



BASHNEFT
JOINT STOCK OIL COMPANY

Management's analysis of the financial position and operating results of Bashneft Group for the three months ended 30 September and 30 June 2013, and for the nine months ended 30 September 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 nine months ended 30 September 2013. The terms “Bashneft”, “the Company”, “Bashneft Group” and “the Group” in various forms mean JSOC Bashneft and its subsidiaries and special purpose entities. The financial position and operating results analysed in this document are consolidated data on Bashneft Group.

Certain statements in this report may contain assumptions or forecasts with respect to forthcoming events within Bashneft Group. Such statements may contain the words “is expected”, “is estimated”, “intends”, “will”, “could”, negations of these expressions 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.

Comparable financial data on production and operating expenses, depletion and depreciation, and capital expenditures were revised due to a change in the approach to disclosing segment information by separating operations of the Petrochemical complex and Service organizations into the Other segment.



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 193 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. 171 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 2012 amounted to 282.1 million tonnes. Bashneft Group has a reserves-to-production ratio of 18.3 years. Proved and probable (2P) reserves totalled 356.4 million tonnes. Overall reserves of Bashneft Group (including possible reserves) amounted to 448.8 million tonnes. For the nine months ended 30 September 2013, production at the developed licence areas totalled 11.9 million tonnes.

Bashneft Group includes three refineries. The Group has some of the most technologically advanced facilities in Russia that are leaders in terms of refining depth and quality of petroleum products. The refineries' installed capacity totals 24.1 million tonnes of hydrocarbons per year.

On 17 September 2013, Bashneft Group sold its 98% stake in the authorized share capital of OJSC United Petrochemical Company to JSFC Sistema. OJSC United Petrochemical Company is a holding company controlling petrochemical assets, including OJSC Ufaorgsintez.

For the nine months ended 30 September 2013, the Group's refineries processed 16.1 million tonnes of hydrocarbons. Refining depth averaged 85.4%, which is one of the best results among Russian vertically integrated oil companies.

For the nine months ended 30 September 2013, Bashneft Group produced about 12% of gasoline manufactured in Russia. In July 2012, the Group's own retail network completed full transition to sales of high-octane gasoline and diesel fuel complying with the Euro 5 standard.

For the nine months ended 30 September 2013, Bashneft Group sold 7.8 million tonnes of petroleum products and petrochemicals on the domestic market and exported 7.1 million tonnes of petroleum products and petrochemicals. The Group also sold 3.7 million tonnes of crude oil, including 3.4 million tonnes of exported crude oil.

As of 30 September 2013, Bashneft Group's retail network comprised 479 operating petrol stations and 279 partner petrol stations operating under the Bashneft brand name.

KEY FINANCIAL AND OPERATING RESULTS

	3Q		Change	9 months		
	2013	2013		2013	2012	Change
Sales revenue (million roubles)	156,571	134,903	16.1%	417,054	392,688	6.2%
EBITDA (million roubles)	32,216	22,730	41.7%	76,169	79,278	-3.9%
Adjusted EBITDA (million roubles) ¹	32,840	23,044	42.5%	76,981	76,119	1.1%
Operating profit (million roubles)	27,134	18,006	50.7%	61,952	65,072	-4.8%
Profit for the period attributable to the shareholders of the parent company (million roubles)	7,388	13,162	-43.9%	32,542	41,347	-21.3%
Net debt (million roubles)	57,504	77,839	-26.1%	57,504	70,651	-18.6%
Oil production (thousand tonnes)	4,132	3,924	5.3%	11,900	11,529	3.2%
Oil refining (thousand tonnes)	5,552	5,285	5.1%	16,053	15,397	4.3%

Major events during the nine months of 2013 that had an impact on the performance of Bashneft Group:

- in February 2013, the Group issued 10,000,000 series 06 non-convertible interest-bearing bonds, 10,000,000 series 07 non-convertible interest-bearing bonds, 5,000,000 series 08 non-convertible interest-bearing bonds and 5,000,000 series 09 non-convertible interest-bearing bonds with a par value of 1,000 roubles per bond and a maturity date in 2023. The coupon rate on series 06 and 08 bonds was set at 8.65% and will be revised in February 2018. The coupon rate on series 07 and 09 bonds was set at 8.85% and will be revised in February 2020, at which point the bondholders have the right to redeem the bonds at par value;
- in May 2013, Fitch Ratings confirmed Bashneft's long-term foreign and local currency issuer default ratings (IDR) at "BB". The outlook for the ratings was revised from "Stable" to "Positive";
- in May 2013, in order to reduce debt servicing costs and diversify its loan portfolio, Bashneft closed a transaction with a group of international banks to obtain a pre-export financing facility of up to US\$ 600 million. The facility has a three-year maturity and is to be repaid in equal monthly instalments after a one-year grace period. The facility is secured with future revenue from the export of petroleum products. The interest rate is USD Libor 1M + 2.35%. Bashneft plans to drawdown the loan during the availability period on an as-needed basis. As of 30 September 2013, the loan was not drawdown;
- in May 2013, Bashneft-Novoil Branch put a complex of sulphuric acid alkylation and sulphuric acid regeneration units into full operation. Alkylate gasoline (alkylate) produced by the sulphuric acid alkylation unit is used for manufacturing high-octane gasoline meeting Euro 5 emission standards in accordance with the Technical Regulations;

