoline	85%	71%	55%
Commercial gasoline	78%	61%	30%
Fuel oil, petroleum bitumen, used petroleum products, paraffin wax, vaseline	76%	82%	100%
Raw petroleum coke, propylene trimers and tetramers		6.5% for all periods	
Calcined petroleum coke		0% for all periods	



Transportation tariffs

The Group transports produced oil and certain types of petroleum products both across the Russian Federation and beyond via a system of trunk pipelines owned by PJSC Transneft and by rail. The principal rail carrier is OJSC Russian Railways. PJSC Transneft and OJSC Russian Railways are natural monopolies.

The following tariffs⁵ were applied on principal transportation routes for the Group's crude oil and petroleum products (the tariffs are stated per tonne, in thousand roubles, net of VAT):

Crude oil – pipeline transportation

departure point	destination	3Q 2016	2Q 2016
Kaltasy	Fényeslitke (Hungary) / Budkovce (Slovakia)	1.76	1.78
Kaltasy	Sheskharis transshipment complex	1.24	1.24
Kaltasy	Primorsk oil storage facility	1.40	1.40
Kaltasy	Naftan	1.15	1.15

Petroleum products – pipeline transportation

departure point	destination	3Q 2016	2Q 2016
<u>Diesel fuel</u>			
Cherkassy	Bryansk oil loading terminal	1.74	1.70
Cherkassy	Primorsk seaport	3.28	3.21
Cherkassy	Gomel oil loading terminal	1.60	1.61

Petroleum products – rail transportation

departure point	destination	3Q 2016	2Q 2016
<u>Gasoline</u>			
Group of Ufa refineries	Ventspils	4.25	4.23
Group of Ufa refineries	Vysotsk	2.46	2.46
<u>Diesel fuel</u>			
Group of Ufa refineries	Novorossiysk	3.26	3.27
<u>Fuel oil</u>			
Group of Ufa refineries	Vysotsk	3.18	3.18
Group of Ufa refineries	Avtovo	3.16	3.13

⁵ Source: PJSC Transneft (Oil Transporting Joint-Stock Company Transneft until July 21, 2016) and OJSC Russian Railways.



OPERATING RESULTS

Production

(thousand tonnes)	3Q	2Q	Change	9M		Change
	2016	2016		2016	2015	
Oil production	5,355	5,294	1.2%	15,935	14,674	8.6%
<i>mature fields</i>	4,189	4,151	0.9%	12,546	12,479	0.5%
<i>Sorovskoye field</i>	586	572	2.4%	1,727	1,232	40.2%
<i>the R. Trebs and A. Titov fields</i>	580	571	1.6%	1,662	963	72.6%
Daily average production of crude oil (thousand barrels per day)	424.9	424.7	0.0%	424.5	392.4	8.2%

In the 3rd quarter of 2016, production volume increased by 1.2% compared to the 2nd quarter of 2016 and totalled 5,355 thousand tonnes.

During the nine months ended 30 September 2016, production volume increased by 8.6% compared to the same period in 2015 and totalled 15,935 thousand tonnes, primarily due to further development of the Sorovskoye field and the R. Trebs and A. Titov fields.

Refining

(thousand tonnes)	3Q	2Q	Change	9M		Change
	2016	2016		2016	2015	
Crude oil refining	4,734	4,092	15.7%	13,558	14,313	-5.3%
Output of petroleum products and petrochemicals						
Diesel fuel	1,800	1,660	8.4%	5,331	5,612	-5.0%
Gasoline (including alkylate)	1,149	895	28.4%	3,197	3,457	-7.5%
Fuel oil	563	492	14.4%	1,685	1,862	-9.5%
Petrochemicals	255	288	-11.5%	884	921	-4.0%
Other	556	437	27.2%	1,439	1,590	-9.5%
Total production of petroleum products and petrochemicals	4,323	3,772	14.6%	12,536	13,442	-6.7%
Refining depth (%)	87.2%	86.2%	1.0 p.p.	86.60%	86.0%	0.6 p.p.
Share of light products (%)	67.6%	67.7%	-0.1 p.p.	68.1%	68.6%	-0.5 p.p.

