

Bashneft Group

**Interim Condensed
Consolidated Financial Statements
for the three and the nine months ended
30 September 2013 (unaudited)**

BASHNEFT GROUP

TABLE OF CONTENTS

	Page
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 2013	1
INDEPENDENT AUDITORS' REPORT ON REVIEW OF INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS	2
INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS FOR THE THREE AND THE NINE MONTHS ENDED 30 SEPTEMBER 2013:	
Interim condensed consolidated statement of profit or loss and other comprehensive income	3
Interim condensed consolidated statement of financial position	4
Interim condensed consolidated statement of cash flows	5-6
Interim condensed consolidated statement of changes in equity	7
Notes to the interim condensed consolidated financial statements	8-24

BASHNEFT GROUP

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 2013

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"), its subsidiaries and its special purpose entities (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 at 30 September 2013, its financial performance for the three and the nine months then ended, cash flows and changes in 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 IFRSs 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 legislation and accounting standards in the Russian Federation;
- 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 2013 were approved by:



A.L. Korsik
President



A.Y. Lisovenko
Chief Accountant

Ufa, Russian Federation
22 November 2013

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

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

Introduction

We have reviewed the accompanying interim condensed consolidated financial statements of Joint Stock Oil Company Bashneft and its subsidiaries (the "Group"), which comprise the interim condensed consolidated statement of financial position as of 30 September 2013 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 this 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 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 statements are not prepared, in all material respects, in accordance with IAS 34, *Interim Financial Reporting*.



Moscow, Russian Federation
22 November 2013

BASHNEFT GROUP

INTERIM CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME FOR THE THREE AND THE NINE MONTHS ENDED 30 SEPTEMBER 2013 (UNAUDITED)

Millions of Russian roubles

	Notes	Three months ended 30 September		Nine months ended 30 September	
		2013	2012	2013	2012
Revenue	5	156,571	147,427	417,054	392,688
Export tariffs and excise		(42,303)	(37,435)	(117,438)	(104,504)
Cost of purchased crude oil, gas and petroleum products		(36,658)	(35,601)	(95,059)	(91,651)
Taxes other than income tax	7	(18,812)	(17,029)	(52,129)	(50,526)
Production and operating expenses		(14,970)	(13,625)	(42,730)	(38,753)
Transportation expenses		(6,973)	(8,010)	(21,284)	(19,845)
Depletion and depreciation		(5,082)	(4,781)	(14,217)	(14,206)
Selling, general and administrative expenses		(4,015)	(4,481)	(11,433)	(11,290)
Other operating (expenses)/income, net		(624)	(681)	(812)	3,159
Operating profit		27,134	25,784	61,952	65,072
Impairment of investment in associate	11	(15,752)	-	(15,752)	-
Finance income	8	1,308	1,228	3,635	3,654
Finance costs	8	(2,206)	(3,050)	(7,462)	(8,897)
Foreign exchange (loss)/gain, net		(148)	(814)	451	112
Share of (loss)/ profit of associate and joint ventures, net of income tax		(328)	33	(185)	(1,261)
Profit before income tax		10,008	23,181	42,639	58,680
Income tax	9	(2,496)	(4,637)	(9,837)	(13,143)
Profit for the period and total comprehensive income		7,512	18,544	32,802	45,537
Attributable to:					
Shareholders of the parent company		7,388	17,309	32,542	41,347
Non-controlling interests		124	1,235	260	4,190
		7,512	18,544	32,802	45,537
EARNINGS PER SHARE					
Weighted average number of ordinary shares in issue during the period		157,085,505	148,316,764	157,085,505	148,851,240
Basic and diluted earnings per share attributable to shareholders of the parent company (Russian roubles per share)		38.73	98.39	170.61	228.61

The accompanying notes on pages 8-24 form an integral part of these interim condensed consolidated financial statements.

BASHNEFT GROUP

INTERIM CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION AT 30 SEPTEMBER 2013 (UNAUDITED) *Millions of Russian roubles*

	Notes	30 September 2013	31 December 2012
ASSETS			
<i>Non-current assets</i>			
Property, plant and equipment	10	271,543	277,149
Advances paid for acquisition of property, plant and equipment		136	632
Intangible assets		1,656	1,830
Financial assets	12	30,717	29,318
Investments in associate and joint venture	11	15,179	28,619
Long-term inventories		2,956	2,351
Other non-current assets		613	1,998
		322,800	341,897
<i>Current assets</i>			
Inventories		23,182	23,839
Financial assets	12	16,821	18,635
Trade and other receivables		42,396	28,366
Advances to suppliers and prepaid expenses		6,404	5,649
Income tax prepaid		522	2,485
Other taxes receivable		21,328	22,534
Cash and cash equivalents		15,988	20,104
		126,641	121,612
TOTAL ASSETS		449,441	463,509
EQUITY AND LIABILITIES			
<i>Capital and reserves</i>			
Share capital		2,501	2,501
Treasury shares		(38,147)	(38,147)
Additional paid-in capital		72,682	83,651
Retained earnings		223,383	194,975
Equity attributable to owners of the Company		260,419	242,980
Non-controlling interests		(339)	4,928
		260,080	247,908
<i>Non-current liabilities</i>			
Borrowings	15	65,197	78,201
Decommissioning provision		7,639	7,083
Deferred tax liabilities		31,574	37,561
Other non-current liabilities		6,154	5,931
		110,564	128,776
<i>Current liabilities</i>			
Borrowings	15	15,037	32,007
Trade and other payables		40,078	28,942
Dividends payable		217	224
Advances received		8,979	14,156
Provisions		1,169	718
Income tax payable		972	393
Other taxes payable		12,345	10,385
		78,797	86,825
TOTAL LIABILITIES		189,361	215,601
TOTAL EQUITY AND LIABILITIES		449,441	463,509