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

(million roubles)	3Q		Change	9 months		
	2013	2013		2013	2012	Change
EBITDA	32,216	22,730	41.7%	76,169	79,278	-3.9%
Other operating expenses/(income), net	624	314	98.7%	812	(3,159)	n/a
Adjusted EBITDA	32,840	23,044	42.5%	76,981	76,119	1.1%

- in June 2013, JSOC Bashneft held the Annual General Meeting of Shareholders. The Meeting of Shareholders decided to pay dividends for 2012 amounting to 24 roubles per ordinary registered share and per preferred registered share of JSOC Bashneft and elected a new membership of the Board of Directors of JSOC Bashneft;
- in August 2013, the Group started oil production at the R. Trebs and A. Titov fields in the Nenets Autonomous District;
- in September 2013, Bashneft Group sold its 98% stake in OJSC United Petrochemical Company and LLC Bashneft-Service Assets, which comprises enterprises providing services related to drilling, current and major workover of wells, manufacture of oilfield and mechanical equipment, transport and construction, to JSFC Sistema;
- in September 2013, Bashneft Group sold a 38.46% stake in the authorized share capital of OJSC Belkamneft to a group of private investors.

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 will result in a decline in the volume of Bashneft's economically viable hydrocarbon reserves for development and impact the economic efficiency of its geological exploration programmes and geological and engineering operations.

	3Q	2Q		9 months		
	2013	2013	Change	2013	2012	Change
Prices for crude oil and petroleum products ²						
Brent crude oil (US\$ per barrel)	110.3	102.4	7.7%	108.5	112.2	-3.3%
Brent crude oil (roubles per barrel)	3,617	3,238	11.7%	3,429	3,490	-1.7%
Urals crude oil (US\$ per barrel)	109.8	102.3	7.3%	107.9	111.1	-2.9%
Urals crude oil (roubles per barrel)	3,603	3,235	11.4%	3,412	3,455	-1.2%
Fuel oil (average FOB Rotterdam/CIF NWE) (US\$ per tonne)	595.1	580.3	2.6%	596.1	644.8	-7.6%
Fuel oil (average FOB Rotterdam/CIF NWE) (roubles per tonne)	19,518	18,345	6.4%	18,848	20,054	-6.0%
Diesel fuel (average FOB Rotterdam/CIF NWE) (US\$ per tonne)	929.2	868.5	7.0%	918.7	955.5	-3.9%
Diesel fuel (average FOB Rotterdam/CIF NWE) (roubles per tonne)	30,475	27,456	11.0%	29,048	29,716	-2.2%
Naphtha (average FOB Rotterdam/CIF NWE) (US\$ per tonne)	905.9	830.6	9.1%	893.9	933.2	-4.2%
Naphtha (average FOB Rotterdam/CIF NWE) (roubles per tonne)	29,712	26,259	13.1%	28,262	29,020	-2.6%
Vacuum gas oil (FOB NWE) (US\$ per tonne)	770.3	729.6	5.6%	769.2	798.6	-3.7%
Vacuum gas oil (FOB NWE) (roubles per tonne)	25,264	23,066	9.5%	24,320	24,835	-2.1%
Russian market (roubles per tonne, with excises, net of VAT)³						
Crude oil	11,325	9,756	16.1%	10,510	10,170	3.3%
Fuel oil	9,808	8,465	15.9%	8,881	9,259	-4.1%
Diesel fuel (summer gasoil)	25,022	24,207	3.4%	24,400	22,293	9.5%
Diesel fuel (winter gasoil)	28,405	26,523	7.1%	27,560	24,623	11.9%
High-octane gasoline	29,151	25,513	14.3%	26,930	24,448	10.2%
Low-octane gasoline	26,208	25,214	3.9%	25,478	23,249	9.6%

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.

² Source: Platts.

³ Source: Kortes.



