



**БАШНЕФТЬ**  
АКЦИОНЕРНАЯ НЕФТЯНАЯ КОМПАНИЯ

# Investor Day

October 12, 2015



Certain statements in this presentation may contain assumptions or forecasts with respect to forthcoming events within Bashneft. The words “expect”, “estimate”, “intend”, “will”, “could”, negations thereof and similar expressions identify forward-looking statements. We wish to caution you that these statements are only predictions and that actual events or results may differ materially. We do not intend to update these statements to reflect events and circumstances occurring after the above-mentioned date or to reflect the occurrence of unanticipated events. Many factors could cause the actual results of Bashneft Group to differ materially from those contained in our projections or forward-looking statements, including, among others, general economic conditions, our competitive environment, risks associated with operating in Russia, rapid technological and market changes in our industries, as well as many other risks specifically related to Bashneft Group.

## 1. PJSOC Bashneft: Successful and Transparent



Alexey Teksler

## 2. Strategy Overview



Alexander Korsik

## 3. Upstream



Sergey Zdolnik



Yury Krasnevsky

## 4. Downstream



Denis Stankevich

## 5. Financials



Alexey Lisovenko

## Video Address



Anthony Considine

## 6. Management incentive system



Alexander Korsik



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# 1. PJSOC Bashneft: Successful and Transparent

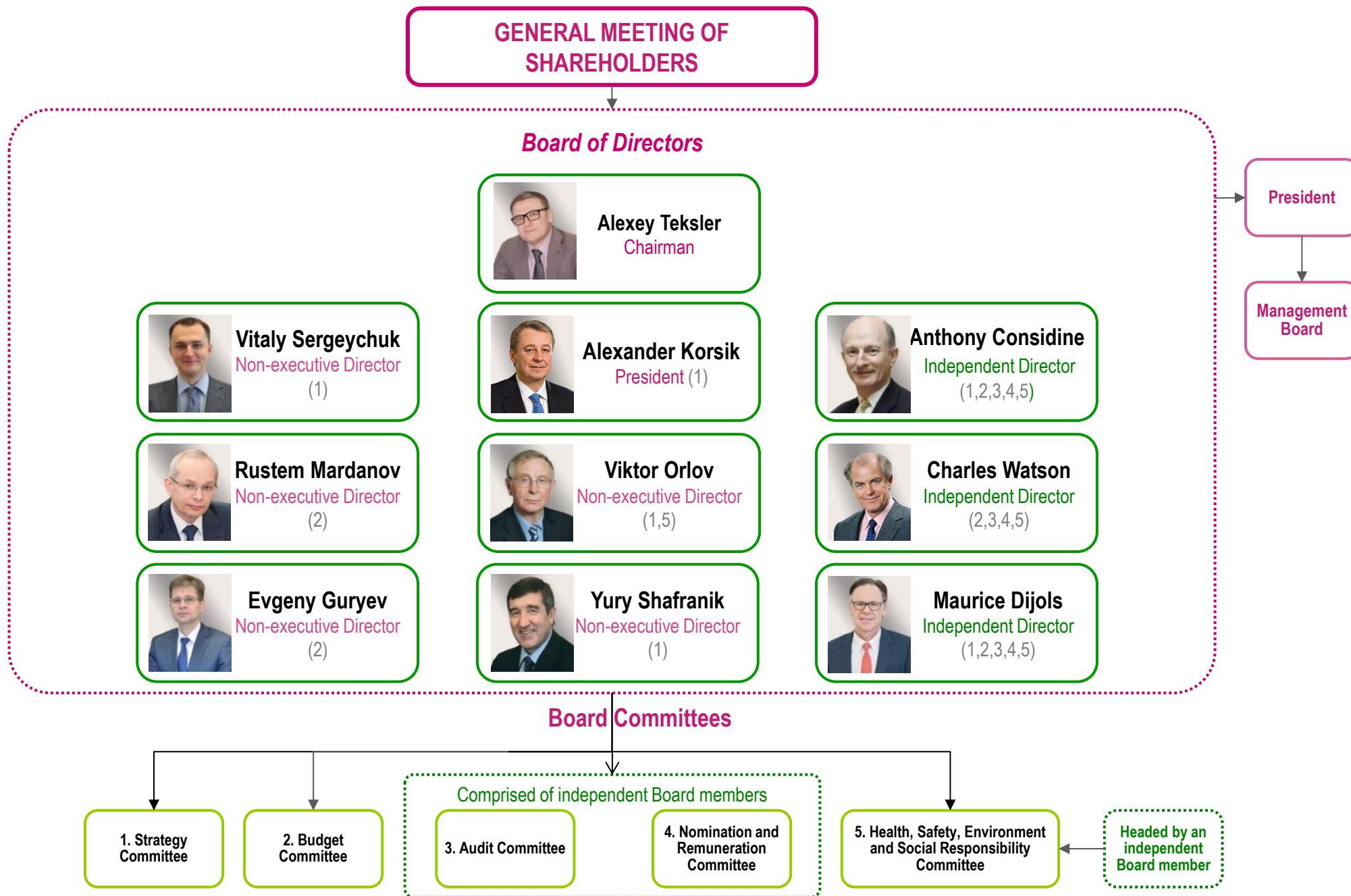


**Alexey Teksler**

Chairman of the Board of Directors of PJSOC Bashneft



-  Steady growth of operating and financial results;
-  Efficient brownfield management and successful development of assets in new operating regions;
-  High-technology refining complex with one of the highest shares of light products in Russia;
-  Flexible management of refining assets amid the introduction of the tax manoeuvre;
-  Stable financial position despite a deterioration in macroeconomic conditions;
-  Guaranteed sizeable dividend payments;
-  High corporate governance standards.



Note: Numbers in brackets represent membership in Committees: 1. the Strategy Committee; 2 the Budget Committee 3. the Audit Committee 4. the Nomination and Remuneration Committee 5. the Health, Safety, Environment and Social Responsibility Committee

## 2. PJSOC Bashneft: Strategy Overview



**Alexander Korsik**

President,  
Chairman of the Management Board of PJSOC Bashneft





# Highly Professional Management Team with Strong Track Record



**Alexander Korsik**  
President, Chairman of the Management Board  
20 years in the industry

- Previously First Vice President at Sibneft, President of ITERA and Chairman of the Board of RussNeft



**Mikhail Stavskiy**  
First Vice President, Upstream and Geology  
30 years in the industry

- Previously Vice President at Sibneft and Rosneft



**Denis Stankevich**  
First Vice President, Refining and Commerce  
16 years in the industry

- Previously Vice President for Economics and Finance, CFO of Bashneft



**Yuri Krasnevsky**  
Vice President, Geology and Development  
38 years in the industry

- Previously held senior positions in Geology and Development departments of Sibneft, Rosneft and TNK-BP



**Vitaly Kozlov**  
Vice President, Oil Refining and Petrochemicals  
14 years in the industry

- Previously held senior positions in TNK-BP Management



**Sergey Zdolnik**  
Vice President, Oil and Gas Production  
21 years in the industry

- Previously General Director of LLC RN-Yuganskneftegaz



**Kirill Kasterin**  
Vice President, Regional Sales  
17 years in the industry

- Previously held senior positions in sales of petroleum products at LUKOIL



**Igor Marchenko**  
Vice President, Strategy and Development  
21 years in the industry

- Previously Head of Strategic Development at Sibneft, Director for Development at ITERA and Vice President for Development at RussNeft



**Alexey Lisovenko**  
Vice President, Economics and Finance; CFO  
9 years in the industry

- Previously Deputy CFO, Chief Accountant at Bashneft; also held senior positions at JSFC Sistema.

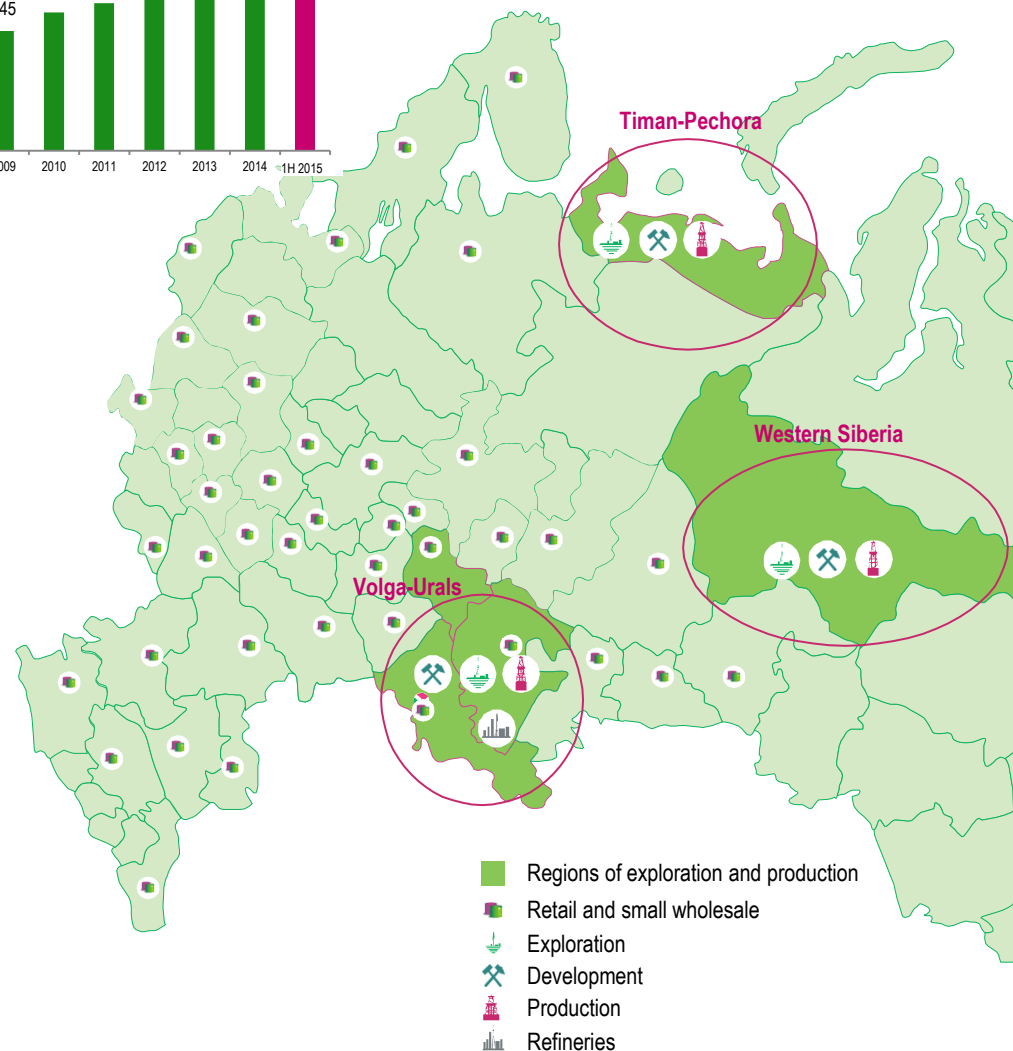
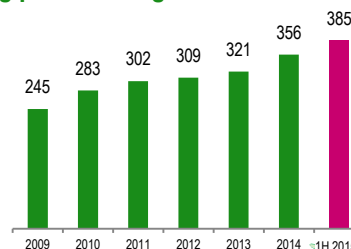




## Efficient vertically-integrated oil company, an industry leader in terms of shareholder returns

- Sizeable oil reserves and resource base in three major Russian oil-producing regions:
  - 3P reserves: 3.64 bn bbl (reserve-to-production ratio: 16.9 years).<sup>(1)</sup> Reserves are located mainly in the Volga-Urals Province (Bashkortostan);
  - Total (3P) reserves of the R. Trebs and A. Titov fields as of December 31, 2014: 271.7 mmbbl;
  - Total (3P) reserves of the Sorovskoye field in Western Siberia are estimated at 230.1 mmbbl.
- A large asset portfolio, including in Timan-Pechora and Western Siberia, drives short- and medium-term production growth;
- In 1H 2015, oil production totalled 9.5 mmt (384.8 kbpd); +12.4% year on year;
- One of the leading refining assets in Russia: Nelson Complexity Index of 8.93; 100% of diesel fuel output meets the Euro 5 standard;
- In 1H 2015, adjusted EBITDA totalled RUB 62.6 bn<sup>(2)</sup>, while net profit amounted to RUB 29.3 bn;
- High shareholder returns and solid cash flow generation:
  - Dividend payout ratio for 2014 at 46%.

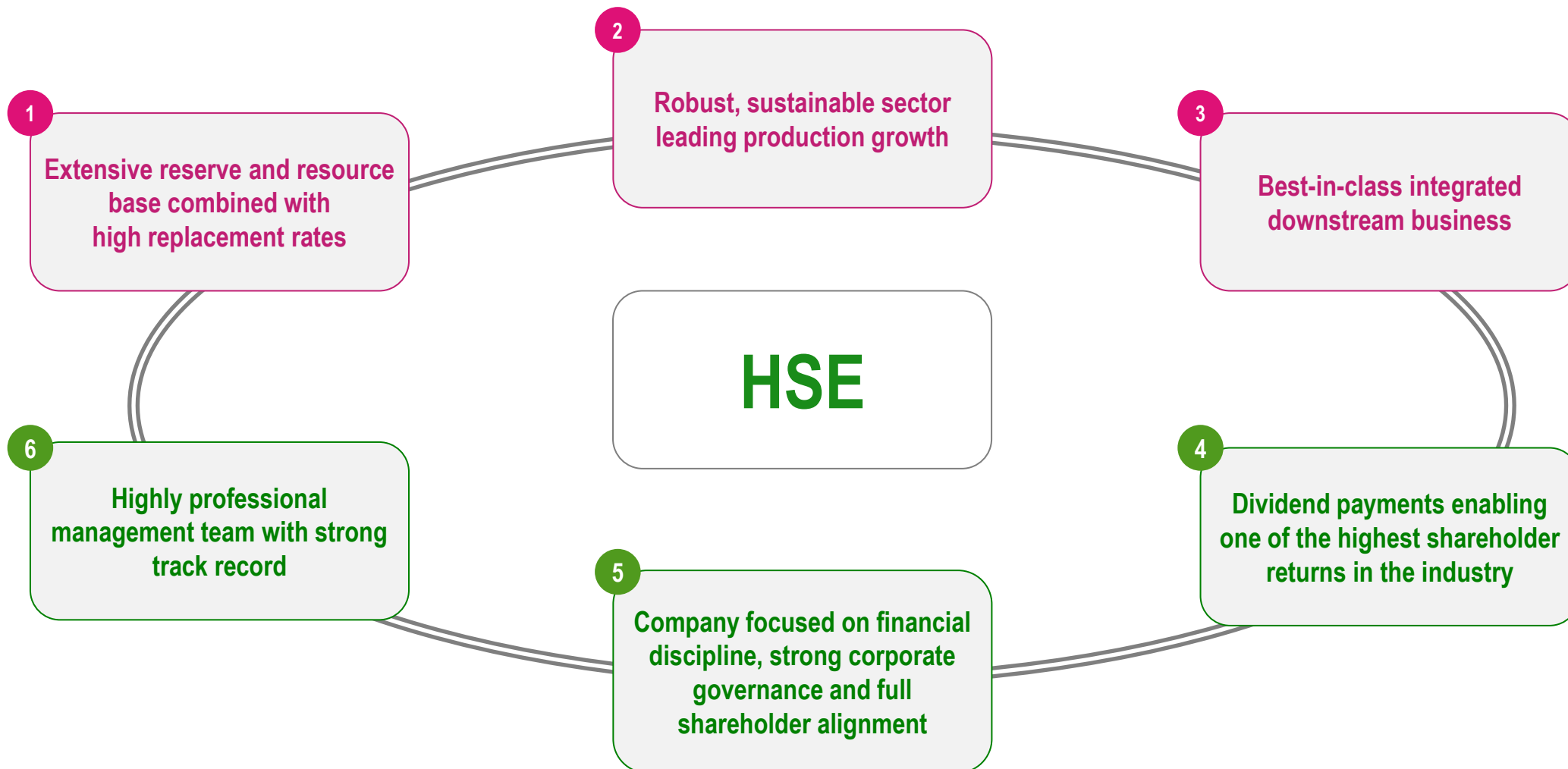
Strong production growth since 2009, kbpd



1. Data by Miller & Lents as of 2014 YE

2. Hereinafter, adjusted EBITDA is calculated as profit for the period and total comprehensive income plus tax plus/(minus) the share of loss/(profit) of associates and joint ventures, net of income tax, minus foreign exchange gain, plus finance costs, minus finance income and plus depletion and depreciation

## High quality, high return asset base

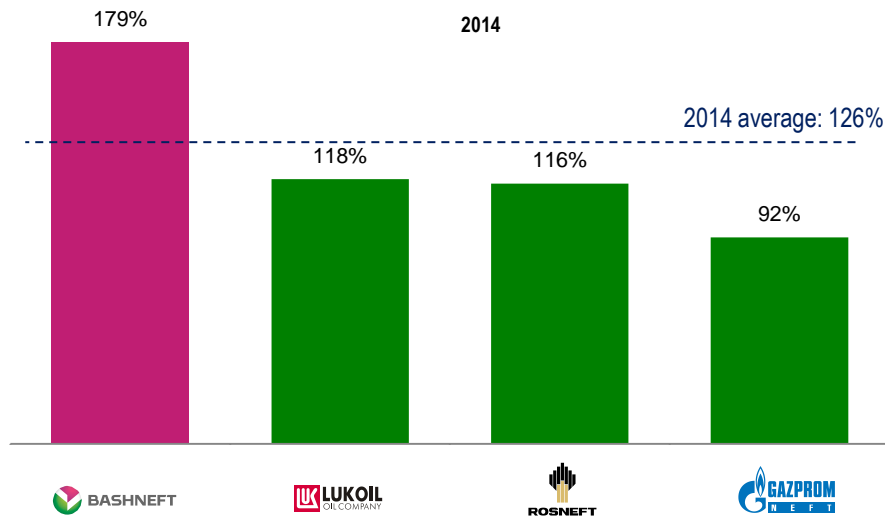


## Core company fundamentals

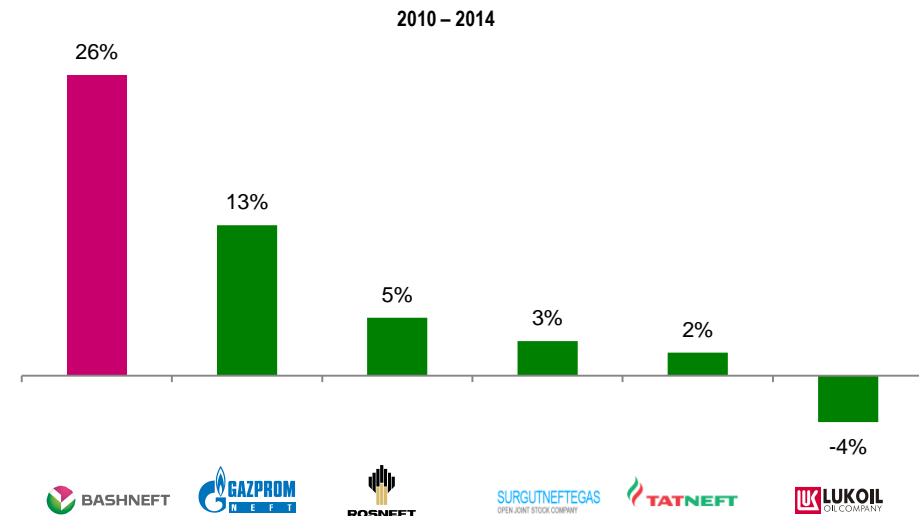
# High Quality / High Return Asset Base

Strong production growth and reserve replacement in Bashkortostan. The Trebs and Titov fields and assets of Burneftegaz drive medium-term production growth. Strong performance of the downstream business.

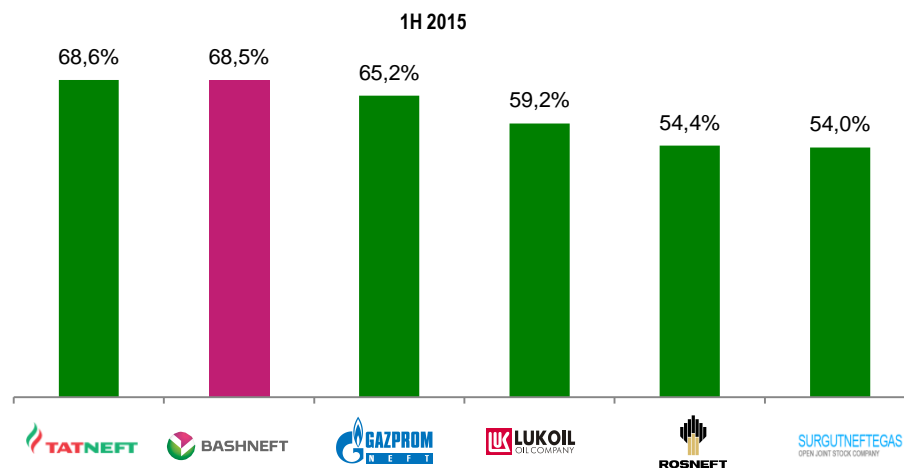
### Reserve replacement ratio (1P)<sup>(1)</sup>



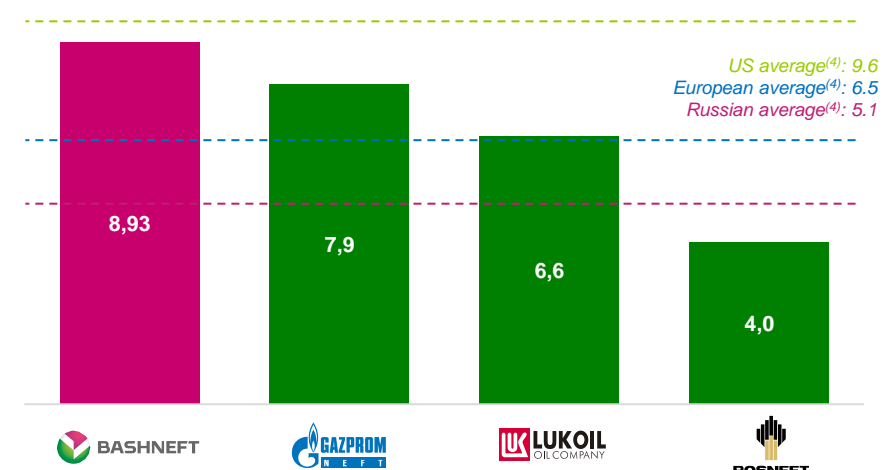
### Oil production growth<sup>(2)</sup>



### Share of light products



### Nelson Complexity Index <sup>(3)</sup>



1. Calculated as (Proved oil reserves as of December 31, 2014 - Proved oil reserves as of December 31, 2013 + Oil production in 2014) / Oil production in 2014. Lukoil and Gazprom Neft according to the analyst databook. Rosneft according to the Annual Report (SEC);

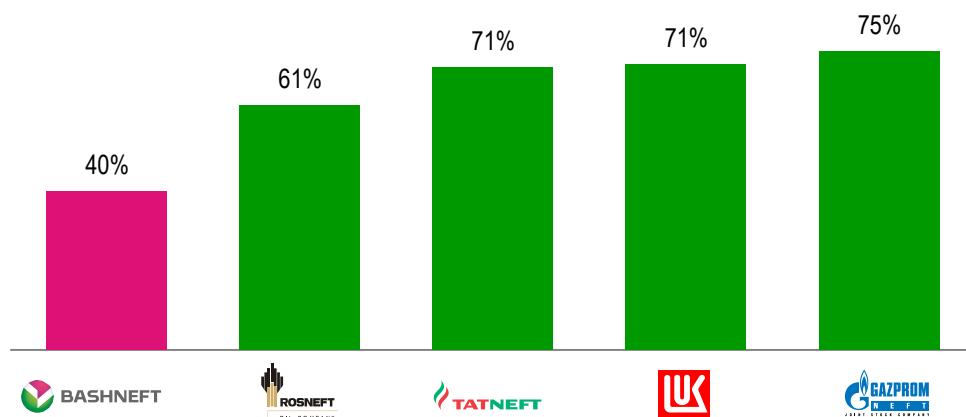
2. Source: Ministry of Energy of Russia (CDU TEK), company data

3. Bashneft as of 2Q 2015, Gazprom Neft and Lukoil – own refineries in Russia as of 2014 YE, Rosneft as of 2012 YE

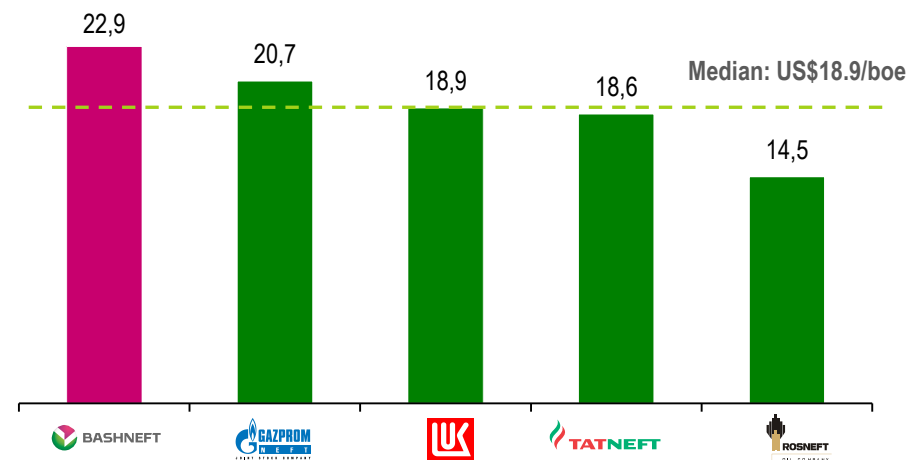
4. Oil & Gas Journal, 2011

Consistently high shareholder returns reflect our commitment to creating shareholder value for all shareholders

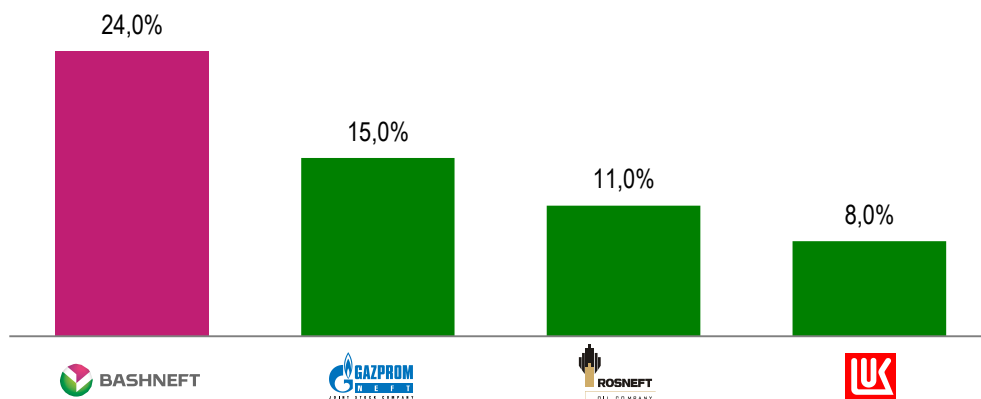
CAPEX / Operating cash flow (average for 2010-2014)



