BASHNEFT

Bashneft Group

IFRS Financial Results for 2Q10 and 1H10

Moscow, September 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.

Participants

Viktor Khoroshavtsev
President of OJSC ANK Bashneft
Member of the Board of Directors of OJSC ANK Bashneft

Alexey Kurach
Vice-President - Economics and Finance of OJSC ANK Bashneft

The Bashneft Group* today

Bashneft is one of the leading oil producers (top 10) and refiners (top 5) 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	Refining	Sales
12.2 mln tonnes**	20.7 mln tonnes (capacity 26.1 mln tonnes)**	Retail and small wholesale: 0.8 mln tonnes**
Bashneft	Ufaneftekhim, Novoil, Ufimsk Refinery, Ufaorgsintez	Bashkirnefteproduct
• Significant reserves (20 years), as confirmed by international audit • Strong growth potential thanks to new technology	• Extensive refining complex capable of producing complex and high-quality products	• Retail network and storage facilities in Bashkortostan

The Bashneft Group has become a full-fledged, vertically integrated oil company and a leader in production growth and retaining its lead in terms of efficiency of refining

** Bashneft, its subsidiaries and its affiliates, including Bashkirenergo ("the Bashneft Group" or "the Group")*
*** Figures for 2009*

Strategy (to 2013) and current goals for the group

Creating a vertically integrated oil producer

- Establish a balance between upstream and downstream by increasing output
- 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 of at least 15.1 mln tonnes
- 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 25 regions
- Sell up to 25% 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
- Downstream margin optimization
- Create 15 regional distribution companies

The Company's strategy is to maximize profits through achieving a balance between production and refining oil, developing sales channels and optimizing the cost of sales

Macroeconomic indicators in 2Q10 and 1H10*

2Q10	1Q10	Change	Indicator	1H10	1H09	Change
30.24	29.89	+1.2%	Average RUR/US$ exchange rate	30.07	33.07	-9.1%
1.2%	3.2%		Inflation	4.4%	7.4%	
75.3	73.4	+2.6%	Urals price (FOB Primorsk), US$/bbl	74.3	49.3	+50.7%
472.1	435.3	+8.4%	Diesel fuel (Russia), US$/tonne	453.7	372.6	+21.8%
694.9	635.0	+9.4%	High octane fuel (Russia), US$/tonne	665.0	460.0	+44.6%
437.1	440.7	-0.8%	Fuel oil 3.5% (FOB), US$/tonne	438.9	277.0	+58.4%
2,979	2,877	+3.5%	MRET (oil), RUR/tonne	2,928	1,873	+56.3%
281.66	263.77	+6.8%	Oil export tariff, US$/tonne	272.72	122.63	+122%

**Source:* average prices calculated on the basis of Platts (global market), Kortes/Argus (Russian market), Central Bank of Russia and Federal State Statistics Service (Rosstat)

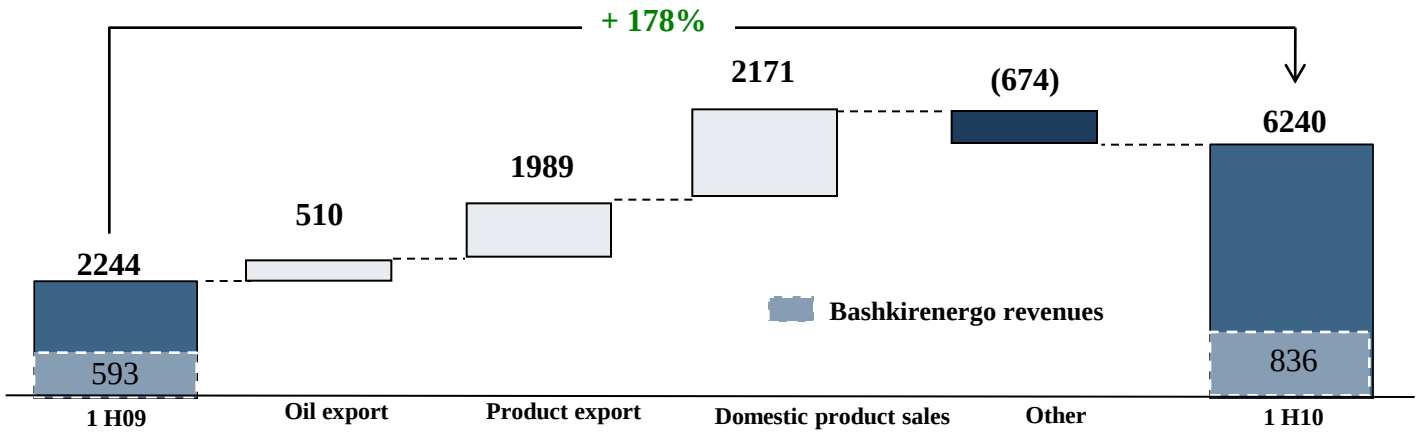
The data present on this slide on oil and oil-product prices are industry average. Data on MERT rates and export duties do not include possible benefits for each specific market participant. The price and tax rate indicators provided should not be used in the evaluation of the Group's business.