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

	3Q	2Q	Change	9 months		
	2013	2013		2013	2012	Change
Rouble inflation (Consumer Price Index) during the stated periods ⁴	1.2%	1.6%	-0.4 p.p.	4.7%	5.2%	-0.5 p.p.
Rouble/dollar exchange rate at the end of the period	32.3	32.7	-1.2%	32.3	30.9	4.5%
Rouble/dollar exchange rate, period average	32.8	31.6	3.8%	31.6	31.1	1.6%

Taxation

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

	3Q	2Q	Change	9 months		
	2013	2013		2013	2012	Change
Mineral extraction tax (roubles per tonne)						
Crude oil	5,631	4,955	13.6%	5,282	5,086	3.9%
Export duty (roubles per tonne)						
Crude oil	12,569	12,005	4.7%	12,325	12,547	-1.8%
Gasoline	11,311	10,804	4.7%	11,092	11,292	-1.8%
Light and medium distillates	8,293	7,922	4.7%	8,134	8,280	-1.8%
Fuel oil	8,293	7,922	4.7%	8,134	8,280	-1.8%

In accordance with the amendments to tax legislation that became effective in December 2010, excise rates are increased and differentiated in accordance with requirements for fuel quality:

(roubles per tonne)	1 January – 30 June 2012	1 July – 31 December 2012	1 January – 30 June 2013	1 July – 31 December 2013	2014	2015
Gasoline						
non-compliant with classes 3, 4, 5	7,725	8,225	10,100	10,100	11,110	13,332
compliant with class 3	7,382	7,882	9,750	9,750	10,725	12,879
compliant with class 4	6,822	6,822	8,560	8,960	9,416	10,358
compliant with class 5	6,822	5,143	5,143	5,750	5,750	6,223
Naphtha	7,824	7,824	10,229	10,229	11,252	13,502
Diesel fuel						
non-compliant with classes 3, 4, 5	4,098	4,300	5,860	5,860	6,446	7,735
compliant with class 3	3,814	4,300	5,860	5,860	6,446	7,735
compliant with class 4	3,562	3,562	4,934	5,100	5,427	5,970
compliant with class 5	3,562	2,962	4,334	4,500	4,767	5,244
Lubricants	6,072	6,072	7,509	7,509	8,260	9,086

Mineral extraction tax

The mineral extraction tax rate is calculated based on Urals world prices in 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. A number of Bashneft Group's fields have a level of depletion exceeding 80%

⁴ Source: Federal State Statistics Service (Rosstat).



and are situated in the Nenets Autonomous District; as a result, actual mineral extraction tax expenses for the nine months ended 30 September 2013 are 29% lower than the current mineral extraction tax rate.

	3Q	2Q	Change	9 months		
	2013	2013		2013	2012	Change
Mineral extraction tax						
Current mineral extraction tax rates (roubles per barrel)	771.4	678.8	13.6%	723.6	696.7	3.9%
Actual mineral extraction tax expenses (roubles per barrel)	538.1	485.6	10.8%	514.1	510.1	0.8%

OPERATING RESULTS

Production

	3Q	2Q	Change	9 months		
	2013	2013		2013	2012	Change
Crude oil production (thousand tonnes)	4,132	3,924	5.3%	11,900	11,529	3.2%
including at the R. Trebs and A. Titov fields	120	-	n/a	120	-	n/a
Daily average production of crude oil (thousand barrels per day)	327.9	314.8	4.2%	318.2	307.2	3.6%

In the 3rd quarter of 2013, crude oil production increased by 5.3% as compared to the 2nd quarter of 2013 and totalled 4,132 thousand tonnes, which was related mainly to the start of production at the R. Trebs and A. Titov fields.

Refining

(thousand tonnes)	3Q	2Q	Change	9 months		
	2013	2013		2013	2012	Change
Crude oil refining	5,552	5,285	5.1%	16,053	15,397	4.3%
Production of petroleum products						
Gasolines (including SNG ⁵)	1,181	1,215	-2.8%	3,625	3,505	3.4%
Diesel fuel	1,957	1,914	2.2%	5,683	5,400	5.2%
Fuel oil	735	733	0.3%	2,170	2,098	3.4%
Vacuum gas oil	561	405	38.5%	1,356	1,195	13.5%
Other	726	648	12.0%	1,937	1,871	3.5%
Total production of petroleum products	5,160	4,915	5.0%	14,771	14,069	5.0%
Refining depth (%)	85.8%	86.0%	-0.2 p.p.	85.4%	85.2%	0.2 p.p.
Share of light products (%)	59.8%	61.2%	-1.4 p.p.	60.4%	59.8%	0.6 p.p.

In the 3rd quarter of 2013, crude oil refining volume increased by 5.1% as compared to the 2nd quarter of 2013 due to favourable conditions in the petroleum products market.

For the nine months ended 30 September 2013, refining increased by 4.3% compared to the same period in 2012 due to the scheduled major overhaul in the Ufimsky refinery plant and repair works at Novoil performed in the 2nd quarter of 2012.

⁵ Stable natural gasoline.



