



# Bashneft Group Financial Results for 1Q10



**Moscow, June 2010**

# Disclaimer



Certain statements in this presentation may contain assumptions or forecasts with respect to forthcoming events within Bashneft Group and JSFC Sistema. The words “expect”, “estimate”, “intend”, “will”, “could” 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 or Sistema to differ materially from those contained in our projections or forward-looking statements, including, among others, deteriorating economic and credit conditions, our competitive environment, risks associated with operating in Russia, rapid technological and market change in our industries, as well as many other risks specifically related to Bashneft Group and Sistema and their operations.

# Bashneft Group\* today

Bashneft is among Top-10 producers and Top-5 refineries in Russia

Bashneft sells its output in Russia and exports to Europe

The Group includes oil producers and refiners, as well as a retail network in Bashkortostan



**Output**  
12.2 mln tonnes\*\*

Bashneft

- Significant reserves (20 years of production), as confirmed by international audit
- Strong growth potential thanks to new technology

**Refining**  
20.7 mln tonnes (capacity 26.1 mln tonnes)\*\*

Ufaneftekhim, Novoil,  
Ufimsk Refinery, Ufaorgsintez

- Extensive refining complex capable of producing complex and high-quality products

**Sales**  
Retail and small wholesale: 0.8 mln tonnes\*\*

Bashkirnefteproduct

- Retail network and storage facilities in Bashkortostan

**Bashneft Group is a vertically integrated oil producer with a rapidly growing upstream and substantial refining capacity**

\* Bashneft, its subsidiaries and its affiliates, including Bashkirenergo ("the Bashneft Group" or "the Group")

\*\* Figures for 2009

# Key results for 1Q10\*



## Financial results

- Revenues up 164% to US\$2,912 mln
- OIBDA up 190% to US\$613 mln
- OIBDA margin – 21%
- Net income up 190% to US\$296 mln

## Cost of sales

- Reduction in unit costs of production and refining in ruble terms

## CAPEX

- 1Q10 CAPEX down 22% for production and 81% for refining due to reallocating capital outlays throughout 2010

## Operating results

- Organic production growth of 17.5%
- Refining depth up to 84.8%
- Share of light products up to 62.57%;
- Major increase in sales of own oil products
- Oil exports up 72%
- Proven reserves (1P) of 1,795.1 mln bbl

## Debt

- Total debt – US\$1.7 bln
- Debt/OIBDA = 2.8x

## Macroeconomics

- Ruble appreciated versus the dollar by 11.8% to RUR29.9=US\$1
- Urals price up 72.5% to US\$75/bbl

**The strong growth in OIBDA and net profit was due to a favorable macroeconomic environment and a change in the Group's business model.**

\* Compared with 1Q09

# Strategic and current goals



## Creating a vertically integrated oil producer

- Establish a balance between upstream and downstream by increasing production
- Improve corporate governance, as well as the legal, ownership and organizational structures
- Implement an integrated planning system, control and managerial reporting
- Ensure growth organically and through M&A

## Exploration and production

- Deliver organic growth up to 15.1 mln tonnes
- Assess opportunities for acquiring new exploration licenses and production assets
- Reduce lifting costs by at least 10% within 3 years

## Refining

- Balance supplies (80-100% of refining demand)
- Upgrade refineries with the aim of producing 100% of Euro 4/5 fuel
- Increase refining depth to 91%
- Boost throughput to 22 mln tonnes

## Sales

- Expand the retail network and oil storage facilities to over 20 regions
- Sell up to 15% of motor fuel produced via the retail network

## Goals for 2010

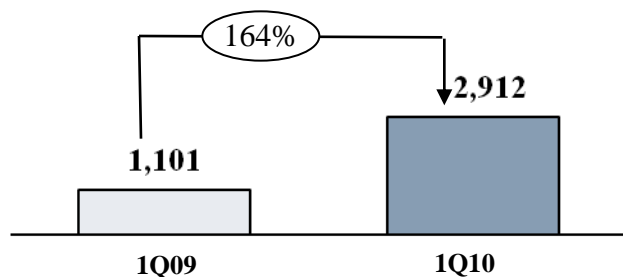
- Oil production – 13.4 mln tonnes
- Continue to modernize the refineries to ensure compliance with the technical standards due to be introduced by the government
- Export around 6.7 mln tonnes of oil products and 2.3 mln tonnes of oil
- Sell over 11.5 mln tonnes of oil products in Russia
- Create 15 regional distribution companies
- Open 50 new retail outlets

