



BASHNEFT
JOINT STOCK OIL COMPANY

**Management's analysis of the financial position and
operating results of Bashneft Group for the three months
ended 31 December and 30 September 2014 and for the years
ended 31 December 2014, 2013 and 2012**

This report contains an overview of the financial position and operating results of JSOC Bashneft and includes operating results of Bashneft Group for the year ended 31 December 2014. The terms “Bashneft”, “the Company”, “Bashneft Group” and “the Group” in various forms mean JSOC Bashneft and its subsidiaries. The financial position and operating results analysed in this document are consolidated data of 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 results of Bashneft Group may differ substantially from what is declared in our assumptions and forecasts as a result of a large number of factors. Such factors may include general economic conditions, Bashneft’s competitive environment, risks associated with operating in Russia, rapid technological and market changes in the Company’s areas of business, as well as many other risks directly related to Bashneft Group.

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

OVERVIEW

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

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

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

According to the results of an audit conducted by Miller & Lents Ltd. using international PRMS (SPE) criteria, the Group's proved oil reserves as of 31 December 2014 amounted to 304.2 million tonnes. Bashneft Group has a reserves-to-production ratio of 17 years. Proved and probable (2P) reserves totalled 397.8 million tonnes. Overall reserves of Bashneft Group (including possible reserves) amounted to 517.9 million tonnes. In 2014 production at the developed licence areas totalled 17.8 million tonnes.

Bashneft Group includes three refineries, which rank among the most technologically advanced facilities in Russia and are leaders in terms of refining depth and quality of petroleum products, and a petrochemical plant, OJSC Ufaorgsintez. The refineries' installed capacity totals 24.1 million tonnes of hydrocarbons per year.

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

In 2014 the Group's refineries processed 21.7 million tonnes of hydrocarbons. Refining depth averaged 84.8%, which is one of the best results among Russian vertically integrated oil companies.

In 2014 Bashneft Group sold 10.4 million tonnes of petroleum products and petrochemicals on the domestic market and exported 9.5 million tonnes of petroleum products and petrochemicals. The Group also sold 7.1 million tonnes of crude oil, including 5.8 million tonnes of exported crude oil.

As of 31 December 2014, Bashneft Group's retail network comprised 582 operating petrol stations and 220 partner petrol stations operating under the Bashneft brand name.

KEY FINANCIAL AND OPERATING RESULTS

	4Q		Change	12M			Change, 2014 vs. 2013	Change, 2013 vs. 2012
	2014	2014*		2014	2013*	2012*		
Revenue (million roubles)	164,566	162,861	1.0%	637,271	563,296	532,502	13.1%	5.8%
EBITDA (million roubles)	17,028	29,939	-43.1%	100,778	102,386	103,781	-1.6%	-1.3%
Adjusted EBITDA (million roubles) ¹	17,236	30,298	-43.1%	102,529	103,972	100,395	-1.4%	3.6%
Operating profit (million roubles) (Loss)/profit for the period attributable to the owners of the parent company (million roubles)	9,918	24,053	-58.8%	76,997	82,358	85,404	-6.5%	-3.6%
Net debt (million roubles)	113,637	127,577	-10.9%	113,637	74,375	78,018	52.8%	-4.7%
ROACE	n/a	n/a	n/a	22%	24%	25%	-2 p.p.	-1 p.p.
Oil production (thousand tonnes)	4,723	4,596	2.8%	17,808	16,073	15,437	10.8%	4.1%
Oil refining (thousand tonnes)	5,339	5,524	-3.4%	21,661	21,399	20,773	1.2%	3.0%

Major events in 2014:

- On 3 February 2014, the Extraordinary General Meeting of Shareholders (EGMS) of Bashneft approved the decision on reorganization approved by the Board of Directors on 17 December 2013. On 25 March 2014, the Board of Directors of Bashneft approved the report on the results of submission of buyback requests by shareholders who abstained or voted against the reorganization at the EGMS. In April 2014, as part of the reorganization of the Group, Bashneft bought back 2,724,173 own ordinary shares and 8,885,866 own preferred shares for a total cash consideration of 17,869 million roubles. The reorganization was completed on 6 May 2014, when the Company cancelled 38,139,925 ordinary shares and 8,885,866 preferred shares acquired earlier following the reorganization of CJSC Sistema-Invest and bought back from Bashneft's shareholders, respectively;
- In March 2014, the Group completed the acquisition of a 100% stake in LLC Promenergoresurs, which owns a network of five petrol stations operating under the Red Oil brand name and seven land plots located in Magnitogorsk, a large industrial city in the Chelyabinsk Region;
- In March 2014, the Group acquired 100% of outstanding stakes of LLC Burneftegaz, an exploration and production company based in the Tyumen Region, for a total cash consideration of 35,953 million roubles;
- In May 2014, the Group and OAO LUKOIL signed an agreement under which control over operational and financial activities of LLC Bashneft-Polyus was transferred to the Group;

¹Adjusted EBITDA excludes the impact of other income and expenses, which mainly include reserve accruals, financial results from sales of property, plant and equipment and inventories.

(million roubles)	4Q		Change	12M			Change, 2014 vs. 2013	Change, 2013 vs. 2012
	2014	2014*		2014	2013*	2012*		
EBITDA	17,028	29,939	-43.1%	100,778	102,386	103,781	-1.6%	-1.3%
Other operating expenses/(income), net	208	359	-42.1%	1,751	1,586	(3,386)	10.4%	n/a
Adjusted EBITDA	17,236	30,298	-43.1%	102,529	103,972	100,395	-1.4%	3.6%