FINANCIAL RESULTS

PRELIMINARY CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME FOR THE THREE AND NINE MONTHS ENDED 30 SEPTEMBER 2013

(million roubles)	3Q		Change	9 months		
	2013	2Q 2013		2013	2012	Change
Revenue						
Crude oil sales	29,948	24,721	21.1%	81,747	84,592	-3.4%
Petroleum products and petrochemicals sales	123,847	107,275	15.4%	327,003	297,604	9.9%
Other sales	2,776	2,907	-4.5%	8,304	10,492	-20.9%
Total revenue	156,571	134,903	16.1%	417,054	392,688	6.2%
Operating expenses						
Export duties and excises	(42,303)	(38,558)	9.7%	(117,438)	(104,504)	12.4%
Cost of purchased crude oil, gas and petroleum products	(36,658)	(29,696)	23.4%	(95,059)	(91,651)	3.7%
Taxes other than income tax	(18,812)	(16,813)	11.9%	(52,129)	(50,526)	3.2%
Production and operating expenses	(14,970)	(15,301)	-2.2%	(42,730)	(38,753)	10.3%
Transportation expenses	(6,973)	(7,552)	-7.7%	(21,284)	(19,845)	7.3%
Depletion and depreciation	(5,082)	(4,724)	7.6%	(14,217)	(14,206)	0.1%
Selling, general and administrative expenses	(4,015)	(3,939)	1.9%	(11,433)	(11,290)	1.3%
Other operating (expenses)/income, net	(624)	(314)	98.7%	(812)	3,159	n/a
Total costs and expenses	(129,437)	(116,897)	10.7%	(355,102)	(327,616)	8.4%
Operating profit	27,134	18,006	50.7%	61,952	65,072	-4.8%
Loss on reclassification of investment in an associate to investments available for sale	(15,752)	-	n/a	(15,752)	-	n/a
Financial income	1,308	1,299	0.7%	3,635	3,654	-0.5%
Financial costs	(2,206)	(2,520)	-12.5%	(7,462)	(8,897)	-16.1%
Foreign exchange (loss)/gain, net	(148)	368	n/a	451	112	302.7%
Share in the (loss)/profit of associate and joint ventures after income tax	(328)	272	n/a	(185)	(1,261)	-85.3%
Total other expenses	(17,126)	(581)	n/a	(19,313)	(6,392)	202.1%
Profit before tax	10,008	17,425	-42.6%	42,639	58,680	-27.3%
Income tax	(2,496)	(4,157)	-40.0%	(9,837)	(13,143)	-25.2%
Profit for the period	7,512	13,268	-43.4%	32,802	45,537	-28.0%
Profit for the period attributable to non-controlling interests	124	106	17.0%	260	4,190	-93.8%
Profit for the period attributable to shareholders of the parent company	7,388	13,162	-43.9%	32,542	41,347	-21.3%



REVENUE

In the 3rd quarter of 2013, the revenue of Bashneft Group totalled 156,571 million roubles, which is 16.1% higher than in the 2nd quarter of 2013. The increase in revenue was caused both by a rise in sales of crude oil and petroleum products volume and by an increase in prices.

For the nine months ended 30 September 2013, revenue increased by 6.2% as compared to the same period in 2012 and totalled 417,054 million roubles. This change was caused by an increase in sales of petroleum products volume, as well as a rise in prices in the domestic market.

(million roubles)	3Q		Change	9 months		
	2013	2013		2013	2012	Change
Revenue						
Export sales of crude oil outside the Customs Union*	25,686	22,522	14.0%	73,183	81,021	-9.7%
Export sales of crude oil to the Customs Union*	2,018	1,846	9.3%	5,081	-	n/a
Domestic sales of crude oil	2,244	353	535.7%	3,483	3,571	-2.5%
Total sales of crude oil	29,948	24,721	21.1%	81,747	84,592	-3.4%
Export sales of petroleum products and petrochemicals outside the Customs Union*	59,600	51,540	15.6%	157,405	104,947	50.0%
Export sales of petroleum products and petrochemicals to the Customs Union*	2,212	3,840	-42.4%	8,310	36,340	-77.1%
Domestic sales of petroleum products and petrochemicals	62,035	51,895	19.5%	161,288	156,317	3.2%
<i>wholesale</i>	49,559	40,726	21.7%	127,889	125,946	1.5%
<i>retail</i>	12,476	11,169	11.7%	33,399	30,371	10.0%
Total sales of petroleum products and petrochemicals	123,847	107,275	15.4%	327,003	297,604	9.9%
Other sales	2,776	2,907	-4.5%	8,304	10,492	-20.9%
Total revenue	156,571	134,903	16.1%	417,054	392,688	6.2%

(thousand tonnes)	3Q		Change	9 months		
	2013	2013		2013	2012	Change
Sales volumes						
Export sales of crude oil outside the Customs Union*	993	975	1.8%	3,005	3,340	-10.0%
Export sales of crude oil to the Customs Union*	146	165	-11.5%	413	-	n/a
Domestic sales of crude oil	192	36	433.3%	305	324	-5.9%
Total sales of crude oil	1,331	1,176	13.2%	3,723	3,664	1.6%
Export sales of petroleum products and petrochemicals outside the Customs Union*	2,414	2,256	7.0%	6,571	4,381	50.0%
Export sales of petroleum products and petrochemicals to the Customs Union*	128	237	-46.0%	489	1,975	-75.2%
Domestic sales of petroleum products and petrochemicals	2,805	2,589	8.3%	7,806	8,024	-2.7%
<i>wholesale</i>	2,425	2,243	8.1%	6,774	7,008	-3.3%
<i>retail</i>	380	346	9.8%	1,032	1,016	1.6%
Total sales of petroleum products and petrochemicals	5,347	5,082	5.2%	14,866	14,380	3.4%
Total sales of crude oil, petroleum products and petrochemicals	6,678	6,258	6.7%	18,589	18,044	3.0%