The accompanying notes on pages 8-24 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 2013 (UNAUDITED) *Millions of Russian roubles*

	Notes	Nine months ended 30 September	
		2013	2012
OPERATING ACTIVITIES			
Profit before income tax		42,639	58,680
Adjustments for:			
Depletion and depreciation		14,217	14,206
Loss on disposal of property, plant and equipment		457	495
Finance income		(3,635)	(3,654)
Finance costs		7,462	8,897
Impairment of property, plant and equipment		(12)	725
Share of loss of associate and joint ventures		185	1,261
Impairment of investment in associate	11	15,752	-
Loss on disposal of subsidiaries		24	-
Foreign exchange (gain)/loss, net		(369)	34
Change in provisions and allowances, net		1,221	(2,962)
Other, net		108	(35)
Operating cash flows before working capital changes		78,049	77,647
Movements in working capital:			
Inventories		(2,686)	115
Trade and other receivables		(8,977)	(10,591)
Advances to suppliers and prepaid expenses		171	356
Other taxes receivable		497	10,888
Trade and other payables		9,204	4,469
Advances received		(4,805)	(7,540)
Other taxes payable		4,349	248
Cash generated from operations		75,802	75,592
Interest paid		(6,447)	(7,402)
Income tax paid		(10,423)	(11,778)
NET CASH GENERATED FROM OPERATING ACTIVITIES		58,932	56,412
INVESTING ACTIVITIES			
Payments for acquisition of property, plant and equipment		(22,989)	(19,592)
Proceeds from disposal of property, plant and equipment		1,042	1,385
Additional contribution to joint venture		(8,966)	(2,361)
Acquisition of subsidiaries, net of cash acquired		-	(618)
Cash held on disposed SPEs and subsidiaries		(5,810)	(61)
Payments for acquisition of intangible assets		(304)	(574)
Proceeds from disposal of investment in associate		6,469	-
Payments for acquisition of financial assets		(13,213)	(58,088)
Proceeds from disposal of financial assets		14,271	34,203
Interest received		2,545	2,069
Dividends received		115	-
NET CASH USED IN INVESTING ACTIVITIES		(26,840)	(43,637)

The accompanying notes on pages 8-24 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 2013 (UNAUDITED) *Millions of Russian roubles*

	Notes	Nine months ended 30 September	
		2013	2012
FINANCING ACTIVITIES			
Payments for acquisition of non-controlling interests in subsidiaries and SPEs		(528)	(7,964)
Purchase of treasury shares	14	-	(11,070)
Proceeds from borrowings		31,450	25,388
Repayments of borrowings		(62,556)	(6,390)
Dividends paid by the Company		(4,650)	(18,173)
Dividends paid by subsidiaries		(5)	(81)
NET CASH GENERATED USED IN FINANCING ACTIVITIES		(36,289)	(18,290)
Net decrease in cash and cash equivalents		(4,197)	(5,515)
Cash and cash equivalents at beginning of the period		20,104	28,354
Effect of exchange rate changes on the balance of cash and cash equivalents held in foreign currencies		81	188
Cash and cash equivalents at end of the period		15,988	23,027

The accompanying notes on pages 8-24 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 2013 (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 2012		2,252	(13,241)	34,736	156,870	180,617	46,312	226,929
Profit for the period		-	-	-	41,347	41,347	4,190	45,537
Total comprehensive income for the period		-	-	-	41,347	41,347	4,190	45,537
Result of mandatory shares buy-back preceding Group reorganization	14	-	(11,070)	-	4,252	(6,818)	(12,216)	(19,034)
Dividends	14	-	-	-	(18,235)	(18,235)	(54)	(18,289)
Transaction with the Controlling shareholder		-	-	(1,554)	-	(1,554)	3,472	1,918
Other equity transactions		-	-	-	-	-	(16)	(16)
Balance at 30 September 2012		2,252	(24,311)	33,182	184,234	195,357	41,688	237,045
Balance at 1 January 2013		2,501	(38,147)	83,651	194,975	242,980	4,928	247,908
Profit for the period		-	-	-	32,542	32,542	260	32,802
Total comprehensive income for the period		-	-	-	32,542	32,542	260	32,802
Dividends	14	-	-	-	(4,573)	(4,573)	(5)	(4,578)
Transactions with the Controlling shareholder	13	-	-	(10,455)	-	(10,455)	(5,004)	(15,459)
Acquisition of additional interests in subsidiaries		-	-	-	490	490	(1,017)	(527)
Other equity transactions		-	-	(514)	(51)	(565)	499	(66)
Balance at 30 September 2013		2,501	(38,147)	72,682	223,383	260,419	(339)	260,080

The accompanying notes on pages 8-24 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 2013 (UNAUDITED)

Millions of Russian roubles

1. GENERAL INFORMATION

Organisation and operations

Joint Stock Oil Company Bashneft (the “Company” or “Bashneft”), its subsidiaries and special purpose entities (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 171 oilfields, 3 refineries and 479 operating petrol stations. Bashneft is the parent company of a vertically integrated group of oil and gas companies.

The Company was incorporated 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 30/1, Karl Marx Street, Ufa, 450077, Russian Federation.

The following principal subsidiaries incorporated in the Russian Federation were consolidated at 30 September 2013 and 31 December 2012:

Company	Principal activities	Group’s effective interest	
		30 September 2013	31 December 2012
LLC Bashneft-Dobycha	Production of crude oil and gas	100%	100%
LLC Bashneft-Region	Petroleum products trading	100%	100%
LLC Bashneft-Service Assets	Oilfield services	n/a	100%
OJSC Ufaorgsintez	Production of petrochemicals	n/a	67%

On 17 September 2013, the Group sold its 98% interest in OJSC United Petrochemical Company (“UPC”), which is the holding company of the petrochemical assets of the Group, including OJSC Ufaorgsintez (“Ufaorgsintez”), the Group retained a residual interest in Ufaorgsintez of 15.97% (refer to note 13).