**The Group intends to become a large-scale vertically integrated oil producer with increasing production, balanced refining capacity and efficient sales channels.**

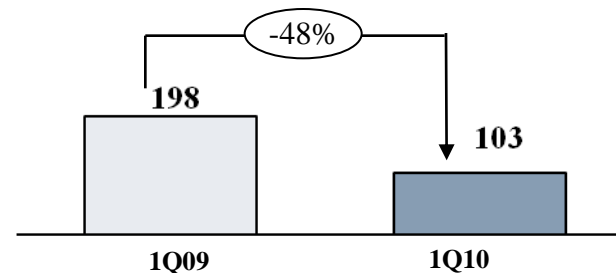
# Key financial results for the Group



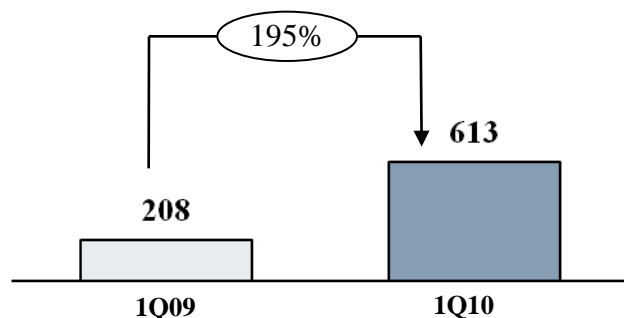
**Revenues, US\$ mln**



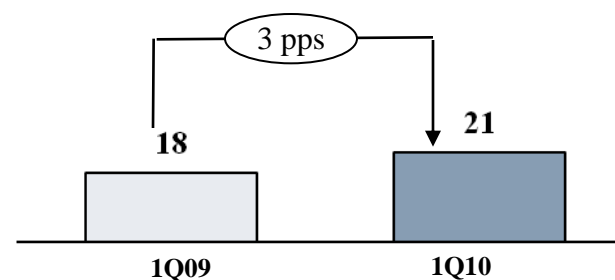
**CAPEX, US\$ mln**



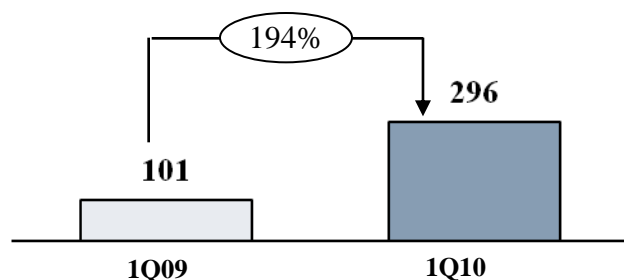
**OIBDA, US\$ mln**



**OIBDA margin, %**



**Net income, US\$ mln**



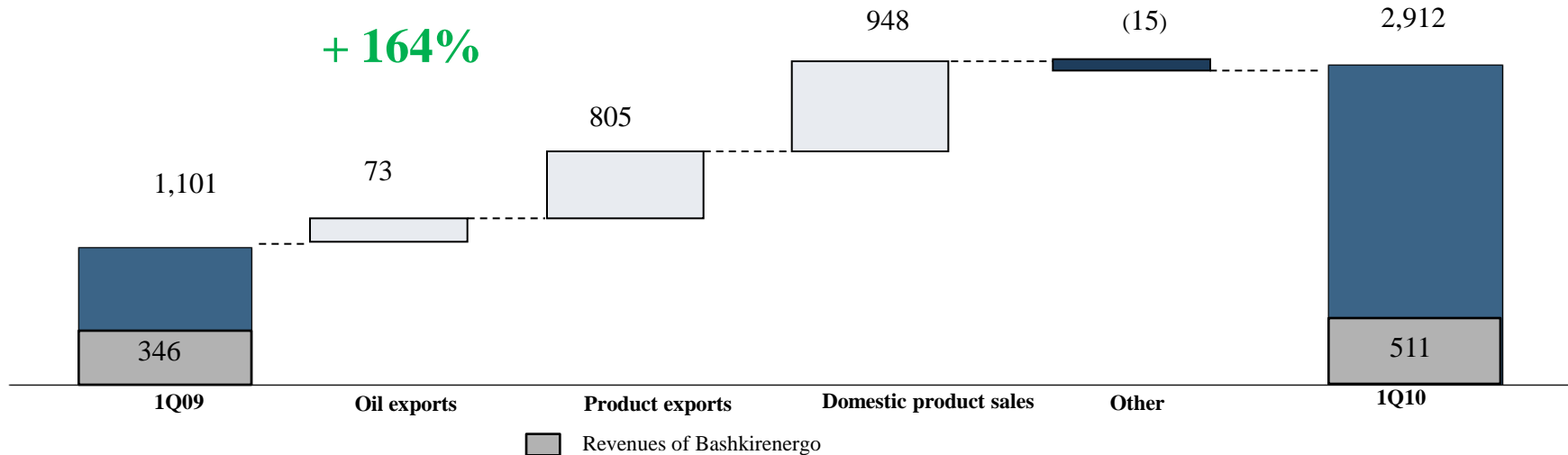
**The Group has delivered growth for all the key indicators. The reduction in CAPEX was due to reallocating costs throughout 2010.**