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

- In May 2014, in accordance with the decision of the Federal Subsoil Resources Management Agency (Rosnedra), the licence for the R. Trebs and A. Titov oilfields was transferred by Bashneft to its subsidiary, LLC Bashneft-Polyus;
- In May 2014, JSOC Bashneft and LLC Lukoil-Komi set up a joint venture, LLC Vostok NAO Oil Company, to conduct geological exploration, prospecting and production of hydrocarbons at licence areas in the Nenets Autonomous District;
- In June 2014, the Annual General Meeting of Shareholders of Bashneft decided to pay dividends for 2013 amounting to 211 roubles per share;
- In June 2014, Bashneft started pilot operation of a catalytic cracking gasoline hydrotreater at the Bashneft-UNPZ Branch. The catalytic cracking gasoline hydrotreater is the latest large-scale project forming part of the programme to upgrade Bashneft's refining complex in Ufa; the project is aimed at ensuring compliance with the requirements of the Technical Regulations for fuel quality. The launch of the hydrotreater will enable the Group to completely switch over to producing ultra-low sulphur gasoline meeting Euro 5 emission standards, with sulphur content totalling less than 10 ppm (0.001%);
- In August 2014, Bashneft completed the acquisition of a network of petrol stations operating under the OPTAN brand name and comprising 91 petrol stations and 11 land plots in 12 regions of Russia for a total cash consideration of 7,715 million roubles;
- In September 2014, Bashneft gained control over 98% of shares of OJSC United Petrochemical Company (UPC) through termination of the agreement on the sale of these shares to JSFC Sistema concluded in September 2013;
- In October 2014, the Moscow Commercial Court upheld the claim of the Prosecutor General's Office of the Russian Federation for the recovery of JSOC Bashneft's shares owned by JSFC Sistema and CJSC Sistema-Invest in favour of the Russian Federation;
- In December 2014, Bashneft completed the acquisition of a 100% stake in LLC AKTAN, which owns a network comprising 17 petrol stations in the Samara Region;
- In December 2014, in accordance with the decision of the Moscow Commercial Court dated 30 October 2014 the 122,971,934 ordinary and 6,192,245 preferred shares of the Company representing 71.62% of the Company's charter capital previously owned by JSFC Sistema and CJSC Sistema-invest were transferred to Russian Federal Property Management Agency. As a result of the transfer effective control over the Company passed from JSFC Sistema to the Government of Russian Federation.

MAIN FACTORS INFLUENCING OPERATING RESULTS

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

- international and domestic market prices for crude oil and petroleum products;
- the rouble/dollar exchange rate and inflation rate;
- taxation and government regulation of tariffs of natural monopolies.

Prices for crude oil and petroleum products

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

	4Q		3Q	12M			Change, 2014 vs. 2013	Change, 2013 vs. 2012
	2014	2014	Change	2014	2013	2012		
Prices for crude oil and petroleum products²								
Brent crude oil (US\$ per barrel)	76.6	101.9	-24.8%	98.9	108.7	111.7	-9.0%	-2.7%
Brent crude oil (roubles per barrel)	3,632	3,689	-1.5%	3,802	3,461	3,472	9.9%	-0.3%
Urals crude oil (US\$ per barrel)	76.0	101.5	-25.1%	98.0	108.0	110.5	-9.3%	-2.3%
Urals crude oil (roubles per barrel)	3,603	3,675	-2.0%	3,763	3,441	3,437	9.4%	0.1%
Fuel oil (average FOB Rotterdam/CIF NWE) (US\$ per tonne)	398.3	552.8	-27.9%	523.4	591.4	630.9	-11.5%	-6.3%
Fuel oil (average FOB Rotterdam/CIF NWE) (roubles per tonne)	18,890	20,008	-5.6%	20,109	18,836	19,617	6.8%	-4.0%
Diesel fuel (average FOB Rotterdam/CIF NWE) (US\$ per tonne)	682.3	865.3	-21.1%	841.7	921.5	955.0	-8.7%	-3.5%
Diesel fuel (average FOB Rotterdam/CIF NWE) (roubles per tonne)	32,355	31,318	3.3%	32,341	29,350	29,693	10.2%	-1.2%
Naphtha (average FOB Rotterdam/CIF NWE) (US\$ per tonne)	611.7	880.2	-30.5%	834.0	902.5	934.8	-7.6%	-3.5%
Naphtha (average FOB Rotterdam/CIF NWE) (roubles per tonne)	29,008	31,855	-8.9%	32,044	28,744	29,067	11.5%	-1.1%
Vacuum gas oil (FOB NWE) (US\$ per tonne)	517.4	698.9	-26.0%	692.4	762.8	783.1	-9.2%	-2.6%
Vacuum gas oil (FOB NWE) (roubles per tonne)	24,538	25,294	-3.0%	26,603	24,292	24,350	9.5%	-0.2%
Russian market (roubles per tonne, with excises, net of VAT)³								
Crude oil	10,925	11,484	-4.9%	11,545	10,553	10,189	9.4%	3.6%
Fuel oil	8,545	9,910	-13.8%	9,260	8,869	9,288	4.4%	-4.5%
Diesel fuel (summer gasoil)	26,140	27,030	-3.3%	26,580	25,136	23,223	5.7%	8.2%
Diesel fuel (winter gasoil)	30,230	28,829	4.9%	29,083	28,273	25,460	2.9%	11.0%
High-octane gasoline	32,179	33,266	-3.3%	30,965	27,348	25,084	13.2%	9.0%
Low-octane gasoline	30,558	30,490	0.2%	29,208	25,900	23,429	12.8%	10.5%

²Source: Platts.

³Source: Kortess.



Rouble/dollar exchange rate and inflation rate

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

In addition, changes in the Consumer Price Index also affect the financial results of Bashneft Group; the inflation rate affects both capital and operating expenses of the Group.

	4Q	3Q	Change	12M			Change, 2014 vs. 2013	Change, 2013 vs. 2012
	2014	2014		2014	2013	2012		
Rouble inflation (Consumer Price Index) during the stated periods ⁴	4.8%	1.4%	3.4 p.p.	11.4%	6.5%	6.6%	4.9 p.p.	-0.1 p.p.
Rouble/dollar exchange rate at the end of the period	56.3	39.4	42.9%	56.3	32.7	30.4	72.2%	7.6%
Rouble/dollar exchange rate, period average	47.4	36.2	30.9%	38.4	31.8	31.1	20.8%	2.3%

Taxation

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

	4Q	3Q	Change	12M			Change, 2014 vs. 2013	Change, 2013 vs. 2012
	2014	2014		2014	2013	2012		
Mineral extraction tax (roubles per tonne)								
Crude oil	5,265	5,840	-9.8%	5,827	5,330	5,066	9.3%	5.2%
Export duty (US\$ per tonne)								
Crude oil	312.9	380.5	-17.8%	366.5	392.1	404.1	-6.5%	-3.0%
Gasoline	281.6	342.4	-17.8%	329.8	352.9	363.7	-6.5%	-3.0%
Light and medium distillates	206.5	251.1	-17.8%	241.9	258.8	266.7	-6.5%	-3.0%
Fuel oil	206.5	251.1	-17.8%	241.9	258.8	266.7	-6.5%	-3.0%
Export duty (roubles per tonne)								
Crude oil	14,840	13,772	7.8%	14,083	12,489	12,566	12.8%	-0.6%
Gasoline	13,355	12,393	7.8%	12,673	11,240	11,309	12.7%	-0.6%
Light and medium distillates	9,793	9,088	7.8%	9,293	8,242	8,293	12.8%	-0.6%
Fuel oil	9,793	9,088	7.8%	9,293	8,242	8,293	12.8%	-0.6%

The following excise rates have been set in the Russian Federation:

(roubles per tonne)	1 January – 30 June 2013	1 July – 31 December 2013	2014
Gasoline			
non-compliant with classes 3, 4, 5	10,100	10,100	11,110
compliant with class 3	9,750	9,750	10,725
compliant with class 4	8,560	8,960	9,916
compliant with class 5	5,143	5,750	6,450
Naphtha	10,229	10,229	11,252
Diesel fuel			
non-compliant with classes 3, 4, 5	5,860	5,860	6,446
compliant with class 3	5,860	5,860	6,446
compliant with class 4	4,934	5,100	5,427
compliant with class 5	4,334	4,500	4,767
Lubricants	7,509	7,509	8,260

⁴Source: Federal State Statistics Service (Rosstat).