*The Customs Union is a union between Belarus, Kazakhstan 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 3rd quarter of 2013, revenue from export sales of crude oil totalled 27,704 million roubles, which is 13.7% more than in the 2nd quarter of 2013. The increase in revenue was caused primarily by a rise in global oil prices.



For the nine months ended 30 September 2013, revenue from export sales of crude oil totalled 78,264 million roubles, which is 3.4% less than in the same period in 2012. This reduction in revenue was caused by a shift of focus from exporting crude oil outside the Customs Union to sales to countries forming part of the Customs Union starting from the 1st quarter of 2013.

Export sales of petroleum products and petrochemicals

(thousand tonnes)	3Q	2Q	Change	9 months		
	2013	2013		2013	2012	Change
Diesel fuel	1,246	1,345	-7.4%	3,781	3,687	2.5%
Vacuum gas oil	561	407	37.8%	1,356	1,197	13.3%
Fuel oil	417	409	2.0%	1,042	753	38.4%
High-octane gasoline	176	233	-24.5%	523	396	32.1%
Naphtha	36	2	n/a	73	92	-20.7%
Other	69	60	15.0%	181	141	28.4%
Total sales of petroleum products	2,505	2,456	2.0%	6,956	6,266	11.0%
Petrochemicals sales	37	37	0.0%	104	90	15.6%
Total sales of petroleum products and petrochemicals	2,542	2,493	2.0%	7,060	6,356	11.1%

Export sales of petroleum products and petrochemicals outside the Customs Union

In the 3rd quarter of 2013, revenue from export sales of petroleum products and petrochemicals outside the Customs Union totalled 59,600 million roubles, which is 15.6% more than in the 2nd quarter of 2013. This increase was caused both by a 7.0% rise in exports of petroleum products and petrochemicals volume (2,414 thousand tonnes in the 3rd quarter of 2013 versus 2,256 thousand tonnes in the 2nd quarter of 2013) and growth of global prices for petroleum products.

For the nine months ended 30 September 2013, revenue from export sales of petroleum products and petrochemicals outside the Customs Union increased by 50.0% as compared to the same period in 2012 and totalled 157,405 million roubles. This was related primarily to a shift of focus from sales of petroleum products to the Customs Union to export outside the Customs Union.

Export sales of petroleum products and petrochemicals to the Customs Union

In the 3rd quarter of 2013, revenue from export sales of petroleum products and petrochemicals to the Customs Union amounted to 2,212 million roubles, which is 42.4% less than in the 2nd quarter of 2013. The reduction in revenue from export sales of petroleum products and petrochemicals to the Customs Union was primarily caused by a fall in the volume of exports of petroleum products and petrochemicals to the Customs Union in the 3rd quarter.

For the nine months ended 30 September 2013, revenue from export sales of petroleum products and petrochemicals to the Customs Union decreased by 77.1% as compared to the same period in 2012 and amounted to 8,310 million roubles. The reduction in revenue was primarily caused by a shift of focus from sales to the Customs Union to export outside the Customs Union.



Domestic sales of petroleum products and petrochemicals

(thousand tonnes)	3Q	2Q	Change	9 months		
	2013	2013		2013	2012	Change
High-octane gasoline	1,021	1,027	-0.6%	2,992	2,987	0.2%
Diesel fuel	743	604	23.0%	1,824	1,864	-2.1%
Fuel oil	352	347	1.4%	1,151	1,318	-12.7%
Low-octane gasoline	31	27	14.8%	87	157	-44.6%
Other	561	488	15.0%	1,475	1,449	1.8%
Total sales of petroleum products	2,708	2,493	8.6%	7,529	7,775	-3.2%
Petrochemicals sales	97	96	1.0%	277	249	11.2%
Total sales of petroleum products and petrochemicals	2,805	2,589	8.3%	7,806	8,024	-2.7%

In the 3rd quarter of 2013, revenue from wholesale of petroleum products and petrochemicals on the domestic market increased by 21.7% as compared to the 2nd quarter of 2013 and amounted to 49,559 million roubles, which was caused both by a seasonal increase in sales volume by 8.1% and a rise in prices.

In the 3rd quarter of 2013, revenue from retail sales increased by 11.7% as compared to the 2nd quarter of 2013 and amounted to 12,476 million roubles, which was also due to a seasonal increase in retail sales volume on the domestic market by 9.8%.