# Group revenues

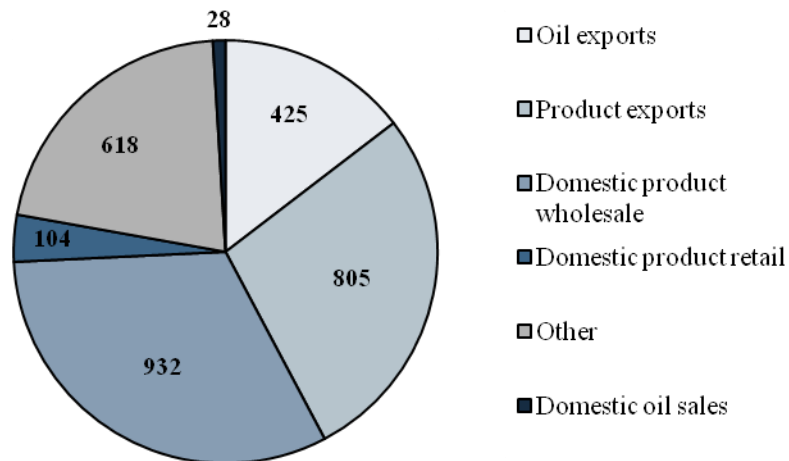


## Factor analysis of revenues, US\$ mln

**+ 164%**



## Breakdown of revenues, US\$ mln

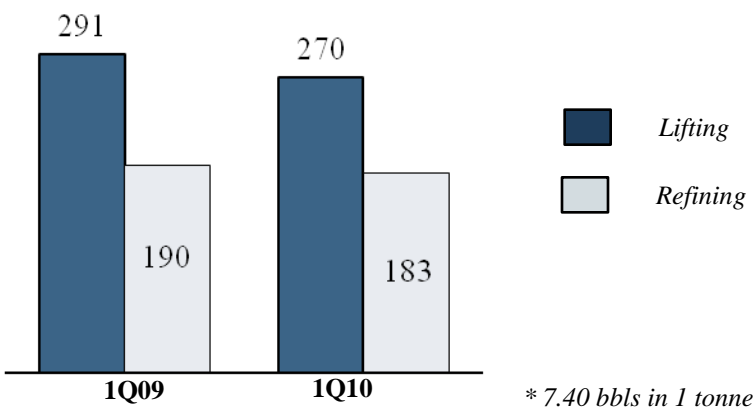


**The Group increased revenues significantly thanks to higher prices and a change in the business model.**

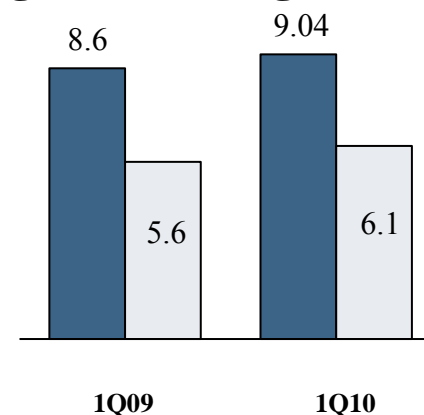