The rates of excise on petroleum products in accordance with Federal Law No. 366-FZ dated 24.11.2014 are presented in the table below:

(roubles per tonne)	2015	2016	As from 1 January 2017
Gasoline			
non-compliant with classes 3, 4, 5 and compliant with classes 3 and 4	7,300	7,530	5,830
compliant with class 5	5,530	7,530	5,830
Naphtha	11,300	10,500	9,700
Diesel fuel	3,450	4,150	3,950
Lubricants	6,500	6,000	5,400

Mineral extraction tax

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

The Tax Code of the Russian Federation stipulates a reduced or zero mineral extraction tax rate for certain fields. Actual mineral extraction tax expenses for 2014 are 32% lower than the current mineral extraction tax rate due to the fact that:

- A number of Bashneft Group's fields have a level of depletion exceeding 80%;
- The R. Trebs and A. Titov fields are situated in the Nenets Autonomous District and exempt from payment of mineral extraction tax.

	4Q	3Q		12M			Change, 2014 vs. 2013	Change, 2013 vs. 2012
	2014	2014	Change	2014	2013	2012		
Mineral extraction tax								
Current mineral extraction tax rates (roubles per barrel)	721.2	800.0	-9.8%	798.2	730.1	694.0	9.3%	5.2%
Actual mineral extraction tax expenses (roubles per barrel)	485.5	548.2	-11.4%	538.8	514.9	508.1	4.6%	1.3%



OPERATING RESULTS

Oil and gas reserves

In accordance with the valuation of reserves performed by an independent reserves appraiser Miller and Lents, Ltd. under the Petroleum Resources Management System (PRMS) of the Society of Petroleum Engineers (SPE), changes in the amount of oil and gas reserves in 2014 are presented in the table below:

(million tonnes)	31 December			Change, 2014 vs. 2013	Change, 2013 vs. 2012
	2014	2013	2012		
Proved reserves	304.2	287.4	282.1	5.8%	1.9%
Probable reserves	93.6	74.2	74.3	26.1%	-0.1%
Total proved and probable reserves	397.8	361.6	356.4	10.0%	1.5%
Possible reserves	120.1	92.7	92.4	29.6%	0.3%
Total reserves	517.9	454.3	448.8	14.0%	1.2%

Exploration drilling and discovery of oilfields

	12M			Change, 2014 vs. 2013	Change, 2013 vs. 2012
	2014	2013	2012		
Exploration drilling (thousand metres) ⁵	22.4	27.7	20.3	-19.1%	36.5%
Number of exploration wells drilled	20	20	18	0.0%	11.1%
Number of oilfields discovered	-	1	1	-100.0%	0.0%
Number of oil and gas deposits discovered	18	7	11	157.1%	-36.4%

Production drilling

	12M			Change, 2014 vs. 2013	Change, 2013 vs. 2012
	2014	2013	2012		
Production drilling (thousand metres)	125.6	68.3	54.8	83.9%	24.6%
Number of wells drilled	50	23	32	117.4%	-28.1%
Average output of existing wells (tonnes per day)	3.1	3.0	2.9	3.3%	3.4%
including average output of new wells (tonnes per day)	32.8	53.0	40.6	-38.1%	30.5%
Water cut (%)	90.45%	90.41%	90.37%	0.04 p.p.	0.04 p.p.

In 2014 the amount of production drilling increased by 83.8% to 125.6 thousand metres. The number of wells drilled increased to 50 wells.

In 2013 the amount of production drilling increased by 24.7% to 68.3 thousand metres. At the same time, the number of wells drilled decreased to 23 wells due to an improvement in the efficiency of production drilling through selection of wells with a higher potential.

The main oilfields developed by the Group are the Arlanskoye, Ilishevskoye and Yugomashevskoye fields. The development of these oilfields began between 1939 and 1966. Peak production at these oilfields was achieved in 1967. As the oilfields have been exploited for a long time, the water cut is rather high.

⁵Including deepening for additional exploration.



Production

	4Q		3Q	12M			Change, 2014 vs. 2013	Change, 2013 vs. 2012
	2014	2014	Change	2014	2013	2012		
Oil production (thousand tonnes)	4,723	4,596	2.8%	17,808	16,073	15,437	10.8%	4.1%
including at the R. Trebs and A. Titov fields	256	211	21.3%	828	291	-	184.5%	n/a
Including at the fields of Burneftegaz Group	268	223	20.2%	665	-	-	n/a	n/a
Daily average production of crude oil (thousand barrels per day)	374.7	364.7	2.7%	360.5	321.5	307.9	12.1%	4.4%

An increase in crude oil production in 2014 and 2013 was due to higher efficiency of production drilling, the start of oil production at the R. Trebs field in 2013 and the acquisition of Burneftegaz Group in March 2014.

Refining

(thousand tonnes)	4Q		3Q	12M			Change, 2014 vs. 2013	Change, 2013 vs. 2012
	2014	2014	Change	2014	2013	2012		
Crude oil refining	5,339	5,524	-3.4%	21,661	21,399	20,773	1.2%	3.0%
Production of petroleum products								
Gasoline (including naphtha ⁶)	1,407	1,169	20.4%	5,005	4,876	4,780	2.6%	2.0%
Diesel fuel	1,860	1,880	-1.1%	7,489	7,479	7,233	0.1%	3.4%
Fuel oil	738	775	-4.8%	3,053	2,968	2,861	2.9%	3.7%
Vacuum gas oil	300	459	-34.6%	1,648	1,758	1,624	-6.3%	8.3%
Other	617	773	-20.2%	2,742	2,568	2,408	6.8%	6.6%
Total production of petroleum products	4,922	5,056	-2.7%	19,937	19,649	18,906	1.5%	3.9%
Refining depth (%)	84.6%	85.0%	-0.4 p.p.	84.8%	84.7%	84.9%	0.1 p.p.	-0.2 p.p.
Share of light products (%)	64.2%	59.3%	4.9 p.p.	61.1%	60.4%	59.7%	0.7 p.p.	0.7 p.p.
Petrochemical production	218	11	n/a	229	n/a	n/a	n/a	n/a

In the 4th quarter of 2014, refining decreased by 3.4% as compared to the 3rd quarter of 2014 due to a seasonal decline in demand for petroleum products.