For the nine months ended 30 September 2013, revenue from wholesale of petroleum products and petrochemicals on the domestic market increased by 1.5% as compared to the same period in 2012 and totalled 127,889 million roubles. The increase in revenue was due to higher prices on the domestic market.

For the nine months ended 30 September 2013, revenue from retail sales grew by 10.0% as compared to the same period in 2012 and totalled 33,399 million roubles. The increase in revenue was due to higher prices on the domestic market and a 1.6% increase in retail sales volume.

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 maintenance and drilling services provided to external customers.

In the 3rd quarter of 2013, other revenue fell by 4.5% as compared to the 2nd quarter of 2013 and totalled 2,776 million roubles.

For the nine months ended 30 September 2013, other revenue fell by 20.9% as compared to the same period in 2012, 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)	3Q		2Q	9 months		
	2013	2013	Change	2013	2012	Change
Production and operating expenses						
Production	8,202	7,044	16.4%	21,722	17,256	25.9%
Refining	4,980	5,151	-3.3%	15,181	15,894	-4.5%
Other (including change in WIP and finished goods)	1,788	3,106	-42.4%	5,827	5,603	4.0%
Total production and operating expenses	14,970	15,301	-2.2%	42,730	38,753	10.3%

* Comparable financial data on production and operating costs were revised as the petrochemical complex and oilfield service companies have been separated into the Other segment.

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

	3Q		2Q	9 months		
	2013	2013	Change	2013	2012*	Change
Crude oil production expenses (million roubles)	8,202	7,044	16.4%	21,722	17,256	25.9%
Unit costs for production of crude oil (roubles per barrel)	271.9	245.9	10.6%	250.1	205.0	22.0%

* Comparable financial data on production and operating costs were revised as oilfield service companies have been separated into the Other segment.

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 3rd quarter of 2013, unit costs for production of crude oil increased by 10.6% as compared to the 2nd quarter of 2013 and totalled 271.9 roubles per barrel; factors behind this increase included an increased seasonable volume of performed repair work and a high cost of oil production at the initial stage of development of the R. Trebs and A. Titov fields.

For the nine months ended 30 September 2013, unit costs for production of crude oil increased by 22.0% as compared to the same period in 2012 and amounted to 250.1 roubles per barrel due 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.

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

	3Q		2Q	9 months		
	2013	2013	Change	2013	2012*	Change
Refining expenses (million roubles)	4,980	5,151	-3.3%	15,181	15,894	-4.5%
Unit refining costs (roubles per barrel)	122.9	133.5	-7.9%	129.5	141.4	-8.4%

* Comparable financial data on production and operating costs were revised as the petrochemical complex has been separated into the Other segment.

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

In the 3rd quarter of 2013, unit refining costs decreased by 7.9% to 122.9 roubles per barrel due to the increased volume of refining as well as the lower cost of heat energy consumption.



For the nine months ended 30 September 2013, unit refining costs decreased by 8.4% as compared to the same period in 2012 and amounted to 129.5 roubles per barrel due to the shutdown of the Ufimsky refinery plant for scheduled major overhaul 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 the 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)	3Q		2Q	9 months		
	2013	2013	Change	2013	2012	Change
Purchased crude oil, gas, and gas condensate	2,991	2,803	6.7%	8,304	7,653	8.5%
Purchased petroleum products	38	36	5.6%	110	189	-41.8%
Total	3,029	2,839	6.7%	8,414	7,842	7.3%

In the 3rd quarter of 2013, the cost of purchased crude oil, gas and petroleum products rose by 23.4% as compared to the 2nd quarter of 2013 and amounted to 36,658 million roubles. This change was caused by an increase in refining and sales volume of petroleum products, as well as a rise in oil prices.

For the nine months ended 30 September 2013, the cost of purchased crude oil, gas and petroleum products increased by 3.7% as compared to the same period in 2012 and totalled 95,059 million roubles. This change was caused mainly by an increase in refining and sales volume of petroleum products.

Transportation costs

In the 3rd quarter of 2013, transportation costs fell by 7.7% as compared to the 2nd quarter of 2013 and totalled 6,973 million roubles, which was caused primarily by a change in the terms of delivery of petroleum products.

For the nine months ended 30 September 2013 transportation costs increased by 7.3%. This was caused mainly by a shift of focus to exporting petroleum products outside the Customs Union, as well as higher transportation tariffs.

Depletion and depreciation

(million roubles)	3Q		2Q	9 months		
	2013	2013*	Change	2013	2012*	Change
Depletion and depreciation						
Exploration and production	1,808	1,516	19.3%	4,787	4,460	7.3%
Refining and marketing	2,439	2,336	4.4%	6,906	6,871	0.5%
Other	835	872	-4.2%	2,524	2,875	-12.2%
Total depletion and depreciation	5,082	4,724	7.6%	14,217	14,206	0.1%

* Comparable financial data on depletion and depreciation were revised as the petrochemical complex and oilfield service companies have been separated into the Other segment.