Key figures from 2Q10 and 1H10 results

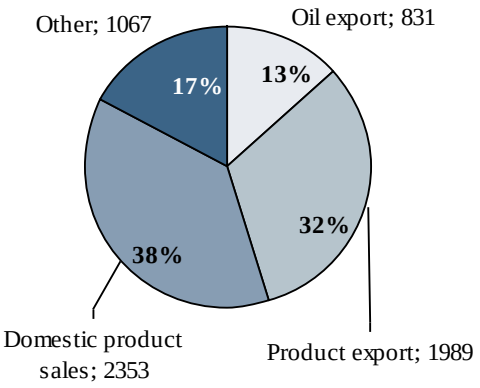
2Q10	1Q10	Change	Indicator	1H10	1H09	Change
3,491	3,374	+3.5%	Oil production, ‘000 tonnes	6,864	5,945	+15.5%
38.24	37.5	+2.4%	Average oil production per day, ‘000 tonnes	37.9	32.8	+15.5%
5,573	4,808	+15.9%	Volume of oil refined, ‘000 tonnes	10,381	9,722	+6.8%
3,328	2,912	+14.2%	Revenues, US$ mln	6,240	2,244	+178.0%
696	613	+13.5%	OIBDA, US$ mln	1,308	372	+251.6%
376	296	+27.0%	Net profit, US$ mln	671	23	+2,817.0%
64	103	-37.8%	Capex, US$ mln	167	399	-58.1%
1,619	1,008	+60.6%	Net debt, US$ mln	1,619	(315)	+614.0%

Group revenues

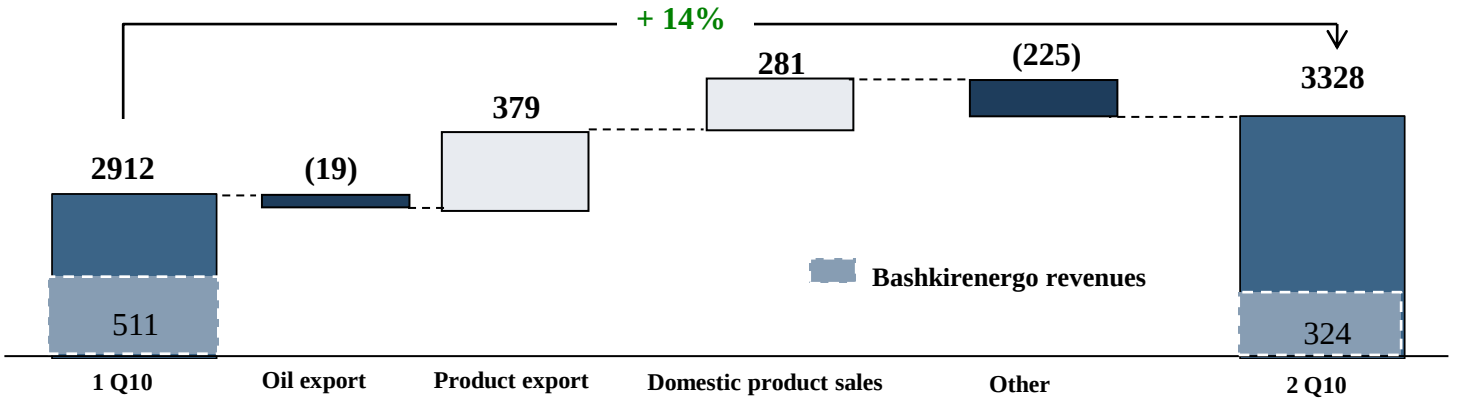
Factor analysis of revenues, US$ mln, 1H09 to 1H10



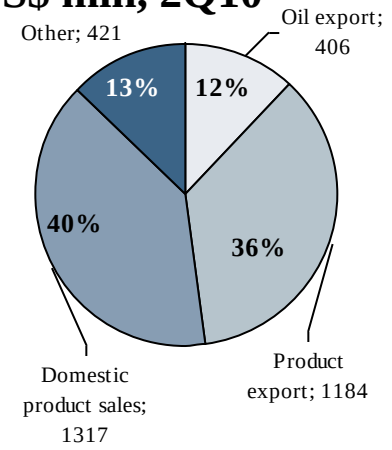
Revenues breakdown, US$ mln, 1H09



Factor analysis of revenues, US$ mln, 1Q10 to 2Q10



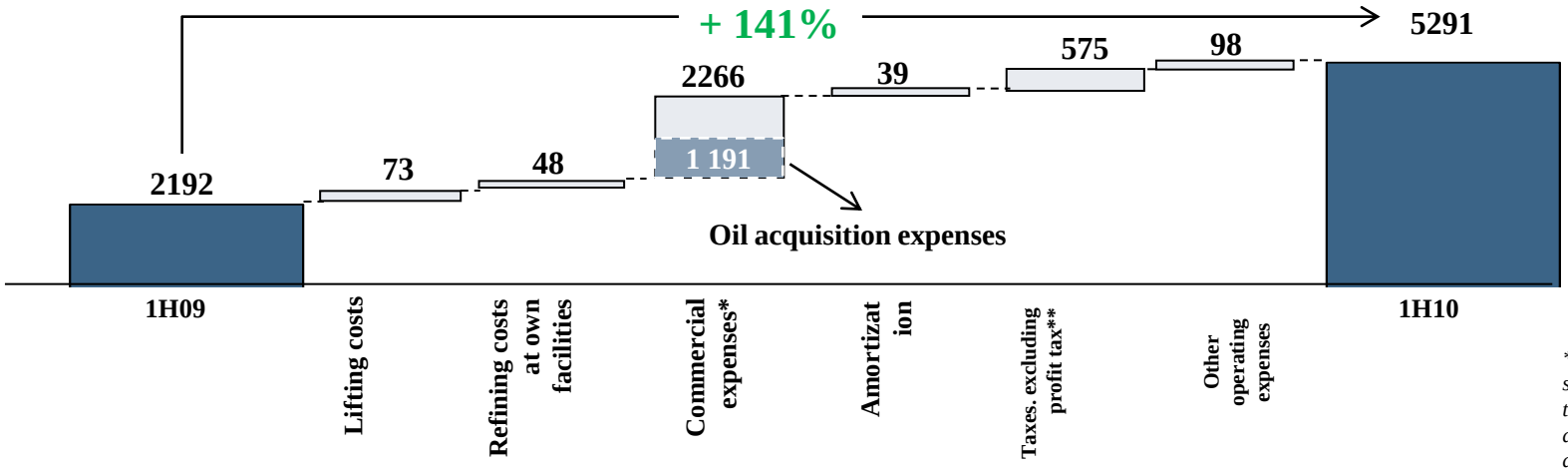
Revenues breakdown, US$ mln, 2Q10



The main driver of revenue growth in 1H10 (vs 1H09) was the discontinuation of tolling schemes and a rise in the oil price. The revenue growth in 2Q10 was due to greater refining volumes and a favorable pricing environment