In 2014 refining increased by 1.2% compared to 2013 and amounted to 21,661 thousand tonnes due to an improvement in market conditions and the launch of alkylation units and a catalytic cracking gasoline hydrotreater.

In 2013 the refining volume totalled 21,399 thousand tonnes, having increased by 3.0% as compared to 2012 due to major repairs at the Ufimsky refinery plant and repair works at Novoil in the 2nd quarter of 2012.

⁶Stable natural gasoline.



FINANCIAL RESULTS

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME FOR THE YEAR ENDED 31 DECEMBER 2014

(million roubles)	4Q			3Q			12M		
	2014	2014*	Change	2014	2013*	2012*	Change, 2014 vs. 2013	Change, 2013 vs. 2012	
Revenue									
Crude oil sales	40,738	42,022	-3.1%	159,488	113,655	113,043	40.3%	0.5%	
Petroleum products and petrochemicals sales	122,819	119,302	2.9%	471,296	438,783	406,428	7.4%	8.0%	
Other sales	1,009	1,537	-34.4%	6,487	10,858	13,031	-40.3%	-16.7%	
Total revenue	164,566	162,861	1.0%	637,271	563,296	532,502	13.1%	5.8%	
Operating expenses									
Export tariffs and excises	(58,016)	(47,866)	21.2%	(199,024)	(160,255)	(144,307)	24.2%	11.1%	
Cost of purchased crude oil, gas and petroleum products	(35,755)	(34,929)	2.4%	(139,838)	(126,438)	(124,857)	10.6%	1.3%	
Taxes other than income tax	(19,583)	(19,527)	0.3%	(77,771)	(69,405)	(66,709)	12.1%	4.0%	
Production and operating expenses	(20,584)	(18,674)	10.2%	(70,833)	(59,883)	(53,365)	18.3%	12.2%	
Transportation expenses	(8,853)	(7,276)	21.7%	(31,257)	(28,280)	(26,784)	10.5%	5.6%	
Depletion and depreciation	(7,110)	(5,886)	20.8%	(23,781)	(20,028)	(18,377)	18.7%	9.0%	
Selling, general and administrative expenses	(4,539)	(4,291)	5.8%	(16,019)	(15,063)	(16,085)	6.3%	-6.4%	
Other operating (expenses)/income, net	(208)	(359)	-42.1%	(1,751)	(1,586)	3,386	10.4%	n/a	
Total costs and expenses	(154,648)	(138,808)	11.4%	(560,274)	(480,938)	(447,098)	16.5%	7.6%	
Operating profit	9,918	24,053	-58.8%	76,997	82,358	85,404	-6.5%	-3.6%	
(Impairment)/ reversal of impairment of assets	(12,617)	46	n/a	(13,030)	(16,689)	(4,816)	-21.9%	n/a	
Finance income	1,554	676	129.9%	4,747	5,163	4,808	-8.1%	7.4%	
Finance costs	(3,983)	(3,800)	4.8%	(13,058)	(9,460)	(11,883)	38.0%	-20.4%	
Foreign exchange gains/(losses), net	4,077	(603)	n/a	1,299	1,094	107	18.7%	n/a	
Share in the (loss)/profit of associate and joint ventures, net of income tax	(175)	(1)	n/a	(117)	492	(361)	n/a	n/a	
Total other expenses, net	(11,144)	(3,682)	202.7%	(20,159)	(19,400)	(12,145)	3.9%	59.7%	
(Loss)/ profit before tax	(1,226)	20,371	n/a	56,838	62,958	73,259	-9.7%	-14.1%	
Income tax	(1,358)	(4,578)	-70.3%	(13,817)	(16,559)	(16,469)	-16.6%	0.5%	
(Loss)/ profit for the period	(2,584)	15,793	n/a	43,021	46,399	56,790	-7.3%	-18.3%	
Other comprehensive (loss)/ income net of income tax	(25)	-	n/a	(25)	37	(220)	n/a	n/a	
Total comprehensive (loss)/ income for the period	(2,609)	15,793	n/a	42,996	46,436	56,570	-7.4%	-17.9%	
(Loss)/profit for the period attributable to non-controlling interests	(305)	182	n/a	(125)	229	4,499	n/a	-94.9%	
(Loss)/profit for the period attributable to owners of the parent company	(2,279)	15,611	n/a	43,146	46,170	52,291	-6.5%	-11.7%	
Total comprehensive (loss)/income for the period attributable to non-controlling interests	(305)	182	n/a	(125)	231	4,482	n/a	-94.8%	
Total comprehensive (loss)/income for the period attributable to owners of the parent company	(2,304)	15,611	n/a	43,121	46,205	52,088	-6.7%	-11.3%	

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

REVENUE

In the 4th quarter of 2014, the revenue of Bashneft Group remained at the level reached in the 3rd quarter of 2014 and totalled 164,566 million roubles.

In 2014 revenue grew by 13.1% as compared to 2013 and totalled 637,271 million roubles. This change was related to an increase in crude oil sales volume and the growth of prices denominated in roubles.

In 2013 revenue increased by 5.8% as compared to 2012.

(million roubles)	4Q		3Q	Change	12M			Change, 2014 vs. 2013	Change, 2013 vs. 2012
	2014	2014			2014	2013	2012		
Revenue									
Export sales of crude oil outside the Customs Union*	33,561	35,583	-5.7%	135,469	101,555	108,534	33.4%	-6.4%	
Export sales of crude oil to the Customs Union*	2,006	2,047	-2.0%	8,284	6,457	-	28.3%	n/a	
Domestic sales of crude oil	5,171	4,392	17.7%	15,735	5,643	4,509	178.8%	25.1%	
Total sales of crude oil	40,738	42,022	-3.1%	159,488	113,655	113,043	40.3%	0.5%	
Export sales of petroleum products and petrochemicals outside the Customs Union*	50,106	52,126	-3.9%	217,692	207,650	155,023	4.8%	33.9%	
Export sales of petroleum products and petrochemicals to the Customs Union*	8,069	2,802	188.0%	14,303	11,836	39,511	20.8%	-70.0%	
Domestic sales of petroleum products and petrochemicals	64,644	64,374	0.4%	239,301	219,297	211,894	9.1%	3.5%	
<i>wholesale</i>	50,096	49,963	0.3%	186,469	173,628	170,929	7.4%	1.6%	
<i>retail</i>	14,548	14,411	1.0%	52,832	45,669	40,965	15.7%	11.5%	
Total sales of petroleum products and petrochemicals	122,819	119,302	2.9%	471,296	438,783	406,428	7.4%	8.0%	
Other sales	1,009	1,537	-34.4%	6,487	10,858	13,031	-40.3%	-16.7%	
Total revenue	164,566	162,861	1.0%	637,271	563,296	532,502	13.1%	5.8%	