In the 3rd quarter of 2013, depletion and depreciation costs increased by 7.6% as compared to the 2nd quarter of 2013 and totalled 5,082 million roubles due to the start of production at the R. Trebs and A. Titov fields and an overall increase in sales volumes.



For the nine months ended 30 September 2013, depletion and depreciation costs increased marginally by 0.1%.

Taxes other than income tax

(million roubles)	3Q		Change	9 months		
	2013	2Q 2013		2013	2012	Change
Taxes other than income tax						
Mineral extraction tax	16,492	14,085	17.1%	44,420	43,223	2.8%
Social taxes	1,742	2,035	-14.4%	5,784	5,374	7.6%
Property tax	393	397	-1.0%	1,196	1,278	-6.4%
Other	185	296	-37.5%	729	651	12.0%
Total taxes other than income tax	18,812	16,813	11.9%	52,129	50,526	3.2%

In the 3rd quarter of 2013, taxes other than income tax increased by 11.9% as compared to the 2nd quarter of 2013 and totalled 18,812 million roubles due to a higher mineral extraction tax rate.

For the nine months ended 30 September 2013, taxes other than income tax increased by 3.2% and totalled 52,129 million roubles, which was also related to a higher mineral extraction tax rate.

Export duties and excises

(million roubles)	3Q		Change	9 months		
	2013	2Q 2013		2013	2012	Change
Export duties on crude oil	12,600	11,730	7.4%	37,206	41,654	-10.7%
Export duties on petroleum products	19,872	18,082	9.9%	53,036	35,672	48.7%
Excises	9,831	8,746	12.4%	27,196	27,178	0.1%
Total export duties and excises	42,303	38,558	9.7%	117,438	104,504	12.4%

In the 3rd quarter of 2013, the total amount of export duties on oil and petroleum products increased by 8.9% as compared to the 2nd quarter of 2013 to 32,472 million roubles due to an increase in export sales volume of petroleum products to countries outside the Customs Union, as well as higher export duty rates.

In the 3rd quarter of 2013, the total amount of excises increased by 12.4% as compared to the 2nd quarter of 2013 to 9,831 million roubles due to an increase in sales volume in Russia, as well as higher excise rates. This growth was partially offset by an increase in the share of high-octane gasoline and diesel fuel of higher grades taxed at lower rates in the Group's output.

For the nine months ended 30 September 2013, the total amount of export duties on oil and petroleum products grew by 16.7% as compared to the same period in 2012 due to an increase in exports volume of petroleum products outside the Customs Union.

For the nine months ended 30 September 2013, the total amount of excises increased by 0.1% mainly due to an increase in excise rates in 2013. This growth was partially offset by a reduction in sales volume 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)	3Q	2Q	Change	9 months		Change
	2013	2013		2013	2012	
Cash flow						
Net cash generated from operating activities	36,175	19,816	82.6%	58,932	56,412	4.5%
Net cash used in investing activities	(8,599)	(10,615)	-19.0%	(26,840)	(43,637)	-38.5%
Net cash used in financing activities	(30,859)	(20,126)	53.3%	(36,289)	(18,290)	98.4%

Net cash generated from operating activities:

(million roubles)	3Q	2Q	Change	9 months		Change
	2013	2013		2013	2012	
Operating cash flow before working capital changes	33,107	23,972	38.1%	78,049	77,647	0.5%
Movements in working capital excluding cash and cash equivalents	10,361	1,220	749.3%	(2,247)	(2,055)	9.3%
Interest paid	(2,592)	(1,808)	43.4%	(6,447)	(7,402)	-12.9%
Income tax paid	(4,701)	(3,568)	31.8%	(10,423)	(11,778)	-11.5%
Net cash generated from operating activities	36,175	19,816	82.6%	58,932	56,412	4.5%

In the 3rd quarter of 2013, net cash flow generated from operating activities increased by 82.6% as compared to the 2nd quarter of 2013 and totalled 36,175 million roubles. The main factor behind this change consisted in an increase in operating cash flow before working capital changes, as well as movements in working capital excluding cash and cash equivalents.

For the nine months ended 30 September 2013, net cash flow generated from operating activities increased marginally by 4.5%.

Net cash used in investing activities:

(million roubles)	3Q	2Q	Change	9 months		Change
	2013	2013		2013	2012	
Capital expenditures	(8,707)	(8,462)	2.9%	(22,989)	(19,592)	17.3%
Proceeds from disposal /(payments for acquisition) of financial assets, net	590	2,369	-75.1%	1,058	(23,885)	n/a
Other	(482)	(4,522)	-89.3%	(4,909)	(160)	n/a
Net cash used in investing activities	(8,599)	(10,615)	-19.0%	(26,840)	(43,637)	-38.5%

In the 3rd quarter of 2013, net cash used in investing activities decreased by 19.0% as compared to the 2nd quarter of 2013 and amounted to 8,599 million roubles, which was mainly related to consideration received by Bashneft for the 38.46% stake in OJSC Belkamneft.