On 30 September 2013, the Group sold its 100% interest in LLC Bashneft-Service Assets (“BNSA”) (refer to note 13).

At 30 September 2013, the Group had 7 special purpose entities (“SPEs”) (31 December 2012: 10 SPEs) which were established to provide supporting services to the Company and its subsidiaries engaged in the production and refining of crude oil, and which have been consolidated.

JSFC “Sistema” (“Sistema”) is the controlling shareholder of Bashneft. The controlling shareholder of “Sistema” and the ultimate controlling party of Bashneft Group is Mr. Vladimir P. Evtushenkov.

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 2013 (UNAUDITED) *Millions of Russian roubles*

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 2013 have been prepared in accordance with International Accounting Standard 34 *Interim Financial Reporting* ("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 years ended 31 December 2012, 2011 and 2010, which have been prepared in accordance with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board ("IASB").

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 years ended 31 December 2012, 2011 and 2010 except for amendments, related to application of new standards or interpretations described below.

Standards and interpretations effective in the current period

IAS 1 *Presentation of Financial Statements* ("IAS 1") – Amendment to revise the way other comprehensive income is presented. The amendments introduce new terminology for the statement of comprehensive income. Under the amendments to IAS 1 the statement of comprehensive income is renamed to the statement of profit or loss and other comprehensive income. The amendment also requires items of other comprehensive income to be grouped into two categories:

- Items that will not be reclassified subsequently to profit or loss; and
- Items that may be reclassified subsequently to profit or loss when specific conditions are met.

Income tax on items of other comprehensive income is required to be allocated on the same bases. Other than the above mentioned presentation changes, the application of amendments to IAS 1 does not result in any impact on profit or loss, other comprehensive income and total comprehensive income.

IAS 19 *Employee Benefits* ("IAS 19") – Amendment regarding accounting for defined benefit plans and termination benefits. The amendments require the recognition of changes in defined benefits obligations and the fair value of plan assets when they occur, and, eliminate the corridor approach permitted under the previous version of IAS 19 accelerating the recognition of past service costs. The amendments require all actuarial gains and losses to be recognised immediately through other comprehensive income in order for the net pension asset or liability recognised in the consolidated statement of financial position to reflect the full value of the plan deficit or surplus.

Another significant change to IAS 19 relates to the presentation of the changes in defined benefit obligations and plan assets with changes being split into three components:

- Service cost – recognised in profit or loss and includes current and past service costs as well as gains or losses on settlements;
- Net interest – recognised in profit or loss and calculated by applying the discount rate by reference to market yields at the end of the reporting period to the net defined benefit liability at the beginning of each reporting period; and
- Remeasurement – recognised in other comprehensive income and comprises actuarial gains and losses on the defined benefit obligation, the excess of the actual return on plan assets over the change in plan assets due to the passage of time and the changes, if any, due to the effect of the asset ceiling.

The application of amendments to IAS 19 has not resulted in any impact on financial position, profit or loss, other comprehensive income or total comprehensive income and Group's 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 2013 (UNAUDITED)

Millions of Russian roubles

IAS 27 *Consolidated and Separate Financial Statements* ("IAS 27") – Amendments to modify the consolidation principles in accordance with IFRS 10 *Consolidated Financial Statements* ("IFRS 10"). The revised IAS 27 deals only with accounting for subsidiaries, associates and joint ventures in the separate financial statements of the parent company. The application of the Amendments to IAS 27 did not result in changes to the Group's interim condensed consolidated financial statements.

IAS 28 *Investments in Associates* ("IAS 28") – Amendment to reissue as "Investments in Associates and Joint Ventures" after IFRS 11 *Joint Arrangements* ("IFRS 11") was published. The amended IAS 28 prescribes the accounting for investments in associates and sets out the requirements for the application of the equity method when accounting for investments in associates and joint ventures. The application of amendments to IAS 28 has not resulted in any impact on financial position, profit or loss, other comprehensive income or total comprehensive income.

IFRS 10 *Consolidated Financial Statements* – IFRS 10 was issued in May 2011 and replaces all the guidance on control and consolidation in IAS 27 and SIC 12 *Consolidation – Special Purpose Entities*. Under IFRS 10, subsidiaries are all entities (including structured entities) over which the Group has control. IFRS 10 includes a new definition of control that contains three elements: (a) power over an investee, (b) exposure, or rights, to variable returns from its involvement with the investee, and (c) the ability to use its power over the investee to affect the amount of the investor's return. Subsidiaries are fully consolidated from the date on which control is transferred to the Group. They are deconsolidated from the date that control ceases. The Group assessed whether any consolidation conclusion under IFRS 10 differ from IAS 27 / SIC 12 as at 1 January 2013. The adoption of this standard did not result in any change in the consolidation status of the Group's subsidiaries and SPEs.

IFRS 11 *Joint Arrangements* – IFRS 11 was issued in May 2011 and supersedes IAS 31 *Interests in Joint Ventures* and SIC 13 *Jointly Controlled Entities – Non Monetary contributions by Venturers*. IFRS 11 deals with how a joint arrangement in which two or more parties have an interest should be classified. There are two types of joint arrangements under IFRS 11: joint operations and joint ventures. These two types are distinguished by parties' rights and obligations under the arrangements. Joint ventures under IFRS 11 are required to be accounted for using the equity method of accounting. The adoption of this standard has not resulted in any impact on financial position, profit or loss, other comprehensive income or total comprehensive income.