In the 3rd quarter of 2016, refining volume increased by 15.7% compared to the 2nd quarter of 2016 and totalled 4,734 thousand tonnes, which was related to scheduled major repairs at the industrial site of the Ufimsky Refinery Plant and the consequent temporary shutdown of a number of process units in the 2nd quarter of 2016.

During the nine months ended 30 September 2016, refining volume decreased by 5.3% compared to the same period in 2015 and totalled 13,558 thousand tonnes, which was related to the temporary shutdown of a number of process units in the 2nd quarter of 2016.



FINANCIAL RESULTS

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

(million roubles)	3Q		Change	9M		Change
	2016	2016		2016	2015	
Revenue						
Crude oil sales	50,507	49,580	1.9%	137,790	130,479	5.6%
Petroleum products and petrochemicals sales	108,785	91,219	19.3%	292,498	329,465	-11.2%
Other sales	2,583	1,069	n/a	4,714	3,360	40.3%
Total revenue	161,875	141,868	14.1%	435,002	463,304	-6.1%
Operating expenses						
Cost of purchased crude oil, gas and petroleum products	(32,868)	(25,023)	31.4%	(84,480)	(99,862)	-15.4%
Export tariffs and excises	(29,658)	(20,877)	42.1%	(70,850)	(80,860)	-12.4%
Taxes other than income tax	(26,669)	(26,625)	0.2%	(72,388)	(83,790)	-13.6%
Production and operating expenses	(27,280)	(20,038)	36.1%	(68,514)	(56,810)	20.6%
Transportation costs	(11,065)	(9,901)	11.8%	(31,834)	(27,873)	14.2%
Depletion and depreciation	(11,414)	(10,766)	6.0%	(32,388)	(21,870)	48.1%
Selling, general and administrative expenses	(5,454)	(6,243)	-12.6%	(16,729)	(14,051)	19.1%
Other operating (expenses)/income, net	(869)	244	n/a	(245)	(345)	-29.0%
Total costs and expenses	(145,277)	(119,229)	21.8%	(377,428)	(385,461)	-2.1%
Operating profit	16,598	22,639	-26.7%	57,574	77,843	-26.0%
(Impairment)/reversal of impairment of assets, net	(4,976)	(179)	n/a	422	1,151	-63.3%
Financial income	1,352	1,692	-20.1%	4,521	5,193	-12.9%
Financial costs	(3,633)	(4,076)	-10.9%	(11,837)	(13,651)	-13.3%
Foreign exchange losses, net	(295)	(1,165)	-74.7%	(4,980)	(2,549)	95.4%
Share in the losses of joint ventures, net of income tax	(73)	(289)	-74.7%	(663)	(857)	-22.6%
Total other expenses	(7,625)	(4,017)	89.8%	(12,537)	(10,713)	17.0%
Profit before tax	8,973	18,622	-51.8%	45,037	67,130	-32.9%
Income tax	(4,330)	(3,955)	9.5%	(11,580)	(14,404)	-19.6%
Profit for the period	4,643	14,667	-68.3%	33,457	52,726	-36.5%
Other comprehensive expenses net of income tax	-	-	n/a	-	-	n/a
Total comprehensive income for the period	4,643	14,667	-68.3%	33,457	52,726	-36.5%
(Losses)/profit for the period attributable to non-controlling interests	(124)	(166)	-25.3%	(577)	1,448	n/a
Profit for the period attributable to owners of the parent company	4,767	14,833	-67.9%	34,034	51,278	-33.6%
Total comprehensive (expenses)/income for the period attributable to non-controlling interests	(124)	(166)	-25.3%	(577)	1,448	n/a
Total comprehensive income for the period attributable to owners of the parent company	4,767	14,833	-67.9%	34,034	51,278	-33.6%



REVENUE

In the 3rd quarter of 2016, the revenue of Bashneft Group increased by 14.1% compared to the 2nd quarter of 2016 and totalled 161,875 million roubles. This change was caused mainly by an increase in the volume of sales of crude oil and petroleum products.