(thousand tonnes)	4Q		3Q	Change	12M			Change, 2014 vs. 2013	Change, 2013 vs. 2012
	2014	2014			2014	2013	2012		
Sales volume									
Export sales of crude oil outside the Customs Union*	1,359	1,345	1.0%	5,170	4,128	4,479	25.2%	-7.8%	
Export sales of crude oil to the Customs Union	191	165	15.8%	666	522	-	27.6%	n/a	
Domestic sales of crude oil	457	360	26.9%	1,305	496	409	163.1%	21.3%	
Total sales of crude oil	2,007	1,870	7.3%	7,141	5,146	4,888	38.8%	5.3%	
Export sales of petroleum products and petrochemicals outside the Customs Union*	2,233	2,162	3.3%	8,926	8,697	6,429	2.6%	35.3%	
Export sales of petroleum products and petrochemicals to the Customs Union*	305	120	154.2%	622	696	2,123	-10.6%	-67.2%	
Domestic sales of petroleum products and petrochemicals	2,651	2,747	-3.5%	10,380	10,423	10,699	-0.4%	-2.6%	
<i>wholesale</i>	2,244	2,337	-4.0%	8,858	9,021	9,335	-1.8%	-3.4%	
<i>retail</i>	407	410	-0.7%	1,522	1,402	1,364	8.6%	2.8%	
Total sales of petroleum products and petrochemicals	5,189	5,029	3.2%	19,928	19,816	19,251	0.6%	2.9%	
Total sales of crude oil, petroleum products and petrochemicals	7,196	6,899	4.3%	27,069	24,962	24,139	8.4%	3.4%	

*The Customs Union is a union between Belarus, Kazakhstan, Armenia and Russia which involves a single customs territory where no customs duties or economic restrictions are imposed on trade between the members of the Union.



Export and domestic sales of crude oil

In the 4th quarter of 2014, revenue from export sales of crude oil amounted to 35,567 million roubles, which is 5.5% less than in the 3rd quarter of 2014. The reduction in revenue was caused by a price fall in global markets.

In 2014 revenue from export sales of crude oil totalled 143,753 million roubles, which is 33.1% more than in 2013. The increase in revenue was caused primarily by a 25.5% increase in exports volume of crude oil mainly due to the start of oil production at the R. Trebs field combined with a rise in rouble-denominated prices.

In 2013 revenue from export sales of crude oil decreased by 0.5% as compared to 2012 and totalled 108,012 million roubles, mainly due to a fall in prices on global markets.

Export sales of petroleum products and petrochemicals

(thousand tonnes)	4Q	3Q	Change	12M			Change, 2014 vs. 2013	Change, 2013 vs. 2012
	2014	2014		2014	2013	2012		
Diesel fuel	1,414	1,236	14.4%	5,162	4,946	5,023	4.4%	-1.5%
Vacuum gas oil	298	460	-35.2%	1,650	1,752	1,625	-5.8%	7.8%
Fuel oil	443	455	-2.6%	1,848	1,501	972	23.1%	54.4%
High-octane gasoline	247	59	n/a	527	715	503	-26.3%	42.1%
Naphtha	28	28	0.0%	126	124	120	1.6%	3.3%
Other	26	39	-33.3%	148	251	189	-41.0%	32.8%
Total sales of petroleum products	2,455	2,277	7.8%	9,460	9,289	8,432	1.8%	10.2%
Petrochemicals sales	83	5	n/a	88	104	120	-15.4%	-13.3%
Total sales of petroleum products and petrochemicals	2,538	2,282	11.2%	9,548	9,393	8,552	1.7%	9.8%

Export sales of petroleum products and petrochemicals outside the Customs Union

In the 4th quarter of 2014, revenue from export sales of petroleum products and petrochemicals outside the Customs Union decreased by 3.9% compared to the 3rd quarter of 2014 and totalled 50,106 million roubles. This reduction was related primarily to a fall in global prices.

In 2014 revenue from export sales of petroleum products and petrochemicals outside the Customs Union totalled 217,692 million roubles, which is 4.8% more than in 2013. The increase in revenue was caused by an increase in sales volume of diesel fuel and fuel oil to the most profitable export destinations and by a rise in global prices denominated in roubles.

In 2013 revenue from export sales of petroleum products and petrochemicals outside the Customs Union increased by 33.9% as compared to 2012 and totalled 207,650 million roubles. This increase was caused by a 35.3% increase in exports volume, which was related primarily to a shift of focus from sales to the Customs Union to exports outside the Customs Union.

Export sales of petroleum products and petrochemicals to the Customs Union

In the 4th quarter of 2014, revenue from sales of petroleum products and petrochemicals to the Customs Union totalled 8,069 million roubles, which is considerably higher than in the 3rd quarter of 2014. The increase in revenue from export sales of petroleum products and petrochemicals to the Customs Union was caused by a significant rise in sales volume of petroleum products (305 thousand tonnes in the 4th quarter of 2014 compared to 120 thousand tonnes in the 3rd quarter of 2014) due to a shift of focus in the markets.



In 2014 revenue from sales of petroleum products and petrochemicals to the Customs Union totalled 14,303 million roubles, up by 20.8% compared to 2013. The increase in revenue was caused by growth of prices denominated in roubles.

In 2013 revenue from export sales of petroleum products and petrochemicals to the Customs Union decreased by 70.0% as compared to 2012 and amounted to 11,836 million roubles. The reduction in revenue was primarily caused by a 67.2% decrease in sales volume due to a shift of focus from sales to the Customs Union.