# Operating expenses and costs



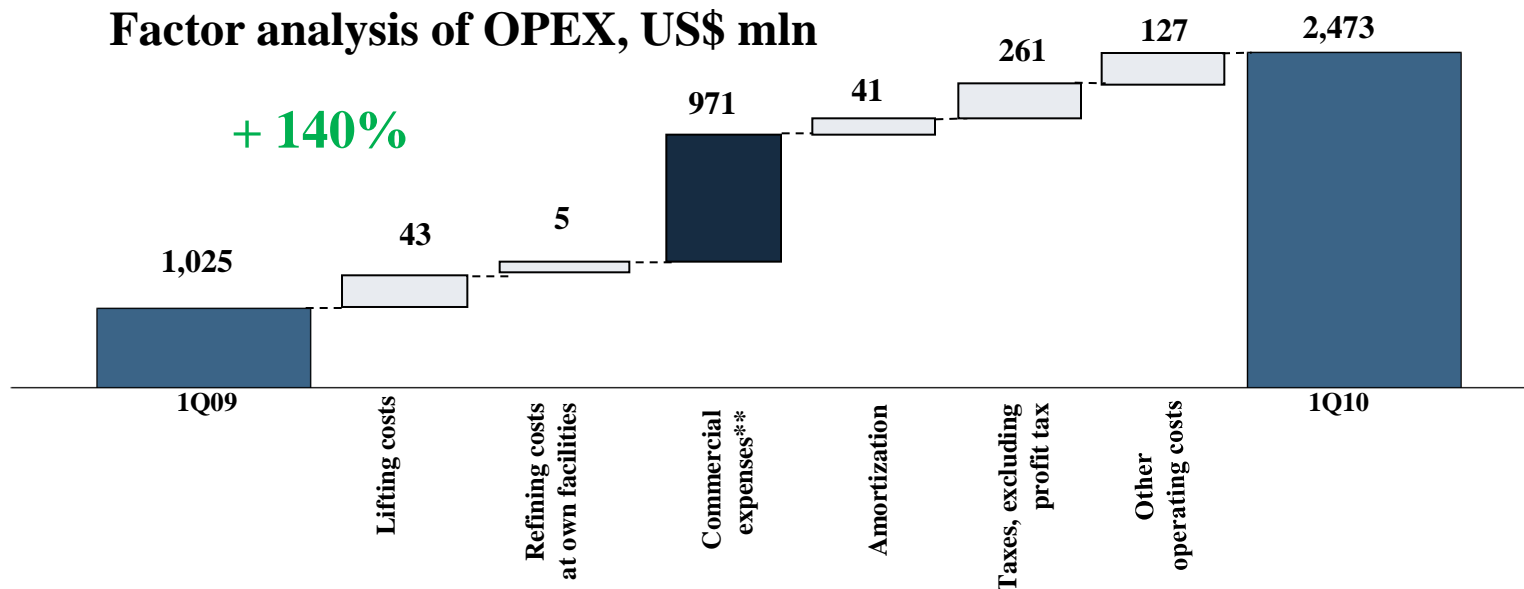
## Lifting and refining cots, RUR/bbl\*



## Lifting and refining cots, US\$/bbl\*



## Factor analysis of OPEX, US\$ mln



**The Group reduced unit costs for production and refining in ruble terms.**

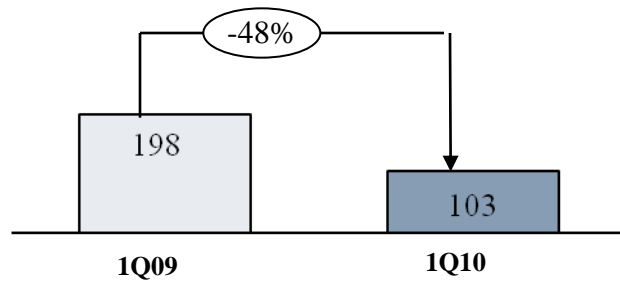
\*\* Commercial expenses arising as a result of the change to the business model