During the nine months ended 30 September 2016, revenue declined by 6.1% compared to the same period in 2015 and amounted to 435,002 million roubles. This change was caused by a fall in prices, which was partially offset by an increase in the volume of crude oil sales.

(million roubles)	3Q		Change	9M		
	2016	2016		2016	2015	Change
Revenue						
Export sales of crude oil outside the Customs Union	39,062	36,757	6.3%	103,510	99,542	4.0%
Export sales of crude oil to the Customs Union	1,925	3,495	-44.9%	8,145	8,725	-6.6%
Domestic sales of crude oil	9,520	9,328	2.1%	26,135	22,212	17.7%
Total sales of crude oil	50,507	49,580	1.9%	137,790	130,479	5.6%
Export sales of petroleum products and petrochemicals	41,086	35,857	14.6%	116,996	149,196	-21.6%
<i>outside the Customs Union</i>	36,826	34,444	6.9%	110,360	143,145	-22.9%
<i>to the Customs Union</i>	4,260	1,413	n/a	6,636	6,051	9.7%
Domestic sales of petroleum products and petrochemicals	67,699	55,362	22.3%	175,502	180,269	-2.6%
<i>wholesale</i>	50,562	40,093	26.1%	129,764	137,075	-5.3%
<i>retail</i>	17,137	15,269	12.2%	45,738	43,194	5.9%
Total sales of petroleum products and petrochemicals	108,785	91,219	19.3%	292,498	329,465	-11.2%
Other sales ⁶	2,583	1,069	n/a	4,714	3,360	40.3%
Total revenue	161,875	141,868	14.1%	435,002	463,304	-6.1%

(thousand tonnes)	3Q		Change	9M		
	2016	2016		2016	2015	Change
Sales volumes						
Export sales of crude oil outside the Customs Union	2,064	1,899	8.7%	5,782	4,497	28.6%
Export sales of crude oil to the Customs Union	132	216	-38.9%	562	574	-2.1%
Domestic sales of crude oil	693	661	4.8%	2,038	1,681	21.2%
Total sales of crude oil	2,889	2,776	4.1%	8,382	6,752	24.1%
Export sales of petroleum products and petrochemicals	1,966	1,707	15.2%	5,697	6,154	-7.4%
<i>outside the Customs Union</i>	1,727	1,642	5.2%	5,351	5,847	-8.5%
<i>to the Customs Union</i>	239	65	n/a	346	307	12.7%
Domestic sales of petroleum products and petrochemicals	2,494	2,119	17.7%	7,086	7,342	-3.5%
<i>wholesale</i>	2,048	1,715	19.4%	5,872	6,153	-4.6%
<i>retail</i>	446	404	10.4%	1,214	1,189	2.1%
Total sales of petroleum products and petrochemicals	4,460	3,826	16.6%	12,783	13,496	-5.3%
Total sales of crude oil, petroleum products and petrochemicals	7,349	6,602	11.3%	21,165	20,248	4.5%

⁶ Revenue from other sales includes revenue from sales of goods and services that are not related to the Group's core business, such as lease of property, sales of related goods at petrol stations, sales of catalysts and sales of other goods and services.



Export and domestic sales of crude oil

In the 3rd quarter of 2016, revenue from export sales of crude oil remained at the level reached in the 2nd quarter of 2016 and amounted to 40,987 million roubles.

During the nine months ended 30 September 2016, revenue from export sales of crude oil totalled 111,655 million roubles, which is 3.1% more than in the same period in 2015. The increase in revenue was caused by an increase in crude oil sales volume, which was partially offset by a fall in prices on the global markets.

In the 3rd quarter of 2016, revenue from domestic sales of crude oil totalled 9,520 million roubles, which is 2.1% more than in the 2nd quarter of 2016; this was related to a 4.8% increase on the volume of crude oil sales.

During the nine months ended 30 September 2016, revenue from domestic sales of crude oil totalled 26,135 million roubles, which is 17.7% higher than in the same period in 2015. This change was caused by an increase in crude oil sales volumes, which was partially offset by a fall in prices in the domestic market.