For the nine months ended 30 September 2013, net cash used in investing activities decreased by 38.5% as compared to the same period in 2012 and totalled 26,840 million roubles. The main factor that contributed to this change consisted in placement of available cash in deposit accounts in the 1st quarter of 2012.



Net cash used in financing activities:

(million roubles)	3Q		Change	9 months		
	2013	2013		2013	2012	Change
Proceeds from borrowings	-	500	-100.0%	31,450	25,388	23.9%
Repayments of borrowings	(26,218)	(20,196)	29.8%	(62,556)	(6,390)	879.0%
Total issue and repayment of debt:	(26,218)	(19,696)	33.1%	(31,106)	18,998	n/a
Dividends paid	(4,640)	(8)	n/a	(4,655)	(18,254)	-74.5%
Purchase of the Company's treasury shares	-	-	n/a	-	(11,070)	-100.0%
Payments for acquisition of non-controlling interests in subsidiaries and special purpose entities	(1)	(422)	-99.8%	(528)	(7,964)	-93.4%
Net cash (used in)/generated from financing activities	(30,859)	(20,126)	53.3%	(36,289)	(18,290)	98.4%

In the 3rd quarter of 2013, net cash used in financing activities amounted to 30,859 million roubles and was allocated mainly for repayment of loans and dividend payments.

FINANCING AND DEBT

(million roubles)	30		Change	30 September		
	September	30 June		2013	2012	Change
Net debt calculation						
Short-term borrowings	15,037	14,879	1.1%	15,037	33,587	-55.2%
Long-term borrowings	65,197	90,953	-28.3%	65,197	94,099	-30.7%
Total debt	80,234	105,832	-24.2%	80,234	127,686	-37.2%
Cash and cash equivalents	(15,988)	(19,649)	-18.6%	(15,988)	(23,027)	-30.6%
Short-term financial investments	(6,742)	(8,344)	-19.2%	(6,742)	(34,008)	-80.2%
Adjusted net debt	57,504	77,839	-26.1%	57,504	70,651	-18.6%

As of 30 September 2013, the total debt of the Group in the form of short-term and long-term borrowings amounted to 80,234 million roubles compared to 105,832 million roubles as of 30 June 2013. Available cash enabled early repayment of part of bank loans due in 2016 and 2019, leading to a decrease in leverage and interest expenses on the loan portfolio.

In the 1st quarter of 2013, the Group issued 10,000,000 series 06 non-convertible interest-bearing bonds, 10,000,000 series 07 non-convertible interest-bearing bonds, 5,000,000 series 08 non-convertible interest-bearing bonds and 5,000,000 series 09 non-convertible interest-bearing bonds with a par value of 1,000 roubles per bond and a maturity date in 2023. The coupon rate on series 06 and 08 bonds was set at 8.65% and will be revised in February 2018. The coupon rate on series 07 and 09 bonds was set at 8.85% and will be revised in February 2020, at which point the bondholders have the right to redeem the bonds at par value.

As of 30 September 2013, the annual weighted average interest rate on loans stood at 7.8% taking into account cross-currency interest-rate swap.



CAPITAL EXPENDITURES

(million roubles)	3Q	2Q	Change	9 months		Change
	2013	2013		2013	2012*	
Capital expenditures						
Exploration and production	4,948	4,340	14.0%	11,977	10,783	11.1%
incl. development of the R. Trebs and A. Titov fields ⁶	1,573	1,552	1.4%	3,550	880	330%
Refining and marketing	2,881	3,712	-22.4%	9,340	8,051	16.0%
Other	878	410	114.1%	1,672	758	120.6%
Total cash used in capital expenditures	8,707	8,462	2.9%	22,989	19,592	17.3%

* Comparable financial data on capital expenditure were revised as the petrochemical complex and oilfield service companies have been separated into the Other segment.

In the 3rd quarter of 2013, capital expenditures increased by 2.9% as compared to the 2nd quarter of 2013 and totalled 8,707 million roubles. This increase was related mainly to higher capital expenditure in the Exploration and Production segment, which was partially offset by completion of construction of a catalytic cracking gasoline hydrotreater in the Refining and Marketing segment.

For the nine months of 2013, capital expenditures increased by 17.3% as compared to the same period in 2012, which was related mainly to an increase in CAPEX in the Refining and Marketing segment, as well as higher capital expenditure on the development of the R. Trebs and A. Titov fields.

EVENTS SUBSEQUENT TO THE REPORTING PERIOD

On 28 October 2013, the Board of Directors recommended that the General Meeting of Shareholders should 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. 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.

⁶ Capital expenditures on development of the R. Trebs and A. Titov fields are partially included in JSOC Bashneft's financial statements as the Company holds the licence for these fields. LLC Bashneft-Polyus provides to JSOC Bashneft with construction services.