Operating expenses and cost of sales (continued)

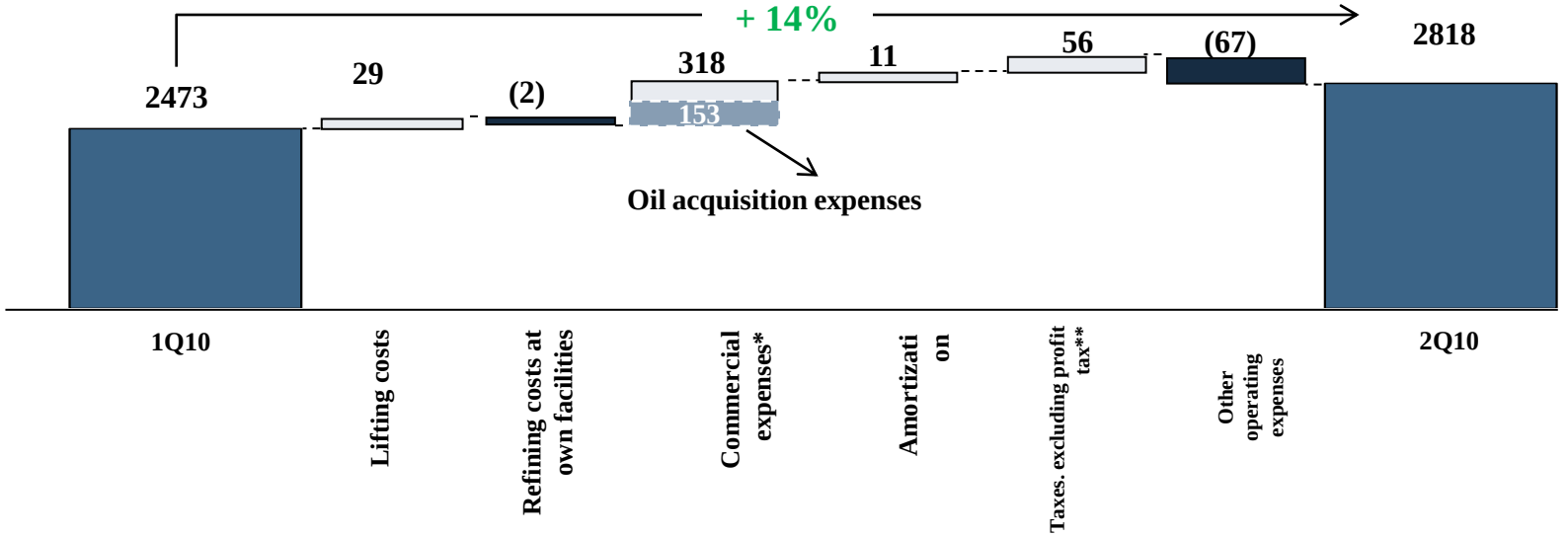
Factor analysis of operating expenses, US$ mln, 1H09 to 1H10



** Commercial expenses = spending on oil purchases + transportation costs + export duties + sales, general and administrative expenses*

** *Including MRET and excise taxes, other*

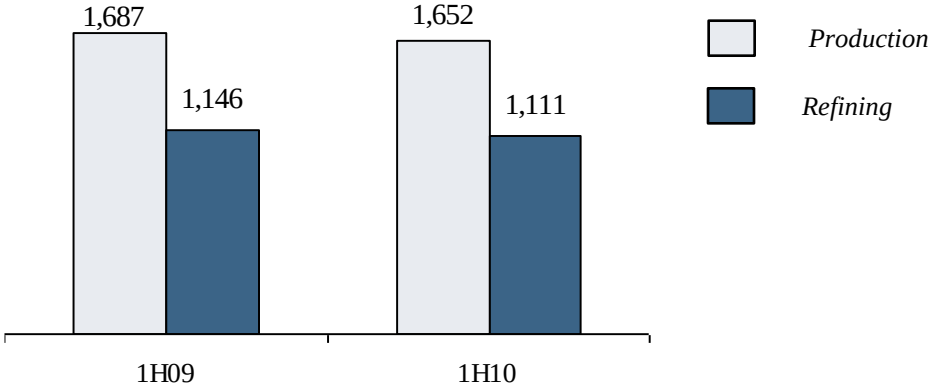
Factor analysis of operating expenses, US$ mln, 1Q10 to 2Q10

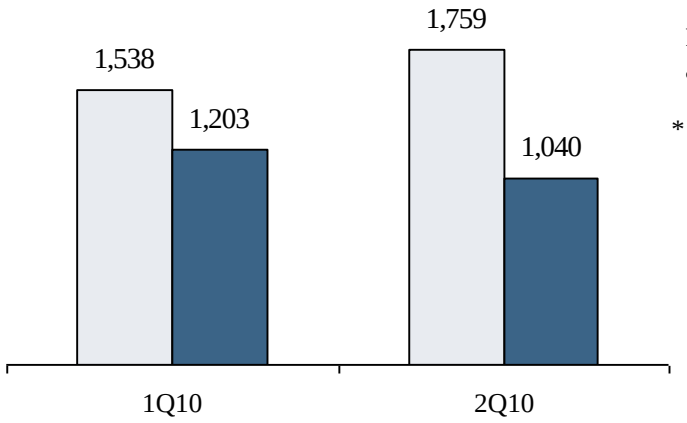


The main drivers of operating expenses in 1H10 (vs.1H09) were the discontinuation of the tolling scheme, independent loading of refineries with Northwest Siberian oil purchased and higher oil prices