Export sales of petroleum products and petrochemicals

(thousand tonnes)	3Q	2Q	Change	9M		
	2016	2016		2016	2015	Change
Diesel fuel	1,343	1,191	12.8%	3,936	4,275	-7.9%
Fuel oil	371	297	24.9%	788	1,083	-27.2%
High-octane gasoline	98	57	71.9%	385	330	16.7%
Other	60	61	-1.6%	227	101	n/a
Total sales of petroleum products	1,872	1,606	16.6%	5,336	5,789	-7.8%
Petrochemicals sales	94	101	-6.9%	361	365	-1.1%
Total export sales of petroleum products and petrochemicals	1,966	1,707	15.2%	5,697	6,154	-7.4%

Export sales of petroleum products and petrochemicals outside the Customs Union

In the 3rd quarter of 2016, revenue from export sales of petroleum products and petrochemicals outside the Customs Union totalled 36,826 million roubles, which is 6.9% more than in the 2nd quarter of 2016, mainly due to a 5.2% increase in the sales volume of petroleum products and petrochemicals.

During the nine months ended 30 September 2016, revenue from sales of petroleum products and petrochemicals outside the Customs Union decreased by 22.9% compared to the same period in 2015 and totalled 110,360 million roubles. This change was caused mainly by a fall in prices combined with a reduction in sales volumes of petroleum products and petrochemicals.

Export sales of petroleum products and petrochemicals to the Customs Union

In the 3rd quarter of 2016, revenue from sales of petroleum products to the Customs Union amounted to 4,260 million roubles, which is considerably more than in the 2nd quarter of 2016. The growth of revenue from export sales of petroleum products to the Customs Union was related to a significant increase in the volume of petroleum product sales to the Customs Union in the 3rd quarter of 2016 due to a shift of focus in fuel oil sales away from the domestic market.

During the nine months ended 30 September 2016, revenue from export sales of petroleum products and petrochemicals to the Customs Union grew by 9.7% compared to the same period in 2015 and amounted to 6,636 million roubles.

The growth of revenue was caused by a 12.7% increase in the volume of petroleum product sales.



Domestic sales of petroleum products and petrochemicals

(thousand tonnes)	3Q		2Q	9M		
	2016	2016	Change	2016	2015	Change
High-octane gasoline	1,022	883	15.7%	2,796	3,094	-9.6%
Diesel fuel	589	469	25.6%	1,541	1,446	6.6%
Fuel oil	235	173	35.8%	969	836	15.9%
Other	487	427	14.1%	1,282	1,483	-13.6%
Total sales of petroleum products	2,333	1,952	19.5%	6,588	6,859	-4.0%
Petrochemicals sales	161	167	-3.6%	498	483	3.1%
Total domestic sales of petroleum products and petrochemicals	2,494	2,119	17.7%	7,086	7,342	-3.5%

Wholesale of petroleum products and petrochemicals

In the 3rd quarter of 2016, revenue from wholesale distribution of petroleum products on the domestic market grew by 26.1% compared to the 2nd quarter of 2016 and amounted to 50,562 million roubles, which was caused mainly by a 19.4% increase in the volume of petroleum product sales.

During the nine months ended 30 September 2016, revenue from wholesale distribution of petroleum products and petrochemicals on the domestic market declined by 5.3% compared to the same period in 2015 and totalled 129,764 million roubles. The decrease in revenue was related to a 4.6% reduction in sales volumes.

Retail sales of petroleum products

In the 3rd quarter of 2016, revenue from retail sales increased by 12.2% compared to the 2nd quarter of 2016 and totalled 17,137 million roubles, which was related to a 10.4% seasonal increase in retail sales volumes on the domestic market.

During the nine months ended 30 September 2016, revenue from retail sales increased by 5.9% compared to the same period in 2015 and totalled 45,738 million roubles. The increase in revenue from retail sales was caused mainly by a rise in prices on the domestic market.