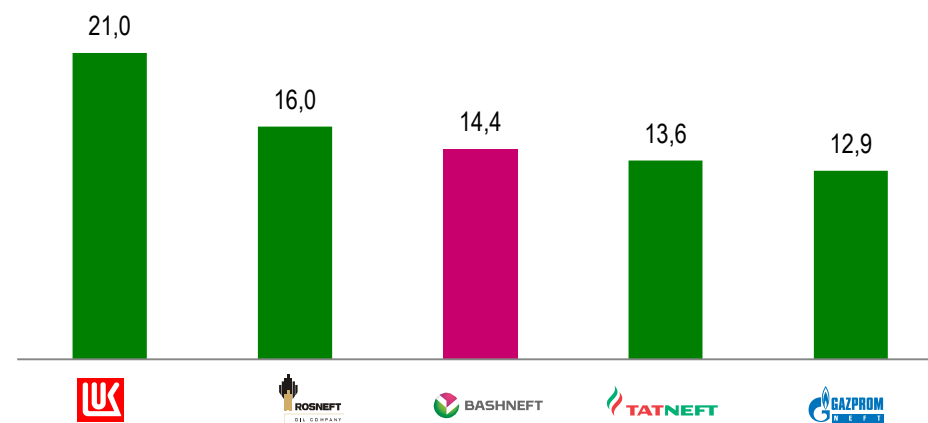
High profitability in the industry (average for 2013-2014), US\$/boe<sup>(1)</sup>



Sector-leading return on average capital employed (RoACE), 2014



One of the leaders in terms of upstream profitability (average for 2013-2014), US\$/bb<sup>(2)</sup>



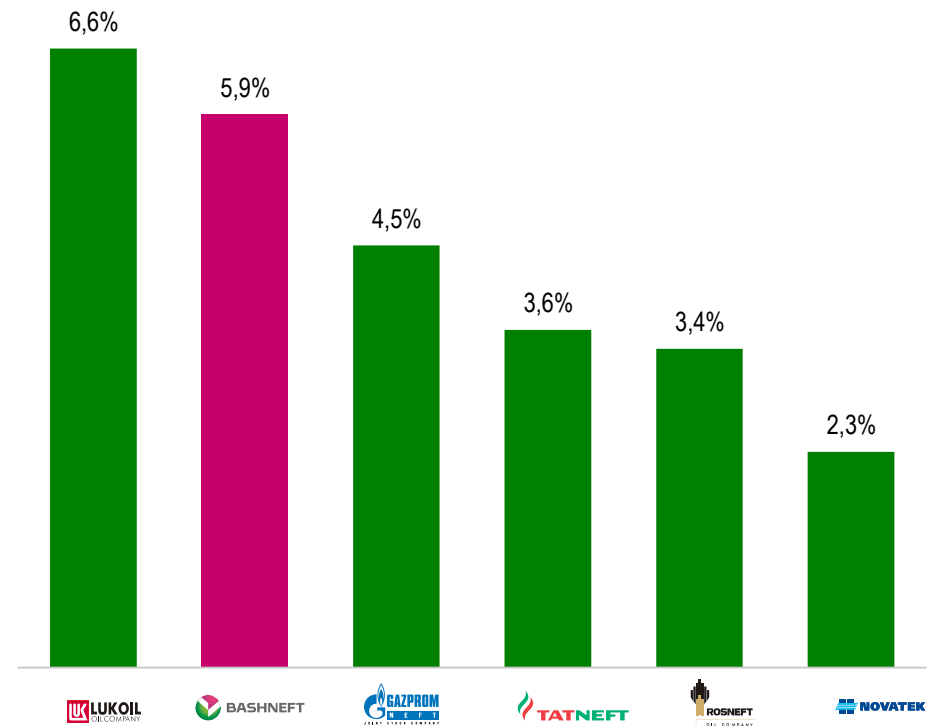
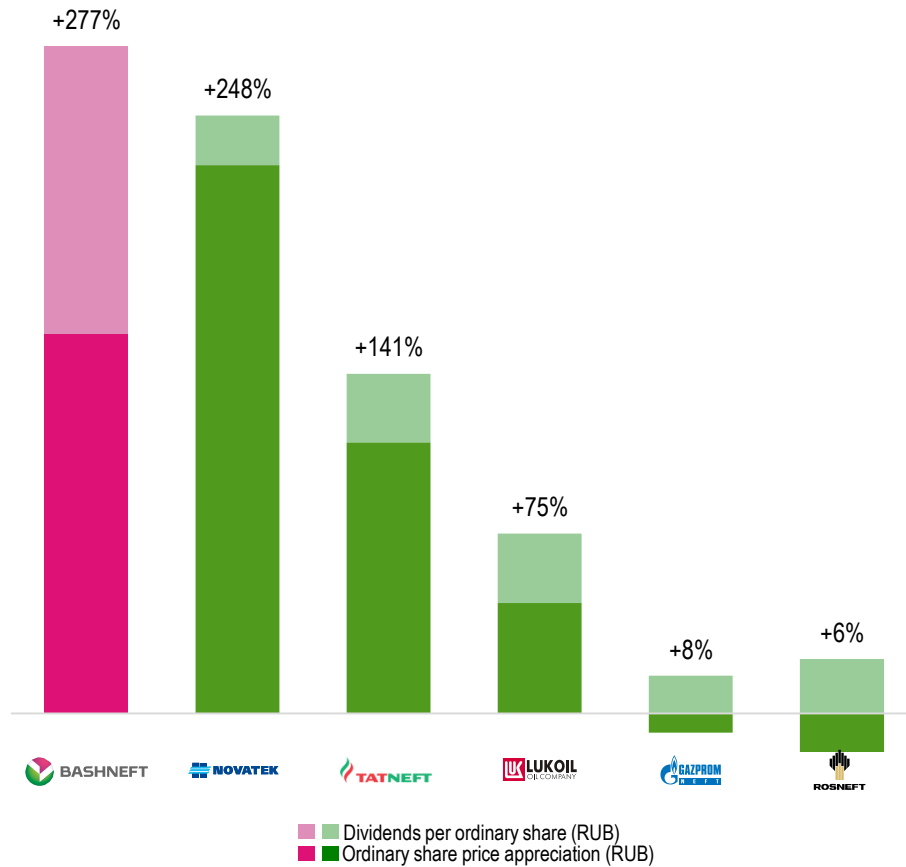
Source: company data, VTB Capital estimates

1. Average EBITDA/annual hydrocarbon production for 2013-2014  
 2. According to IFRS and US GAAP financial statements

## Consistently delivering the highest shareholder returns in Russia

## Dividend yield<sup>(2)</sup>

TSR<sup>(1)</sup> in 2010-2015, %



1. TSR – Total Shareholder Return. As of June 30, 2015  
 2. Dividends per ordinary share for 2014 / share price



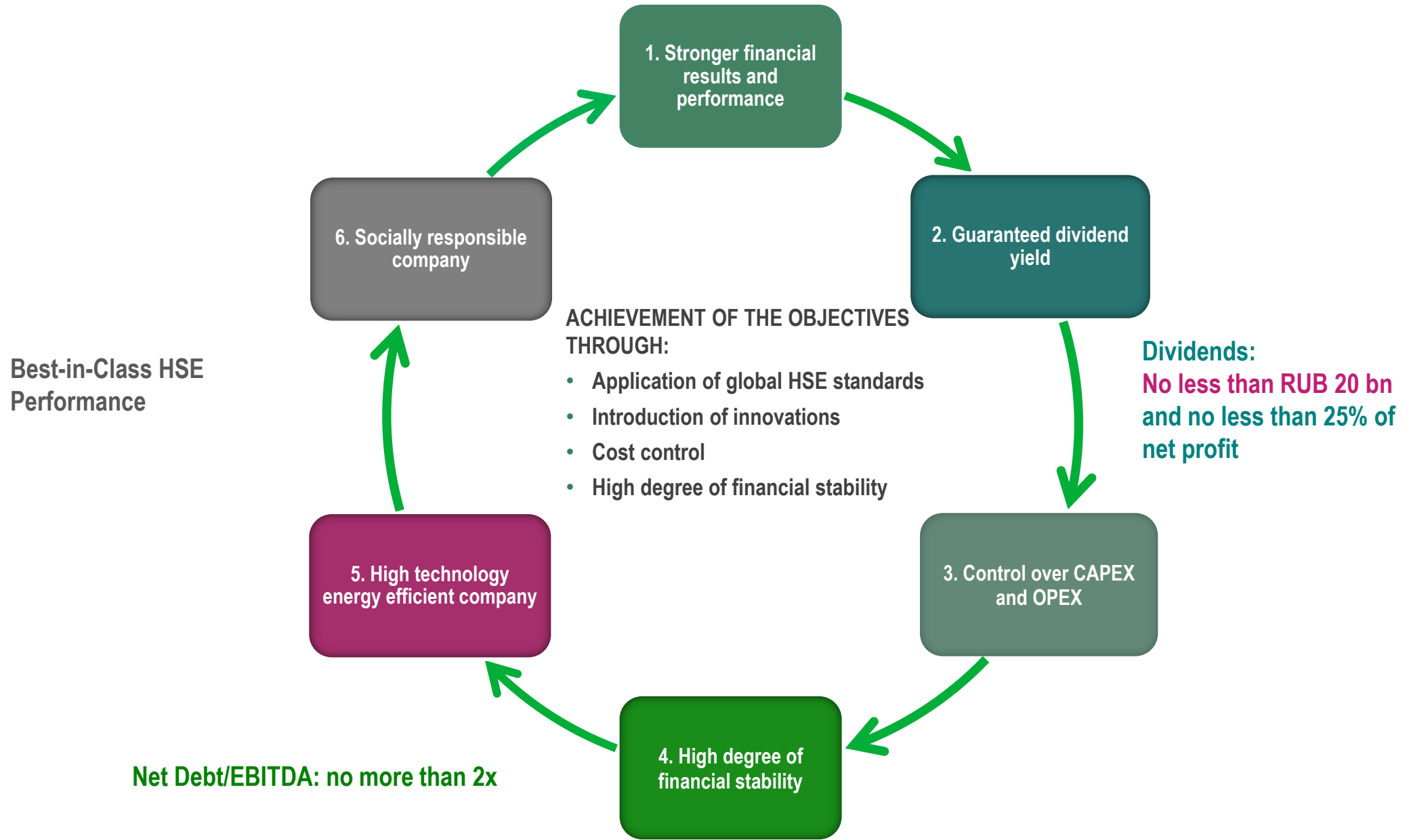
# Effective Implementation of Stated Strategic Initiatives

Tasks in the Upstream segment			Tasks in the Downstream segment		
Tasks in the Upstream segment	Outcome	Status	Tasks in the Downstream segment	Outcome	Status
<b>To maintain production at brownfields</b>	Production at brownfields increased to 16.3 mmt in 2014. The production plateau has already been maintained for six years	✓	<b>To cease production of fuel oil and VGO</b>	To cease production of fuel oil and VGO remains a strategic goal. Projects aimed at achieving this are being implemented	✓
<b>To control production costs</b>	Bashneft ranks among industry leaders in terms of total per-barrel OPEX and CAPEX. The water cut at brownfields in Bashkortostan has decreased	✓	<b>To revise the General Refinery Development Plan</b>	It has been decided to cease the construction of hydrocrackers in order to upgrade the existing units and optimize production processes	✓
<b>Trebs &amp; Titov development project</b>	The project was commissioned within an extremely short time frame. Production at the Trebs and Titov fields increased from 0.3 mmt in 2013 to 0.8 mmt in 2014	✓	<b>To control refining costs</b>	Projects aimed at improving energy efficiency and reducing process losses have been launched	✓
<b>Geological exploration project in the Nenets Autonomous District</b>	A geological exploration programme has been developed and is being implemented at five licence areas in the Nenets Autonomous District. Vostok NAO (a JV with Lukoil) has been created	✓	<b>Efficient petrochemical asset management</b>	Considerable increase in financial results, while capital investment is minimal	✓
<b>Geological exploration programme in the Republic of Bashkortostan</b>	Reserves discovered during geological exploration are being entered on the balance sheet. Seven new fields and areas have been explored and commissioned	✓	<b>To sell 80% of gasoline via filling stations (or small-scale wholesale distribution) by 2019</b>	Targets for increasing retail sales and the number of filling stations for 2014 have been achieved. A new goal is to promote aggressive growth of retail sales while maintaining the amount of small-scale wholesale distribution	✓
<b>Unconventional resources</b>	A pilot project implemented in cooperation with an international oil and gas company and involving analysis of local geological information has been completed	✓	<b>To streamline the structure</b>	Production (the Integrated Refinery Complex), retail sales (Bashneft-Retail Sales) and regional sales (Bashneft-Regional Sales) have been restructured	✓
<b>M&amp;A in Russia</b>	Burneftegaz has been acquired (0.8 mmt for the full 2014 year / 0.67 mmt since April 2014)	✓	<b>To meet international HSE standards</b>	Bashneft has been issued with certificates confirming conformity of its HSE management system with the ISO 14001 and OHSAS 18001 standards	✓
<b>To meet international HSE standards</b>	Bashneft has been issued with certificates confirming conformity of its HSE management system with the ISO 14001 and OHSAS 18001 standards	✓			

Efficient management of brownfields and successful development of assets in new operating regions

Flexible refinery management amid a large-scale 'tax manoeuvre'

# Key Priorities for 2016-2020 Include Growth of Financial Results and Guaranteed Dividend Yield



The aim is to promote annual growth of financial results while maintaining a reasonable level of investments and debt, to guarantee dividend yield and to increase the Company's shareholder value







### 3. PJSOC Bashneft: Upstream



**Sergey Zdolnik**  
Vice President, Oil and  
Gas Production



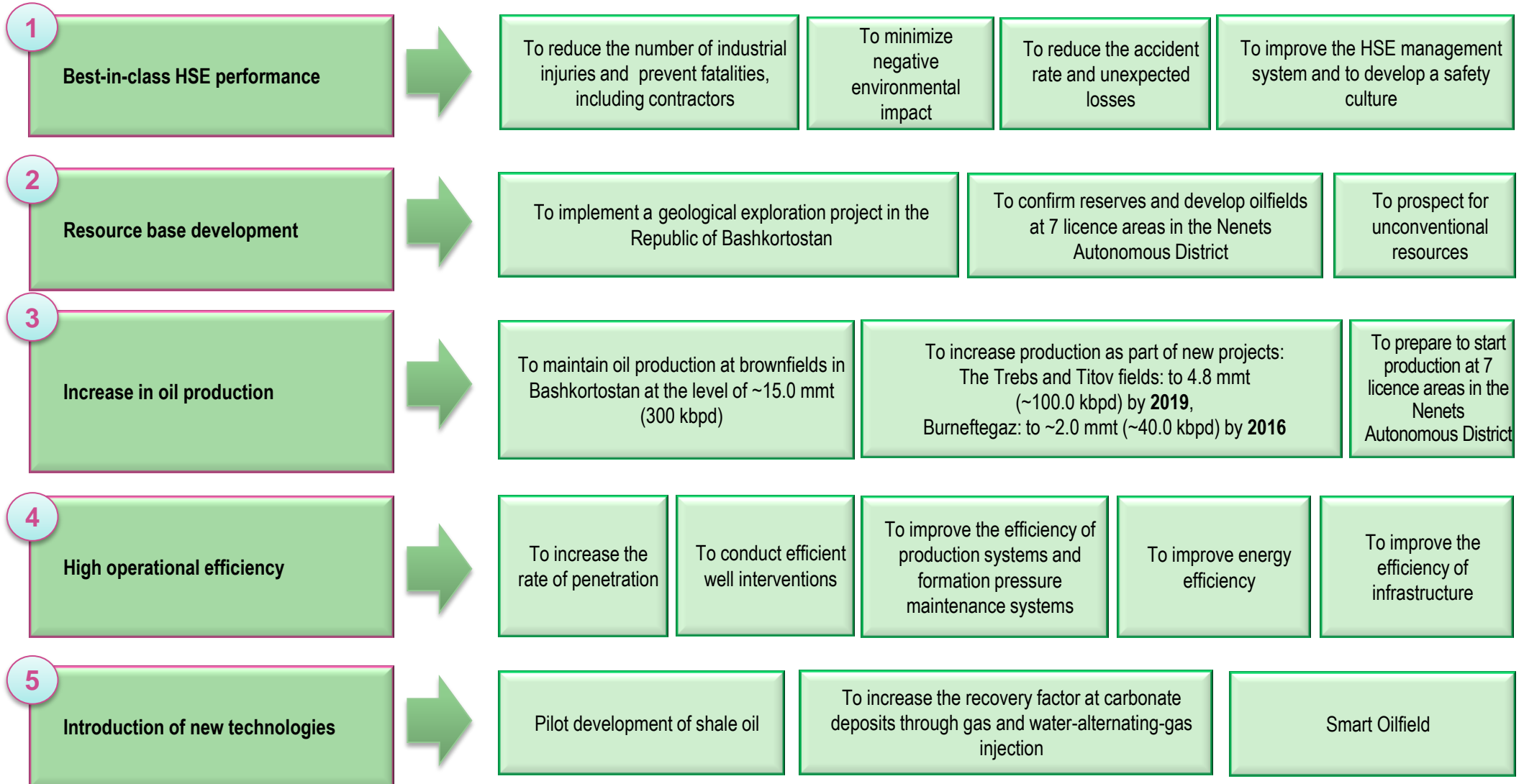
**Yury Krasnevsky**  
Vice President, Geology  
and Development

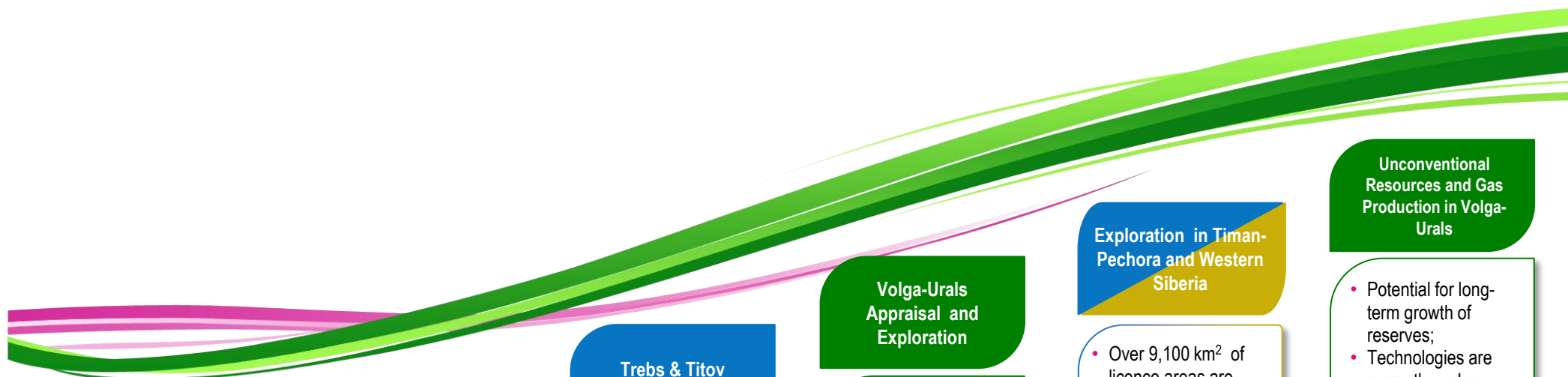


# Upstream Development as a Basis for the Company's Value Maximization

## Goals

## Tasks





## Volga-Urals Baseline Production

- The current level (c. 300 kbpd) is expected to be maintained for several years.

## Development of Fields in Western Siberia

- Peak production (c. 40 kbpd) is expected to be reached by 2016.

## Trebs & Titov Development

- Peak production (c. 100 kbpd) is expected to be reached by 2019.

## Volga-Urals Appraisal and Exploration

- Most areas are located in an underexplored province;
- 2 new fields discovered between 2012 and 2014.

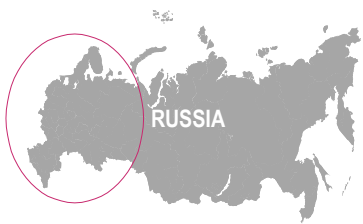
## Exploration in Timan-Pechora and Western Siberia

- Over 9,100 km<sup>2</sup> of licence areas are located in highly promising provinces;
- Adjacent to existing producing assets.

## Unconventional Resources and Gas Production in Volga-Urals

- Potential for long-term growth of reserves;
- Technologies are currently under evaluation.

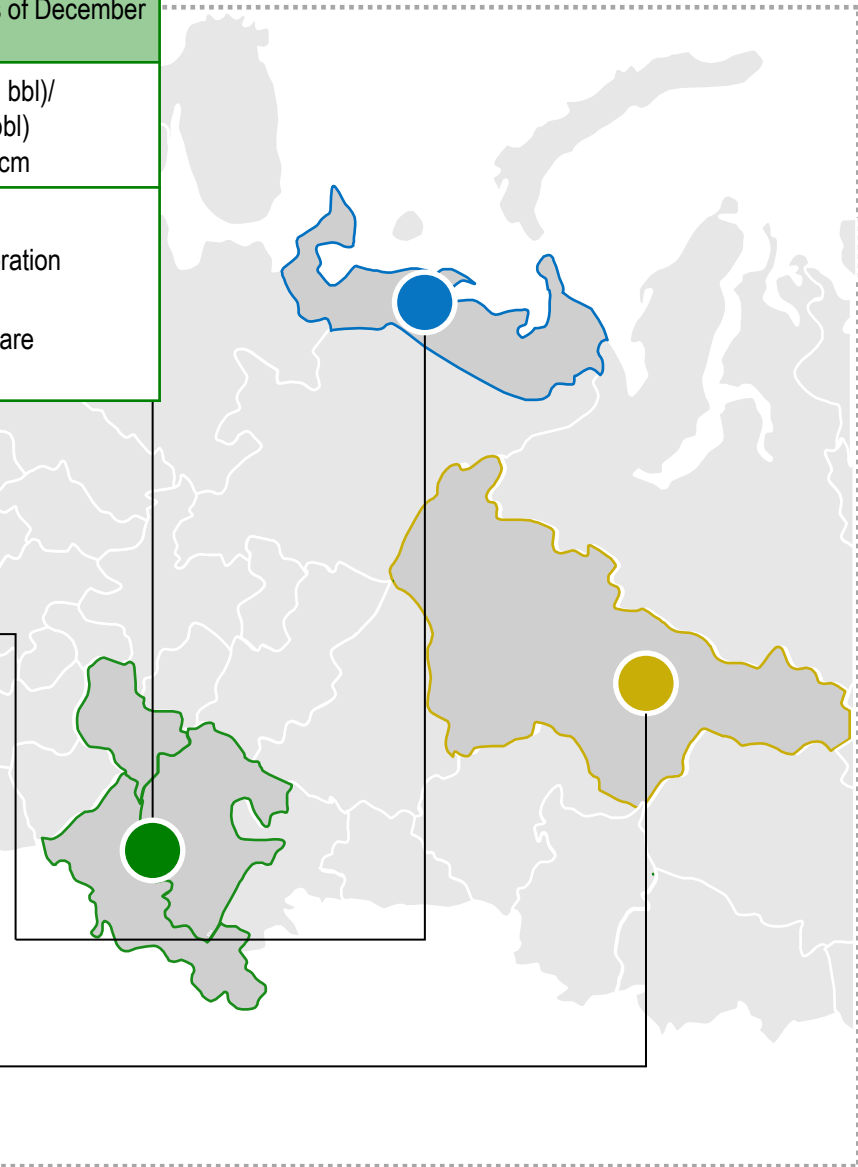




1 Volga-Urals	
Production*, 2014	Reserves (ABC1+C2 / 3P)* as of December 31, 2014
16.3 mmt (326 kbpd)	Oil: 446 mmt (3.29 bn bbl) / 451 mmt (3.29 bn bbl) Gas: 57 bcm / 27 bcm
<ul style="list-style-type: none"> <li>• High margin, low CAPEX, low risk region;</li> <li>• Reserves-to-production ratio (ABC1+C2) of over 27 years; significant exploration potential;</li> <li>• Gas production potential in locations close to demand centres if conditions are favourable.</li> </ul>	

2 Timan-Pechora	
Production, 2014	Reserves (ABC1+C2 / 3P) as of December 31, 2014
0.8 mmt (16 kbpd)	Oil: 158** mmt (1.2 bn bbl) / 36 mmt (271.7 mmbbl)
<ul style="list-style-type: none"> <li>• Includes the Trebs and Titov fields, two of Russia's largest fields with peak production of ~ 4.8 mmt;</li> <li>• Additional exploration potential from Vostok NAO (JV with Lukoil): 7 licence areas with an area of over 7,900 km<sup>2</sup>.</li> </ul>	

3 Western Siberia	
Production***, 2014	Reserves (ABC1+C2 / 3P)*** as of December 31, 2014
0.7 mmt (14 kbpd)	Oil: 56 mmt (422 mmbbl) / 31 mmt (230.1 mmbbl)
<ul style="list-style-type: none"> <li>• Bashneft's existing assets and Burneftegaz, a company acquired in March 2014;</li> <li>• Production growth, potential for development and exploration.</li> </ul>	



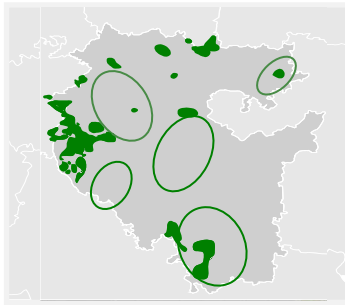
\* - incl. the Nizhneartovsk Integrated Facility

\*\* - as of July 1, 2015 (140 mmt as of December 31, 2014)

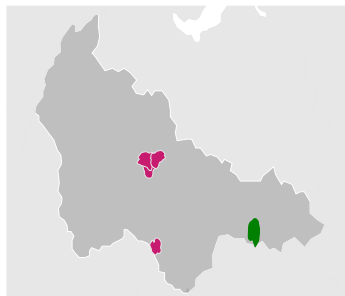
\*\*\* - LLC Burneftegaz

# Systematic Approach to Forming the Resource Base and High Replacement Rates for Proved Oil Reserves Combined with Cost Control

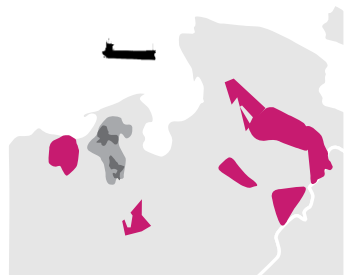
## Projects in Russia:



1. Republic of Bashkortostan, Comprehensive geological exploration project  
237 licences, including 36 licences for prospecting and exploration