Domestic sales of petroleum products and petrochemicals

(thousand tonnes)	4Q		3Q	Change	12M			Change, 2014 vs. 2013	Change, 2013 vs. 2012
	2014	2014			2014	2013	2012		
High-octane gasoline	1,115	1,032	8.0%	4,162	3,997	3,993	4.1%	0.1%	
Diesel fuel	502	604	-16.9%	2,214	2,475	2,459	-10.5%	0.7%	
Fuel oil	367	322	14.0%	1,215	1,477	1,872	-17.7%	-21.1%	
Low-octane gasoline	14	17	-17.6%	62	113	196	-45.1%	-42.3%	
Naphtha	-	19	-100.0%	81	27	-	n/a	n/a	
Other	494	738	-33.1%	2,472	2,057	1,835	20.2%	12.1%	
Total sales of petroleum products	2,492	2,732	-8.8%	10,206	10,146	10,355	0.6%	-2.0%	
Petrochemicals sales	159	15	n/a	174	277	344	-37.2%	-19.5%	
Total sales of petroleum products and petrochemicals	2,651	2,747	-3.5%	10,380	10,423	10,699	-0.4%	-2.6%	

Wholesale of petroleum products and petrochemicals

In the 4th quarter of 2014, revenue from wholesale of petroleum products and petrochemicals on the domestic market remained at the level reached in the 3rd quarter of 2014 and amounted to 50,096 million roubles.

In 2014 revenue from wholesale of petroleum products and petrochemicals on the domestic market totalled 186,469 million roubles, which is 7.4% more than in 2013. The increase in revenue was related to a rise in domestic prices.

In 2013 revenue from wholesale of petroleum products and petrochemicals on the domestic market increased by 1.6% as compared to 2012 and totalled 173,628 million roubles. The increase in revenue was caused by price growth.

Retail sales of petroleum products

In the 4th quarter of 2014, revenue from retail sales of petroleum products increased slightly to 14,548 million roubles compared to 14,411 million roubles in the 3rd quarter of 2014.

In 2014 revenue from retail sales of petroleum products increased by 15.7% compared to 2013 and totalled 52,832 million roubles, which was related primarily to an 8.6% increase in retail sales volume due to expansion of the network of petrol stations and the ongoing rebranding programme, as well as price growth on the domestic market.

In 2013 revenue from retail sales of petroleum products increased by 11.5% as compared to 2012 and totalled 45,669 million roubles. The increase in revenue from retail sales in 2013 was caused mainly by a rise in prices for petroleum products.



Other sales

Revenue from other sales includes revenue from sales of goods and services that are not related to the Group's core business, such as leasing of assets, sales of related products at petrol stations, as well as sales of other goods and services.

In the 4th quarter of 2014, other revenue amounted to 1,009 million roubles compared to 1,537 million roubles in the 3rd quarter of 2014.

In 2014 other revenue fell by 40.3% to 6,487 million roubles, which was caused mainly by the disposal of Bashneft-Service Assets Group.

In 2013 other revenue decreased by 16.7% to 10,858 million roubles, mainly because Bashneft discontinued operations related to transportation services.



COSTS AND EXPENSES

Production and operating expenses

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

(million roubles)	4Q		Change	12M			Change, 2014 vs. 2013	Change, 2013 vs. 2012
	2014	3Q 2014		2014	2013	2012		
Production and operating expenses								
Production	9,642	9,478	1.7%	35,512	30,129	24,277	17.9%	24.1%
Refining	7,964	6,232	27.8%	24,516	21,214	21,436	15.6%	-1.0%
Other (including petrochemicals and change in remaining WIP and finished products)	3,376	2,964	13.9%	10,805	8,540	7,652	26.5%	11.6%
Total production and operating expenses	20,584	18,674	10.2%	70,833	59,883	53,365	18.3%	12.2%

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

	4Q		Change	12M			Change, 2014 vs. 2013	Change, 2013 vs. 2012
	2014	3Q 2014		2014	2013	2012		
Crude oil production expenses (million roubles)	9,642	9,478	1.7%	35,512	30,129	24,277	17.9%	24.1%
Unit costs for production of crude oil (roubles per barrel)	279.7	282.5	-1.0%	273.2	256.8	215.4	6.4%	19.2%

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 enhanced oil recovery techniques.

In the 4th quarter of 2014, unit costs for production of crude oil decreased by 1.0% as compared to the 3rd quarter of 2014 and amounted to 279.7 roubles per barrel.

In 2014 unit costs for production of crude oil grew by 6.4% compared to 2013 and reached 273.2 roubles per barrel. This increase was related to additional geological and engineering operations performed in order to boost production, a rise in electricity prices and higher cost of services provided by oilfield service companies.

In 2013 unit costs for production of crude oil increased by 19.2% as compared to 2012 and amounted to 256.8 roubles per barrel. This increase was related to an increase in the amount of geological and engineering operations and seismic surveys, higher cost of services provided by contractors and a rise in heat and electricity prices, as well as a high cost of oil production at the initial stage of development of the R. Trebs field.

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

	4Q		Change	12M			Change, 2014 vs. 2013	Change, 2013 vs. 2012
	2014	3Q 2014		2014	2013	2012		
Refining expenses (million roubles)	7,964	6,232	27.8%	24,516	21,214	21,436	15.6%	-1.0%
Unit refining costs (roubles per barrel)	204.3	154.5	32.2%	155.0	135.8	141.4	14.1%	-4.0%

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 4th quarter of 2014, unit refining costs increased by 32.2% as compared to the 3rd quarter of 2014 and reached 204.3 roubles per barrel. This increase was caused by an increase in the amount of repairs, as well as heat and electricity consumption rise in winter.

In 2014 unit refining costs increased by 14.1% compared to 2013 and totalled 155.0 roubles per barrel, which was related mainly to an increase in expenditure on repairs.

In 2013 unit refining costs decreased by 4.0% compared to the level reached in 2012 and amounted to 135.8 roubles per barrel due to the shutdown of the Ufimsky refinery plant for scheduled major repairs and repair works at Novoil in the 2nd quarter of 2012; the reduction was partially offset by a rise in heat and electricity prices and inflation.

Cost of purchased crude oil, gas and petroleum products

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

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

(thousand tonnes)	4Q		3Q	12M			Change, 2014 vs. 2013	Change, 2013 vs. 2012
	2014	2014	Change	2014	2013	2012		
Purchased crude oil, gas, and gas condensate	2,991	2,888	3.6%	11,402	11,028	10,543	3.4%	4.6%
Purchased petroleum products	27	46	-41.3%	107	135	248	-20.7%	-45.6%
Total	3,018	2,934	2.9%	11,509	11,163	10,791	3.1%	3.4%

In the 4th quarter of 2014, the cost of purchased crude oil, gas and petroleum products rose by 2.4% to 35,755 million roubles. This change was caused mainly by an increase in sales volume of petroleum products.

In 2014 the cost of purchased crude oil, gas and petroleum products increased by 10.6% compared to 2013 and totalled 139,838 million roubles. This change was caused primarily by a rise in oil prices.

In 2013 the cost of purchased crude oil, gas and petroleum products rose by 1.3% as compared to 2012 and totalled 126,438 million roubles.