COSTS AND EXPENSES

Production and operating expenses

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

(million roubles)	3Q	2Q	Change	9M		Change
	2016	2016		2016	2015	
Production and operating expenses						
Production	13,563	12,119	11.9%	37,599	31,385	19.8%
Refining	7,065	6,666	6.0%	21,145	19,724	7.2%
Petrochemicals	1,366	1,379	-0.9%	4,159	4,133	0.6%
Other ⁷ (including change in WIP and finished product balances, geological exploration and other costs, net)	5,286	(126)	n/a	5,611	1,568	n/a
Total production and operating expenses	27,280	20,038	36.1%	68,514	56,810	20.6%

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

Unit costs for production of crude oil (roubles per barrel)	3Q	2Q	Change	9M		Change
	2016	2016		2016	2015	
	347	314	10.5%	323	293	10.2%

Crude oil production expenses include labour costs, expenditure on raw and other materials, as well as the acquisition of heat and electricity, repairs and maintenance of oil and gas producing assets, and the use of certain enhanced oil recovery techniques.

In the 3rd quarter of 2016, unit costs for production of crude oil increased by 10.5% as compared to the 2nd quarter of 2016 and amounted to 347 roubles per barrel. During the nine months ended 30 September 2016, unit costs for production of crude oil grew by 10.2% compared to the same period in 2015 and totalled 323 roubles per barrel. The increase in unit costs during both periods was related primarily to a rise in electricity prices and an increase in the scope of certain enhanced oil recovery measures.

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

Unit refining costs (roubles per barrel)	3Q	2Q	Change	9M		Change
	2016	2016		2016	2015	
	204	223	-8.5%	214	189	13.2%

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

In the 3rd quarter of 2016, unit refining costs decreased by 8.5% compared to the 2nd quarter of 2016 and totalled 204 roubles per barrel due to an increase in refining volumes.

During the nine months ended 30 September 2016, unit refining costs increased by 13.2% compared to the same period in 2015 due to a reduction in refining volume combined with an increase in the cost of auxiliary materials and heat and electricity prices.

⁷ In the 3rd quarter of 2016, management of the Group has also revised its estimates of rehabilitation and decommissioning liabilities for assets which are not directly associated with oil production activities, provision for clean-up costs at liquidated wells stock and estimated provisions for restoration after completion of construction works and reclamation of sand pits. As a result of the revision, amount of environmental obligations increased by 2,894 million roubles.



Cost of purchased crude oil, gas and petroleum products

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

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

(thousand tonnes)	3Q		Change	9M		
	2016	2016		2016	2015	Change
Purchased crude oil, gas, and gas condensate	2,495	1,703	46.5%	6,578	7,077	-7.1%
Purchased petroleum products	12	40	-70.0%	66	49	34.7%
Total volume of purchased crude oil, gas, and petroleum products	2,507	1,743	43.8%	6,644	7,126	-6.8%

In the 3rd quarter of 2016, the cost of purchased crude oil, gas and petroleum products increased by 31.4% compared to the 2nd quarter of 2016 and amounted to 32,868 million roubles. This change was caused by the fact that in the second quarter of 2016 the volume of purchased crude oil, gas and gas condensate was small due to scheduled repairs at Bashneft's refineries.

During the nine months ended 30 September 2016, the cost of purchased crude oil, gas and petroleum products decreased by 15.4% compared to the same period in 2015 and totalled 84,480 million roubles; this was caused mainly by a fall in prices combined with a 6.8% reduction in the volume of purchased crude oil, gas and petroleum products.

Transportation costs

In the 3rd quarter of 2016, transportation costs increased by 11.8% compared to the 2nd quarter of 2016 and totalled 11,065 million roubles. The rise in transportation costs was related mainly to an increase in export sales volumes of crude oil, petroleum products and petrochemicals.

During the nine months ended 30 September 2016, transportation costs grew by 14.2% compared to the same period in 2015 and totalled 31,834 million roubles. The increase in transportation costs was related primarily to a rise in tariffs and an increase in the volume of crude oil exports.

Depletion and depreciation

(million roubles)	3Q		Change	9M		
	2016	2016		2016	2015	Change
Depletion and depreciation	11,414	10,766	6.0%	32,388	21,870	48.1%

In the 3rd quarter of 2016, depletion and depreciation costs increased by 6.0% compared to the 2nd quarter of 2016 and totalled 11,414 million roubles, which was related primarily to commissioning of new property, plant and equipment.