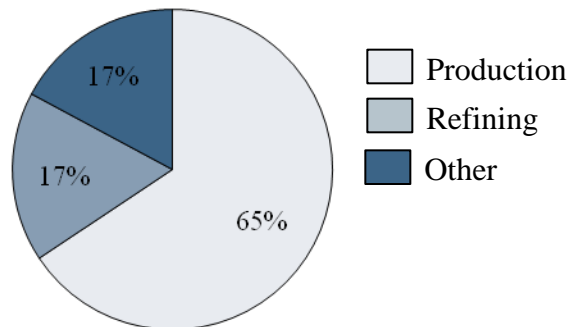
# CAPEX



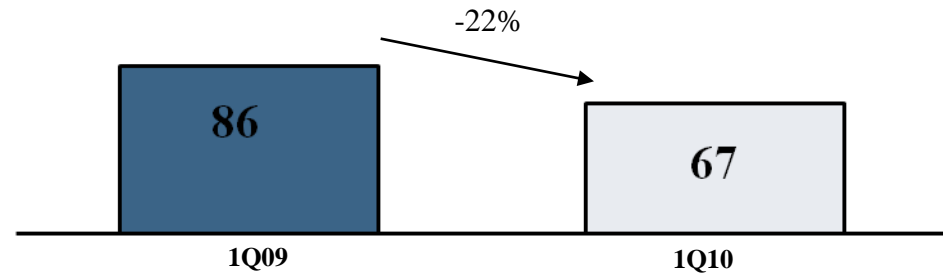
CAPEX, US\$ mln



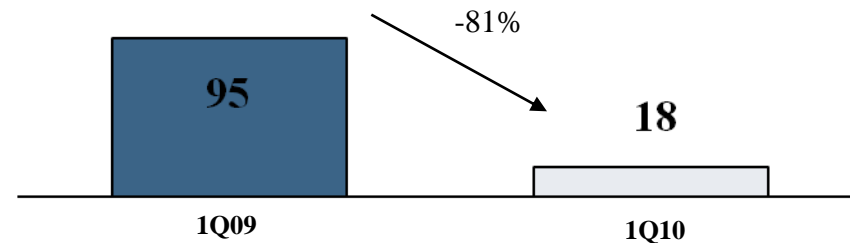
CAPEX breakdown in 1Q10



Production CAPEX



Refining CAPEX

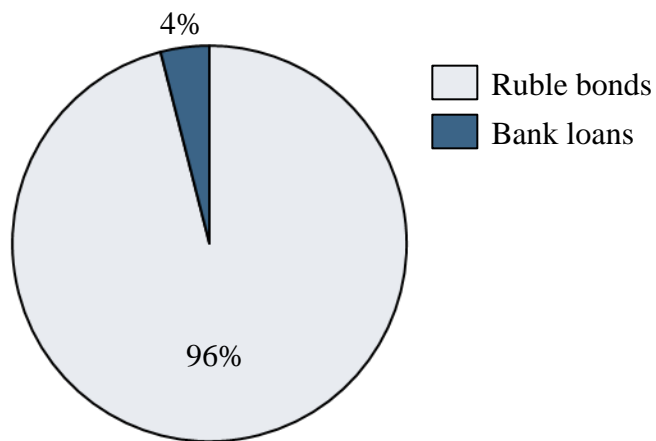


**Production and refining CAPEX was reduced by reallocating outlays throughout 2010.**

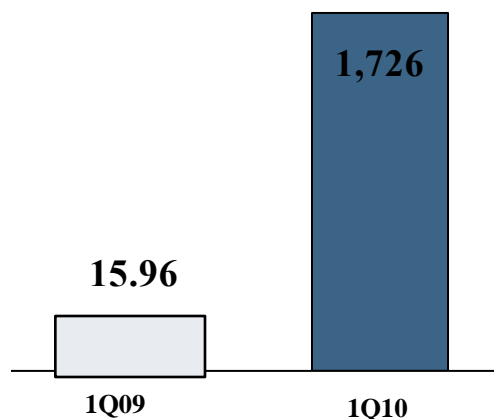
# Debt



## Breakdown of debt



## Debt, US\$ mln



## Key indicators

- Total debt – US\$1.7 bln
- Debt/OIBDA – 2.8x

## Ruble bonds

- Three issues totaling RUR50 bln
- Term – 2,548 days
- Date of next put – December 18, 2012
- Coupon period – 182 days
- Current coupon rate – 12.5%