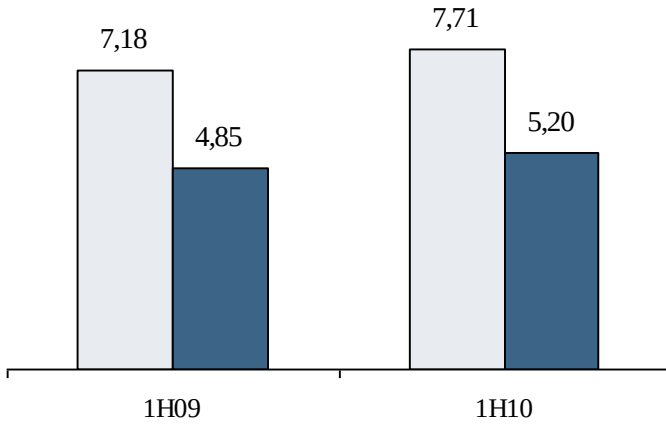
Cost of sales production and refining*

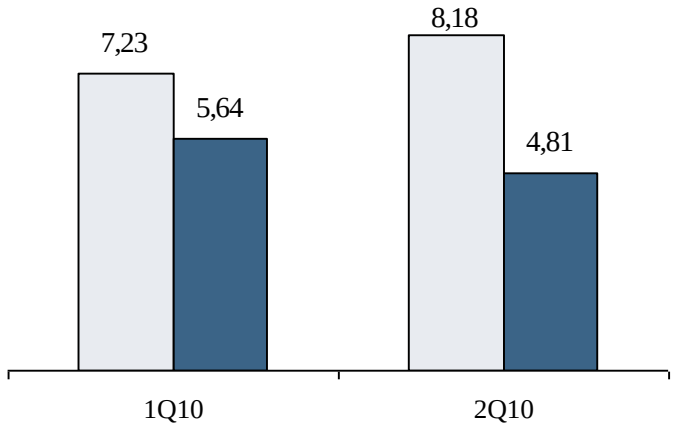
Cost of sales, RUR/tonne





Cost of sales, US$/bbl*





•*Production costs excluding MRET and amortization*

Refining costs excluding excise taxes and amortization

** 7.12 bbls in 1 tonne*

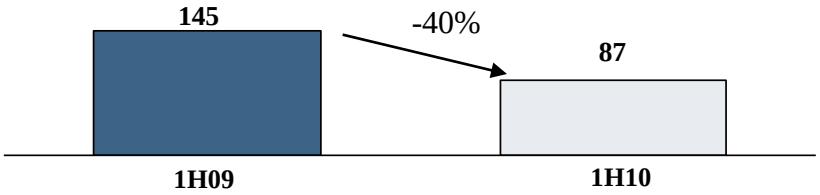
Note: The figures presented here are not in accordance with the indicators in the presentation and press release for the results of the first quarter of 2010, as they include reclassifications linked to the approaching of the methodology of the Group's reporting to IFRS standards. For the disclosure of the indicators of its activity in the future, the Group also plans to apply the methodology of their calculation according to IFRS standards.

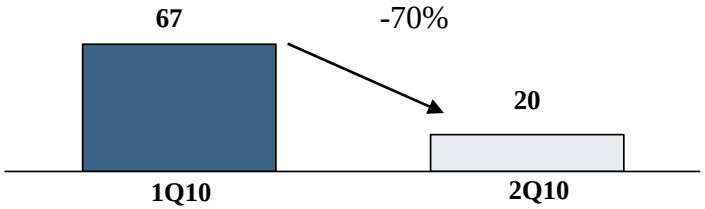
Despite inflation of 5.8% in 1H10 (vs 1H09) the Group succeeded in reducing the unit cost of production and refining sales in ruble terms (US dollar growth was driven by changes in the exchange rate)**