During the nine months ended 30 September 2016, depletion and depreciation costs rose by 48.1% compared to the same period in 2015 and totalled 32,388 million roubles; this was caused mainly by an increase in the volume of crude oil production, as well as commissioning of new property, plant and equipment.



Taxes other than income tax

(million roubles)	3Q		Change	9M		
	2016	2016		2016	2015	Change
Mineral extraction tax	23,622	23,422	0.9%	62,862	75,028	-16.2%
Social taxes	2,036	2,147	-5.2%	6,321	5,912	6.9%
Property tax	716	627	14.2%	2,024	1,604	26.2%
Other	295	429	-31.2%	1,181	1,246	-5.2%
Total taxes other than income tax	26,669	26,625	0.2%	72,388	83,790	-13.6%

In the 3rd quarter of 2016, taxes other than income tax remained at the level reached in the 2nd quarter of 2016 and totalled 26,669 million roubles.

During the nine months ended 30 September 2016, taxes other than income tax decreased by 13.6% compared to the same period in 2015 and totalled 72,388 million roubles. This change was caused by a decrease in mineral extraction tax payments due to a reduction in the mineral extraction tax rate.

Export tariffs and excises

(million roubles)	3Q		Change	9M		
	2016	2016		2016	2015	Change
Export tariffs on crude oil	11,707	8,417	39.1%	27,577	34,110	-19.2%
Export tariffs on petroleum products	4,809	2,001	n/a	11,425	24,565	-53.5%
Total export tariffs:	16,516	10,418	58.5%	39,002	58,675	-33.5%
Excises	13,142	10,459	25.7%	31,848	22,185	43.6%
Total export tariffs and excises	29,658	20,877	42.1%	70,850	80,860	-12.4%

In the 3rd quarter of 2016, the total amount of export tariffs on oil and petroleum products increased by 58.5% compared to the 2nd quarter of 2016 and totalled 16,516 million roubles, which was caused by an increase in the volume of crude oil and petroleum product exports outside the Customs Union combined with a rise in export tariff rates.

In the 3rd quarter of 2016, the total amount of excises rose by 25.7% compared to the 2nd quarter of 2016 and reached 13,142 million roubles due to an increase in the volume of domestic sales of petroleum products.

During the nine months ended 30 September 2016, the total amount of export tariffs on oil and petroleum products decreased by 33.5% compared to the same period in 2015, which was caused mainly by a reduction in export tariff rates.

During the nine months ended 30 September 2016, the total amount of excises grew by 43.6% compared to the same period in 2015, which was caused mainly by a rise in excise rates.

CASH FLOW

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

(million roubles)	3Q		Change	9M		
	2016	2016		2016	2015	Change
Net cash generated from operating activities	22,978	22,506	2.1%	104,906	70,248	49.3%
Net cash generated from/(used in) investing activities	4,738	(33,518)	n/a	(50,947)	(40,246)	26.6%
Net cash used in financing activities	(32,615)	(8,693)	n/a	(59,557)	(38,745)	53.7%

Cash generated from operating activities:

(million roubles)	3Q		2Q	9M		
	2016	2016	Change	2016	2015	Change
Operating cash flow before working capital changes	32,116	33,678	-4.6%	94,898	99,753	-4.9%
Movements in working capital less cash and cash equivalents	(2,940)	(4,290)	-31.5%	30,906	(2,006)	n/a
Interest paid	(2,476)	(3,367)	-26.5%	(9,677)	(11,890)	-18.6%
Income tax paid	(3,722)	(3,515)	5.9%	(11,221)	(15,609)	-28.1%
Net cash generated from operating activities	22,978	22,506	2.1%	104,906	70,248	49.3%

In the 3rd quarter of 2016, cash generated from operating activities remained at the level reached in the 2nd quarter of 2016 and totalled 22,978 million roubles.

During the nine months ended 30 September 2016, cash generated from operating activities increased by 49.3% compared to the same period in 2015. The main factor behind the increase consisted in movements in working capital due to the receipt of funds related to the prepayment under the long-term oil and petroleum product supply contract totalling US\$ 500 million (39,243 million roubles) in the 1st quarter of 2016.