2. Western Siberia, LLC Burneftegaz  
4 licences, including 2 licences for prospecting and exploration

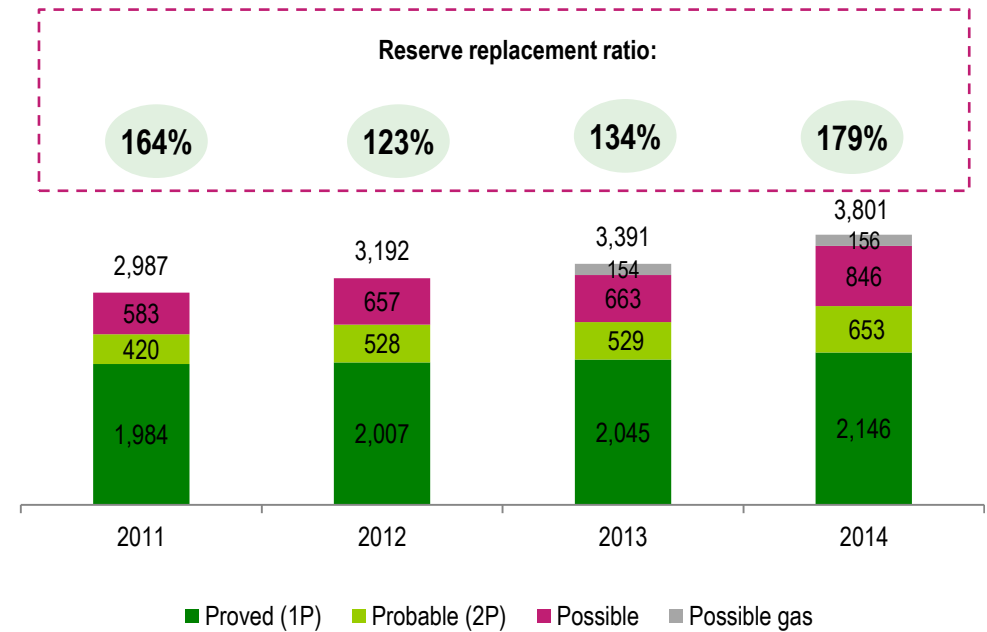


3. Timan-Pechora:
  - a) LLC Bashneft-Polyus: Trebs and Titov fields  
1 licence for prospecting and exploration
  - b) LLC Vostok NAO  
7 licences for prospecting and exploration

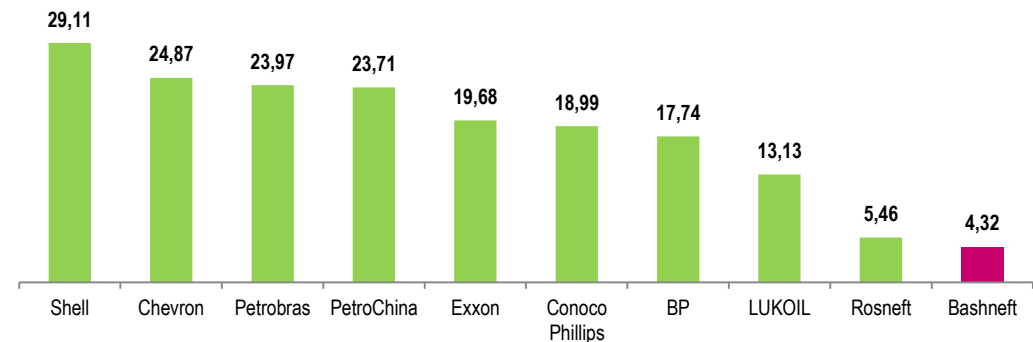
## International projects:

1. Block 12, Iraq
2. Block EP-4, Myanmar

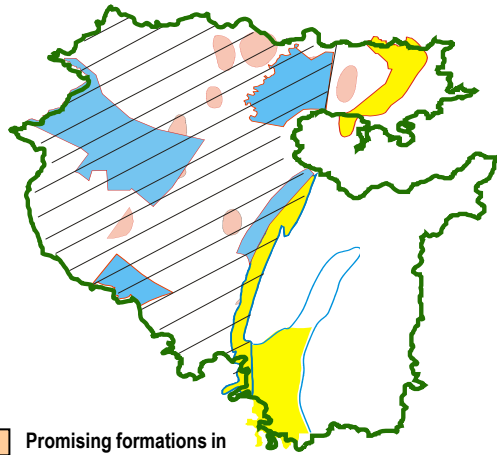
## Reserves and resources, mmbbl/mmboe



## Finding and development (F&D) costs, 2011-2013\*, US\$/boe (increase in proved reserves under PRMS)



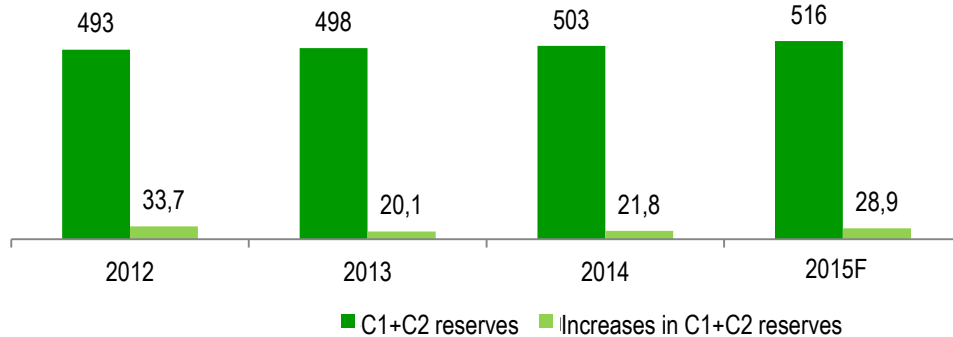
\* - estimates by EY for 2014



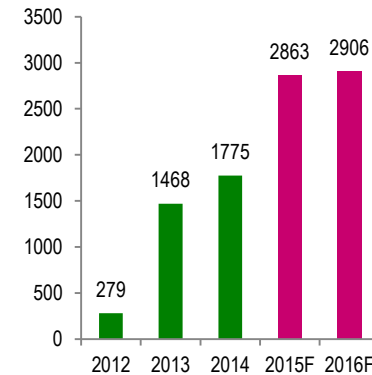
- Promising formations in Riphean and Vendian strata
- Unexplored areas
- Area of development of unconventional Paleozoic reservoirs (Permian, Domanic)
- Underexplored conventional areas with Paleozoic deposits

- Despite a long history of oil production, the Republic of Bashkortostan is underexplored;
- Conventional geological exploration regions adjacent to producing fields, whose well-developed infrastructure and year-round availability enable low-cost and low-risk development of newly discovered deposits;
- In addition, there are underexplored and unexplored areas and unconventional reservoirs that are potentially of interest in terms of geological exploration.

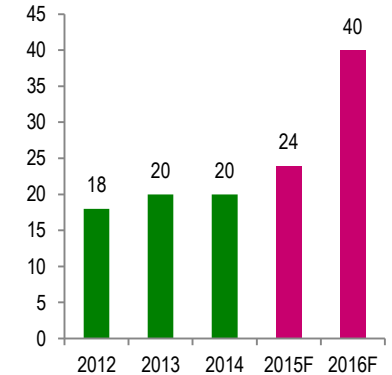
**C1+C2 oil reserves, mmt, and increases**



**3D seismic surveys, km2**



**Number of completed wells\***



- 17 licence areas acquired;
- 3,800 km2 of 3D seismic surveys, 43 prospecting and exploration wells drilled, 2 new fields and 42 deposits discovered;
- Increase in hydrocarbon reserves (ABC1+C2) by 120 mmt. Success rate of 70%.

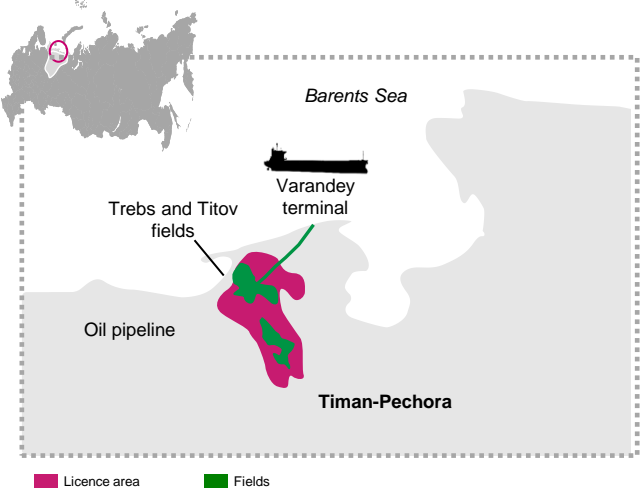
- 3 licence areas acquired, 24 wells completed, 3D seismic surveys: 2,863 km2;
- Expected increase in reserves by 29 mmt

- Acquisition of new licence areas
- 2D and 3D seismic surveys to prepare formations for prospecting drilling;
- Prospecting and exploration drilling to be continued.

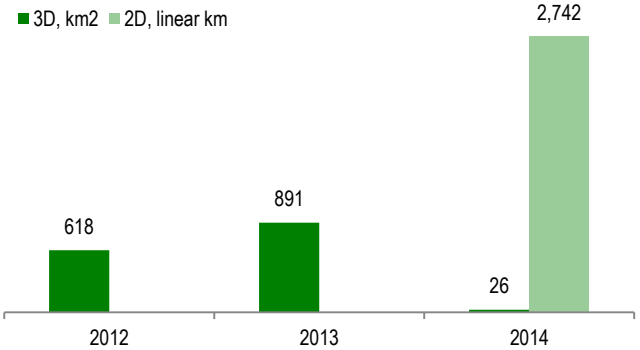


\* - including deepening

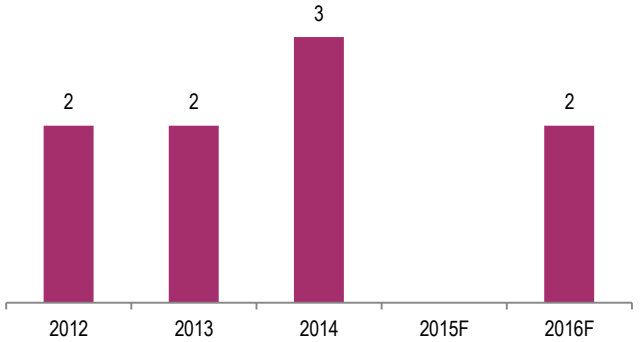
Licence for prospecting, exploration and production valid from 2012 to 2036, total (3P) reserves of 271.7 mmbbl, (C1+C2) reserves of 140 mmt



### Seismic surveys



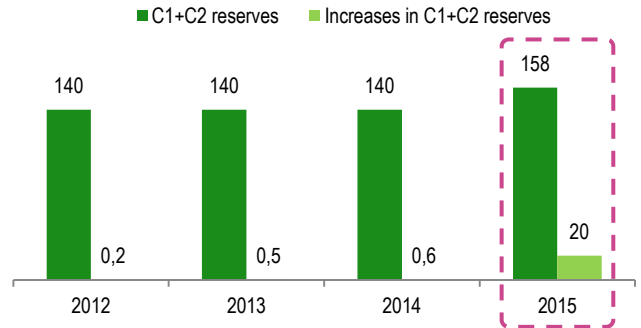
### Number of wells drilled



### Ownership structure of Bashneft-Polyus



### C1+C2 oil reserves, mmt, and increases



- 1,535 km2 of 3D seismic surveys, 2,742 linear km of 2D seismic surveys;
- 4 exploration wells and 3 prospecting wells drilled;
- Following exploration drilling, reserves increased by 1.3 mmt (9.5 mmbbl) due to reclassification from C2 to the commercial C1 category.

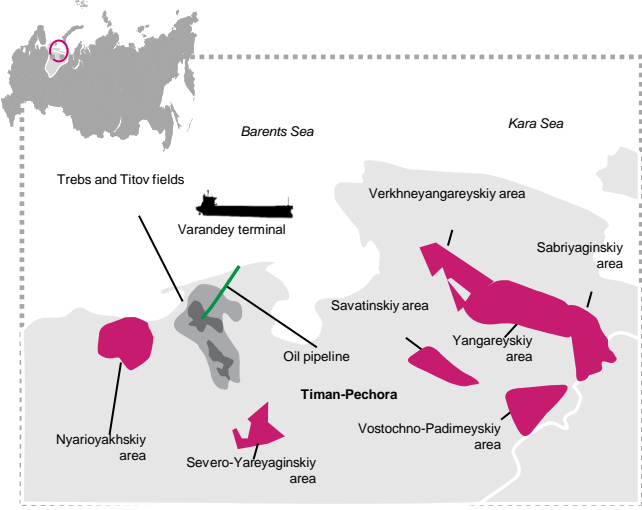
- 3 prospecting wells drilled in 2014 were completed. Following revaluation of reserves and prospecting drilling, ABC1+C2 reserves increased by 20 mmt (146 mmbbl).

- Drilling of 6 prospecting wells. Following drilling of 2 prospecting wells in 2015, a decision is to be made on further geological exploration.





## Licence for prospecting, exploration and production valid from 2012 to 2037

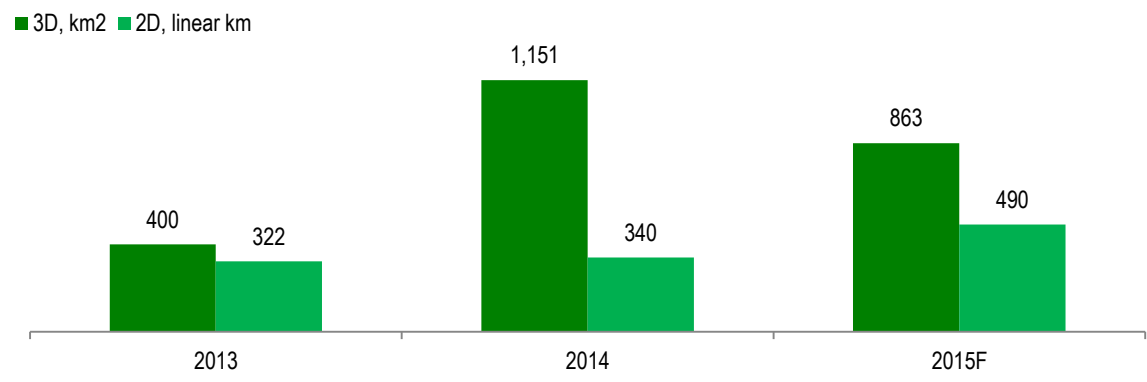


- Areas immediately adjacent to the Trebs and Titov fields have a total area of 7,900 km<sup>2</sup>;
- Proximity to the Trebs and Titov fields will create synergies;
- Partnership with Lukoil provides access to export infrastructure, including the Varandey terminal, and helps reduce risks.

### Ownership structure of Vostok NAO



### Seismic surveys



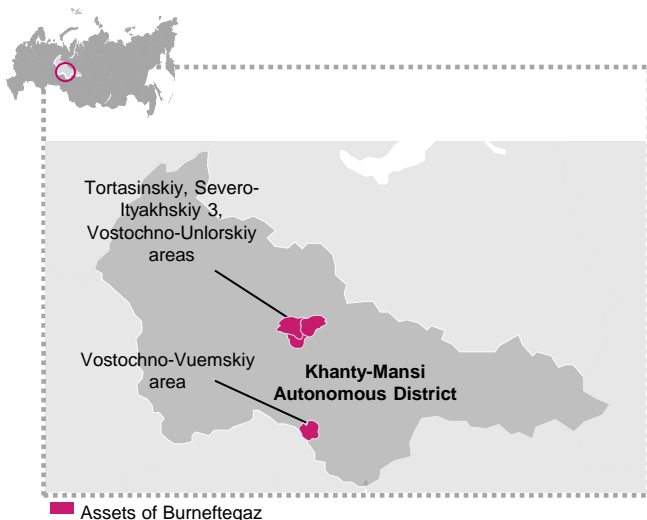
- 1,551 km<sup>2</sup> of 3D seismic surveys, 662 linear km of 2D seismic surveys; processing and interpretation of field data started;
- Project to prospect for and appraise deposits at the Yangareyskiy licence area prepared.

- 863 km<sup>2</sup> of 3D seismic surveys, 490 linear km of 2D seismic surveys

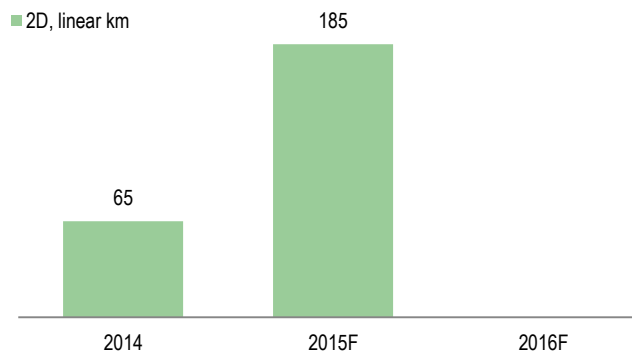
- Seismic surveys to be conducted;
- 14 prospecting wells to be drilled;
- Decision on development to be made in 2018.



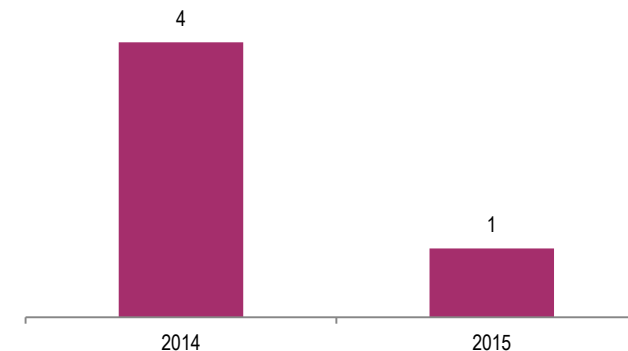
4 licences (Vostochno-Vuemskiy, Tortasinskiy, Severo-Ityakhskiy 3 and Vostochno-Unlorskiy areas). Total (3P) reserves of 230.1 mmbbl, C1+C2 reserves of 56 mmt



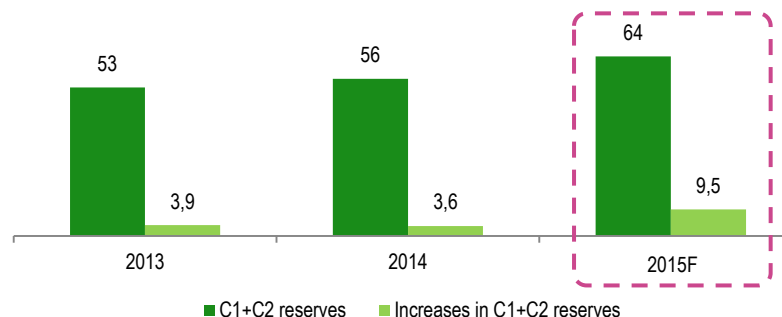
## Seismic surveys



## Number of wells



## C1+C2 oil reserves and increases, mmt



- 4 prospecting and appraisal wells with a depth of 12.6 km drilled in 2014;
- Following tests of exploration wells, in 2014 C1+C2 oil reserves increased by 3.6 mmt (26.2 mmbbl)

- 185 linear km of 2D seismic surveys;
- 1 exploration well drilled, increase in C1+C2 reserves by 9.5 mmt following drilling of 3 prospecting wells.

- 7 prospecting and exploration wells to be drilled, 250 linear km of 2D seismic surveys to be conducted;
- Appraisal of the Tortasinskoye field.

2014

2015F

2016-2018

## 2011

- JSOC Bashneft has no international operations.
- Preparation for participation in the 4<sup>th</sup> Licensing Round in Iraq as a non-operator.

## 2012

- Participation in the 4<sup>th</sup> Licensing Round in Iraq as part of a consortium with PVEP and Premier Oil.
- Bashneft obtained the status of an operator of Block 12 as part of a consortium with Premier Oil as a result of direct negotiations.
- The exploration, development and production service contract for Block 12 was signed.

## 2013

- Participation in the 2<sup>nd</sup> Bidding Round in Myanmar as part of a consortium with Sun Apex Holdings Limited
- Bashneft obtained the status of an operator of Block EP-4 as part of a consortium with Sun Apex Holdings Limited.

## 2014

- The Production Sharing Agreement was signed for Block EP-4.

## 2015

- Ongoing work on current international projects in Iraq and Myanmar

## 2016-2017

- Iraq: drilling of 1 well
- Myanmar: drilling of 2 wells
- Decision on further implementation to be made later

- Licence areas
- Gas pipeline
- Oil pipeline



## Iraq

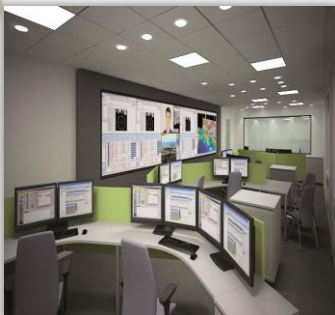


## Myanmar



Partners	Premier Oil (30%)	Sun Apex Holding (10%)
Size of area	8,000 km <sup>2</sup>	841 km <sup>2</sup>
Commitments	<ul style="list-style-type: none"> <li>• Investments in the geological exploration programme totalling US\$ 120 mm;</li> <li>• 450 km<sup>2</sup> of 3D seismic surveys and a prospecting well.</li> </ul>	<ul style="list-style-type: none"> <li>• Investments in the geological exploration programme totalling US\$ 38 mm;</li> <li>• Seismic surveys and drilling of 2 exploration wells.</li> </ul>
Project status	<ul style="list-style-type: none"> <li>• 192 km of 2D seismic surveys and 849 km<sup>2</sup> of 3D seismic surveys;</li> <li>• Seismic data have been processed, formations have been identified;</li> <li>• Resource base has been appraised.</li> </ul>	<ul style="list-style-type: none"> <li>• An environmental impact assessment has been prepared for seismic surveys;</li> <li>• Processing and interpretation of available 2D seismic data;</li> <li>• Tendering for seismic exploration at Block EP-4.</li> </ul>

1



## State-of-the-art Drilling Support Center

- In 2013 the Drilling Support Center was commissioned in cooperation with Schlumberger; it successfully uses innovative Russian software for geological modelling and steering: **Petroviser, t-Navigator, Geonaft**;
- Its key task is to provide real-time professional drilling support in order to maximize efficiency (achieve the potential well flow rate) and reduce costs;
- The use of an interactive well targeting method will make it possible to increase productivity, flush rates and recovery factors several times over and to reduce the risk of complications and accidents in the course of drilling.

2



## Efficient small-size pumping system: an innovative solution for sidetracking

- Under Bashneft's instructions, a new technical solution for operating in difficult mining and geological conditions has been developed: the design of a small-size submersible pump, Gabarit-2, has been improved;
- The new design enables operation in wells with technical constraints, making it possible to double the flow rate and exploit the potential of old wells by means of sidetracking.

3



## Simultaneous water-alternating-gas injection (SWAG) technology

- The SWAG technology to be introduced at Bashneft's fields is unique for Russia; globally, its full-scale application has been limited to several projects;
- The site for piloting the technology commissioned in February 2015 at the Staro-Kazankovskoye field (the Ishimbayneft oil and gas production department) will make it possible to improve design solutions for the formation pressure maintenance system at the Trebs field;
- The water-alternating-gas injection project will lead to enhanced oil recovery and reduce the amount of time necessary for maximizing oil displacement efficiency.

4

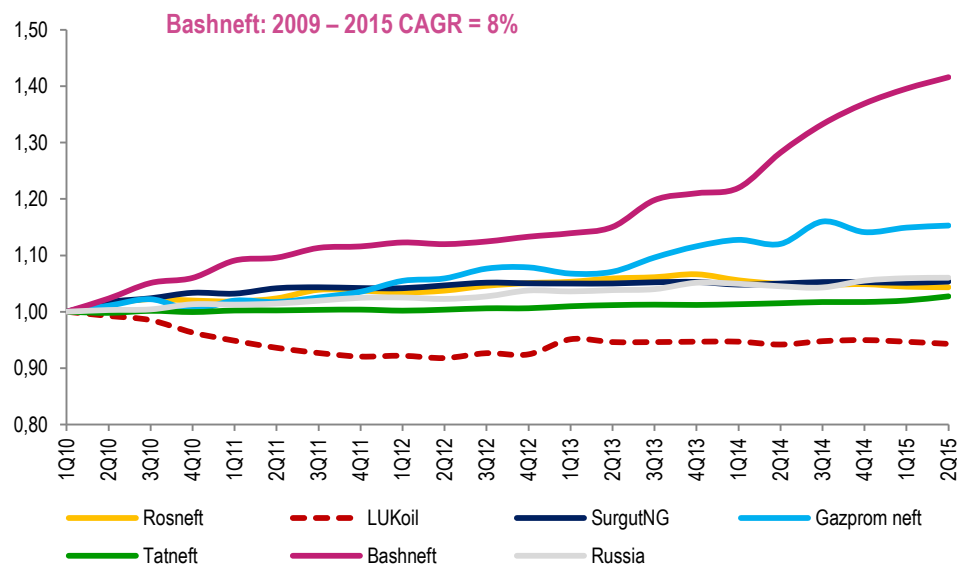


## Creation of a state-of-the-art laboratory complex (core storage facility; a fluid, core and drilling mud analysis laboratory)

- The main task is to support design processes by providing the necessary amount of information on the properties of formation fluids, reservoirs and drilling muds;
- Introduction of advanced laboratory research methods for forecasting the amount of oil and gas reserves, selecting optimal enhanced oil recovery techniques and optimal well drilling parameters;
- Adaptation of international best practices and development of own methods for conducting laboratory experiments under conditions matching in-situ conditions.

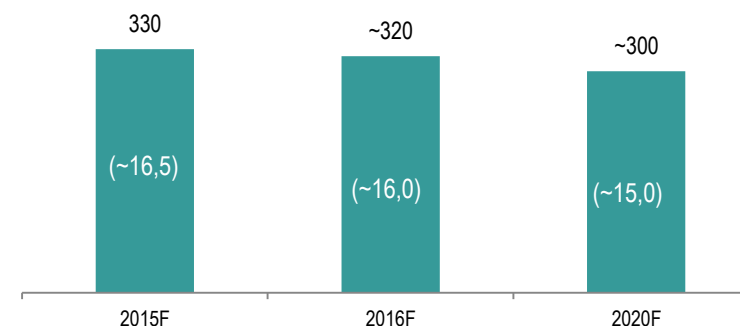
- Under the current management, production recovered from 240 kbpd in 2009 to 385 kbpd in 1H 2015;
- New assets accounted for over 13% of the Company's production in 1H 2015;
- By 2020 new clusters in Timan-Pechora and Western Siberia will account for over a third of the total oil production.