IFRS 12 *Disclosure of Interests in Other Entities* ("IFRS 12") – IFRS 12 was issued in May 2011 and provides disclosure requirements for interest in subsidiaries, associates, joint venture and unconsolidated structured entities. The application of amendments to IFRS 12 did not result in changes to the Group's interim condensed consolidated financial statements as these disclosures are only required in annual financial statements..

IFRS 13 *Fair Value Measurement* ("IFRS 13") – IFRS 13 establishes a single source of guidance for fair value measurements and disclosures about fair value measurements. The Standard defines fair value, establishes a framework for measuring fair value, and requires disclosures about fair value measurements. The scope of IFRS 13 is broad; it applies to both financial instrument items and non-financial instrument items for which other IFRSs require or permit fair value measurements and disclosures about fair value measurements, except in specified circumstances. The application of IFRS 13 did not result in changes to the Group's interim condensed consolidated financial statements.

Several other amendments including amended IFRS 7 *Financial Instruments: Disclosures* and amendments resulting from "Annual Improvements to IFRSs" (2009-2011 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.

BASHNEFT GROUP

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS FOR THE THREE AND THE NINE MONTHS ENDED 30 SEPTEMBER 2013 (UNAUDITED)

Millions of Russian roubles

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 2013 are consistent with those applied in the preparation of annual consolidated financial statements of the Group for the years ended 31 December 2012, 2011 and 2010.

4. 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 allocating resources and assessing performance. During 2013, following the amendments to internal regulations, the Group has changed the structure and content of the segment information provided to the Board for review. Accordingly, the information about the segments' financial performance for the three and nine months ended 30 September 2013 and for the comparative period of 2012 is presented on a different basis of segmentation and measure of profit or loss than in the most recent annual consolidated financial statements.

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

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

During 2012 operational and financial management of Ufaorgsintez was transferred to management of UPC, a subsidiary of the Company. Starting from 2012 the information about operations of UPC was not included in the reports provided to the Board and as a result the operations of UPC and its subsidiaries were included in the "Reconciling item" column below until the date of its disposal on 17 September 2013 (refer to note 13).

There are varying levels of integration between the Upstream, Downstream and All other segments. Inter-segment revenues of 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 Downstream segment and All other segments represent oil products deliveries and services provided. Inter-segment pricing is estimated to represent to 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. The significant accounting policies of the reportable segments are the same as the Group's accounting policies.

BASHNEFT GROUP

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS FOR THE THREE AND THE NINE MONTHS ENDED 30 SEPTEMBER 2013 (UNAUDITED)

Millions of Russian roubles

Information about reportable segments for the three months ended 30 September 2013 is as follows:

	<u>Upstream</u>	<u>Down-stream</u>	<u>All other segments</u>	<u>Recon-ciling item</u>	<u>Elimi-nations</u>	<u>Consoli-dated</u>
External revenues	236	149,322	1,517	5,496	-	156,571
Inter-segment revenues	48,534	2,505	7,067	191	(58,297)	-
External expenses	(27,259)	(94,779)	(4,344)	(3,055)	-	(129,437)
Inter-segment expenses	(4,732)	(48,557)	(3,343)	(2,567)	59,199	-
Segment EBITDA	<u>18,558</u>	<u>10,934</u>	<u>1,319</u>	<u>503</u>	<u>902</u>	<u>32,216</u>
Depletion and depreciation						(5,082)
Impairment of investment in associate						(15,752)
Finance income						1,308
Finance costs						(2,206)
Foreign exchange loss, net						(148)
Share of loss of associate and joint venture, net of income tax						(328)
Profit before income tax						<u>10,008</u>
Income tax expense						<u>(2,496)</u>
Profit for the period						<u><u>7,512</u></u>

Information about reportable segments for the three months ended 30 September 2012 is as follows:

	<u>Upstream</u>	<u>Down-stream</u>	<u>All other segments</u>	<u>Recon-ciling item</u>	<u>Elimi-nations</u>	<u>Consoli-dated</u>
External revenues	281	141,163	1,768	4,215	-	147,427
Inter-segment revenues	48,379	2,317	5,228	660	(56,584)	-
External expenses	(29,776)	(85,461)	(4,554)	(1,852)	-	(121,643)
Inter-segment expenses	(3,463)	(47,308)	(3,259)	(2,463)	56,493	-
Segment EBITDA	<u>16,928</u>	<u>13,022</u>	<u>(215)</u>	<u>921</u>	<u>(91)</u>	<u>30,565</u>
Depletion and depreciation						(4,781)
Finance income						1,228
Finance costs						(3,050)
Foreign exchange loss, net						(814)
Share of profit of associate and joint ventures, net of income tax						33
Profit before income tax						<u>23,181</u>
Income tax expense						<u>(4,637)</u>
Profit for the period						<u><u>18,544</u></u>

BASHNEFT GROUP

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS FOR THE THREE AND THE NINE MONTHS ENDED 30 SEPTEMBER 2013 (UNAUDITED)

Millions of Russian roubles

Information about reportable segments for the nine months ended 30 September 2013 is as follows:

	<u>Upstream</u>	<u>Down- stream</u>	<u>All other segments</u>	<u>Recon- ciling item</u>	<u>Elimi- nations</u>	<u>Consoli- dated</u>
External revenues	941	397,467	4,940	13,706	-	417,054
Inter-segment revenues	125,545	7,494	17,551	2,317	(152,907)	-
External expenses	(73,928)	(259,732)	(13,338)	(8,104)	-	(355,102)
Inter-segment expenses	(11,782)	(126,094)	(8,149)	(6,894)	152,919	-
Segment EBITDA	<u>45,520</u>	<u>26,045</u>	<u>2,309</u>	<u>2,283</u>	<u>12</u>	<u>76,169</u>
Depletion and depreciation						(14,217)
Impairment of investment in associate						(15,752)
Finance income						3,635
Finance costs						(7,462)
Foreign exchange gain, net						451
Share of loss of associate and joint venture, net of income tax						<u>(185)</u>
Profit before income tax						<u>42,639</u>
Income tax expense						<u>(9,837)</u>
Profit for the period						<u><u>32,802</u></u>

Information about reportable segments for the nine months ended 30 September 2012 is as follows:

	<u>Upstream</u>	<u>Down- stream</u>	<u>All other segments</u>	<u>Recon- ciling item</u>	<u>Elimi- nations</u>	<u>Consoli- dated</u>
External revenues	1,016	377,421	6,058	8,193	-	392,688
Inter-segment revenues	128,304	7,106	13,885	3,871	(153,166)	-
External expenses	(77,027)	(232,068)	(13,664)	(4,857)	-	(327,616)
Inter-segment expenses	(11,055)	(130,172)	(6,630)	(5,298)	153,155	-
Segment EBITDA	<u>45,580</u>	<u>29,143</u>	<u>1,574</u>	<u>2,992</u>	<u>(11)</u>	<u>79,278</u>
Depletion and depreciation						(14,206)
Finance income						3,654
Finance costs						(8,897)
Foreign exchange gain, net						112
Share of loss of associate and joint ventures, net of income tax						<u>(1,261)</u>
Profit before income tax						<u>58,680</u>
Income tax expense						<u>(13,143)</u>
Profit for the period						<u><u>45,537</u></u>

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 revised its presentation of the Group's revenue from external customers by geographical location for the convenience of the shareholders and the users of the financial statements.

BASHNEFT GROUP

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS FOR THE THREE AND THE NINE MONTHS ENDED 30 SEPTEMBER 2013 (UNAUDITED)

Millions of Russian roubles

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

	Three months ended 30 September		Nine months ended 30 September	
	2013	2012	2013	2012
Export outside the Customs Union*	85,286	72,479	230,588	185,968
Russian Federation	67,055	66,349	173,075	170,380
Export to other countries of the Customs Union*	4,230	8,599	13,391	36,340
Total	156,571	147,427	417,054	392,688

*the Customs Union means customs union created between the states of Belarus, Kazakhstan and Russia. 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.

5. REVENUE

	Three months ended 30 September		Nine months ended 30 September	
	2013	2012	2013	2012
Petroleum products	123,847	115,200	327,003	297,604
Crude oil	29,948	29,101	81,747	84,592
Other revenue	2,776	3,126	8,304	10,492
Total	156,571	147,427	417,054	392,688

6. EMPLOYEE BENEFIT EXPENSES

	Three months ended 30 September		Nine months ended 30 September	
	2013	2012	2013	2012
Wages and salaries	6,794	6,864	20,941	20,328
Contributions to Pension Fund of the Russian Federation	1,329	1,149	4,396	3,958
Other social contributions	413	374	1,388	1,416
Phantom shares granted	312	232	797	709
Total	8,848	8,619	27,522	26,411

7. TAXES OTHER THAN INCOME TAX

	Three months ended 30 September		Nine months ended 30 September	
	2013	2012	2013	2012
Mineral extraction tax	16,492	14,849	44,420	43,223
Contributions to Pension Fund of the Russian Federation	1,329	1,149	4,396	3,958
Other social contributions	413	374	1,388	1,416
Property tax	393	428	1,196	1,278
Other taxes	185	229	729	651
Total	18,812	17,029	52,129	50,526

BASHNEFT GROUP

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS FOR THE THREE AND THE NINE MONTHS ENDED 30 SEPTEMBER 2013 (UNAUDITED)

Millions of Russian roubles

8. FINANCE INCOME AND FINANCE COSTS

	Three months ended 30 September		Nine months ended 30 September	
	2013	2012	2013	2012
Finance income				
Interest income on loans, promissory notes and bonds	868	524	2,245	1,473
Interest income on cash and deposits	440	704	1,272	2,181
Dividends income	-	-	118	-
Total	1,308	1,228	3,635	3,654
Finance costs				
Interest expense on borrowings	1,997	2,816	6,836	8,195
Unwinding of discount	197	224	590	673
Other accretion expenses	12	10	36	29
Total	2,206	3,050	7,462	8,897

9. INCOME TAX

	Three months ended 30 September		Nine months ended 30 September	
	2013	2012	2013	2012
Current period income tax expense	7,106	5,323	14,163	11,691
Adjustments relating to current income tax of prior years	37	21	35	(3)
Current income tax expense	7,143	5,344	14,198	11,688
Deferred tax (benefit)/expense	(4,647)	(707)	(4,361)	1,455
Income tax expense	2,496	4,637	9,837	13,143

BASHNEFT GROUP

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS FOR THE THREE AND THE NINE MONTHS ENDED 30 SEPTEMBER 2013 (UNAUDITED)

Millions of Russian roubles

10. PROPERTY, PLANT AND EQUIPMENT

	Nine months ended 30 September	
	2013	2012
Cost / deemed cost		
Balance at the beginning of the period	351,779	306,674
Transfer of R. Trebs and A. Titov oilfield license to Bashneft	-	18,490
Acquisitions of subsidiaries	348	704
Disposal of SPEs and subsidiaries (refer to note 13)	(34,829)	(10)
Constructions and additions	30,733	20,938
Contribution to Finansoviy Alliance	-	(2,084)
Disposals	(2,069)	(2,449)
Balance at the end of the period	345,962	342,263
Accumulated depletion, depreciation and impairment		
Balance at the beginning of the period	(74,630)	(52,917)
Charge for the period	(14,047)	(14,098)
Disposal of SPEs and subsidiaries (refer to note 13)	13,676	4
Disposals	570	569
Contribution to Finansoviy Alliance	-	446
Impairment	12	(725)
Balance at the end of the period	(74,419)	(66,721)
Net book value		
At the beginning of the period	277,149	253,757
At the end of the period	271,543	275,542