## Bank loans

- Total loans – US\$26 mln
- Repayment – March 2013

## Debt strategy

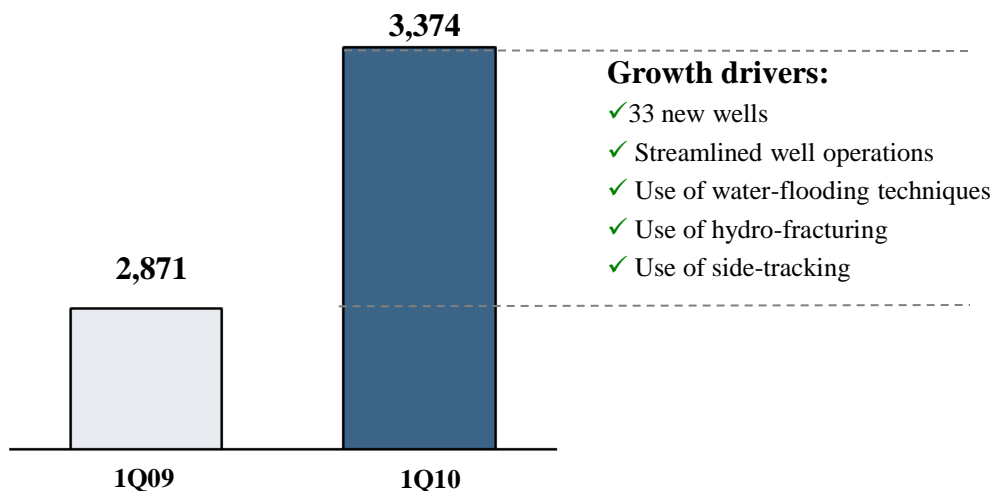
- Streamlining the capital structure
- Ensuring the level of debt is comfortable, with debt/OIBDA < 3
- 2010 – Secure competitive loans from leading Russian and foreign banks as part of pre-export financing
- 2011-12 – Possible public issuance of debt on Russian and foreign markets (preparing IFRS financials, receiving a credit rating)