## Average daily oil production (indexed)



## Production evolution in key regions, kbpd (mmtpa)

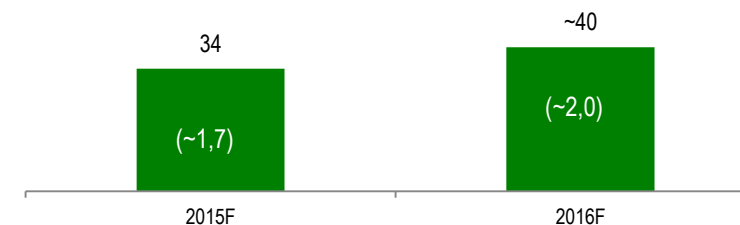
Brownfields: the aim is to maintain a production plateau above 300 kbpd



Timan-Pechora: peak production to be reached in 2019



Western Siberia: production plateau to be reached as early as in 2016 (2020 in accordance with initial plans)

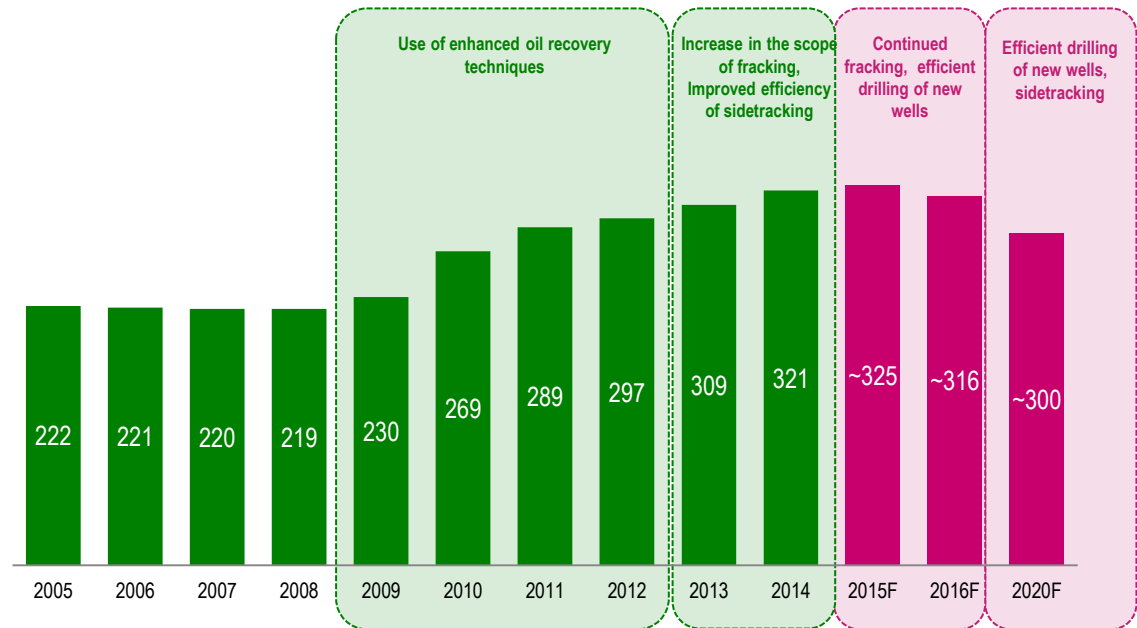


Source: CDU TEK

1. Rosneft's production is adjusted to include production of TNK-BP starting from the 1Q 2010

- The Volga-Urals province is a mature oil-producing region; production started in 1932; cumulative production totals 1.7 bn t of oil;
- Bashneft owns 194 fields, including 174 fields under development (brownfields);
- 4 fields account for about 36% of production and 35% of proved reserves as of 2014. Average depth of 1,500 meters; API of 28°; sulphur content of 2.5%-3% at key fields.

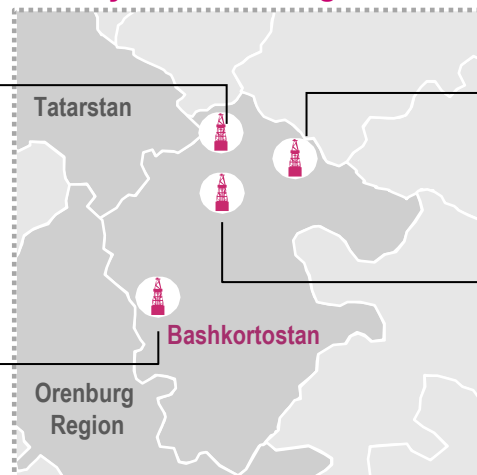
## Production plateau in the Volga-Urals has already been maintained for 6 years, kbpd



## Key fields in Volga-Urals

Arlanskoye oilfield (1958)	
Production, kt (2014)/ share in total production, %	3P reserves under PRMS, mmt (as of December 31, 2014)/ share in total reserves, %
4,090 / 25%	106 / 21%

Tuimazinskoye oilfield (1939)	
Production, kt (2014)/ share in total production, %	3P reserves under PRMS, mmt (as of December 31, 2014)/ share in total reserves, %
529 / 3%	23 / 5%

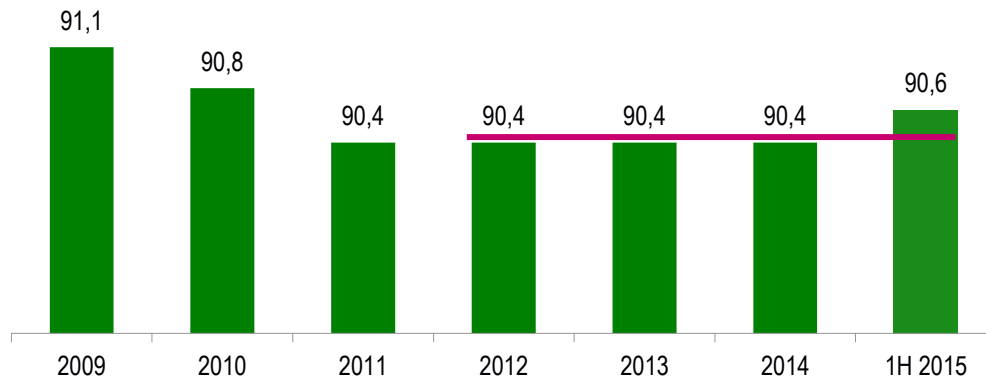


Yugomashevskoye oilfield (1966)	
Production, kt (2014)/ share in total production, %	3P reserves under PRMS, mmt (as of December 31, 2014)/ share in total reserves, %
769 / 5%	36 / 7%

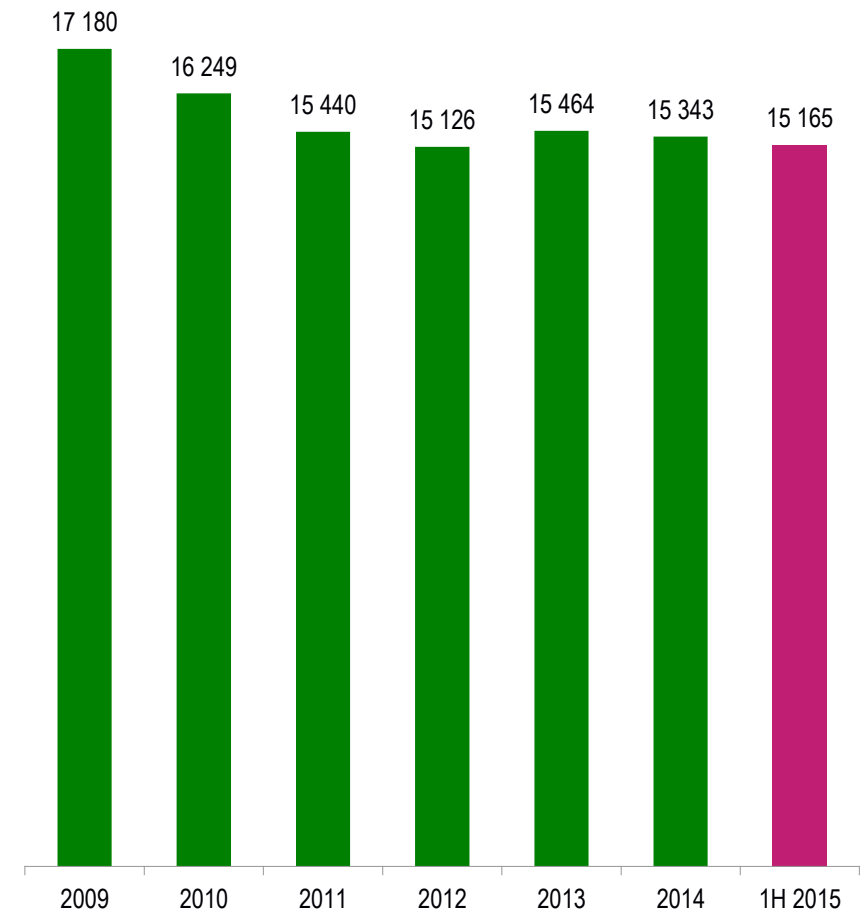
Mancharovskoye oilfield (1964)	
Production, kt (2014)/ share in total production, %	3P reserves under PRMS, mmt (as of December 31, 2014)/ share in total reserves, %
473 / 3%	12 / 2%

- Wellstock has been significantly optimized since 2009 by focusing on more profitable wells;
- Watercut has been declining since 2009 mainly due to systematic work with main wells, optimization of the formation pressure maintenance system, implementation of measures related to ground infrastructure, implementation of an efficient programme of well interventions;
- Watercut control is an important instrument for managing lifting costs.

Watercut, %



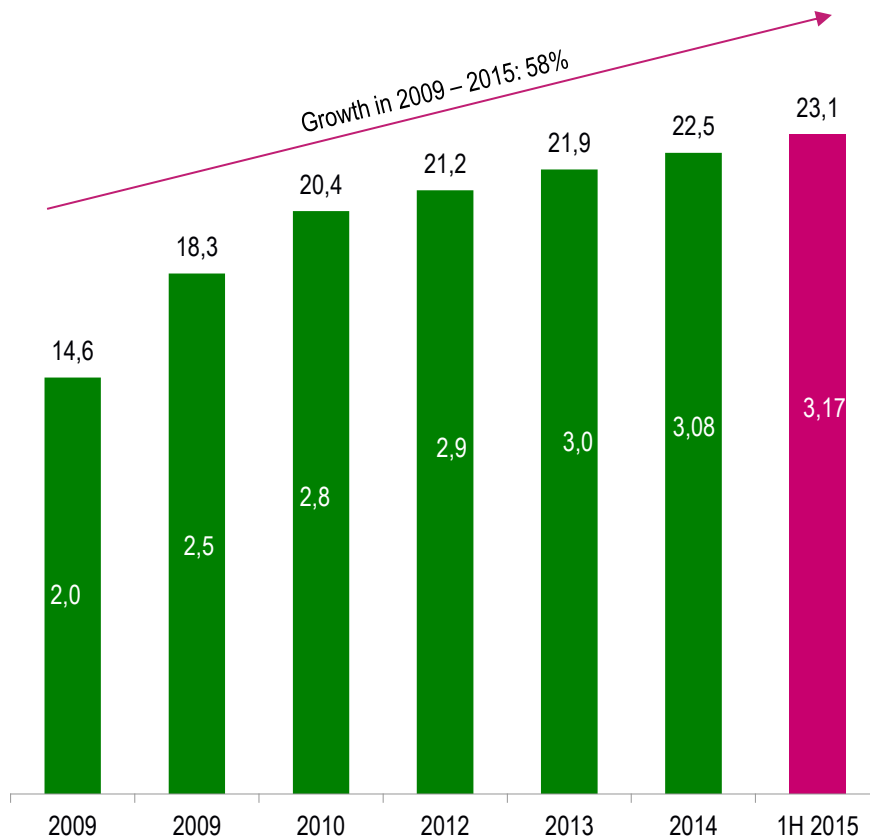
Number of producing wells





The average output of one well is expected to be maintained at ~ 23.0 bpd due to interventions and optimization of the system for brownfield development

### Average well production rate, bpd (t/d)



- A range of interventions is applied with strong focus on operational and cost efficiency;
- The average well production rate has improved by 58% since 2009:
  - In 2014 additional production resulting from interventions at existing wells (other than drilling) totalled 34 kbpd;
  - Strong focus on energy efficiency.

### Key objectives:

- To maintain the production plateau at brownfields above 15 mmt (300 kbpd);
- To maintain an acceptable rate of decline in base production;
- To expand the scope of high-quality compensatory interventions at injection wells to ensure that production is stable;
- To conduct interventions in order to improve the recovery factor;
- To monitor the efficiency of interventions (technical and cost efficiency).

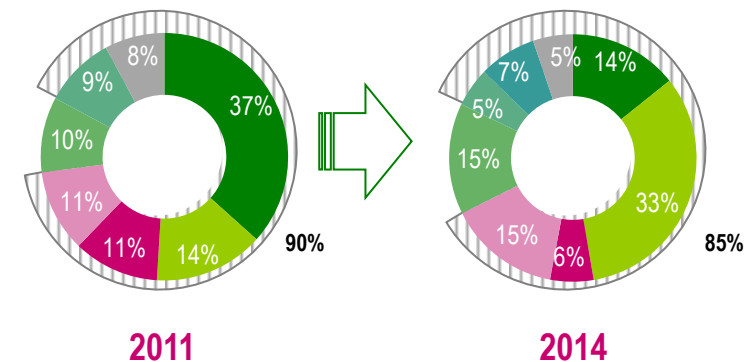
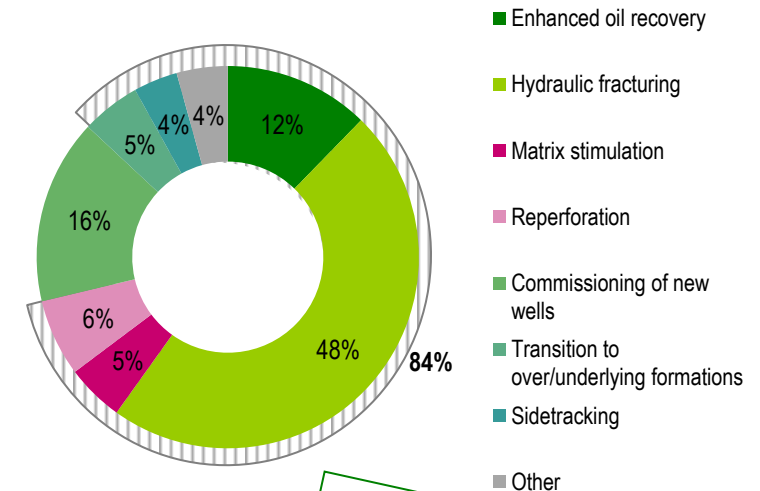
- Evolution of interventions has resulted in a shift of focus from 'easy' measures (enhanced oil recovery) to **technically complex ones** (hydraulic fracturing) and requires a shift to measures aimed at developing reserves that have not been drained earlier, such as commissioning of new wells and sidetracking, including at greenfields;
- Interventions aimed at increasing the wells' productivity index (hydraulic fracturing, matrix stimulation, reperforation) account for over 50% of additional oil production:
- The share of these interventions will gradually decrease to 40% as they will be replaced by commissioning of new wells and sidetracking, which should account for about 30% or more of additional oil production in the near future;
- The share of horizontal drilling is increasing: 60% in 2013, 90% in 2015, 98% in 2016.

### Areas of work with wells

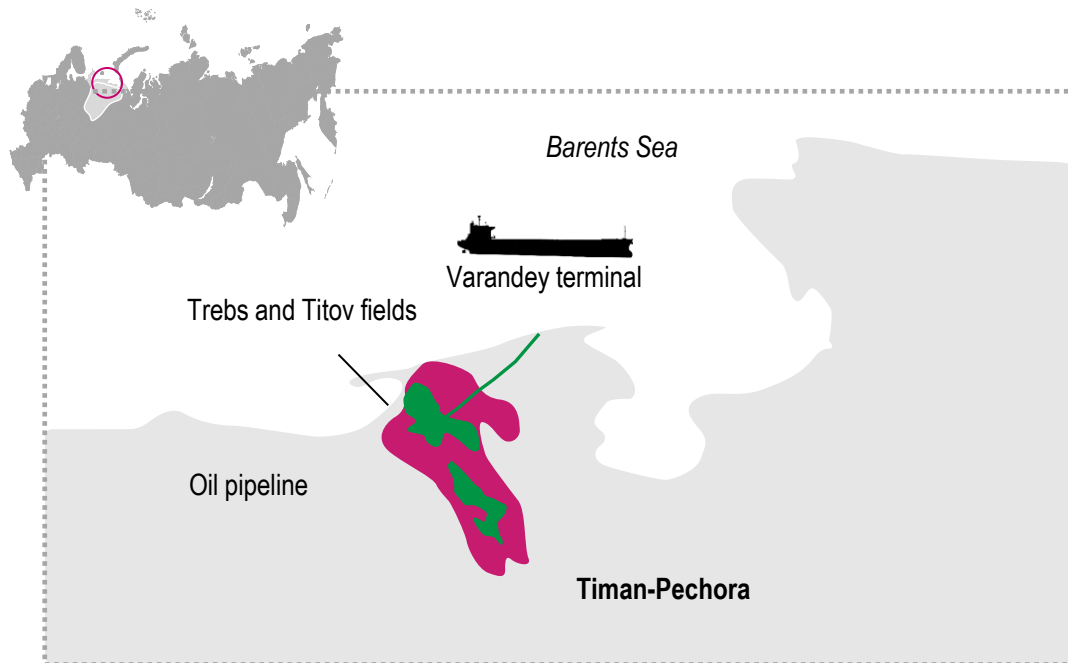
- Successful interventions: well cementing; transition to over- and underlying formation, sidetracking;
- Optimization of the formation pressure maintenance system to ensure that production is stable

### Breakdown of incremental production

1H 2015

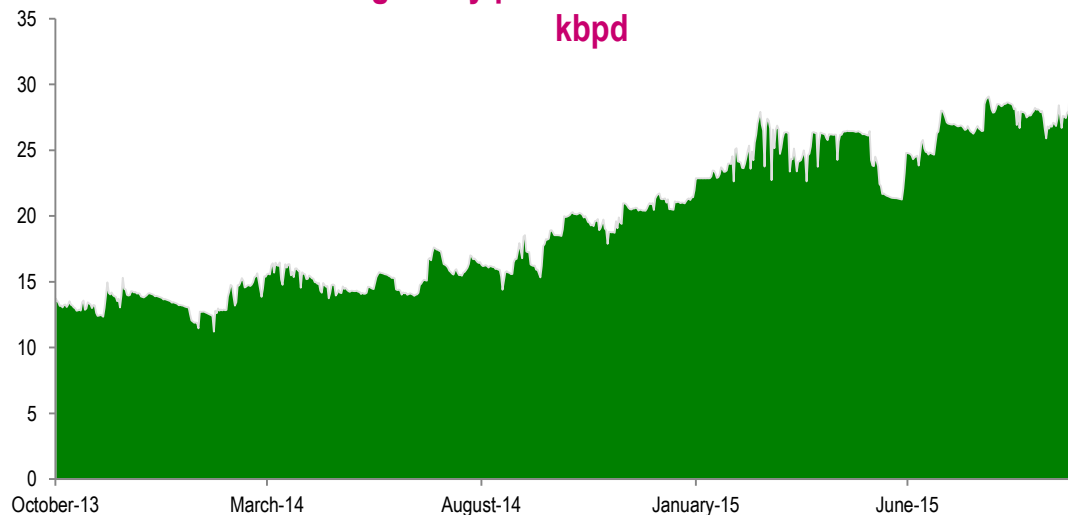


Optimization technique	Description		Initial well production rate, bbl/d					
Commissioning of new wells	Drilling of new production wells, conversion of other wells into production wells	CAPEX	107	115	299	468	392	298
Sidetracking	Drilling of additional wellbores in an existing well to produce oil from another zone or bottom hole location	CAPEX	34	170	170	223	337	204
Hydraulic fracturing	Increasing well productivity by creating reinforced high-conductivity fractures in a producing formation	OPEX	102,9	100,0	89,1	92,7	73,0	78,1
Enhanced oil recovery	Increasing fluid output by utilizing more efficient downhole pumping equipment	OPEX	39	35	34	46	37	33
Transition to an over/underlying formation	Modifying a well to produce oil from a new zone when the current zone is depleted	OPEX	26	34	34	37	28	27
Reperforation	Repeated perforation of producing formations in order to create new perforation tunnels providing hydrodynamic connection between the wellbore and the producing formation	OPEX	20	26	23	27	26	17



■ Licenece area    ■ Fields

**Evolution of average daily production at the Trebs and Titov fields, kbpd**



Reserves and resources	3P reserves: 272 mmbbl C1+C2 : 140 mmt
------------------------	---

Project participants	Bashneft (74.9%) / Lukoil (25.1%)
----------------------	-----------------------------------

Prospecting, exploration and development licence	2011 – 2036
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Start of production	August 2013
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Oil production in 2014	6 mmbbl (over 0.8 mmt)
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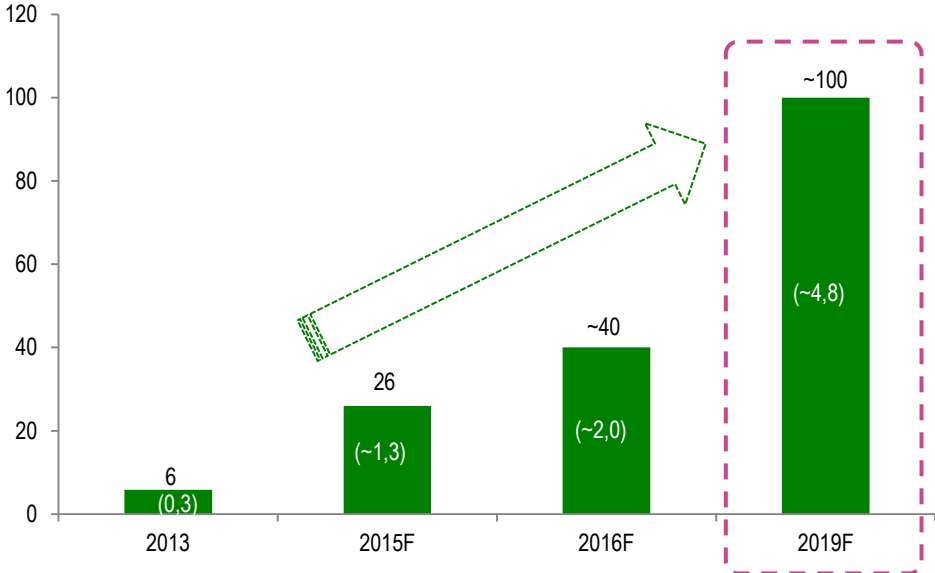
Oil production for 9M 2015	7.0 mmbbl (over 0.9 mmt)
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Peak production (2019)	~100 kbpd (4.8 mmt)
------------------------	---------------------

Oilfield services	Schlumberger, Gazprom Burenie, Halliburton, Eurasia Drilling
-------------------	---

- Development of the field started 18 months after the acquisition of the licence and is within budget;
- Partnership with Lukoil helps reduce risks and provides access to export infrastructure, including the Varandey terminal;
- Successful track record in implementation demonstrates Bashneft's ability to implement complex and large-scale upstream projects;
- Key achievements in 2014 and 1H 2015:
  - In September 2015, oil production reached 2 mmt;
  - 1,535 km<sup>2</sup> of 3D seismic surveys;
  - 39 production wells completed and put into operation;
  - Range of contractors providing oilfield services expanded;
  - Pipeline built to connect the Trebs and Titov fields. Pipeline length: 40.5 km, throughput: 3.2 mmtpa.

## Projected production at the Trebs and Titov fields, kbpd (mmtpa)



## Production plateau to be reached through:

- Use of optimal drilling techniques: engagement of a new contractor providing integrated services (Halliburton) has helped reduce drilling time, improve the quality of well completion and has enabled drilling of wells with a more complex design;
- Drilling Support Centre: professional real-time drilling support in order to maximize efficiency and reduce costs;
- Use of optimal acid treatments in the course of well completion and use of high-quality mud systems in drilling enables achievement of target productivity and well production rates. Between 2016 and 2020 the initial well production rate of new wells (production drilling) is expected to average 1.46 kbpd;
- Adjustment of drilling ratings: location of wells in zones with minimal risks related to reserves and productivity based on geological and flow models updated using the latest geological and field data;
- Tests of WAG injection as the primary planned method of formation stimulation at a test site in Bashkortostan.

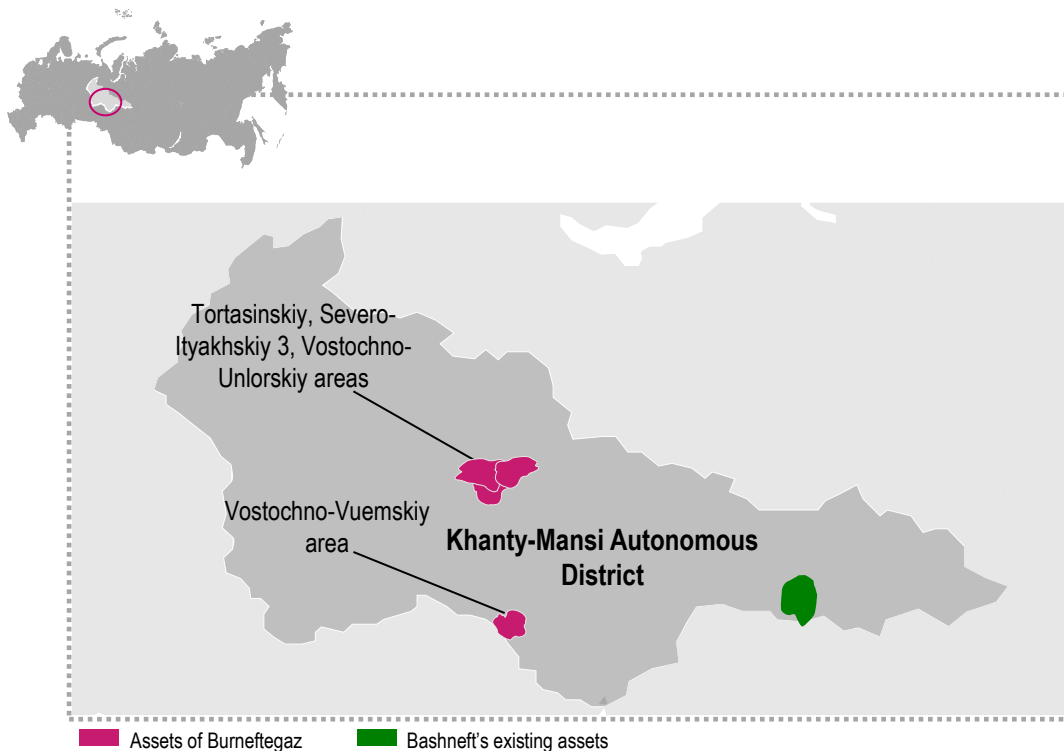
## In the near future commissioning of new wells will be the main type of interventions used at fields of Bashneft-Polyus

- Commissioning of new wells in 2015 and 2016: 49 production wells
- Expansion of infrastructure to enable production to reach up to 100 kbpd;
- Commissioning of an oil and gas pipeline connecting the Trebs and Titov fields;
- Introduction of a formation pressure maintenance system at the Trebs field;
- A new 'design document' (development plan) has been prepared.