***Source: Rosstat*

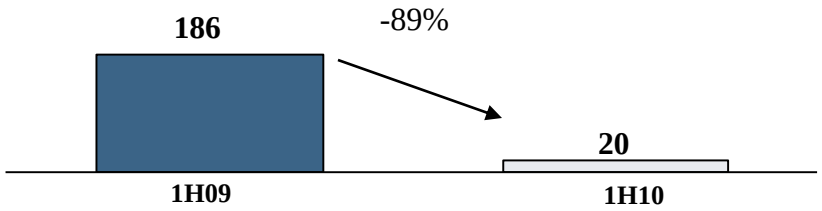
Capex

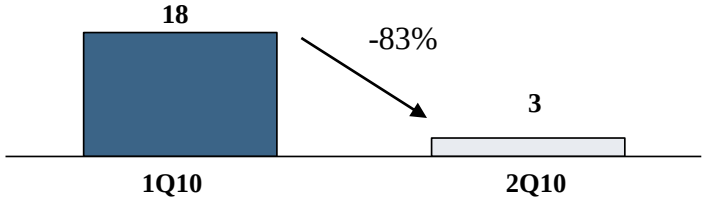
Production capex, US$ mln



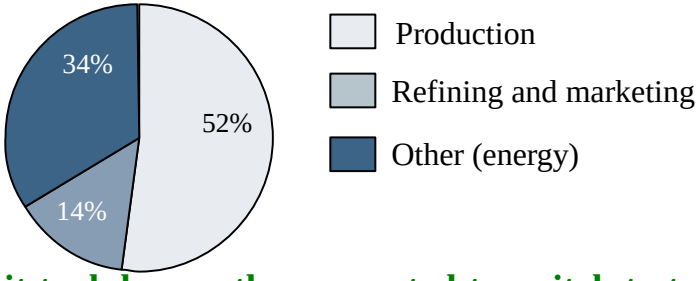


Refining capex, US$ mln

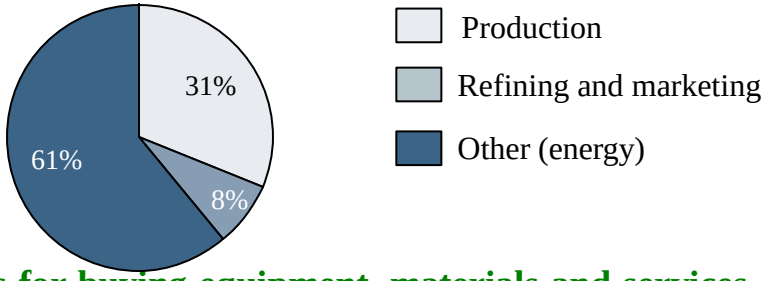




Breakdown of capex in 1H10



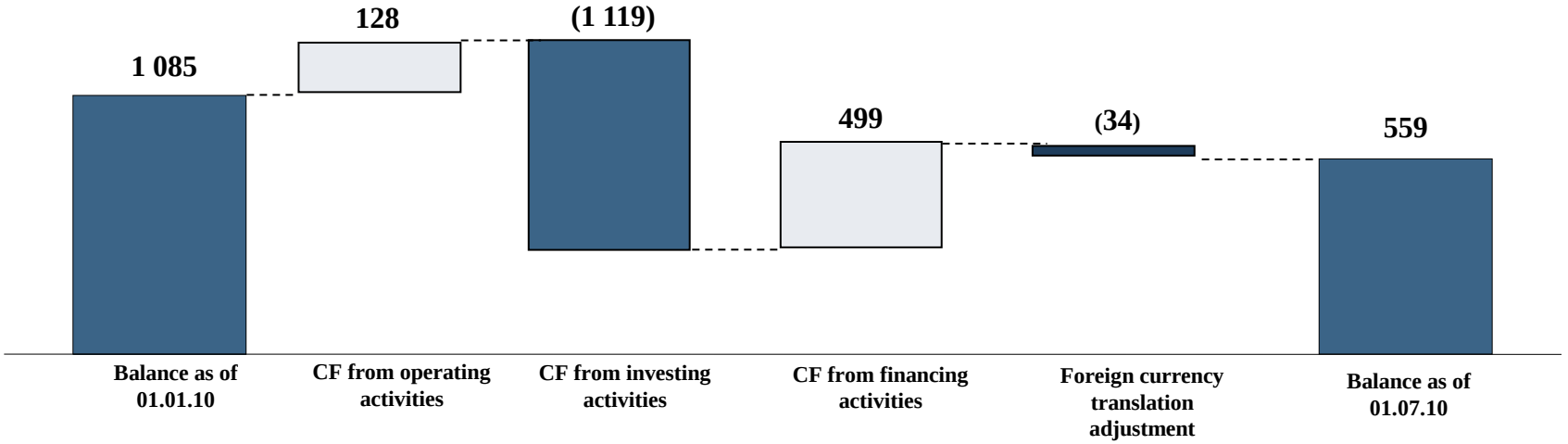
Breakdown of capex in 1Q10



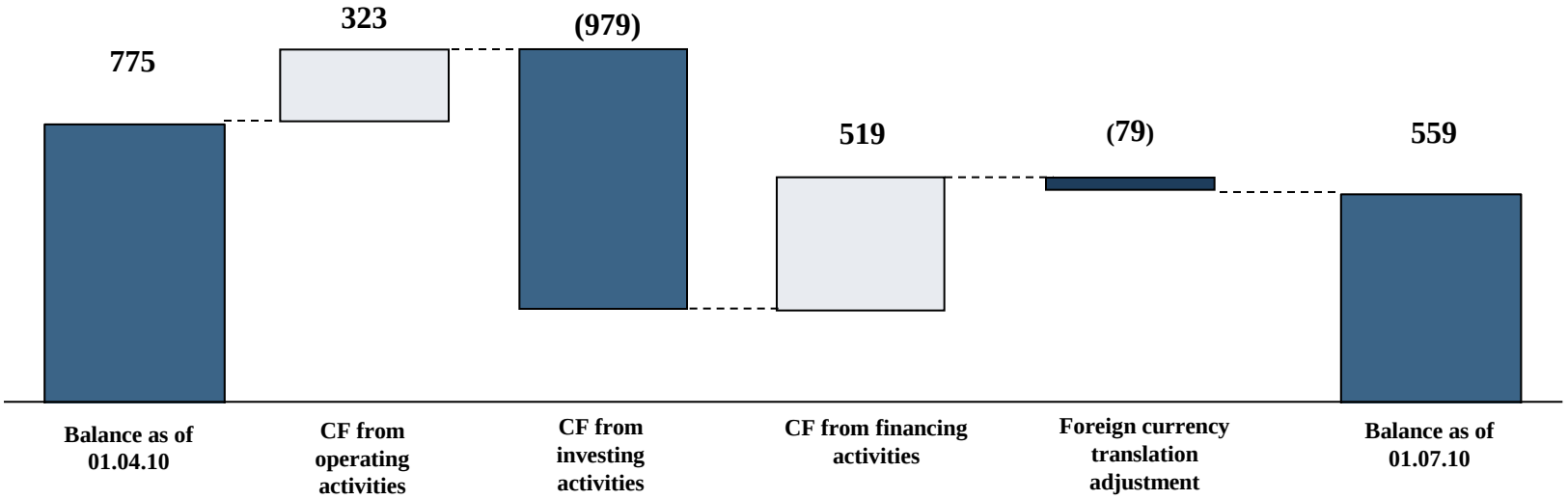
In 1H10 it took longer than expected to switch to tender procedures for buying equipment, materials and services, and this significantly delayed financing for several investment projects (mainly at refineries). However, this is not critical due to the groundwork carried out in previous periods.