Cash generated from/(used in) investing activities:

(million roubles)	3Q		2Q	9M		
	2016	2016	Change	2016	2015	Change
Capital expenditures	(21,564)	(20,918)	3.1%	(59,709)	(42,862)	39.3%
Acquisition of financial assets, less proceeds from disposal of financial assets	24,244	(13,830)	n/a	3,991	(1,550)	n/a
Interest received	2,091	970	n/a	5,134	5,095	0.8%
Other	(33)	260	n/a	(363)	(929)	-60.9%
Net cash generated from/(used in) investing activities	4,738	(33,518)	n/a	(50,947)	(40,246)	26.6%

In the 3rd quarter of 2016, cash generated from investing activities amounted to 4,738 million roubles. This change was related to proceeds from disposal of financial assets.

During the nine months ended 30 September 2016, cash used in investing activities increased by 26.6% compared to the same period in 2015 and totalled 50,947 million roubles; it was allocated for financing of capital investments.

Cash used in financing activities:

(million roubles)	3Q		2Q	9M		
	2016	2016	Change	2016	2015	Change
Proceeds from borrowings	1,329	26,836	-95.0%	28,597	16,751	70.7%
Repayment of borrowings	(5,690)	(35,518)	-84.0%	(56,321)	(36,405)	54.7%
Total proceeds from and repayment of borrowings:	(4,361)	(8,682)	-49.8%	(27,724)	(19,654)	41.1%
Acquisition of non-controlling interests	-	-	n/a	(3,550)	-	n/a
Dividends paid	(28,254)	(11)	n/a	(28,283)	(19,091)	48.1%
Net cash used in financing activities	(32,615)	(8,693)	n/a	(59,557)	(38,745)	53.7%

Acquisition of non-controlling interests includes the acquisition of 21,505,680 ordinary shares (19.043% of the authorized share capital) of PJSC Ufaorgsintez for 3,550 million roubles.



FINANCING AND DEBT

(million roubles)	30		Change	30 September		
	September	30 June		2016	2015	Change
Short-term borrowings	16,089	21,025	-23.5%	16,089	27,015	-40.4%
Long-term borrowings	93,245	92,437	0.9%	93,245	124,071	-24.8%
Debt	109,334	113,462	-3.6%	109,334	151,086	-27.6%
Cash and cash equivalents	(23,828)	(28,868)	-17.5%	(23,828)	(44,341)	-46.3%
Net debt	85,506	84,594	1.1%	85,506	106,745	-19.9%

As of 30 September 2016, the Group's total debt in the form of short-term and long-term loans and borrowings totalled 109,334 million roubles compared to 113,462 million roubles as of 30 June 2016.

As of 30 September 2016, the annual weighted average interest rate on borrowings and bonds stood at 9.6% compared to 9.8% as of 30 June 2016.

CAPITAL EXPENDITURES

(million roubles)	3Q		Change	9M		
	2016	2Q		2016	2015	Change
Production	16,927	16,866	0.4%	47,875	33,785	41.7%
<i>including</i>						
<i>development of the R. Trebs and A. Titov fields</i>	6,075	6,316	-3.8%	17,718	12,483	41.9%
<i>development of the Sorovskoye field</i>	2,240	3,283	-31.8%	7,437	4,835	53.8%
Refining, petrochemicals and marketing	4,625	3,916	18.1%	11,508	7,964	44.5%
Other	12	136	-91.2%	326	1,113	-70.7%
Total cash used in capital expenditures	21,564	20,918	3.1%	59,709	42,862	39.3%

In the 3rd quarter of 2016, capital expenditures increased by 3.1% compared to the 2nd quarter of 2016 and amounted to 21,564 million roubles.

During the nine months of 2016, capital expenditures increased by 39.3% compared to the same period in 2015 and totalled 59,709 million roubles; this was due mainly to an increase in capital expenditures in the Production segment, including growing capital expenditure on the Sorovskoye field and the R. Trebs and A. Titov fields.