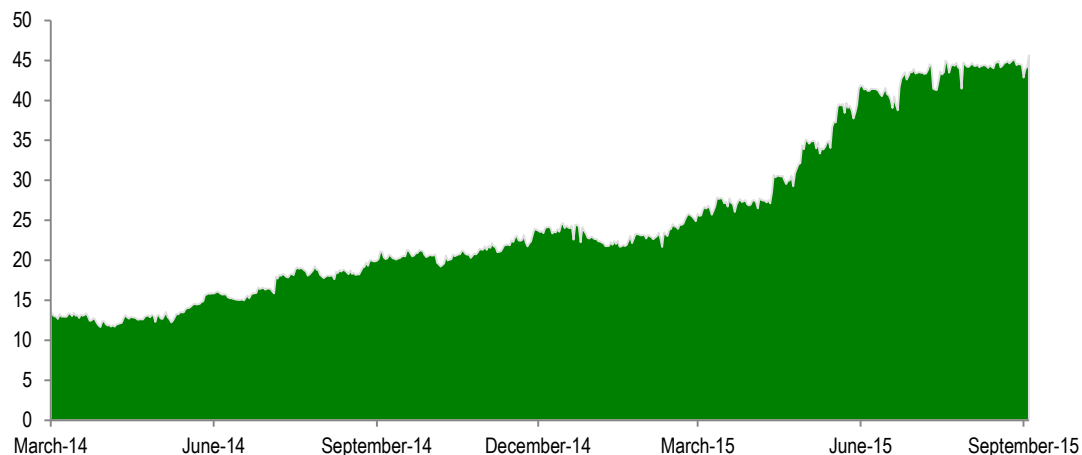
- Drilling of about 130 wells from 2017 through 2020;
- Expansion of infrastructure to produce about 100 kbpd;
- Reaching peak production by 2019;
- Introduction of a formation pressure maintenance system at the Titov field;
- Creation of a cluster in the Nenets Autonomous District: synergy from cooperation between Bashneft-Polyus and Vostok NAO.

2015-2016

2017-2020



### Evolution of average daily production at Burneftegaz, kbpd



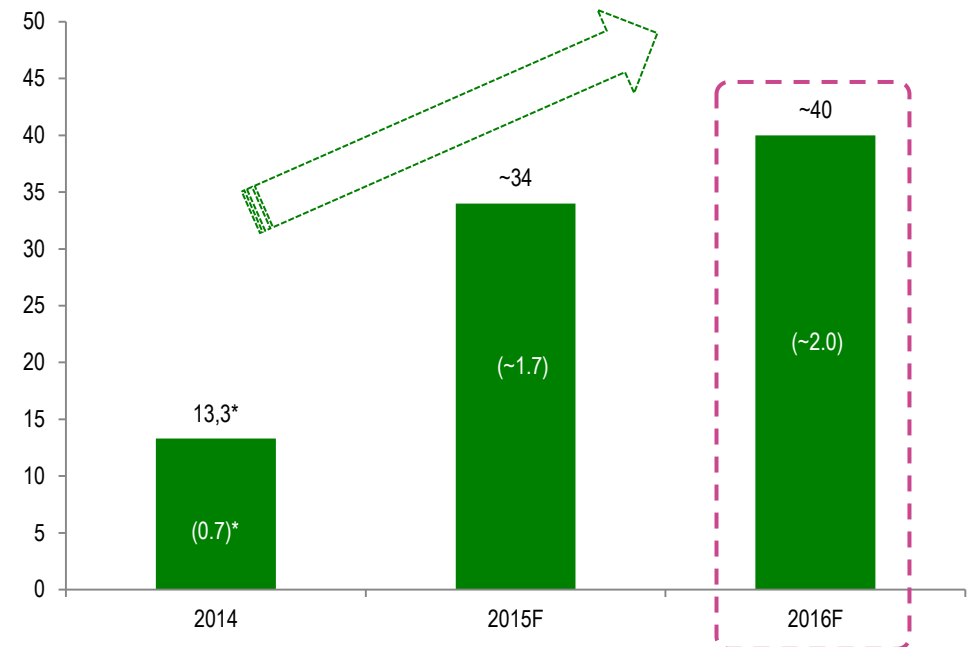
Reserves and resources	3P reserves: 230.1 mmbbl C1+C2: 64 mmt
Size of licence area	319 km <sup>2</sup>
Prospecting, exploration and development licence valid until	2032
Current project status	Commercial production
Number of production wells	57
Oil production in 2014	5.8 mmbbl (over 0.8 mmt)
Oil production for 9M 2015	9.0 mmbbl (1.23 mmt)
Peak production (2016)	~40 kbpd (~2.0 mmt)

- Burneftegaz was acquired in March 2014. The transaction value totalled RUB 36 bn;
- Production at the Sorovskoye field started in 2013, with oil transported via Transneft's pipeline;
- Relative proximity to Bashneft's existing assets in Western Siberia;
- 21 production wells drilled and commissioned in 2014;
- 37 new wells (including 14 horizontal wells) expected in 2015.

## Project implementation

- In 2015 development of a formation pressure maintenance system continued;
- In the near future commissioning of new wells will be the main type of interventions used at the fields of Burneftegaz. Commissioning of over 60% of new wells will involve hydraulic fracturing;
- Systematic work with main wells, creation and optimization of the formation pressure maintenance system will help minimize losses in base production;
- The development project involves production from all producing oil-saturated formations at the fields;
- Implementation of innovative projects: horizontal drilling, including that involving multistage hydraulic fracturing; optimization of techniques and mixtures for hydraulic fracturing and matrix stimulation; implementation of techniques for reducing proppant flowback (maintaining conductivity of fractures).

## Projected production at Burneftegaz, kbpd (mmtpa)



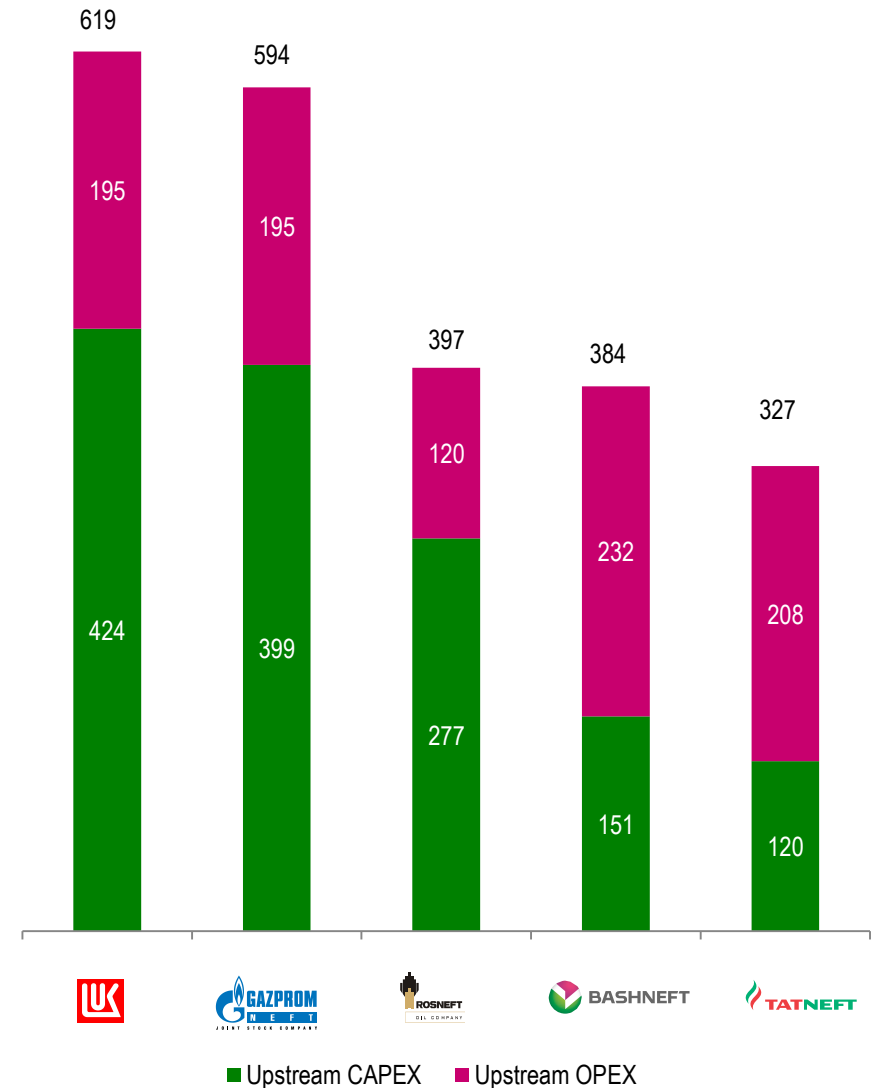
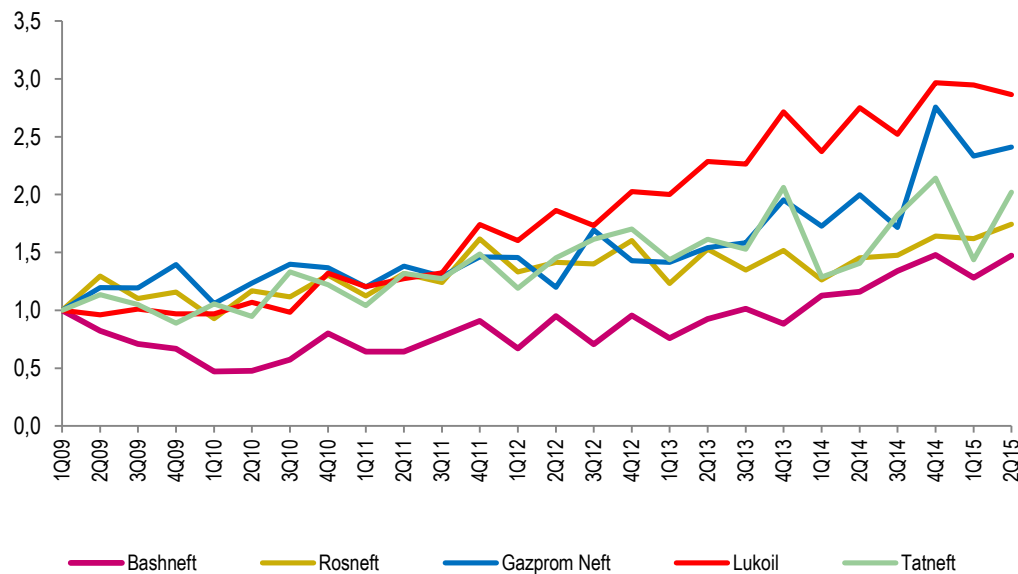
**Production will be maintained mainly through commissioning of new wells, including that involving hydraulic fracturing**



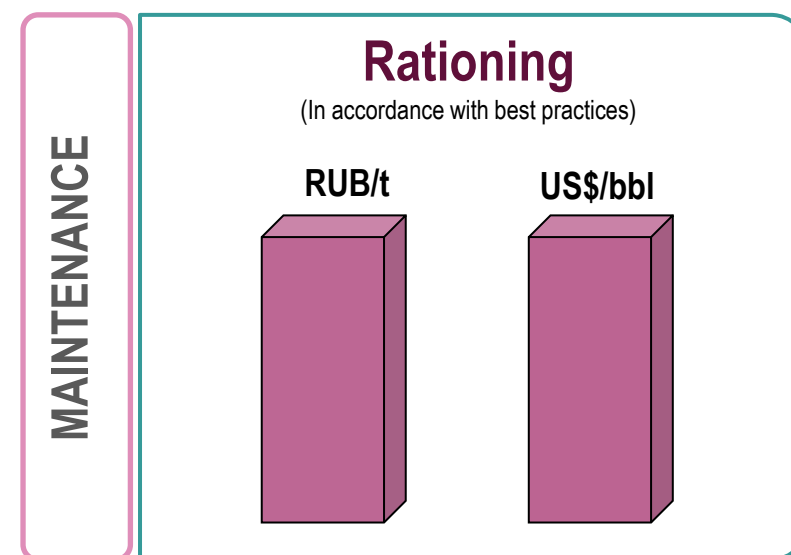
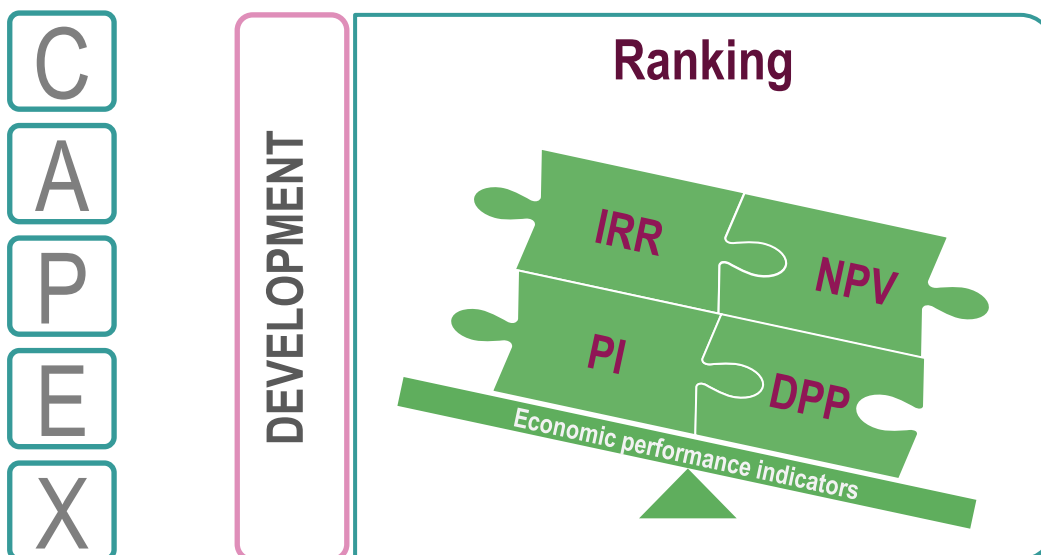
- Focus on operational and economic efficiency resulting in high cost efficiency;
- Among the lowest per-barrel upstream CAPEX and overall cost base in the Russian oil sector;
- Production growth historically driven by enhanced oil recovery techniques resulting in a higher proportion of OPEX in the cost base compared to Russian oil majors.

## Upstream CAPEX and OPEX, 2009 – 1H 2015, RUB/boe

### Upstream CAPEX and OPEX (RUB/boe, indexed)



Category of expenses	TOOLS
<b>O</b> <b>Lifting Costs</b>	<ul style="list-style-type: none"> <li>▪ Analysis and use of best practices;</li> <li>▪ Systematic monitoring and predicting of the key metrics;</li> <li>▪ Assessment of well interventions based on investment efficiency.</li> </ul>
<b>P</b> <b>Revex</b> (well workover)	
<b>E</b> <b>Tax</b>	<ul style="list-style-type: none"> <li>▪ Harmonization of industry-specific legislation taking into account the Group's interests</li> </ul>
<b>X</b> <b>Geological exploration</b>	<ul style="list-style-type: none"> <li>▪ Assessment based on investment efficiency;</li> <li>▪ Benchmarking against industry figures</li> </ul>



## Tasks

● To increase the rate of penetration by 5% per year starting from 2015

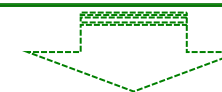
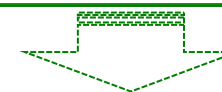
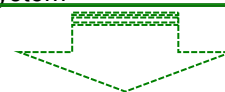
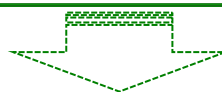
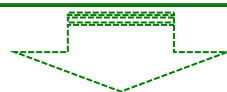
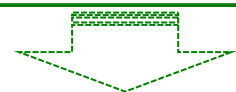
● To conduct effective well interventions

● To improve the efficiency of field facilities construction

● To improve the efficiency of work with the existing wells and formation pressure maintenance system

● Energy efficiency programme

● Programme to increase associated gas utilization and the efficiency of infrastructure



- To switch over completely from integrated to individual drilling services
- To engage contractors with state-of-the-art technologies
- To develop the Drilling Support Center

- To create a system for monitoring hydraulic fracturing to make it more successful
- To pilot new types of proppant
- To outsource services related to commissioning of ESP units
- To outsource dewaxing services
- To create pre-workover well kill and relocation teams

- To switch over to integrated design of brownfield development (Bashneft-Dobycha), including integrated estimation of performance of a formation, a well, above-ground facilities and economic performance

- Cost reduction:
  - To reduce the number of unprofitable assets and the volume of inefficient injection
  - To increase the time between well workovers
  - To use small pumps for sidetracks
  - To implement a target programme for ensuring the efficiency of the formation pressure maintenance system
- To reduce the pipeline failure rate through the use of corrosion inhibitors and repairs

- To keep down (reduce) unit electricity costs:
  - To develop and implement a three-year energy efficiency programme
  - To construct Bashneft's own power generation facilities which use associated gas (Ilyino, Iskra)
  - To use unprofitable assets intermittently
- To increase the share of procurement on the wholesale market

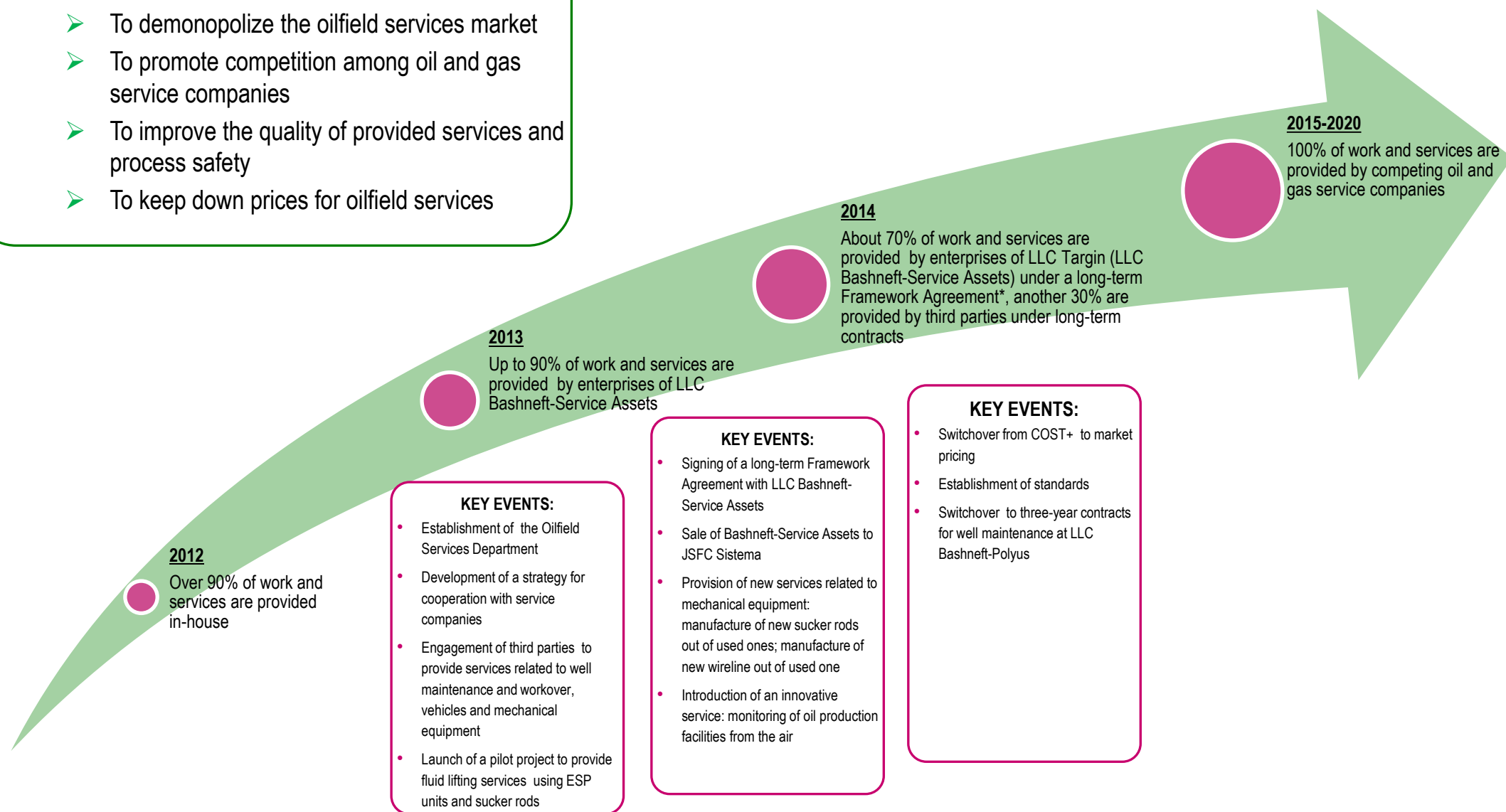
- Target programme to increase associated gas utilization to no less than 95%:
  - To construct a gas pipeline system (as part of the 'gas program') to sell gas to the Karmanovskaya regional power plant
  - To develop an integrated water-alternating-gas injection project
- To streamline the transportation system at the Aksakovskaya group of fields (pipeline to the metering station in Subkhankulovo)

**The cost management system and the measures developed by Bashneft make it possible to ensure that the cost growth rate does not exceed projected inflation rates**







# Strategy for Cooperation with Oilfield Service Companies

## GOALS:

- To demonopolize the oilfield services market
- To promote competition among oil and gas service companies
- To improve the quality of provided services and process safety
- To keep down prices for oilfield services



**Bashneft's cooperation with oilfield service companies is based on imposing mandatory requirements for compliance of contractors and subcontractors with health, safety and environment standards**

-  Balanced portfolio of assets in key Russian oil and gas provinces: Volga-Urals, Timan-Pechora and Western Siberia;
-  Massive reserve and resource base with strong track record of reserve replacement;
-  Sector leading production growth since 2009;
-  Robust production outlook in Volga-Urals (c.300 kbpd over the next few years):
  - Efficient and low-cost production growth at legacy fields mainly driven by enhanced oil recovery techniques;
  - Further development of underexplored areas.
-  Timan-Pechora and Western Siberia: an important growth driver in the medium term:
  - Production at the Trebs and Titov fields: c.100 kbpd by 2019;
  - Production in Western Siberia: c. 40 kbpd by 2016.
-  Substantial exploration and development potential in the long term:
  - Exploration potential in Timan-Pechora (Vostok NAO) and Western Siberia;
  - Gas production and unconventional oil development projects in the Volga-Urals province.





**БАШНЕФТЬ**  
АКЦИОНЕРНАЯ НЕФТЯНАЯ КОМПАНИЯ

## 4. PJSOC Bashneft: Downstream



**Denis Stankevich**

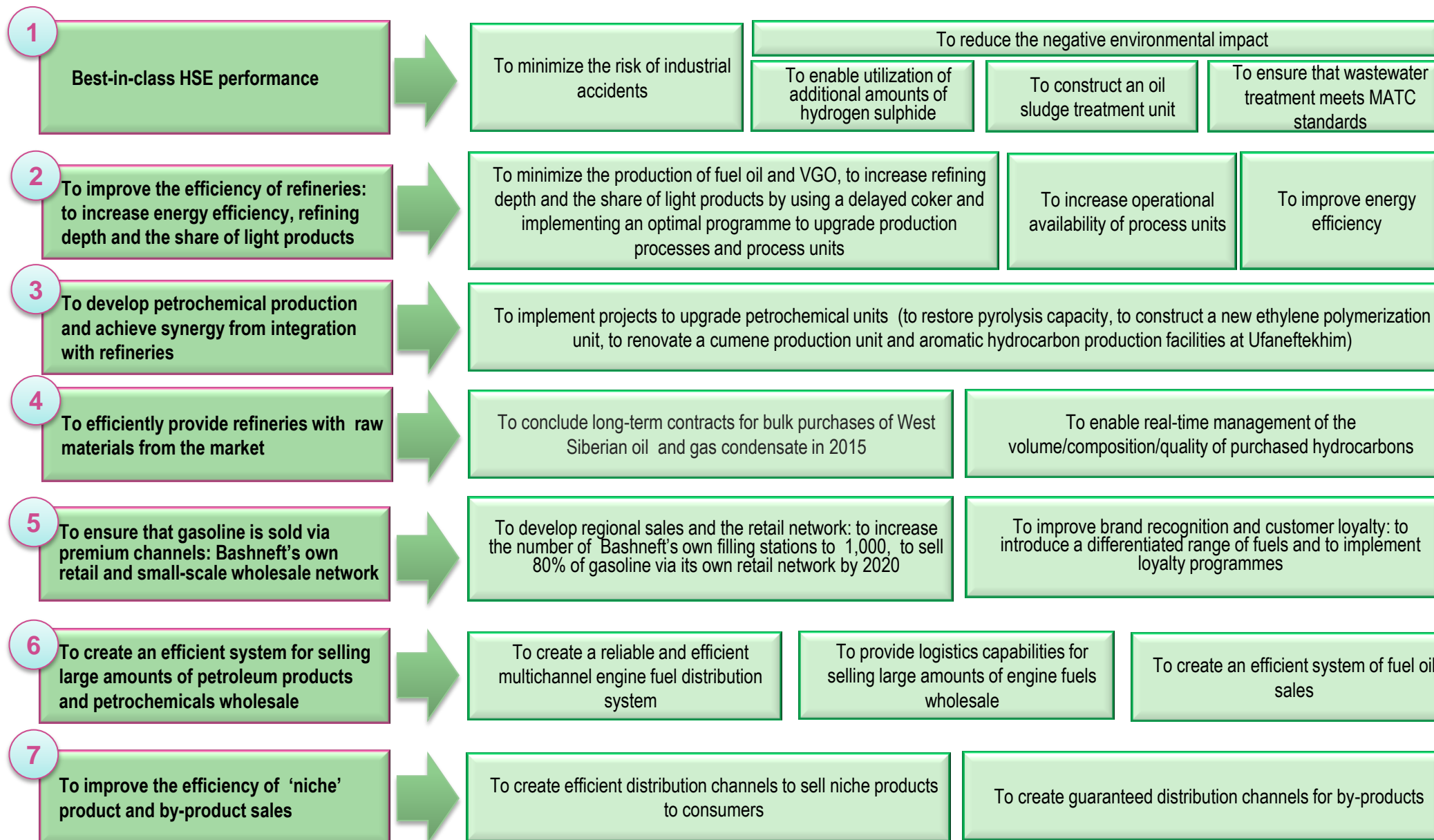
First Vice President, Refining and  
Commerce