Net cash flow, $US mln

Cash flow in 1H10, US$ mln



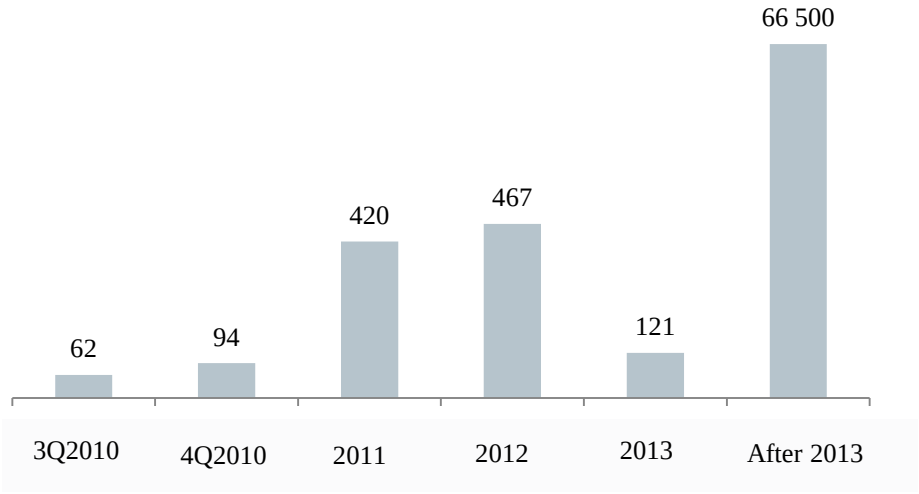
Cash flow in 2Q10, US$ mln



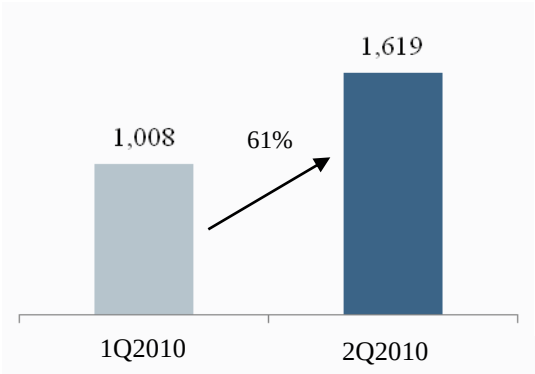
The Group is actively using access to debt capital for its development

Debt profile*

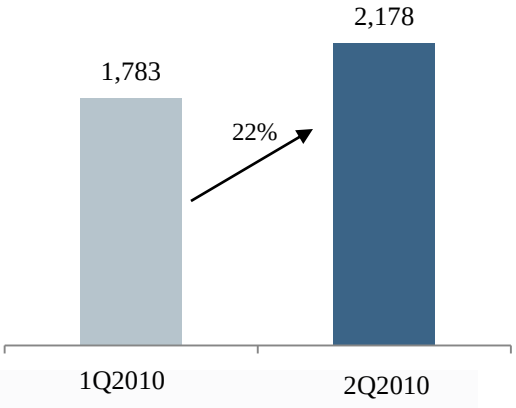
Debt redemption schedule, RUR mln



Net debt, US$ mln



Overall debt, US$ mln



Key indicators

- Total debt – RUR67.7 bln

Ruble bonds

- Three issues totaling RUR50 bln
- Term – 2,548 days
- Coupon period – 182 days
- Current coupon rate – 12.5%

Bank loans

- Total – RUR17.7 bln (including 16,5bln VTB loan)

Debt strategy

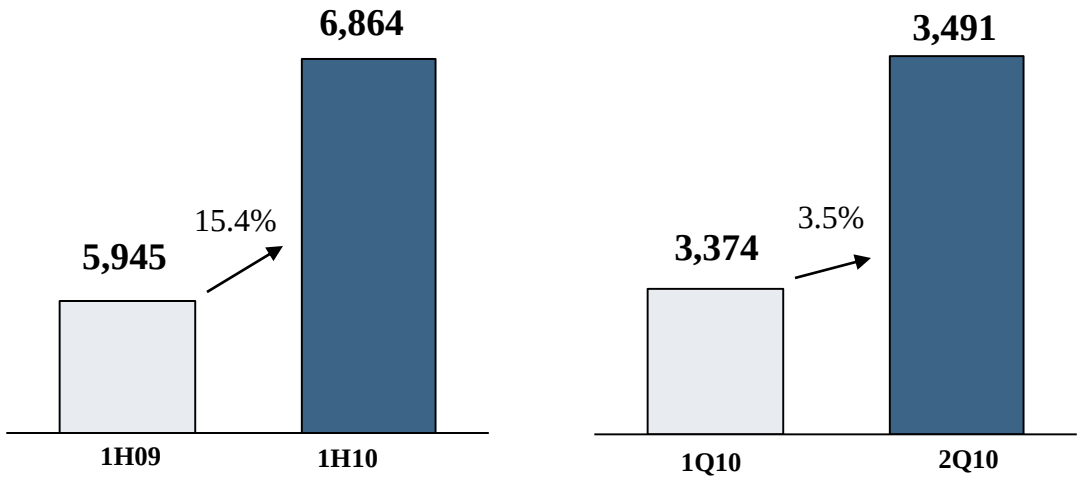
- Streamlining the capital structure
- Ensuring the level of debt is comfortable, with debt/OIBDA < 3
- 2010 – Secure competitive loans from leading Russian and foreign banks as part of pre-export financing
- 2011-12 – Possible public issuance of debt on Russian and foreign markets (preparing IFRS financials,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