Transportation costs

In the 4th quarter of 2014, Bashneft Group's transportation costs increased by 21.7% as compared to the 3rd quarter of 2014 and totalled 8,853 million roubles, which was related primarily to an increase in exports volume of crude oil and petroleum products, as well as consolidation of UPC Group.

In 2014 Bashneft Group's transportation costs increased by 10.5% compared to 2013 and reached 31,257 million roubles, mainly due to an increase in exports volume of crude oil and petroleum products combined with expansion of the geographical footprint of the wholesale business on the domestic market.

In 2013 transportation costs of Bashneft Group increased by 5.6% as compared to 2012 and amounted to 28,280 million roubles. The increase in transportation costs was related primarily to an increase in exports volume of petroleum products.



Depletion and depreciation

(million roubles)	4Q		Change	12M			Change, 2014 vs. 2013	Change, 2013 vs. 2012
	2014	3Q 2014		2014	2013	2012		
Depletion and depreciation								
Exploration and production	3,043	2,644	15.1%	10,341	7,571	5,715	36.6%	32.5%
Refining, petrochemicals and marketing	3,857	3,057	26.2%	12,676	9,729	8,990	30.3%	8.2%
Other	210	185	13.5%	764	2,728	3,672	-72.0%	-25.7%
Total depletion and depreciation	7,110	5,886	20.8%	23,781	20,028	18,377	18.7%	9.0%

In the 4th quarter of 2014, depletion and depreciation costs amounted to 7,110 million roubles versus 5,886 million roubles in the 3rd quarter of 2014; this was related mainly to commissioning of property, plant and equipment, including a hydrogen production unit and field facilities at the R. Trebs field, as well as consolidation of the UPC Group.

In 2014 depletion and depreciation costs increased by 18.7% as compared to 2013 and totalled 23,781 million roubles primarily due to an increase in production and sales of crude oil, as well as to commissioning of new property, plant and equipment, the acquisition of Burneftegaz Group and consolidation of LLC Bashneft-Polyus.

Taxes other than income tax

(million roubles)	4Q		Change	12M			Change, 2014 vs. 2013	Change, 2013 vs. 2012
	2014	3Q 2014		2014	2013	2012		
Taxes other than income tax								
Mineral extraction tax	16,938	17,615	-3.8%	69,077	60,049	57,183	15.0%	5.0%
Social taxes	1,667	1,338	24.6%	5,920	6,894	6,938	-14.1%	-0.6%
Property tax	549	372	47.6%	1,713	1,590	1,700	7.7%	-6.5%
Other	429	202	112.4%	1,061	872	888	21.7%	-1.8%
Total taxes other than income tax	19,583	19,527	0.3%	77,771	69,405	66,709	12.1%	4.0%

In the 4th quarter of 2014, taxes other than income tax remained at the level reached in the 3rd quarter of 2014 and totalled 19,583 million roubles.

In 2014 taxes other than income tax increased by 12.1% compared to 2013 and amounted to 77,771 million roubles due to an increase in mineral extraction tax payments caused by a rise in the mineral extraction tax rate combined with production growth. At the same time, social taxes decreased due to the disposal of the UPC Group and Bashneft-Service Assets Group in 2013.

In 2013 taxes other than income tax increased by 4.0%, which was related mainly to a higher mineral extraction tax rate.



Export tariffs and excises

(million roubles)	4Q		3Q	12M			Change, 2014 vs. 2013	Change, 2013 vs. 2012
	2014	2014	Change	2014	2013	2012		
Export tariffs on crude oil	21,187	18,768	12.9%	73,406	51,859	56,030	41.5%	-7.4%
Export tariffs on petroleum products	27,214	19,182	41.9%	87,520	71,769	52,698	21.9%	36.2%
Excises	9,615	9,916	-3.0%	38,098	36,627	35,579	4.0%	2.9%
Total export tariffs and excises	58,016	47,866	21.2%	199,024	160,255	144,307	24.2%	11.1%

In the 4th quarter of 2014, the total amount of export tariffs on oil and petroleum products increased by 27.5% compared to the 3rd quarter of 2014 and totalled 48,401 million roubles due to an increase in exports volume of crude oil and petroleum products outside the Customs Union combined with a rise in rouble-denominated export duty rates.

In 2014 the total amount of export tariffs increased by 30.2% compared to 2013 due to an increase in exports volume of crude oil and petroleum products outside the Customs Union combined with a rise in rouble-denominated export duty rates.

In 2013 the total amount of export tariffs on oil and petroleum products increased by 13.7% as compared to 2012 due to an increase in exports volume of petroleum products outside the Customs Union.

In the 4th quarter of 2014, the total amount of excises decreased by 3.0% as compared to the 3rd quarter of 2014 and totalled 9,615 million roubles due to a reduction in domestic sales of petroleum products.

In 2014 the total amount of excises went up by 4.0% compared to 2013 due to an increase in excise rates.

In 2013 the total amount of excises increased by 2.9% as compared to 2012 mainly due to an increase in excise rates in 2013. This growth was partially offset by a reduction in sales of petroleum products in Russia, as well as an increase in the share of high-octane gasoline and diesel fuel of higher grades taxed at lower rates in the Group's output as the Group's own petrol stations switched over completely to selling Euro 5 fuel in July 2012.

CASH FLOW

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

(million roubles)	4Q		3Q	12M			Change, 2014 vs. 2013	Change, 2013 vs. 2012
	2014	2014	Change	2014	2013	2012		
Cash flow								
Net cash generated from operating activities	28,362	30,575	-7.2%	106,059	82,693	71,141	28.3%	16.2%
Net cash used in investing activities	(16,636)	(14,498)	14.7%	(85,192)	(25,860)	(39,160)	229.4%	-34.0%
Net cash (used in)/generated from financing activities	(6,826)	(37,934)	-82.0%	3,968	(60,208)	(40,383)	n/a	49.1%



Net cash generated from operating activities:

(million roubles)	4Q		3Q	12M			Change, 2014 vs. 2013	Change, 2013 vs. 2012
	2014	2014	Change	2014	2013	2012		
Operating cash flow before working capital changes	19,790	29,991	-34.0%	104,308	103,975	100,915	0.3%	3.0%
Movements in working capital less cash and cash equivalents	16,169	9,607	68.3%	28,650	2,060	(3,148)	n/a	n/a
Interest paid	(3,526)	(3,918)	-10.0%	(12,065)	(7,568)	(10,500)	59.4%	-27.9%
Income tax paid	(4,071)	(5,105)	-20.3%	(14,834)	(15,774)	(16,126)	-6.0%	-2.2%
Net cash generated from operating activities	28,362	30,575	-7.2%	106,059	82,693	71,141	28.3%	16.2%

In the 4th quarter of 2014, net cash generated from operating activities decreased by 7.2% as compared to the 3rd quarter of 2014 and totalled 28,362 million roubles. The main factor behind this change consisted in a decrease in operating profit.