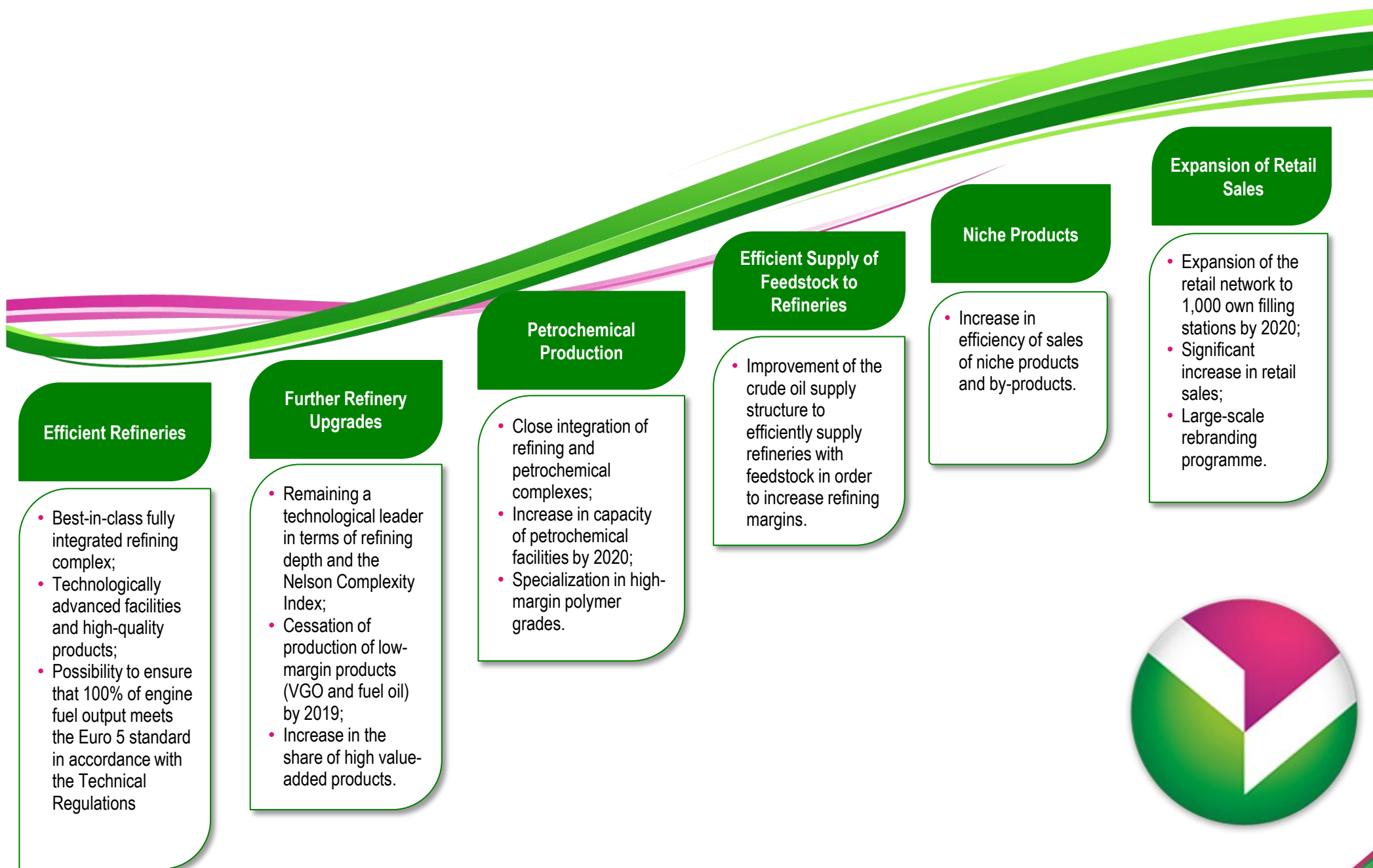
# Strategic Objectives of the Downstream Segment for 2015 - 2020

## Goals

## Tasks



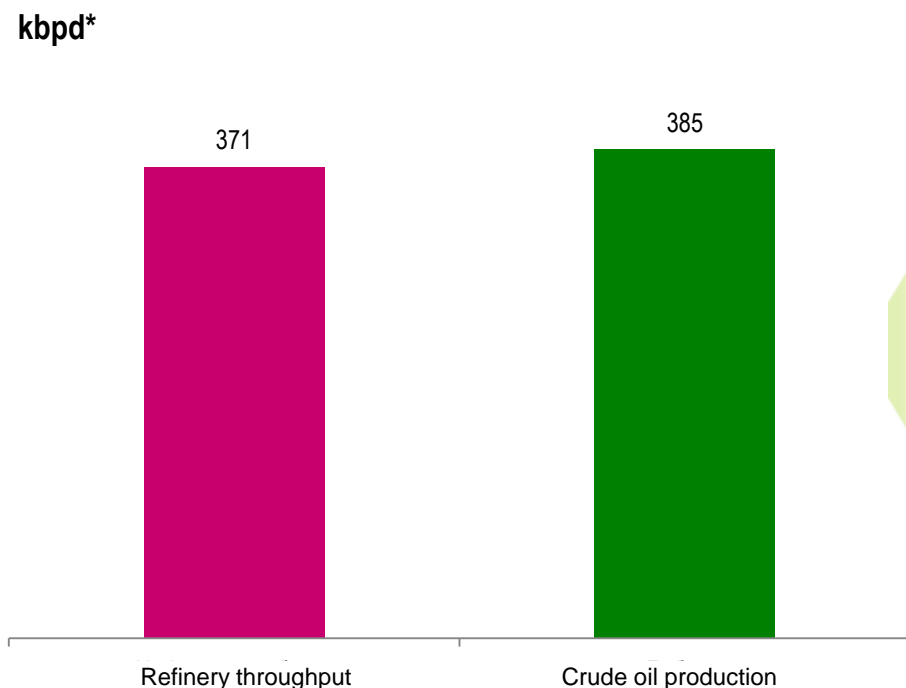






# Balance Achieved between the Upstream / Downstream Segment

Upstream and downstream capacities are balanced due to production growth in Timan-Pechora, Western Siberia and Bashkortostan



## Crude oil production growth potential

### Development

Western Siberia  
(Burneftegaz)



Timan-Pechora  
(Trebs and Titov fields)



### Geological exploration

Bashkortostan  
(exploration)



Western Siberia



Timan-Pechora

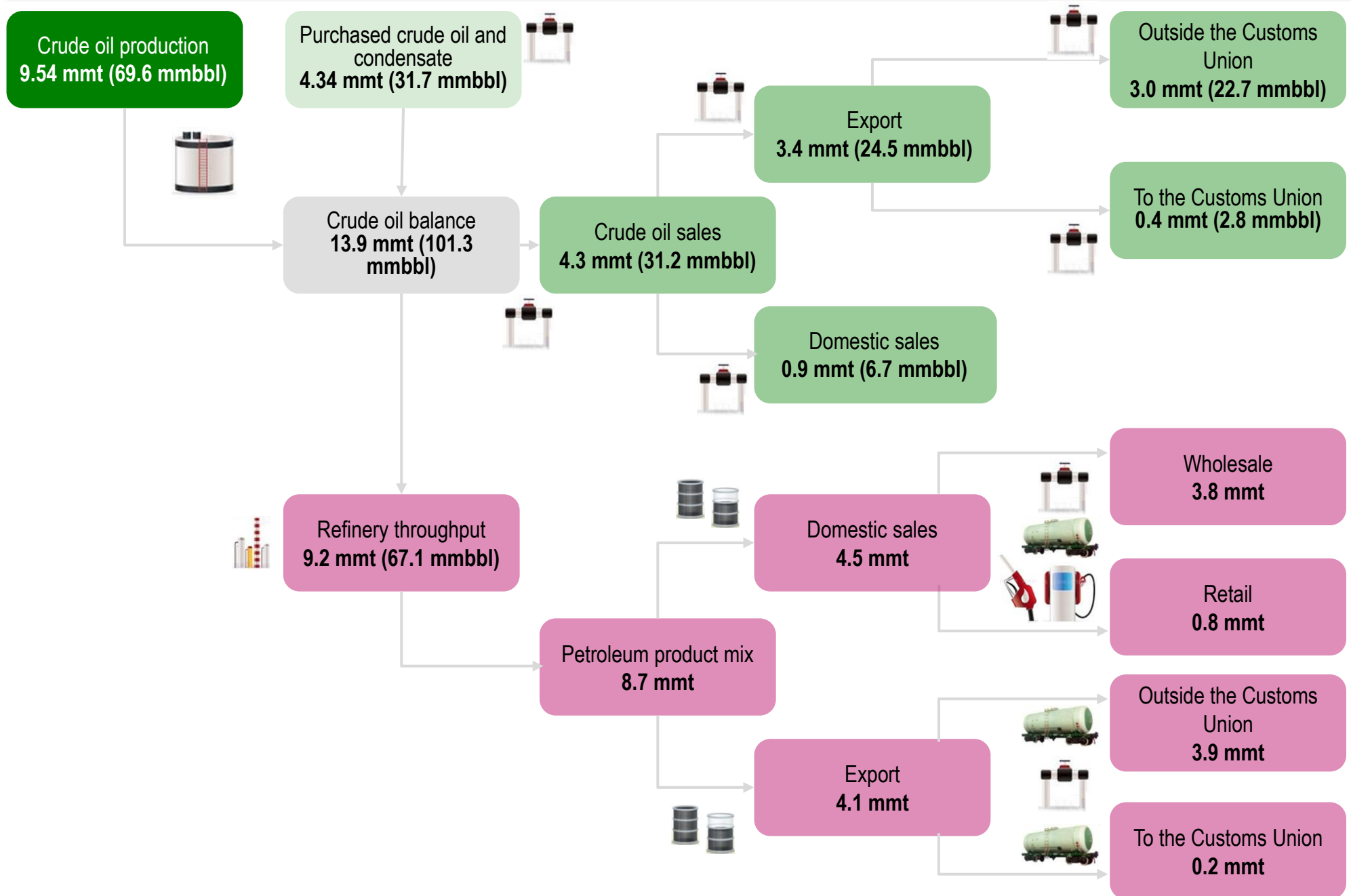


**Bashneft will further improve its crude oil supply structure to efficiently provide refineries with feedstock in order to increase refining margins by:**

- Concluding long-term contracts for bulk purchase of West Siberian crude oil and gas condensate;
- Enabling real-time management of the volume/composition/quality of purchased hydrocarbons and petroleum products;
- Working with reliable suppliers of West Siberian crude oil (oil majors);
- Using formula pricing when purchasing hydrocarbons, including gas condensate.



# Focused Integrated Business Model (as of 1H 2015)



# Overview of the Integrated Refining and Petrochemical Complex\*



**Integrated refining complex consisting of three interconnected refineries and one petrochemical plant**

**Total installed capacity:**  
24.1 mmt (0.5 mmbpd)

**Nelson Index:**  
8.93

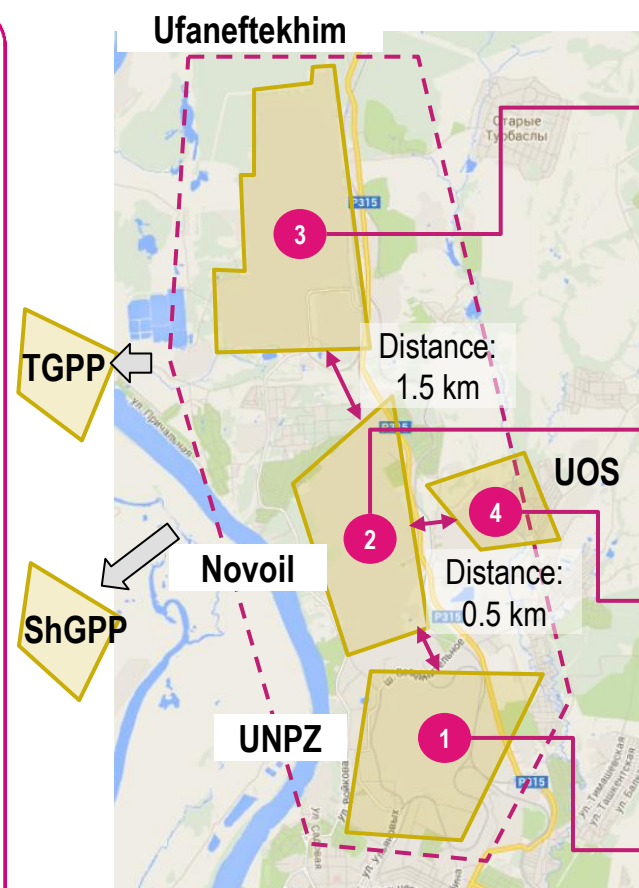
**Petroleum product output:**  
9.2 mmt (0.4 mmbpd)

**Refining depth:**  
85.2%

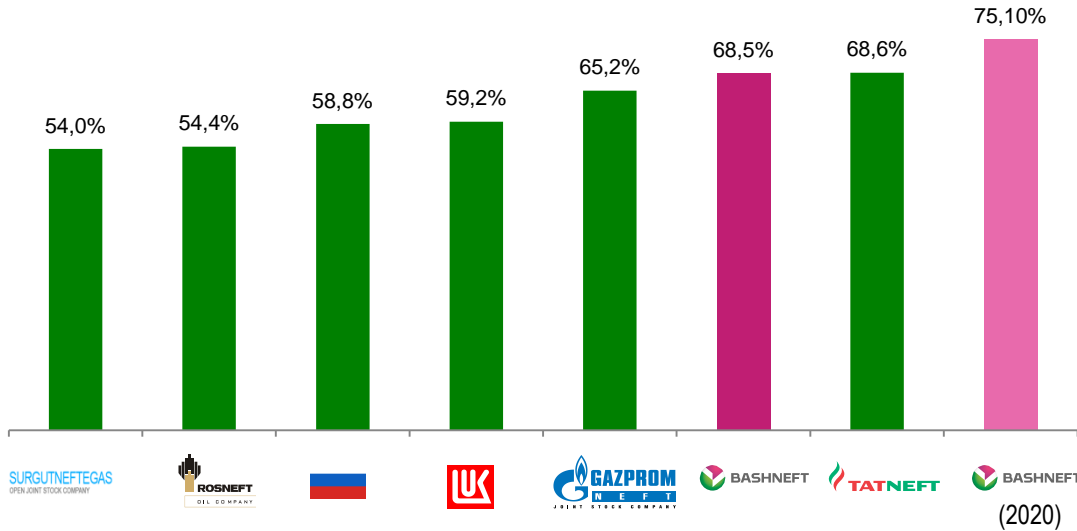
**Share of light products:**  
68.5%

**Petrochemical output:**  
0.4 mmt (0.02 mmbpd)

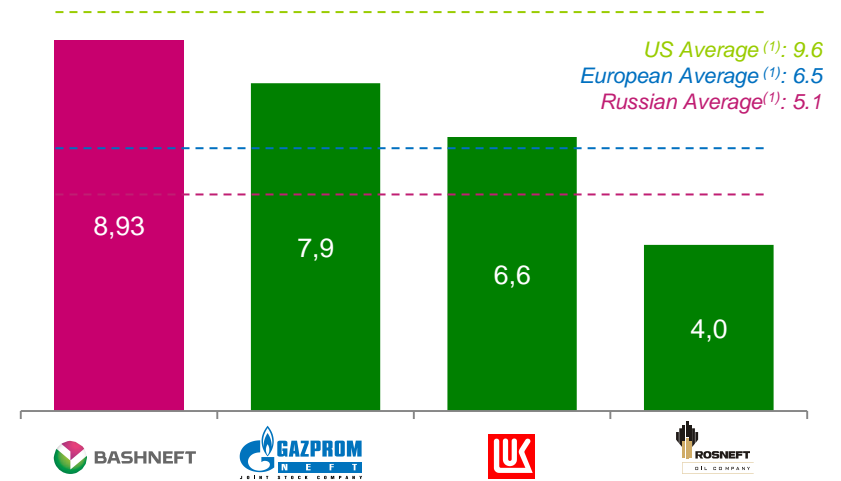
- **The integrated refining complex** consists of three refineries (Ufa Refinery Plant, Novoil and Ufaneftekhim), which include a lubricant unit and Russia's largest aromatic hydrocarbon production complex, as well as Ufaorgsintez (a petrochemical plant) and the Tuimazinskoye and Shkapovskoye Gas Processing Plants;
- The refining complex comprises a wide range of modern high technology process units, which results in the highest Nelson Index in the industry (8.93);
- Bashneft's refineries are industry leaders in terms of refining depth and the share of light products;
- Development of Bashneft's refineries as an integrated complex makes it possible to optimize the investment programme by building process units with a larger unit capacity;
- Considerable synergy is achieved through pipeline transportation of feedstock and intermediate products, integration of energy resource systems and integrated optimization planning.



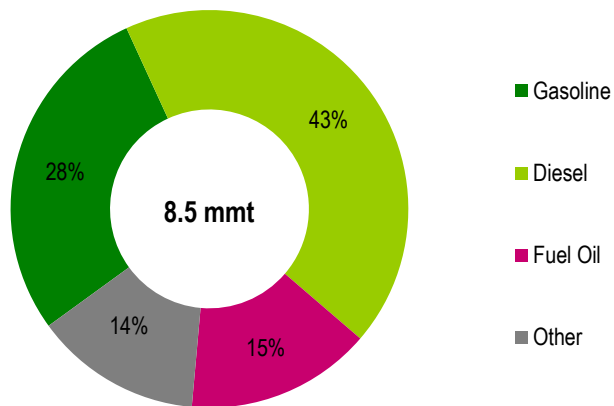
## One of the highest shares of light products in Russia's oil and gas industry (1H 2015)



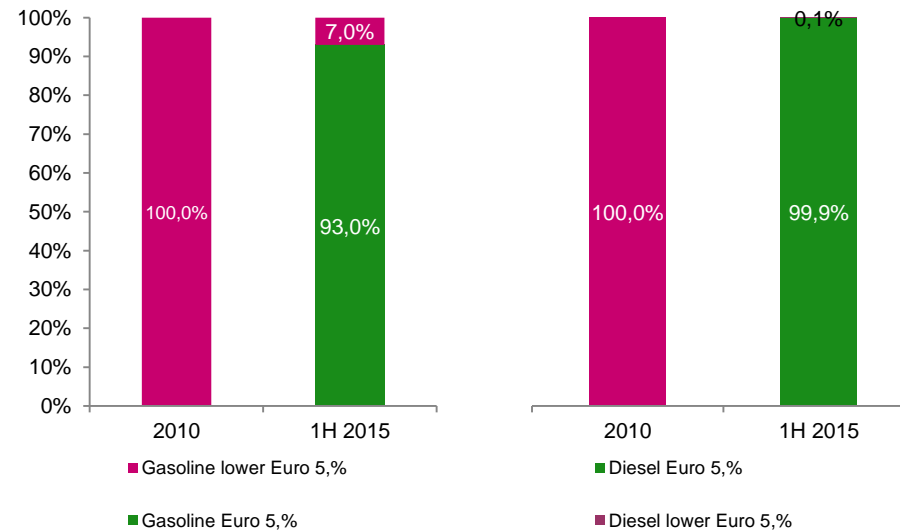
## No. 1 in Russia and above European average in terms of the Nelson Complexity Index



## Highly profitable petroleum product mix (1H 2015)



## Output of Euro 5 gasoline and diesel fuel (1H 2015)



# Downstream Strategy Aimed at Maximization of the Share of High-Margin Products

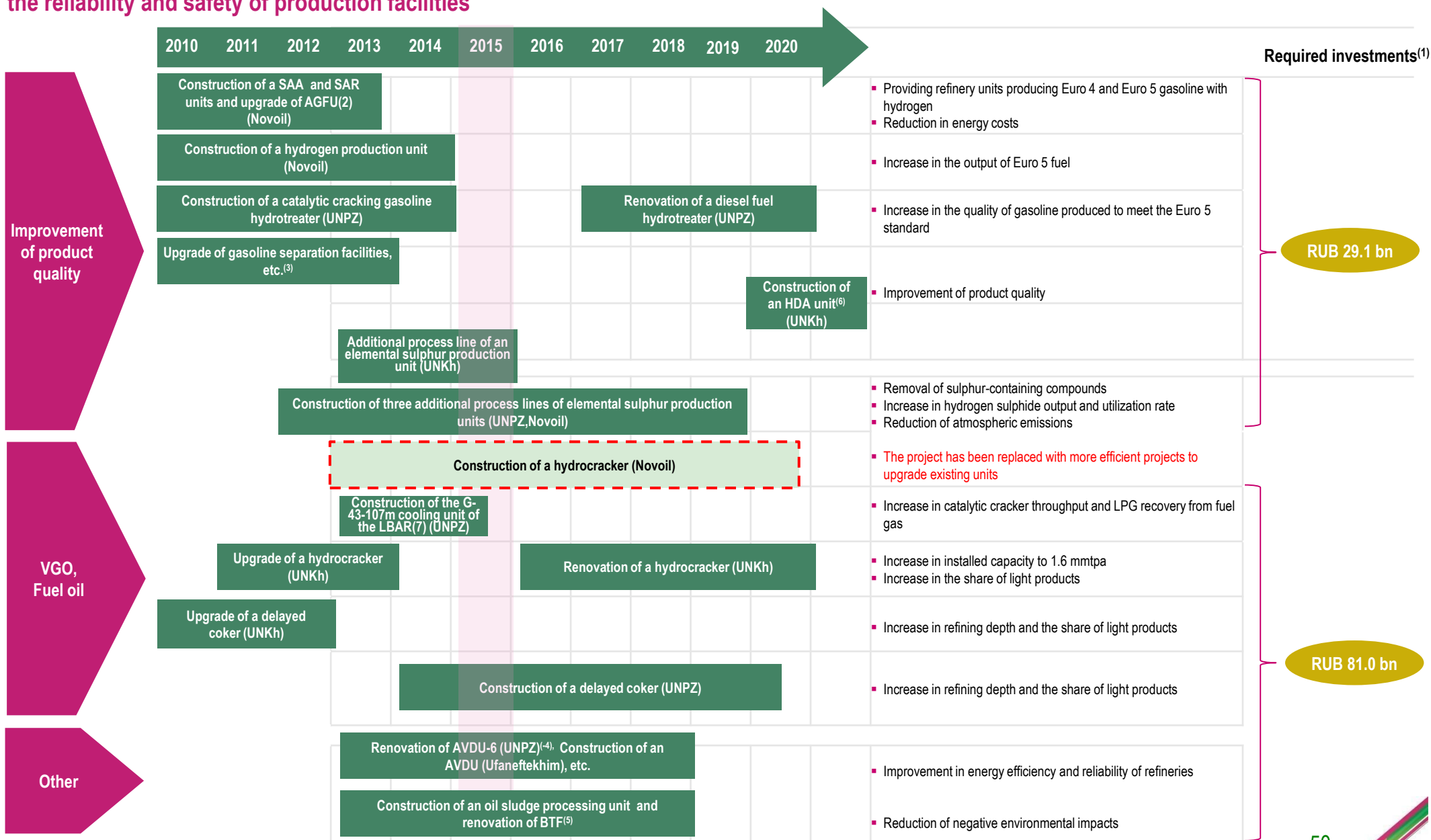
Products	Indicative spread between prices for petroleum products and oil price as of the end of 1H 2015, US\$/t <sup>(1)</sup>	Product group	Comments
Gasoline	271	High-margin products	<ul style="list-style-type: none"> <li>Significant premium to heavy petroleum products</li> <li>Favourable market conditions, a reduction in export duties on gasoline and diesel fuel is expected</li> </ul>
Diesel fuel	268	High-margin products	
Niche light products LPG, jet and marine fuels and other products	112	High-margin products	<ul style="list-style-type: none"> <li>Significant premium to heavy petroleum products</li> <li>Significant potential for domestic demand growth</li> <li>Some niche products are exempt from excise taxes and duties, which makes their sales highly efficient</li> <li>Limited competition</li> </ul>
Lubricants	237	High-margin products	<ul style="list-style-type: none"> <li>Potential for domestic demand growth</li> <li>Potential for higher economic efficiency of sales due to implementation of a development strategy in the segment</li> </ul>
Bitumen	-55	Low-margin products	<ul style="list-style-type: none"> <li>Stable demand is expected provided that road construction projects are implemented in operating regions</li> </ul>
Fuel oil	-83	Low-margin products	<ul style="list-style-type: none"> <li>Both domestic and international markets are oversupplied</li> <li>An increase in the export duty to 100% of the export duty on crude oil is expected</li> </ul>

Source: Argusmedia, Kortes Information and Research Centre

1. The indicative spread is calculated as a difference between a weighted average of regional prices for each product category for 1H 2015 in the Russian market (for VGO, the export price less the relevant duties, excise taxes and transportation costs is used (factory netback)) and the weighted average price for Volga-Urals oil for 2013 (according to Argusmedia). Indicative prices for all product groups have been calculated based on average prices of products within the groups for 1H 2015. The gasoline price is the price for Regular-92 gasoline (according to Argusmedia); the diesel fuel price is calculated as the arithmetic mean of prices for summer and winter diesel fuel (according to Argusmedia); the price for light niche products is calculated as the weighted average price based on the price for RT jet fuel (according to Kortes), SMT marine fuel (the price for summer diesel fuel was used as it most closely resembles SMT marine fuel in terms of price and technical properties), SPBT LPG (according to Kortes); the lubricant price is the price for I-40A industrial lubricant (according to Kortes); the fuel oil price is the price for M-100 fuel oil (according to Argusmedia); the bitumen price is the price for BND 90/130 bitumen (according to Argusmedia).

# Value Creative Downstream Investment Programme

The Company has ensured full compliance with current and new Russian standards in fuel production while keeping additional required investments to a minimum. The key aim of further investment is to increase margins by increasing the share of light products and improving the reliability and safety of production facilities



1. The Company's preliminary guidance for investments for 2015 and beyond; 2. SAA - Sulphuric Acid Alkylation, SAR - Sulphuric Acid Regeneration, AGFU - Absorbing Gas Fractionating Unit; 3. Over 12 projects, 4. AGB - Gasoline Blending Unit, AVDU - Atmospheric-Vacuum Distillation Unit, 5. BTF – biological treatment facilities, 6. HDA – hydrodearomatization , 7. LBAR – lithium-bromide absorption refrigerator



# Delayed Coker Construction: Example of an Efficient Large-Scale Investment Project Management System



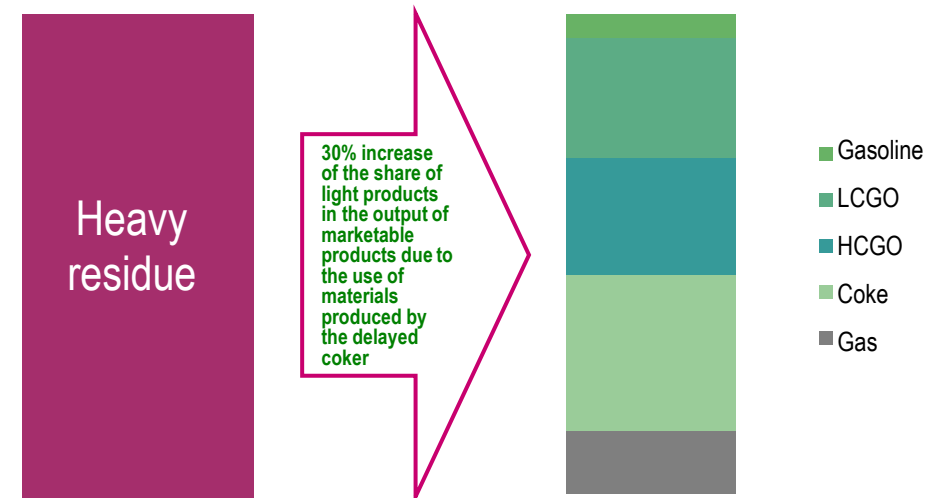
## What has been done

- A project team has been formed;
- A site for the unit's facilities has been selected on the premises of UNPZ;
- The logistics of delivering large cargo to the construction site has been developed;
- Basic designs using Foster Wheeler technology have been completed.