* As of July 1, 2010

The Group's debt is at comfortable level: the main part of payments is after the year 2013

Production

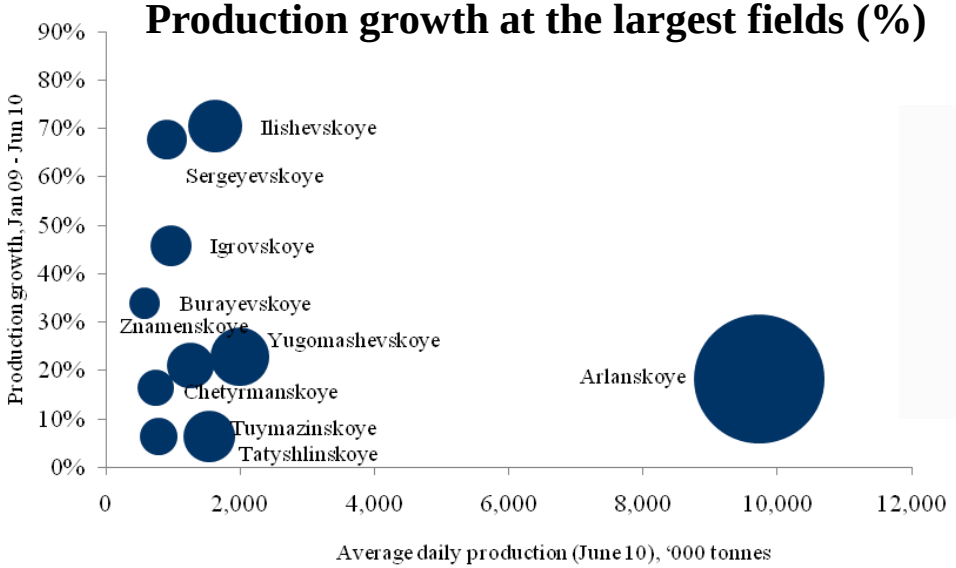
Production, ‘000 tonnes



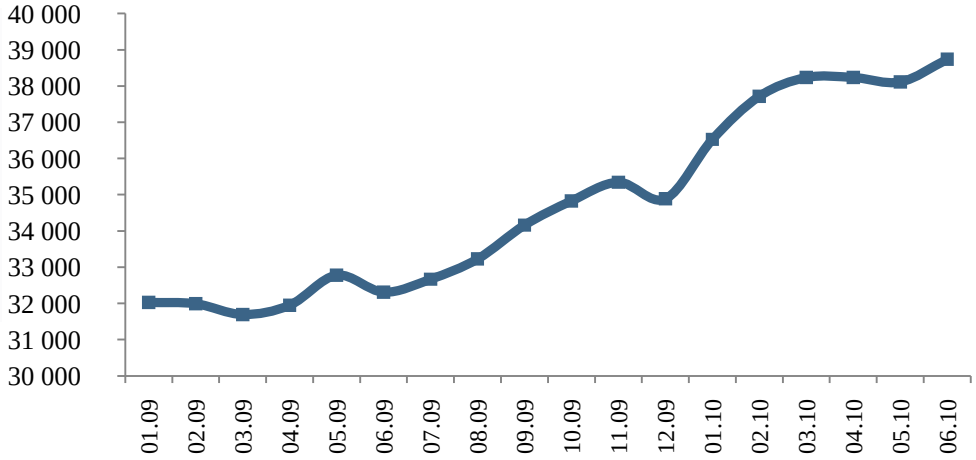
Production growth drivers

- New management team in upstream
- Increase in well operating ratios
- Optimization of equipment use
- Organization of flooding points at fields where formation pressure is low
- Geological exploration plan carried out successfully

Production growth at the largest fields (%)



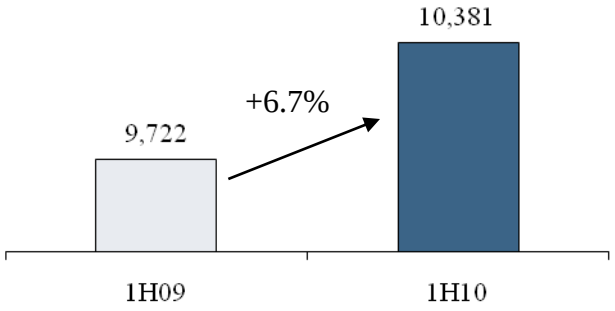
Average oil production per day, ‘000 tonnes

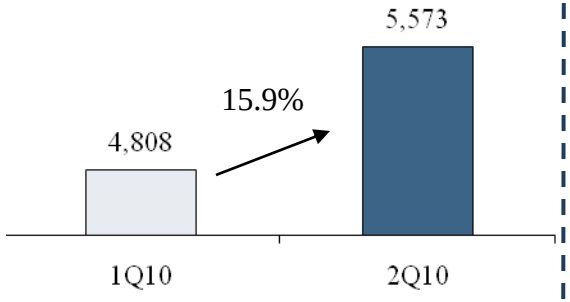


The Group continued to demonstrate strong production growth among Russian vertically integrated oil companies