11. INVESTMENTS IN ASSOCIATE AND JOINT VENTURE

Joint venture

During the nine months ended 30 September 2013 the Group issued loans to LLC "Bashneft-Polyus" in the amount of RUB 8,966 million at 8.0% per annum, which were expected to be repaid as the production on Trebs and Titov deposit move into an active stage. These loans were treated as an additional contribution to the joint venture as, in substance, they formed part of the Group's investment in Bashneft-Polyus.

Associate

On 10 July 2013, the Company's Board of Directors approved a plan to dispose of its investment in OJSC "Belkamneft". Accordingly, the Group's investment in Belkamneft was classified as an asset held for sale in accordance with IFRS 5 "Non-current Assets Held for Sale and Discontinued Operations". As a result, the carrying amount of the Group's investment in Belkamneft of RUB 22,221 has been adjusted to fair value less estimated cost to sell of RUB 6,469 million, with the difference between the carrying amount and fair value less cost to sell recognised as *Impairment of investment in associate*. The impairment is mainly the result of changes in the ownership structure of controlling shareholder of OJSC "Belkamneft" that decreased the Company's ability to exercise significant influence over Belkamneft. The sale of the Group's investment in Belkamneft was completed on 30 September 2013 for RUB 6,469 million.

BASHNEFT GROUP

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS FOR THE THREE AND THE NINE MONTHS ENDED 30 SEPTEMBER 2013 (UNAUDITED)

Millions of Russian roubles

12. FINANCIAL ASSETS

	30 September 2013	31 December 2012
Non-current investments		
Loans given, at amortised cost	21,212	20,912
Available-for-sale investment in OJSC "Bashkirian Power Grid Company" held at cost	7,406	7,406
Available-for-sale investment in OJSC "Ufaorgsintez" held at fair value (refer to note 13)	1,995	-
Derivative financial instruments	104	-
Deposits	-	1,000
Total	30,717	29,318
Current investments		
Loans given, at amortised cost	14,461	14,491
Deposits	2,214	4,136
Derivative financial instruments	146	-
Other financial assets	-	8
Total	16,821	18,635

13. DISPOSAL OF SUBSIDIARIES

Disposal of OJSC "United Petrochemical Company"

On 17 September 2013 the Group sold its 98% interest in UPC to Sistema for cash consideration of RUB 6,200 million. UPC is the holding company of the petrochemical assets of the Group, including Ufaorgsintez. The Group recognised a loss on sale of RUB 5,749 million, net of related income taxes in the amount of RUB 564 million, within additional paid-in capital in the consolidated statement of changes in equity being the result of a transaction with the Group's controlling shareholder. The Group's residual share in Ufaorgsintez (10.64% effectively held through Sistema-invest and 5.33% held through wholly owned subsidiary of the Group) was classified as available-for-sale investment (refer to note 12). The portion of loss in the amount of RUB 882 million is attributable to recognition of residual investment at fair value. The result of transaction is set out below:

	17 September 2013
Current assets	
Cash and cash equivalents	4,509
Trade and other receivables	703
Advances to suppliers and prepaid expenses	207
Taxes receivable	542
Inventories	1,771
Financial assets	2,296
Non-current assets	
Property, plant and equipment	13,651
Advances paid for acquisition of property, plant and equipment	58
Other non-current assets	145
Current liabilities	
Trade and other payables	(2,099)
Advances received	(360)
Taxes payable	(235)
Other current liabilities	(17)
Non-current liabilities	
Deferred tax liabilities	(1,568)
Other non-current liabilities	(91)
Net assets disposed of	19,512

BASHNEFT GROUP

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS FOR THE THREE AND THE NINE MONTHS ENDED 30 SEPTEMBER 2013 (UNAUDITED)

Millions of Russian roubles

	17 September 2013
Net assets disposed of	19,512
Non-controlling interests	(5,004)
	14,508
Fair value of the Group's 15.97% residual interest in Ufaorgsintez	1,995
Deferred tax liability recognised in respect of adjustment to fair value of residual interest in Ufaorgsintez	(213)
Income tax benefit recognised on disposal of UPC	777
Consideration receivable on disposal of UPC	6,200
Loss on disposal of UPC	5,749

Disposal of LLC "Bashneft-Service Assets"

On 30 September 2013 the Group sold its 100% interest in BNSA to Sistema for cash consideration of RUB 4,100 million. BNSA is the oilfield service holding company which comprised 11 oilfield service companies. These companies provide services related to drilling, current and major workover of wells, the manufacture of oilfield and mechanical equipment, transport and construction. The Group recognised a loss on sale of RUB 4,706 million, net of related income taxes in the amount of RUB 431 million, within additional paid-in capital in the consolidated statement of changes in equity, being the result of a transaction with the Group's controlling shareholder. The result of transaction is set out below:

	30 September 2013
Current assets	
Cash and cash equivalents	1,125
Trade and other receivables	6,115
Advances to suppliers and prepaid expenses	70
Taxes receivable	106
Inventories	1,265
Non-current assets	
Property, plant and equipment	7,502
Other non-current assets	2
Current liabilities	
Trade and other payables	(5,451)
Advances received	(12)
Taxes payable	(735)
Other current liabilities	(49)
Non-current liabilities	
Deferred tax liabilities	(338)
Other non-current liabilities	(363)
Net assets disposed of	9,237
Income tax benefit recognised on disposal of BNSA	431
Consideration receivable on disposal of BNSA	4,100
Loss on disposal of BNSA	4,706

BASHNEFT GROUP

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS FOR THE THREE AND THE NINE MONTHS ENDED 30 SEPTEMBER 2013 (UNAUDITED)

Millions of Russian roubles

14. SHARE CAPITAL

Treasury shares

At 30 September 2013, the Group included in treasury shares, 832,082 ordinary shares and 4,730,528 preferred shares which were disposed during the period, as it retains substantially all the risks and rewards of ownership related to these treasury shares. These shares were repurchased subsequent to the 30 September 2013.