**The Group's debt is at a comfortable level.**

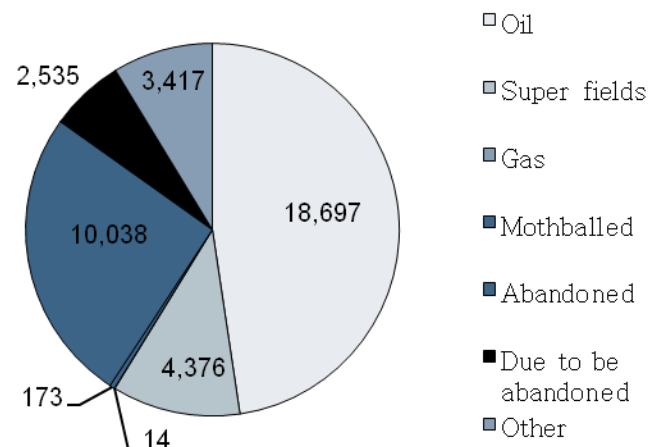
# Production



Production, '000 tonnes



Bashneft's wells



*As of March 31, 2010*

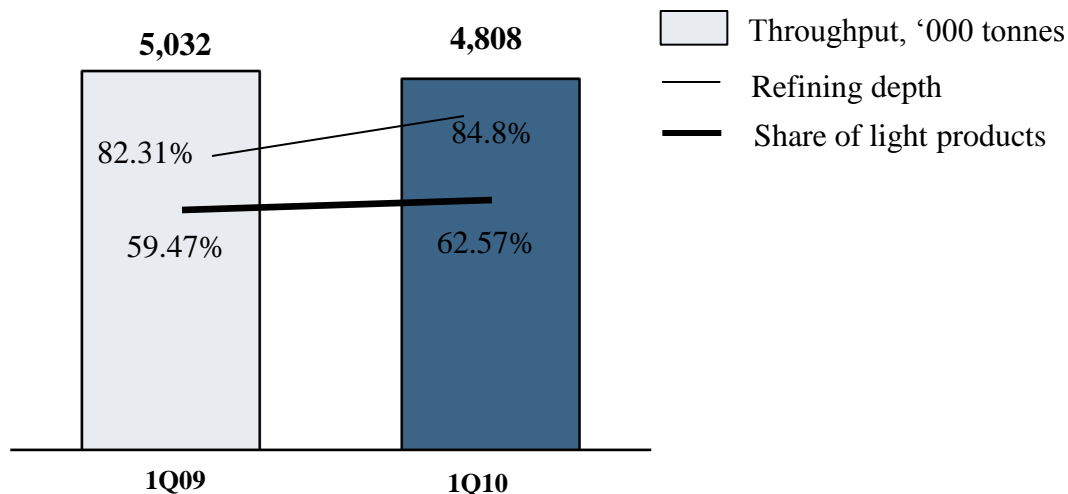
## Goals for 2010

1. Oil production – 13.4 mln tonnes
2. Reduce lifting unit costs in ruble terms
3. Review field development plans and modeling
4. Begin to introduce a modern business planning system for the upstream
5. Develop a restructuring program for the service division

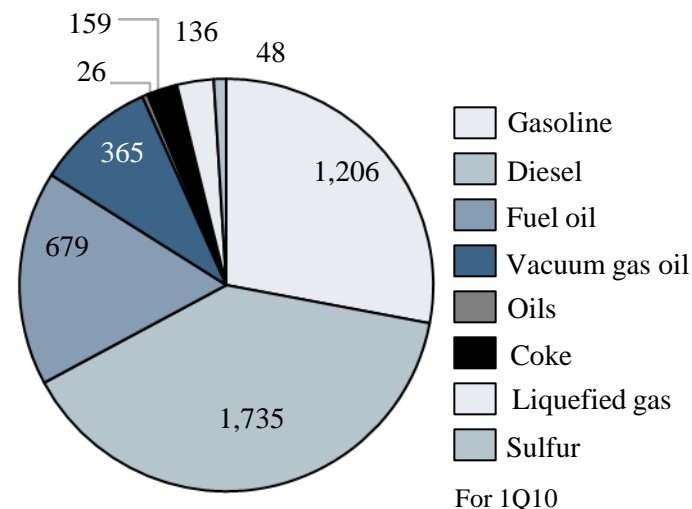
**Oil production growth has been consistently strong over the last 3 quarters.**