## Key features of the project

- Implementation time frame: from 2013 through 2020;
- Throughput: 2 mmt of raw materials;
- Production site: Bashneft-UNPZ Branch of PJSOC Bashneft;
- Engineering company: selection underway.

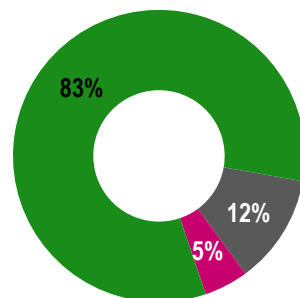
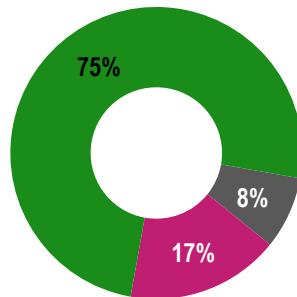
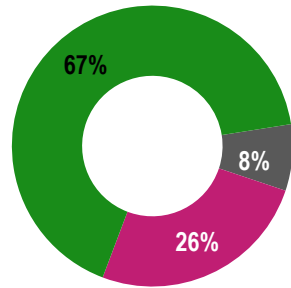
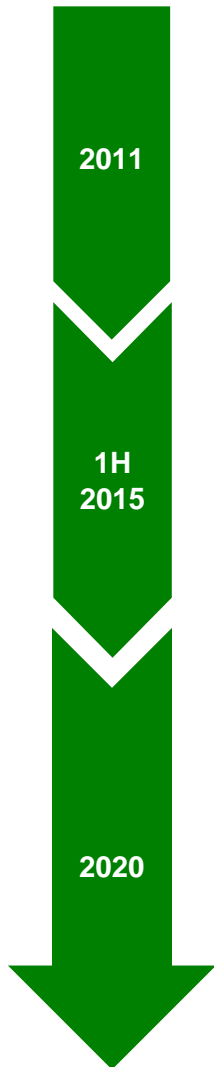
## Delayed coker product mix\*



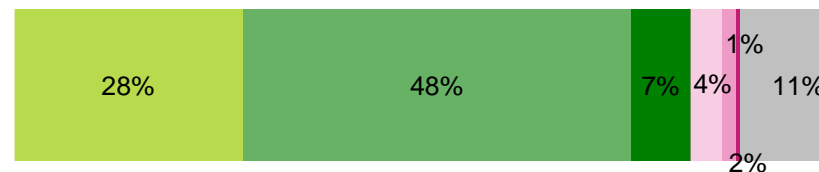
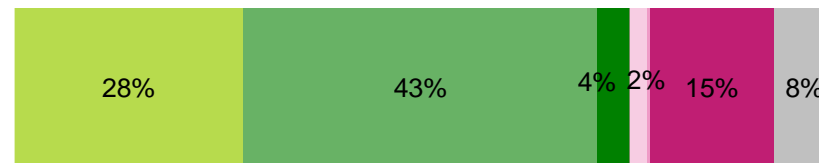
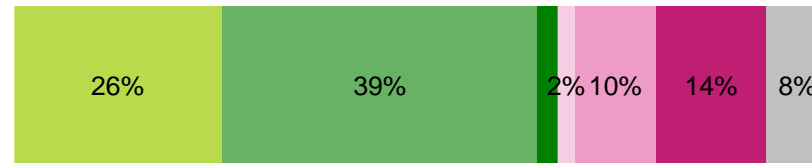
Output of low-margin products will be minimized by 2020...

...while the share of high-margin products will increase significantly

## Comments



■ High-margin products  
■ Low-margin products  
■ By-products (coke, sulphur)



**Light products:** Gasoline<sup>(1)</sup>, Diesel fuel, Niche light products<sup>(2)</sup>  
**Heavy products:** Niche heavy products<sup>(3)</sup>, VGO, Fuel oil  
**By-products:** Coke, sulphur, bitumen

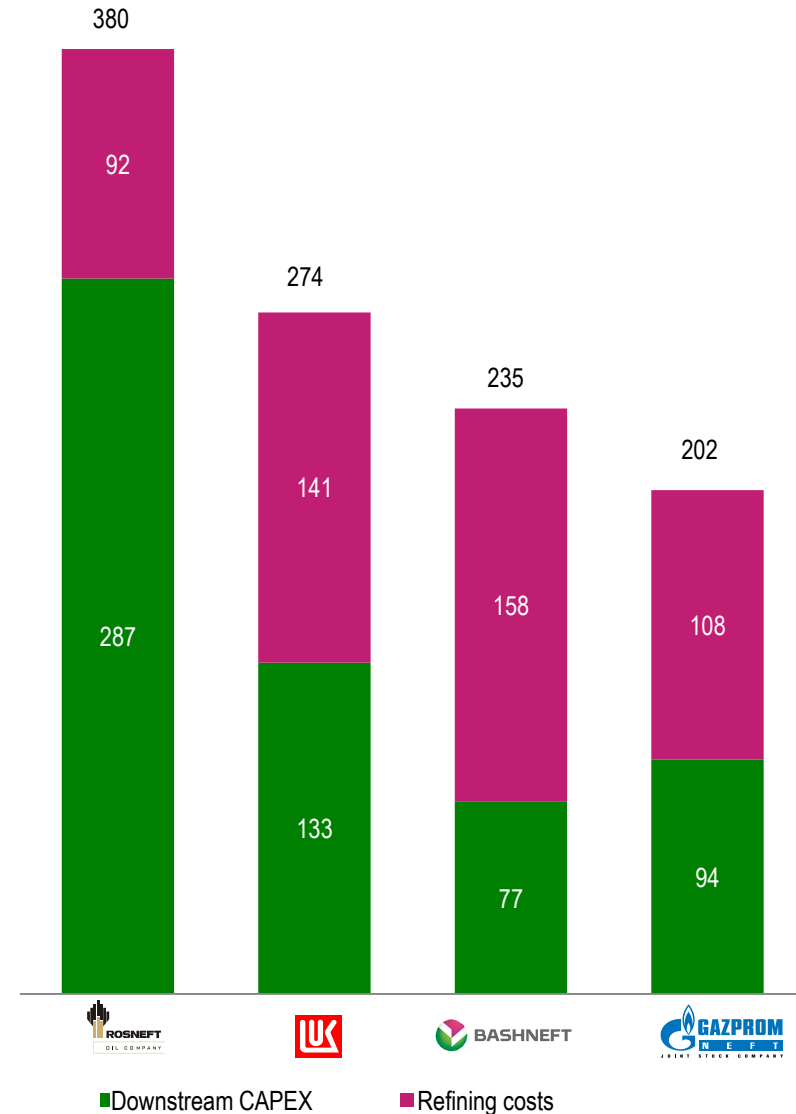
- The downstream development strategy is value creative:
  - Improvement of economic efficiency due to margin and product mix optimization;
  - High levels of projected IRR of all downstream investment projects;
  - Enables the Company to benefit from projected development of fuel market fundamentals and expected changes in the tax regime;
  - Provides flexibility and resilience amid market volatility and uncertainty over the tax regime.



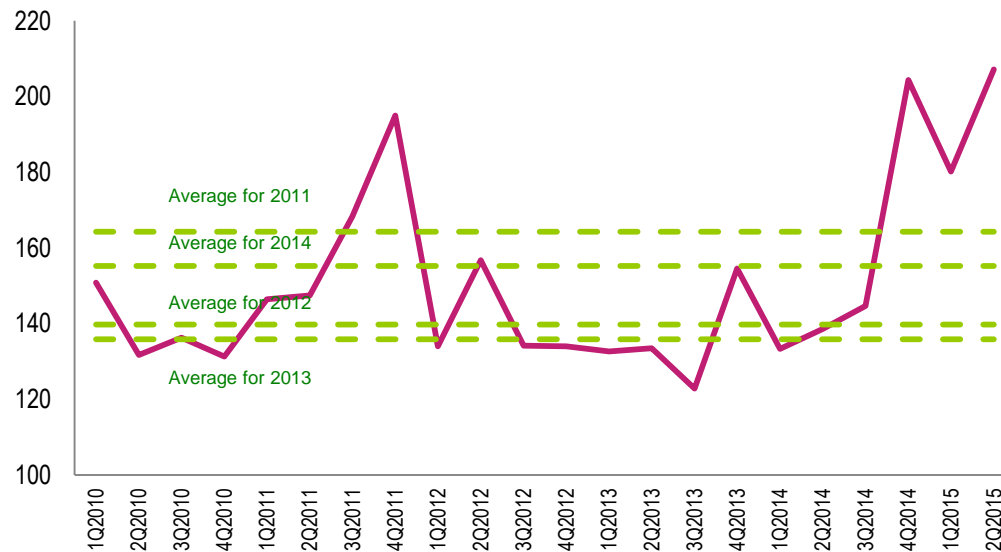


- Technologically advanced refining capacities enable Bashneft to produce a wide range of high-quality petroleum products at a low cost;
- The Company ranks among industry leaders in terms of refining efficiency.

Average Downstream CAPEX and refining costs, 2011 – 1H 2015, RUB/bbl <sup>(1)</sup>



Changes in refining costs, RUB/bbl



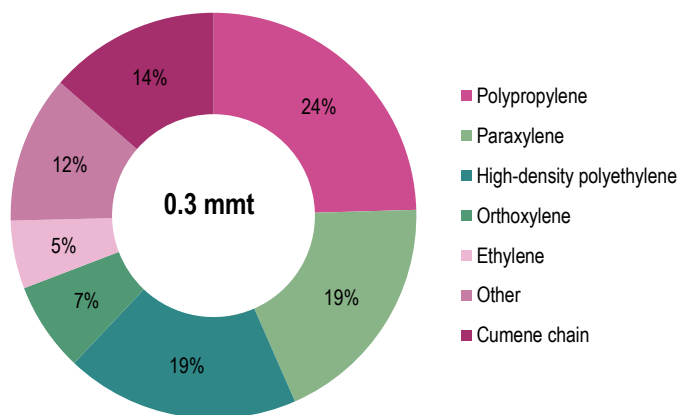
Source: Company data

1. Downstream CAPEX include capital expenditures on refining, marketing and distribution

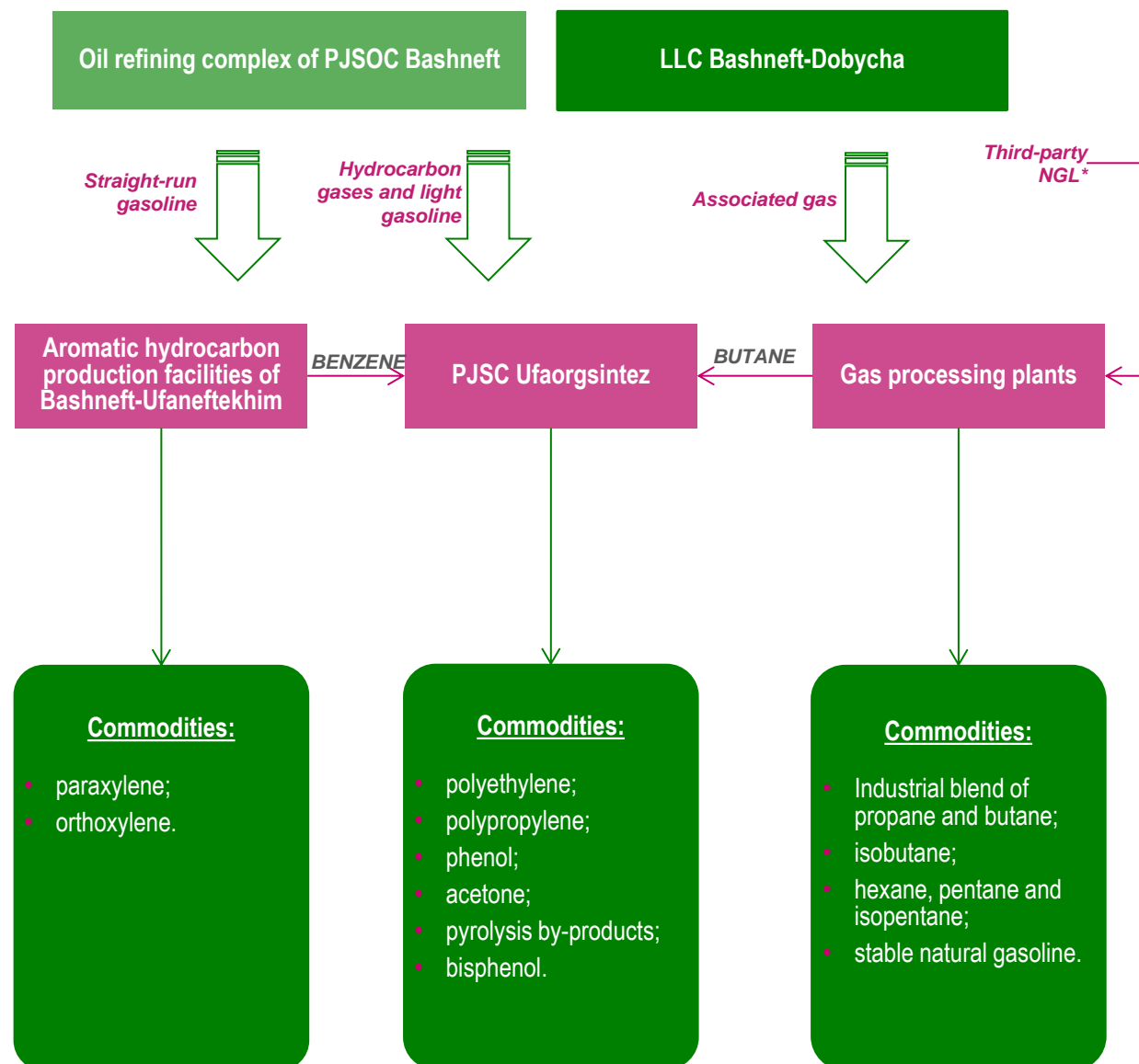
## Priorities in the development of the petrochemical complex until 2020:

- To specialize in the production of specialized high-margin polymer grades;
- To increase capacities by 2020:
- To restore pyrolysis capacity;
- To construct a new ethylene polymerization unit;
- To renovate the cumene production unit;
- To renovate aromatic hydrocarbon production facilities at Ufaneftekhim;
- To implement a project to recover an additional amount of LPG from fuel gas at refineries.

## Product mix, 1H2015

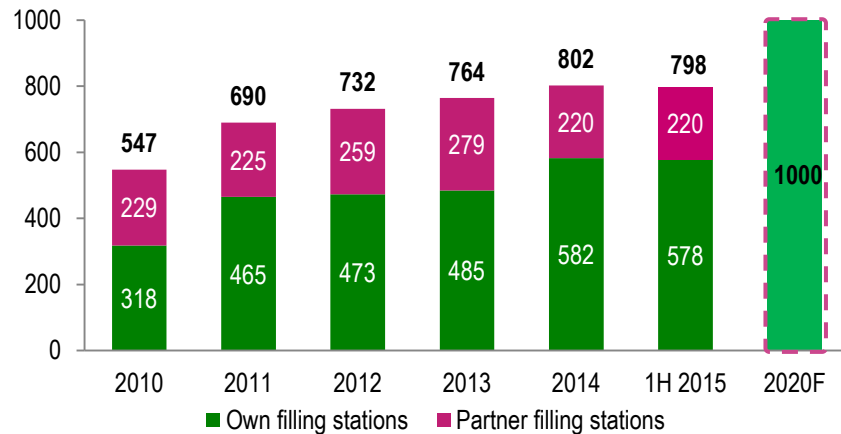


## Production cooperation of petrochemical enterprises



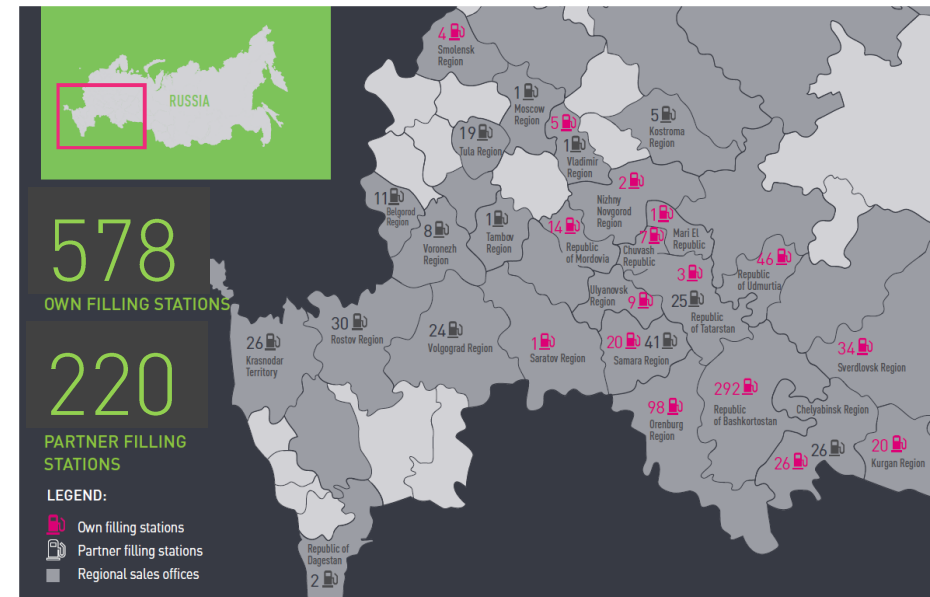
\*natural gas liquids

## Successful track record of development of the retail network and plans for further expansion...



- Consistent expansion of Bashneft's own retail network: from 547 filling stations in 2009 to 798 own and partner filling stations as of 1H 2015;
- Fuel sales via own filling stations have more than doubled over the last three years and reached 1,522 kt in 2014;
- In the medium term Bashneft plans to sell 80% of gasoline via its own retail network;
- Since July 2012, all diesel and gasoline sold through Bashneft's own retail network has been Euro 5 compliant;
- In October 2013, Bashneft started selling ATUM-92, a new high-quality premium fuel, and in May 2015, the Company started selling ATUM-95, a fuel developed in cooperation with BASF.

## The retail network covers a large part of the Central Russia

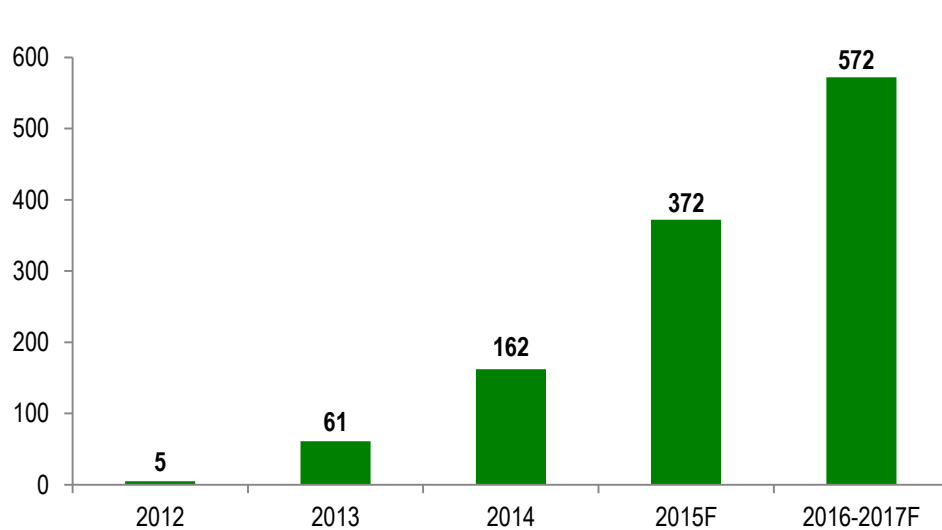


## Rebranding programme highlights

- In 2011 Bashneft's retail brand was developed;
- In 2012 Bashneft launched the Filling Station Rebranding Programme;
- From 2013 through 1H 2015, 34% of Bashneft's own network of filling stations (252 filling stations) were redesigned in accordance with a new corporate standard as part of the rebranding programme;
- Bashneft produces ATUM, a new generation branded fuel meeting the Euro 5 standard and developed in cooperation with BASF;
- Diversified approach to capital investments in rebranding.



## Cumulative outcome of the rebranding programme



## Tasks

- To increase the value of petroleum product mix
- To increase operational availability of refineries
- To increase energy efficiency at refineries
- To streamline the structure and to improve the performance of wholesale and retail assets



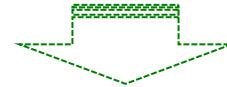
### To implement programmes to upgrade refineries and petrochemical plants

- To construct new units at refineries and renovate the existing ones
- To upgrade the units at PJSC Ufaorgsintez and increase their capacity
- To maximize synergy between refineries and petrochemical plants
- To develop and introduce technologies for enhancing product quality
- To increase the output of high-margin niche products



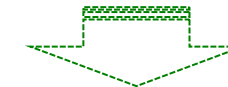
### To take measures for increasing operational availability of units:

- Business process re-engineering aimed at optimizing the timing of preparing, planning and carrying out repairs; an increase in the amount of time between repairs
- Reduction / elimination of unscheduled and scheduled downtime by:
  - organizing and enabling high-quality equipment maintenance and repairs;
  - upgrading property, plant and equipment;
  - taking measures to ensure high reliability



### To implement an energy efficiency and conservation programme at refineries

- To implement scheduled measures forming part of the approved Energy Efficiency Programme at refineries
- To optimize heat exchange at process units
- Continuous monitoring of energy consumption, development and implementation of corrective measures
- To create a process for continuous search for, assessment and implementation of energy conservation measures
- To increase utilization of secondary energy resources
- To use energy-saving technologies in refinery unit construction and renovation projects



- To close unprofitable oil depots
- To close unprofitable filling stations
- To implement a retail network rebranding programme
- To develop more profitable small-scale wholesale distribution channels
- To increase diesel fuel exports to the most profitable destinations



- 

Best-in-class fully integrated refining complex complying with all current Russian technical standards in fuel production;
- 

Bashneft will further improve its crude oil supply structure to efficiently provide refineries with feedstock in order to increase refining margins;
- 

Completion of the refinery integration programme has provided a solid foundation for further upgrades, expansion and performance improvement initiatives;
- 

We plan to cease producing fuel oil completely by 2019:

  - Further upgrade of the refining complex will result in complete cessation of fuel oil production by 2019 and an increase in the output of high-quality products;
  - The downstream investment programme is expected to result in significant improvement of downstream economic efficiency and an increase in Bashneft's shareholder value.
- 

The Company plans to expand its retail network and increase the number of filling stations to 1,000 by 2020;
- 

Large-scale rebranding programme covering over 200 filling stations and aimed at boosting retail sales.



**БАШНЕФТЬ**  
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## 5. PJSOC Bashneft: Financials



**Alexey Lisovenko**

Vice-President, Economics and Finance,  
Chief Financial Officer



**We aim to remain a leader in terms of operational efficiency and cost control, profitability and shareholder returns**

## Operational Efficiency

- Remain a leader in terms of operational efficiency through control of operating costs and commitment to a balanced approach to CAPEX and M&A;
- Cost optimization measures in the Upstream segment through improvement of production drilling efficiency and use of enhanced oil recovery techniques;
- Further improve operational availability and energy efficiency, including due to innovations.

## Dividend Payment

- Historically, we have been a leader in Russia's oil sector in terms of dividend payments. Therefore, we aim to maintain a high level of dividend payments.

## Financial Targets

- Maintain the Net Debt to EBITDA ratio below 2.0x;
- At least preserve current credit ratings.

## Liquidity Targets

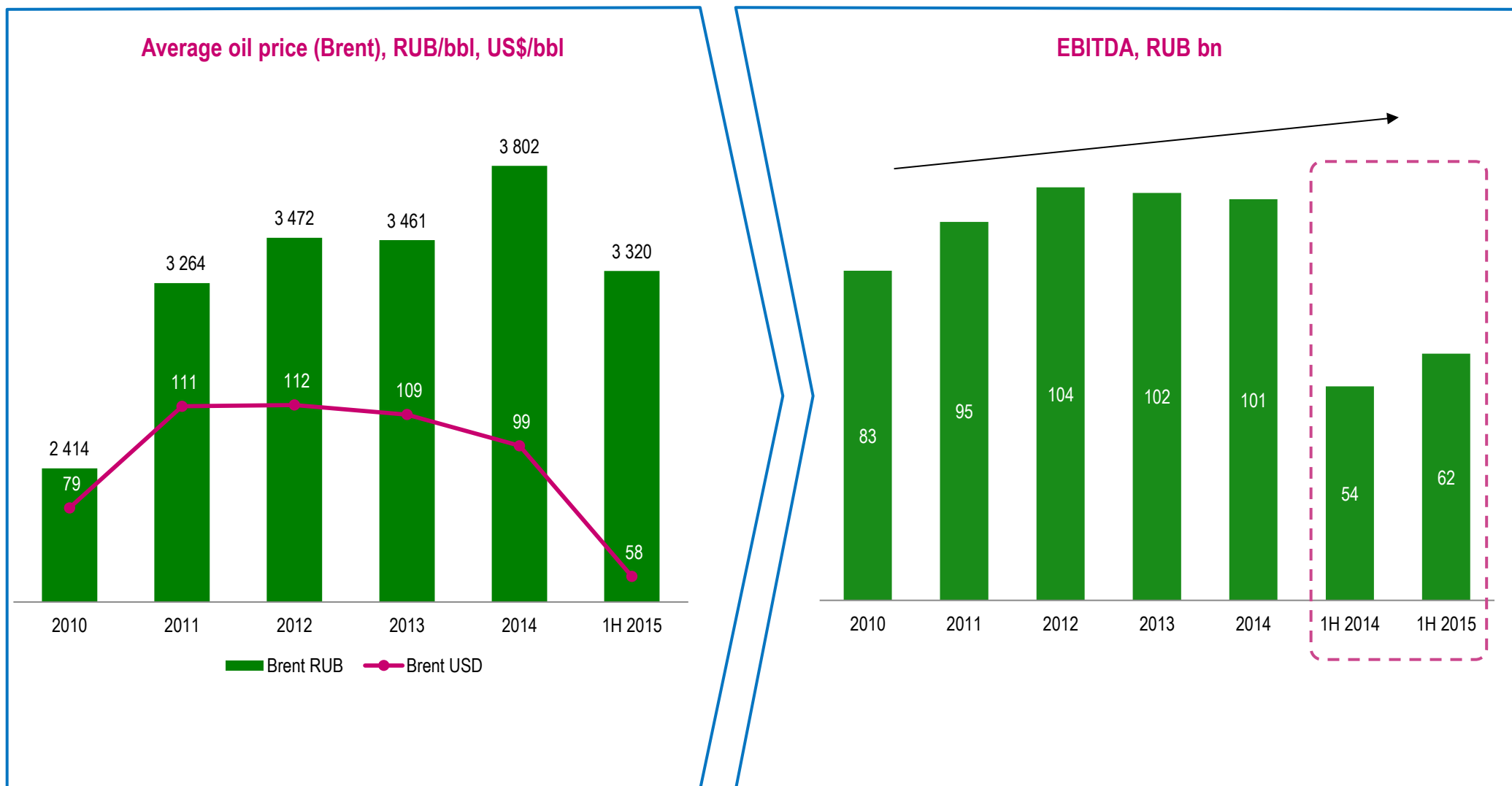
- Minimize unused cash balance through dynamic management of credit facilities;
- Place the majority of cash with investment-grade banks limiting concentration;
- Efficient group-wide liquidity management through a cash pooling programme in the parent company.