In May-September 2012 the Group acquired treasury shares in the amount of RUB 11,070 million as a result of the obligatory buy-back of shares of the Company and subsidiaries participated in the Group reorganization.

Dividends and retained earnings

On 27 June 2013, the Company declared a dividend of RUB 24 per ordinary and preferred share amounting to RUB 5,324 million. As of 30 September 2013 dividends payable equalled RUB 217 million. A part of the dividend declared was attributable to the companies of the Group.

On 29 June 2012, the Company declared a dividend of RUB 99 per ordinary and preferred share amounting to RUB 20,274 million. As of 31 December 2012 dividends payable equalled RUB 224 million.

15. BORROWINGS

	30 September 2013		31 December 2012	
	Rate, %	Outstanding balance	Rate, %	Outstanding balance
Non-current liabilities				
Unsecured non-convertible bonds issued in December 2009	8.35%	5,269	8.35%	5,266
Unsecured non-convertible bonds issued in February 2012	9.00%	9,990	9.00%	9,985
Unsecured non-convertible bonds issued in February 2013	8.65%-8.85%	29,956	-	-
Unsecured fixed interest rate borrowings	8.85%-8.90%	19,982	8.90%-9.53%	59,928
Secured floating rate borrowings	-	-	Libor 1M+1.55%	3,022
Total		65,197		78,201
Current liabilities				
Unsecured non-convertible bonds issued in December 2011	9.35%	9,998	9.35%	9,990
Current portion of secured floating rate borrowings	Libor 1M+1.55%	4,427	Libor 1M+1.55%	4,534
Promissory notes	3.5%-5.0%	612	-	-
Current portion of unsecured fixed interest rate borrowings	-	-	7.75%	17,483
Total		15,037		32,007

BASHNEFT GROUP

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS FOR THE THREE AND THE NINE MONTHS ENDED 30 SEPTEMBER 2013 (UNAUDITED)

Millions of Russian roubles

Unsecured non-convertible bonds

In February 2013, the Group issued 10,000,000 non-convertible RUB-denominated bonds Series 06, 10,000,000 non-convertible RUB-denominated bonds Series 07, 5,000,000 non-convertible RUB-denominated bonds Series 08 and 5,000,000 non-convertible RUB-denominated bonds Series 09 at par value of RUB 1,000 maturing in 2023. The Series 06 and 08 have a coupon rate of 8.65% per annum and subsequent coupon rates are to be determined in February 2018. The Series 07 and 09 have a coupon rate of 8.85% per annum and subsequent coupon rates are to be determined in February 2020. When new coupon rates are determined bondholders have the right to redeem the bonds at par value.

Unused credit facilities

In May 2013, the Group entered into a pre-export finance term loan facility agreement with a group of international banks allowing borrowings of US-dollar 600 million. The facility has a three-year maturity and is to be repaid in equal monthly installments after a one-year grace period. The facility is secured with future revenue from the export of petroleum products for the duration of the facility. The interest rate is USD Libor 1M + 2.35%. At 30 September 2013, unused credit facility on this loan is US-dollar 600 million (RUB 19,407 million).

16. RELATED PARTIES

At 30 September 2013 and 31 December 2012, the Group had the following outstanding balances with related parties:

	Amount owed by related parties	
	30 September 2013	31 December 2012
OJSC Sistema-invest	29,337	23,920
Other Sistema Group companies	24,490	20,868
Associate and joint venture of the Group	875	1,617
Total	54,702	46,405

	Amount owed to related parties	
	30 September 2013	31 December 2012
Associate and joint venture of the Group	11,153	1,701
Other Sistema Group companies	5,327	537
OJSC Sistema-invest	654	-
Total	17,134	2,238

Amounts owed by related parties are unsecured and are expected to be net settled or settled in cash. No allowance for doubtful receivables in respect of amounts owed by related parties exists. No balances owed by related parties were past due but not impaired at the period end.

No expense has been recognised in the current period for bad debts in respect of amounts owed by related parties.

BASHNEFT GROUP

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS FOR THE THREE AND THE NINE MONTHS ENDED 30 SEPTEMBER 2013 (UNAUDITED)

Millions of Russian roubles

The Group entered into the following transactions with related parties:

	Three months ended 30 September		Nine months ended 30 September	
	2013	2012	2013	2012
OJSC Sistema-invest				
Dividends declared	-	-	702	2,160
Loans issued	-	415	10,024	415
Proceeds from repayment of loans issued	-	-	5,856	-
Interest income	158	182	650	561
Other Sistema Group companies and its affiliates				
Dividends declared	-	-	2,739	10,561
Sales of interests in subsidiaries (refer to note 13)	10,300	-	10,300	-
Loans issued	-	-	-	3,500
Cash placed on bank deposits	20	6,680	157	23,775
Proceeds from repayment of bank deposits	14	3,464	4,010	13,095
Sale of goods and services	130	952	380	2,307
Purchase of goods and services	2,489	4,101	10,703	9,896
Purchase of property	561	517	660	745
Interest income	372	377	934	1,228
Dividends received	-	-	118	-
Associate and joint venture of the Group				
Sale of goods and services	392	580	2,020	1,856
Sale of property	-	1,341	-	1,341
Construction services and purchase of property	1,300	230	9,330	230
Purchase of goods and services	860	805	1,669	1,291
Interest income	343	153	777	378