## Throughput



## Oil product breakdown, '000 tonnes

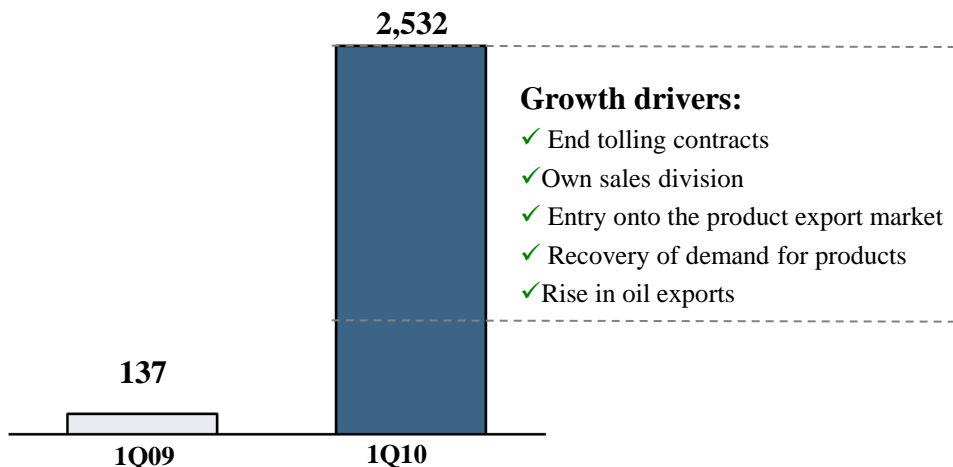


## Goals for 2010

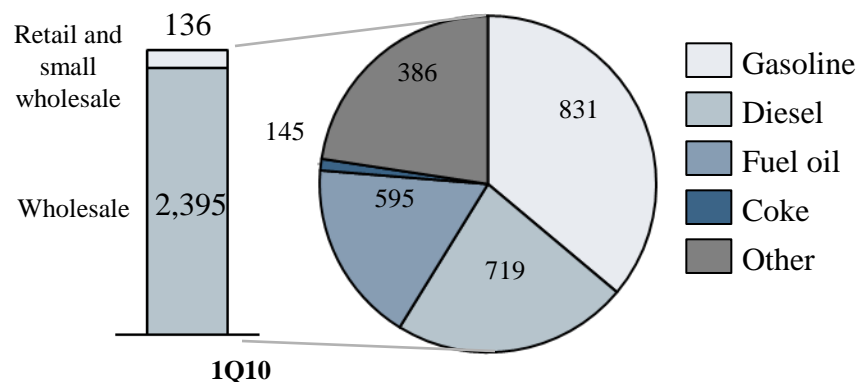
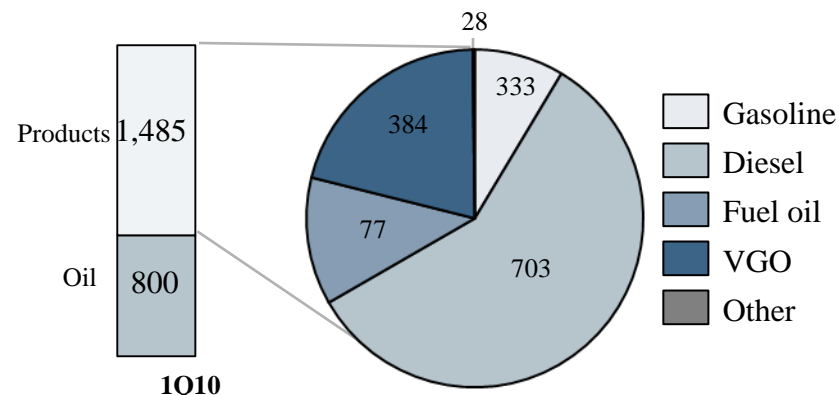
1. Improve energy efficiency and reduce production costs in refining and petrochemicals
2. Continue modernizing the refineries to ensure compliance with the Euro 4/5 standards introduced by the government
3. Develop new refining standards

**Growth has remained strong in the Group's refining business.**

## Domestic product sales, '000 tonnes



## Exports, '000 tonnes



## Goals for 2010

1. Guarantee refinery supplies through long-term contracts with oil companies
2. Export around 6.7 mln tonnes of products and 2.3 tonnes of oil
3. Sell over 11.5 mln tonnes of products in Russia
4. Create 15 regional distribution companies
5. Open 50 new retail outlets
6. Create a transportation company

**The Group has created its own sales division to maximize its access to consumers.**



# Thank you!

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**Corporate Communications Department**

**Bashneft**

**Tel: +7 (916) 997-80-36**

**[www.bashneft.ru](http://www.bashneft.ru)**

**[media@bashneft.ru](mailto:media@bashneft.ru)**



# Appendices

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## Breakdown of key results by division for 1Q10 (US\$ '000)



	<b>Production</b>	<b>Refining</b>	<b>Sales and marketing</b>	<b>Other</b>	<b>Total</b>
Net sales to external customers	2,222,259	6,256	171,478	511,850	2,911,843
Intersegment sales	150,391	336,013	15,424	109,050	610,877
Interest income	5,643	7,668	2,030	2	15,343
Interest expense	-58,717	-1,783	0	0	-60,499
Depreciation and amortization	-37,823	-102,149	-4,280	-29,465	-173,717
Operating income	365,020	-9,470	14,958	83,090	453,598
Income tax expense	-62,723	-3,053	-3,434	-16,945	-86,156
Segment assets	5,961,372	5,167,036	488,487	1,990,837	13,607,733
Indebtedness	-1,664,044	-43,445	0	-43,780	-1,751,270
Capital expenditures	67,475	17,787	59	18,152	103,473



## Breakdown of key results by division for 1Q09 (US\$ '000)



	Production	Refining	Sales and marketing	Other	Total
Net sales to external customers	407,539	248,043	98,889	346,422	1,100,894
Intersegment sales	2,215	40,804	11,754	71,565	126,338
Interest income	3,043	5,541	969	2	9,554
Interest expense	-154	-116	0	-3,102	-3,372
Depreciation and amortization	-38,266	-65,473	-4,120	-25,040	-132,899
Operating income	17,525	-25,858	12,558	71,249	75,473
Income tax expense	21,650	-6,844	-3,954	-17,452	-6,601
Segment assets	3,604,104	4,759,126	385,700	1,788,021	10,536,951
Indebtedness	-2,455	-21,800	0	-87,263	-111,518
Capital expenditures	86,748	91,694	7,222	14,976	200,639