## Funding / Debt Structure

- Keep a flat repayment profile;
- Balanced currency structure of the loan portfolio aimed at portfolio diversification and reduction of total borrowing costs;
- Diversification of available instruments and expansion of the investor base to rule out dependence on a single funding source and reduce the refinancing risk.



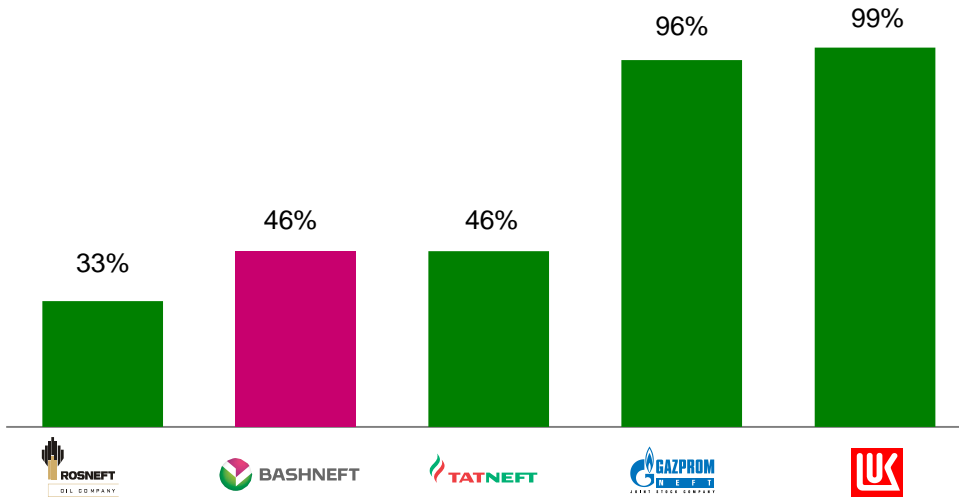
**Strong financial performance enabled by a high quality and high return asset base despite unfavourable macroeconomic environment**



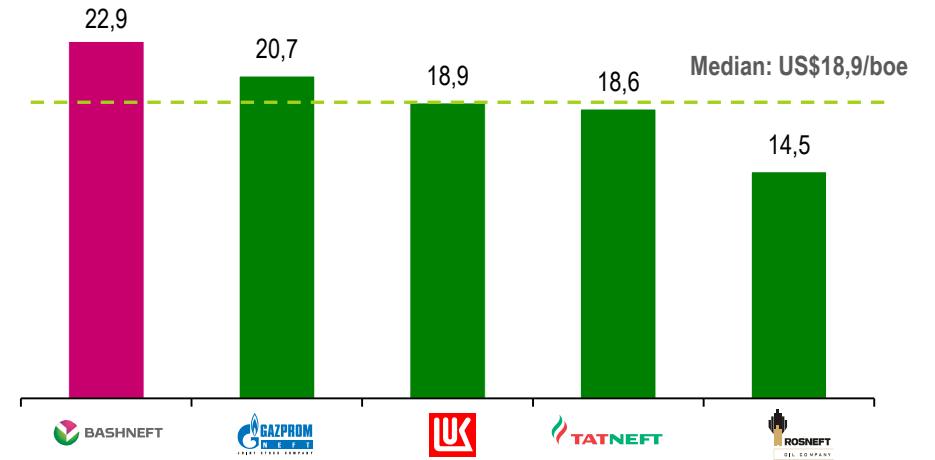
# Sector Leading Cash Flow Generation and Profitability

Strong free cash flow generation and returns supported by an efficient investment programme and a balanced M&A strategy

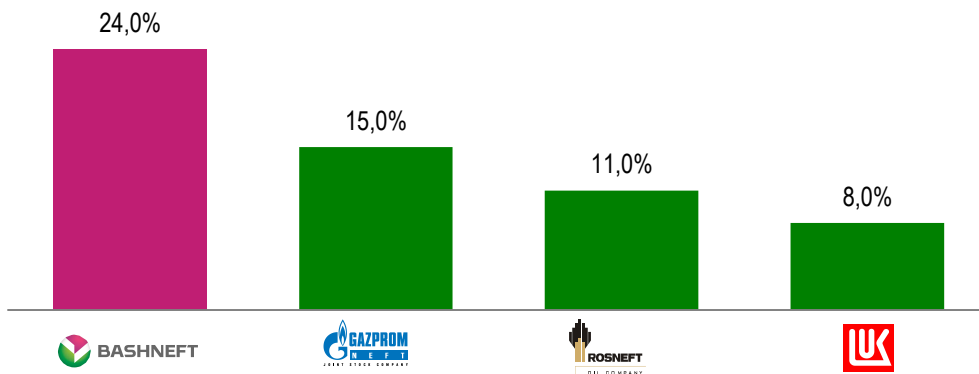
CAPEX / Operating cash flow (2014)



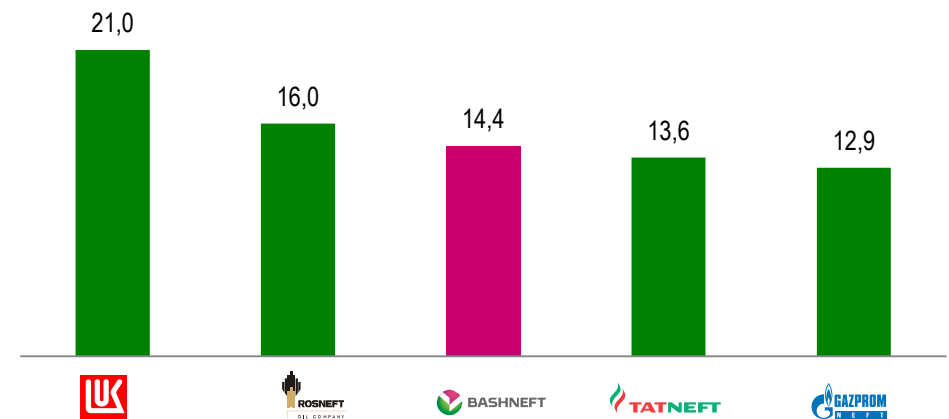
High profitability in the industry  
(average for 2013-2014), US\$/boe<sup>(1)</sup>



RoACE in the Russian oil sector, 2014



One of the leader in terms of upstream profitability  
(average for 2013-2014), US\$/bbI<sup>(2)</sup>

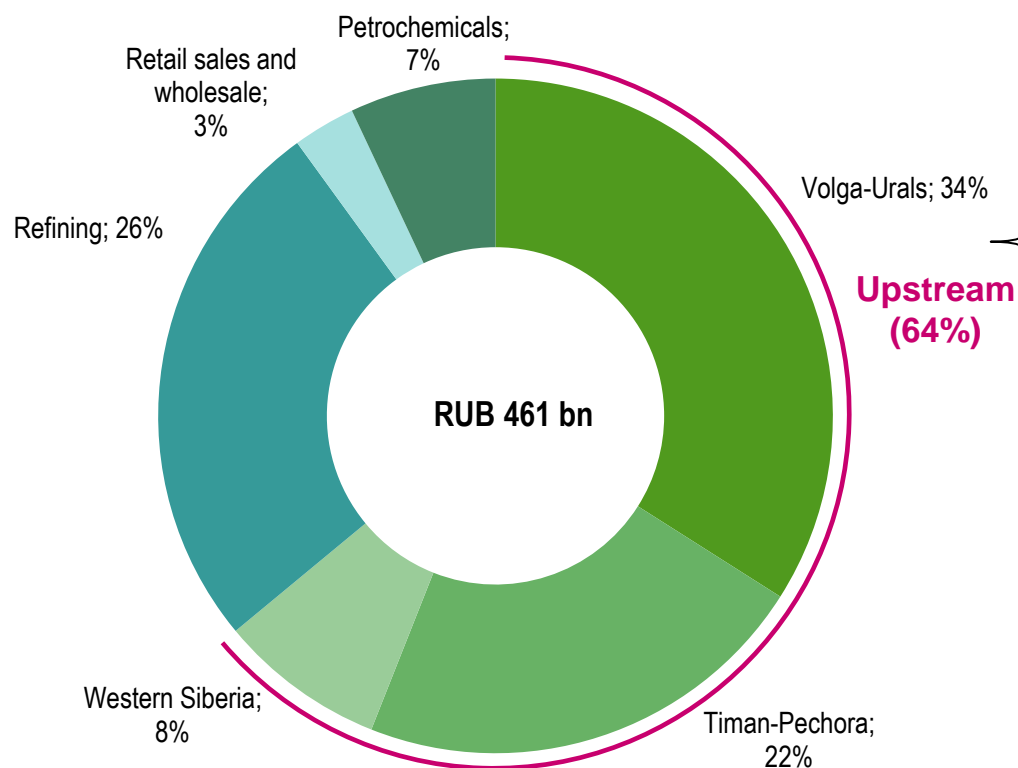


Source: company data, VTB Capital estimates

1. Average EBITDA/annual hydrocarbon production for 2013-2014  
2. According to IFRS and US GAAP financial statements

An efficient upstream investment programme and a disciplined and value-creative approach to downstream investment enable strong free cash flow generation

## CAPEX (2016-2020), RUB bn



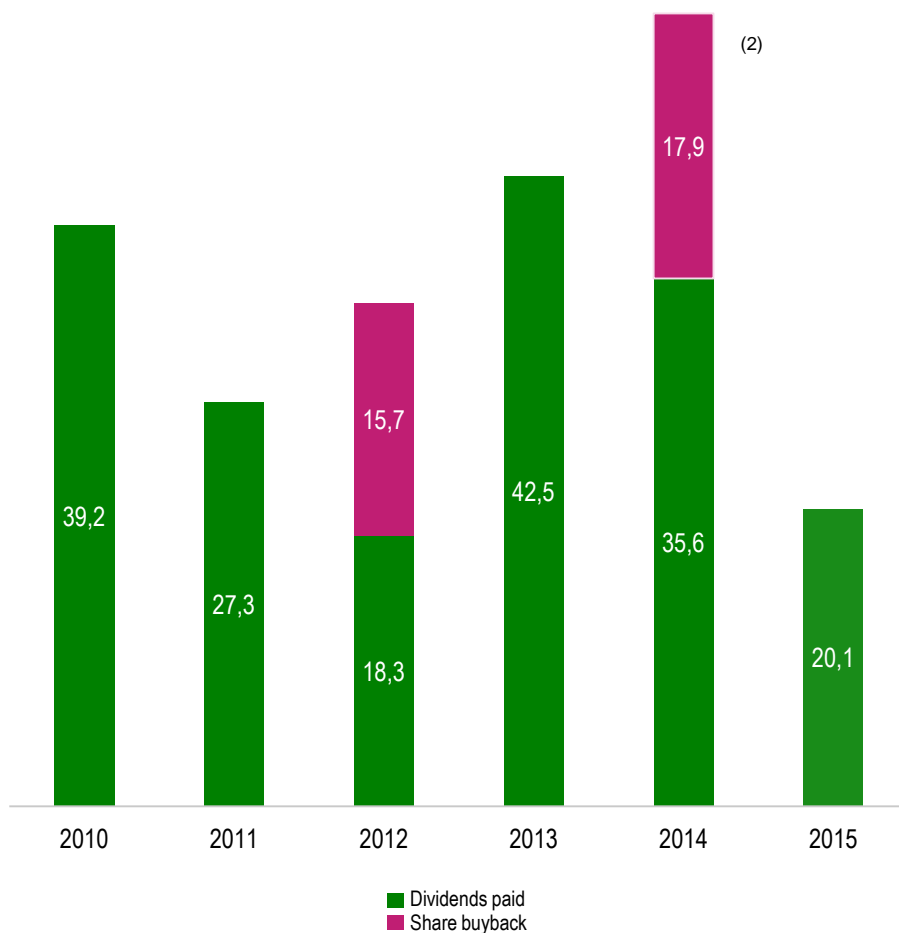
## Key elements of the investment programme

CAPEX sector	Description
Volga-Urals	<ul style="list-style-type: none"> <li>Increase drilling activities in Bashkortostan</li> <li>Maintenance CAPEX</li> </ul>
Timan-Pechora	<ul style="list-style-type: none"> <li>Complete construction of infrastructure</li> <li>Continue drilling</li> </ul>
Western Siberia	<ul style="list-style-type: none"> <li>Continue drilling and geological exploration</li> </ul>
Refining	<ul style="list-style-type: none"> <li>Proceed with the upgrade programme</li> </ul>
Petrochemicals	<ul style="list-style-type: none"> <li>Expand petrochemical capacities</li> </ul>
Retail & Wholesale	<ul style="list-style-type: none"> <li>Maintenance CAPEX</li> <li>Rebranding programme</li> </ul>

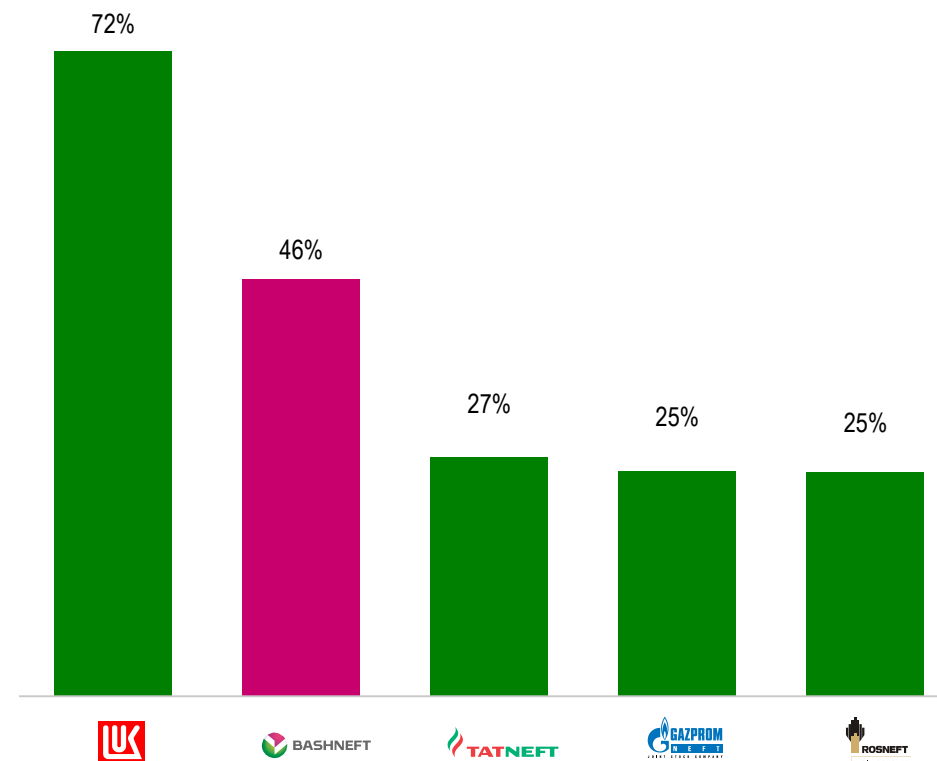
# Industry Leader in Terms of Dividend Payments

Historically, Bashneft has been a leader in Russia's oil sector in terms of dividend payments. We will remain committed to maintaining a high level of dividend payments going forward

Total distributions in the form of dividends and share buyback<sup>(1)</sup>, RUB bn



2014, Dividends / Net profit<sup>(3)</sup>

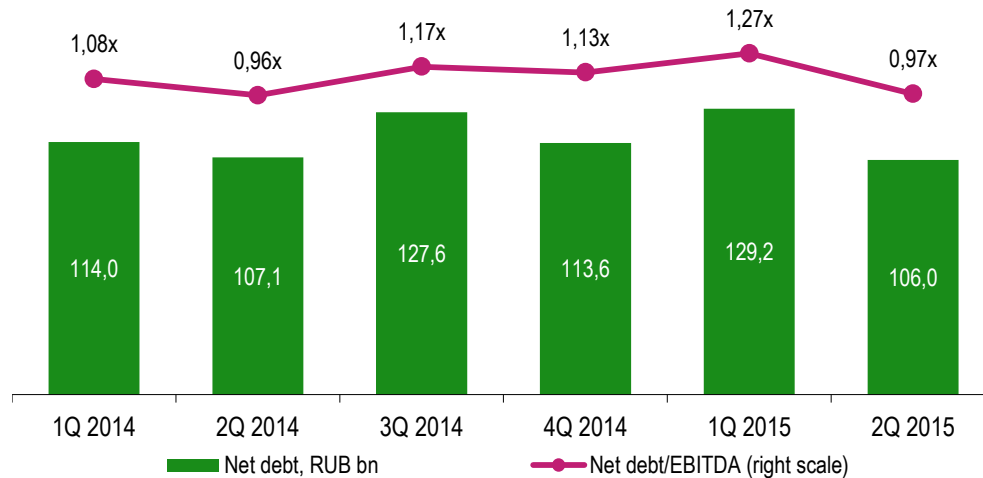


Source: company reports, AGMS results

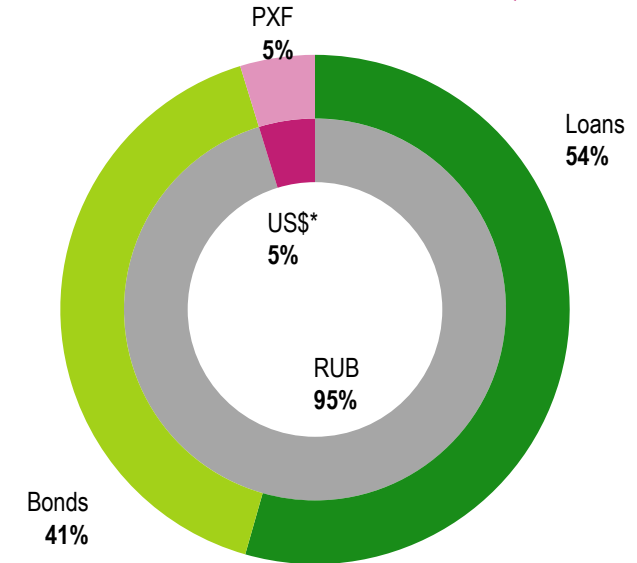
1. Payments in cash
2. Total buyback amount as part of reorganization of Sistema-Invest
3. Dividends declared for the 2014 fiscal year/net profit for 2014



Net debt ratios

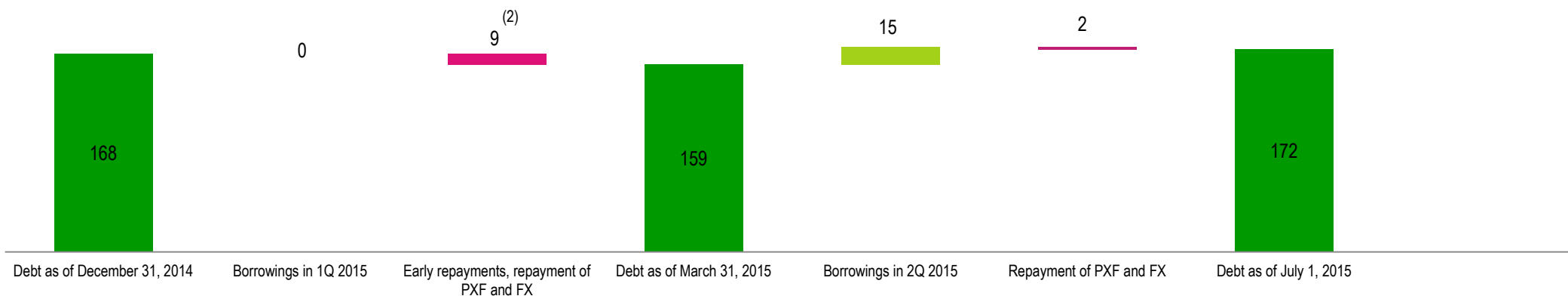


Debt breakdown as of the end of 2Q 2015



- As of June 30, 2015, total debt amounted to RUB 171.7 bn as against RUB158.6 bn as of March 31, 2015;
- Following negotiations, the pace of reduction in interest rates on Russian loans has been aligned with changes in the key rate of the Central Bank of Russia;
- In 2Q 2015, the weighted average interest rate on loans decreased to 11.1% compared to 11.7% p.a. a quarter earlier as a result of a reduction in interest rates on rouble-denominated instruments following a key rate cut by the Central Bank of Russia;
- In May and early June, Bashneft placed three series of exchange-traded bonds (BO-03, BO-04, BO-07) worth a total of RUB15 bn, with put options in 2020-2021, a call option in two years and a weighted average coupon of 12.03%. The proceeds were allocated for refinancing more expensive Russian loans in July and August 2015.

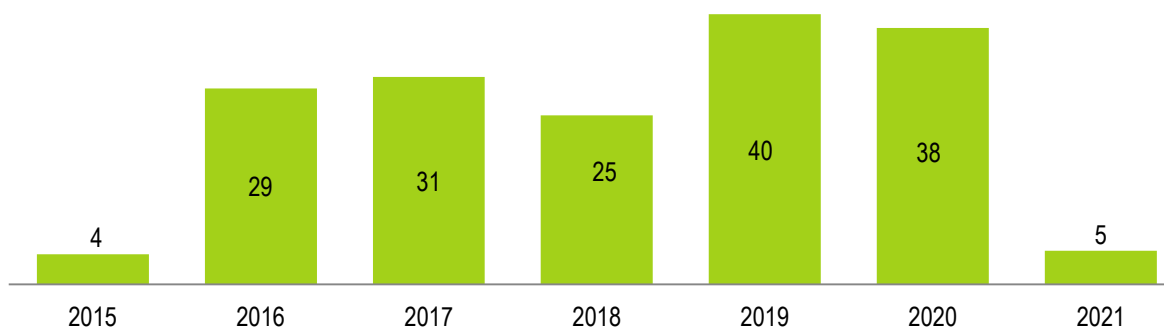
## Changes in sources of funding in 2015, RUB bn



● Efficient liquidity management has made it possible to **refinance** debt falling due in 2017-2019 ahead of schedule:

- Bashneft placed three series of bonds worth a total of RUB15 bn, with put options in 2020-2021 and a weighted average coupon of 12.03%.
- The proceeds were allocated for refinancing more expensive Russian loans in July and August 2015.

## Debt repayment schedule as of the end of 2Q 2015, RUB bn



1. As of June 2015

2. Exchange rate used (\$/RUB): 56.2584 as of December 31, 2014; 58.4643 as of March 31, 2015; 55.5240 as of June 30, 2015. For borrowings, the average exchange rate for the relevant period is used





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## 6. PJSOC Bashneft: Management incentive system

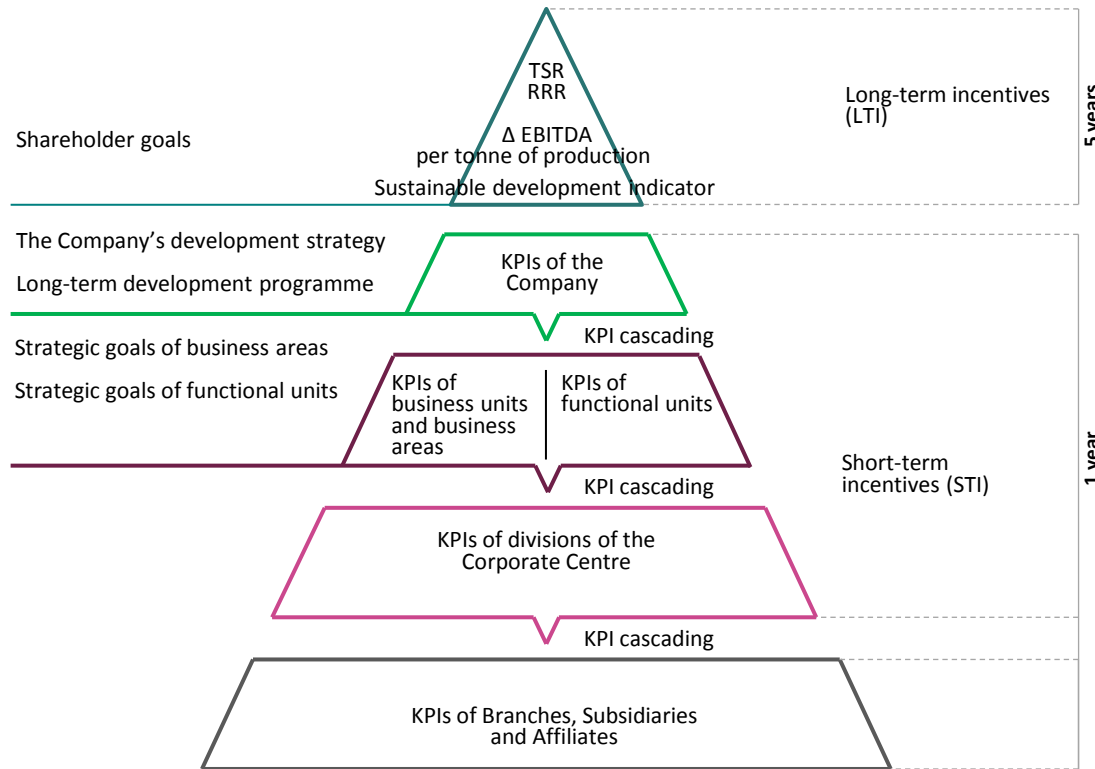


**Alexander Korsik**

President,  
Chairman of the Management Board of PJSOC Bashneft

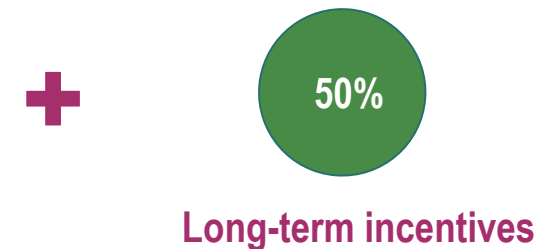


## KPI PYRAMID



## Clear and transparent KPI system

- To ensure that the management is efficient at achieving strategic goals set for 2015-2020, the Company has in place a system of key performance indicators (KPIs);
- The management's remuneration is linked to achievement of strategic goals and objectives through long-term (LTI) and short-term (STI) incentive plans;
- Components of short-term incentive plans:
  - 50%: achievement of financial KPIs;
  - 35%: achievement of specific operational KPIs;
  - 15%: achievement of project-related KPIs.



The management's remuneration depends on successful achievement of shareholder goals and the level of achievement of KPIs forming part of incentive plans (STI and LTI)





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**Thanks for your attention!**

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