In 2014 net cash generated from operating activities increased by 28.3% and totalled 106,059 million roubles, which was also related to movements in working capital less cash and cash equivalents, including those related to proceeds from a prepayment under a long-term contract for supply of petroleum products.

In 2013 net cash generated from operating activities increased by 16.2% as compared to 2012 and totalled 82,693 million roubles, which was related primarily to movements in working capital.

Net cash used in investing activities:

(million roubles)	4Q		3Q	12M			Change, 2014 vs. 2013	Change, 2013 vs. 2012
	2014	2014	Change	2014	2013	2012		
Capital expenditures	(16,701)	(12,832)	30.2%	(48,344)	(30,441)	(30,789)	58.8%	-1.1%
(Payments for acquisition)/ proceeds from disposal of financial assets, net	(54)	2,007	n/a	2,076	1,586	(8,743)	30.9%	n/a
Acquisition of subsidiaries, net of cash acquired	(1,064)	(4,135)	-74.3%	(41,283)	(152)	(846)	n/a	-82.0%
Other	1,183	(3,673)	n/a	2,359	3,147	1,218	-25.0%	158.4%
Net cash used in investing activities	(16,636)	(14,498)	14.7%	(85,192)	(25,860)	(39,160)	229.4%	-34.0%

In the 4th quarter of 2014, net cash used in investing activities totalled 16,636 million roubles, which was mainly spent on financing capital expenditures.

In 2014 net cash used in investing activities increased considerably compared to 2013 and totalled 85,192 million roubles; it was allocated primarily for financing capital expenditure and acquisition of Burneftegaz Group and OPTAN Group.

In 2013 net cash used in investing activities decreased by 34.0% as compared to 2012 and amounted to 25,860 million roubles. The main factor that contributed to this change consisted in proceeds from sale of financial assets.



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

(million roubles)	4Q		3Q	12M			Change, 2014 vs. 2013	Change, 2013 vs. 2012
	2014	2014	Change	2014	2013	2012		
Proceeds from borrowings	5,674	1,489	n/a	101,507	50,947	25,388	99.2%	100.7%
Repayment of borrowings	(12,478)	(3,826)	n/a	(44,051)	(70,762)	(23,766)	-37.7%	197.7%
Total issue and repayment of debt:	(6,804)	(2,337)	191.1%	57,456	(19,815)	1,622	n/a	n/a
Dividends paid	(22)	(35,597)	-99.9%	(35,619)	(42,497)	(18,344)	-16.2%	131.7%
Purchase of treasury shares	-	-	n/a	(17,869)	-	(15,697)	n/a	-100.0%
Payments for acquisition of non-controlling interests in subsidiaries	-	-	n/a	-	(513)	(7,964)	-100.0%	-93.6%
Other	-	-	n/a	-	2,617	-	-100.0%	n/a
Net cash (used in)/generated from financing activities	(6,826)	(37,934)	-82.0%	3,968	(60,208)	(40,383)	n/a	49.1%

In the 4th quarter of 2014, net cash used in financing activities decreased by 82.0% as compared to the 3rd quarter of 2014 and amounted to 6,826 million roubles due to dividend payments in the 3rd quarter of 2014.

In 2014 net cash generated from financing activities totalled 3,968 million roubles.

In 2013 net cash used in financing activities totalled 60,208 million roubles, which was related to optimization of the loan portfolio and dividend payments.

FINANCING AND DEBT

(million roubles)	31		30	31 December			Change, 2014 vs. 2013	Change, 2013 vs. 2012
	December	September	Change	2014	2013	2012		
Net debt calculation								
Short-term borrowings	28,553	27,227	4.9%	28,553	11,914	32,007	139.7%	-62.8%
Long-term borrowings	139,232	139,209	0.0%	139,232	78,902	78,201	76.5%	0.9%
Total debt	167,785	166,436	0.8%	167,785	90,816	110,208	84.8%	-17.6%
Cash and cash equivalents	(52,818)	(37,620)	40.4%	(52,818)	(16,395)	(20,104)	n/a	-18.4%
Short-term financial investments	(1,330)	(1,239)	7.3%	(1,330)	(46)	(12,086)	n/a	-99.6%
Adjusted net debt	113,637	127,577	-10.9%	113,637	74,375	78,018	52.8%	-4.7%

As of 31 December 2014, the Group's total debt in the form of short-term and long-term borrowings totalled 167,785 million roubles compared to 166,436 million roubles as of 30 September 2014.

As of 31 December 2014, the annual weighted average interest rate on loans stood at 8.3% compared to 7.9% as of 30 September 2014.



CAPITAL EXPENDITURES

(million roubles)	4Q		3Q	12M			Change, 2014 vs. 2013	Change, 2013 vs. 2012
	2014	2014	Change	2014	2013	2012		
Capital expenditures								
Upstream	12,272	9,841	24.7%	36,220	15,144	15,464	139.2%	-2.1%
incl. development of the R. Trebs and A. Titov fields	5,428	4,779	13.6%	17,388	4,108	880	n/a	n/a
Refining, petrochemicals and marketing	4,131	2,859	44.5%	11,614	13,582	14,298	-14.5%	-5.0%
Other	298	132	125.8%	510	1,715	1,027	-70.3%	67.0%
Total cash used in capital expenditures	16,701	12,832	30.2%	48,344	30,441	30,789	58.8%	-1.1%

In the 4th quarter of 2014, capital expenditures increased by 30.2% as compared to the 3rd quarter of 2014 and totalled 16,701 million roubles. First of all this raise relates to increase in capital expenditure in Upstream segment due to development of Sorovskoe and R. Trebs and A. Titov oilfields; as well as increase in Refining, petrochemicals and marketing segment due to the construction of technological lines of the elemental sulfur production, re-branding and consolidation of UPC Group.

In 2014 capital expenditures increased by 58.8% compared to the same period in 2013, primarily due to an increase in capital expenditure in the Upstream segment driven by expenditure on the development of the R. Trebs and A. Titov fields and the acquisition of Burneftegaz Group.

In 2013 capital expenditures remained at the level reached in 2012 and totalled 30,441 million roubles.

EVENT SUBSEQUENT TO THE REPORTING PERIOD

On 18 March 2015 an Extraordinary General Meeting of Shareholders of the Company approved redemption of the Company's authorized share capital by cancelling 2,724,173 ordinary shares with a par value of one rouble each which were accounted as treasury shares at 31 December 2014.