Charity

During the three months ended 30 September 2013, the Group transferred RUB 19 million (three months ended 30 September 2012: RUB 250 million) and during the nine months ended 30 September 2013, the Group transferred RUB 19 million (nine months ended 30 September 2012: RUB 602 million) as a donation to Charity Fund Sistema, a related party of the 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	
	2013	2012	2013	2012
Wages and salaries	215	194	636	485
Phantom shares granted	154	72	462	285
Termination bonuses	-	130	4	130
Total	369	396	1,102	900

At 30 September 2013, outstanding balances in respect of wages and salaries of key management personnel were RUB 717 million (31 December 2012: RUB 471 million).

BASHNEFT GROUP

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS FOR THE THREE AND THE NINE MONTHS ENDED 30 SEPTEMBER 2013 (UNAUDITED)

Millions of Russian roubles

17. 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;
- 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; and
- The fair value of derivative financial instruments is based on market quotes.

As at 30 September 2013 and 31 December 2012 management believes that the carrying values of all significant financial assets and financial liabilities recorded at amortised cost in the consolidated financial statements approximated their fair values, except for the unsecured non-convertible bonds with carrying value of RUB 55,283 million and fair value RUB 55,782 million (31 December 2012: carrying value of RUB 25,283 million and fair value RUB 25,477 million).

Management believes that the carrying value of financial assets and liabilities approximated their fair values due to (i) their short-term nature for current financial assets and liabilities, (ii) the fact that interest rates on loans receivable approximate current market rates for similar debt instruments, and (iii) the fact that the interest rates on long-term liabilities approximate the current market rates for similar instruments as the majority of loans and borrowings were obtained in 2011.

At 30 September 2013 assets and liabilities of the Group that are measured at fair value in accordance with the fair value hierarchy were as follows:

	Level 1	Level 2	Level 3	Total
Current assets				
Derivative financial instruments	-	146	-	146
Non-current assets				
Available-for-sale investment	-	1,995	-	1,995
Derivative financial instruments	-	104	-	104
Total	-	2,245	-	2,245

At 31 December 2012 the Group did not have any financial instruments that are measured at fair value subsequent to initial recognition.

18. COMMITMENTS AND CONTINGENCIES

Capital commitments

At 30 September 2013, contractual capital commitments of the Group amounted to RUB 11,243 million (31 December 2012: RUB 9,799 million). These commitments are expected to be settled during 2013-2015.

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 2062.

The amount of rental expenses for the three months ended 30 September 2013 were RUB 401 million (for the three months ended 30 September 2012: RUB 468 million) and for the nine months ended

BASHNEFT GROUP

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS FOR THE THREE AND THE NINE MONTHS ENDED 30 SEPTEMBER 2013 (UNAUDITED)

Millions of Russian roubles

30 September 2013 were RUB 1,209 million (for the nine months ended 30 September 2012: RUB 2,278 million).

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

	30 September 2013	31 December 2012
Due in one year	918	1,371
Due from one to five years	2,940	4,461
Thereafter	11,466	19,536
Total	15,324	25,368

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.

Legal contingencies

At 30 September 2013, unresolved legal claims against the Group amounted to RUB 27 million (31 December 2012: RUB 49 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.

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 a material adverse effect on the Group's operations and financial position.

Russian Federation economic environment

Emerging markets such as Russian Federation are subject to different risks than more developed markets, including economic, political and social, and legal and legislative risks. As has happened in the past, actual or perceived financial problems or an increase in the perceived risks associated with investing in emerging economies could adversely affect the investment climate in Russian Federation and the country's economy in general.

BASHNEFT GROUP

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS FOR THE THREE AND THE NINE MONTHS ENDED 30 SEPTEMBER 2013 (UNAUDITED)

Millions of Russian roubles

Laws and regulations affecting businesses in the Russian Federation continue to change rapidly. Tax, currency and customs legislation within the country are subject to varying interpretations, and other legal and fiscal impediments contribute to the challenges faced by entities currently operating in Russia. The future economic direction of the Russian Federation is heavily influenced by the economic, fiscal and monetary policies adopted by the government, together with developments in the legal, regulatory, and political environment.

The global financial system continues to exhibit signs of deep stress and many economies around the world are experiencing lesser or no growth than in prior years. Additionally there is increased uncertainty about the creditworthiness of some sovereign states in the Eurozone and financial institutions with exposure to the sovereign debt of such states. These conditions could slow or disrupt Russia economy, adversely affect the Group's access to capital and cost of capital for the Group and, more generally, its business, results of operations, financial condition and prospects.

Because Russia produces and exports large volumes of oil and gas, country's economy is particularly sensitive to the price of oil and gas on the world market which has fluctuated significantly during the last years.

19. EVENTS SUBSEQUENT TO THE REPORTING PERIOD

On 28 October 2013 the Board of Directors recommended to the General Meeting of Shareholders to approve dividend payments for the nine months of 2013 amounting to 199 roubles per ordinary registered share and per preferred registered share of the Company.

In May 2013 the Group signed a three-year pre-export term loan facility in the amount of USD 600 million with a group of international banks (refer to note 15). Interest rate was revised in October 2013 and is set at the level of USD Libor 1M +1.70%. The loan facility was drawn in full in November 2013.