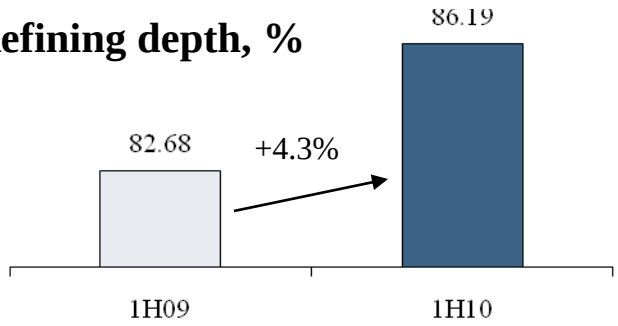
Refining

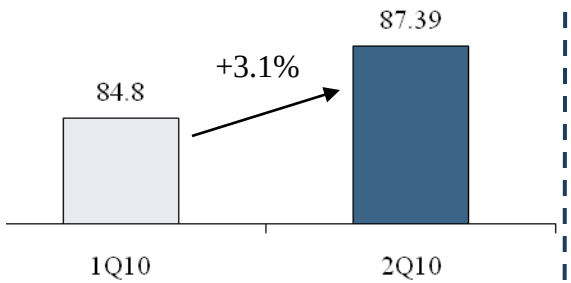
Throughput, ‘000 tonnes



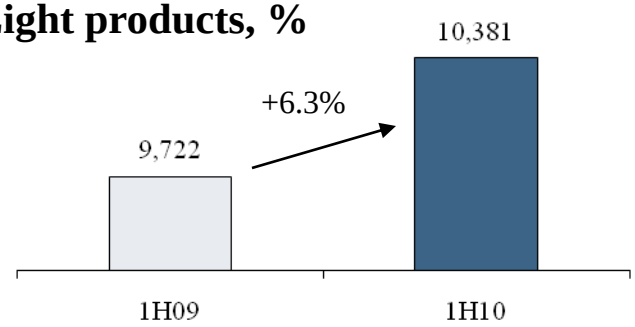


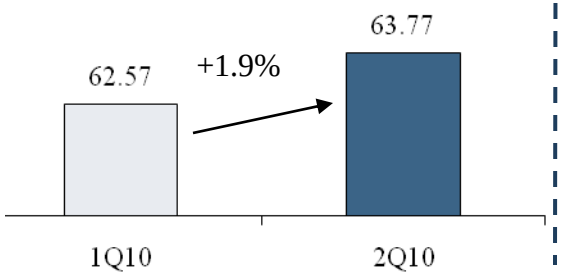
Refining depth, %





Light products, %

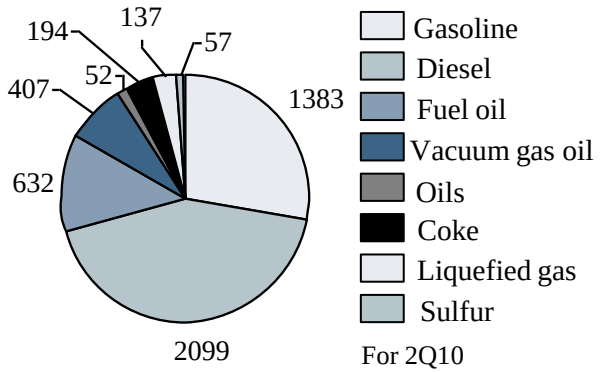




Refining growth drivers

- Growth in oil refining due to greater efficiency
- Delayed Coking Unit (DCU) reached full capacity in March 2010, this increased refining depth and the shares of light products
- Increase in the share of light oil products due to an improved balance of oils

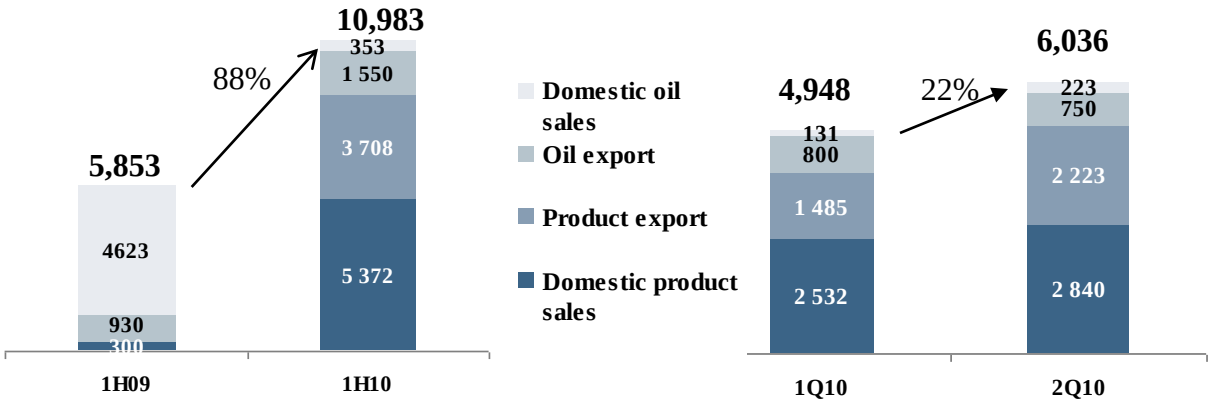
Oil product breakdown, ‘000 tonnes



Through the modernization of its refineries, the Company has increased refining volumes, maintaining the high-margin basket of oil products.

Group sales

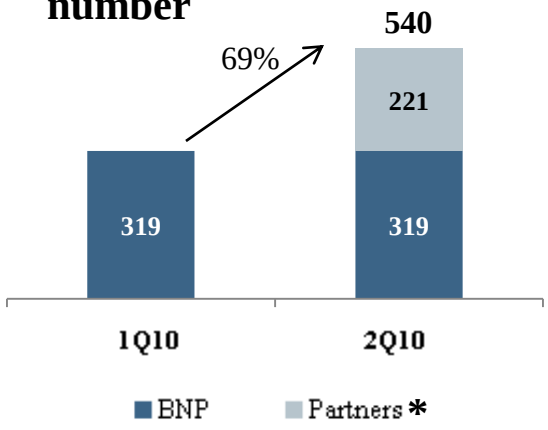
Sales of oil and oil products, ‘000 tonnes



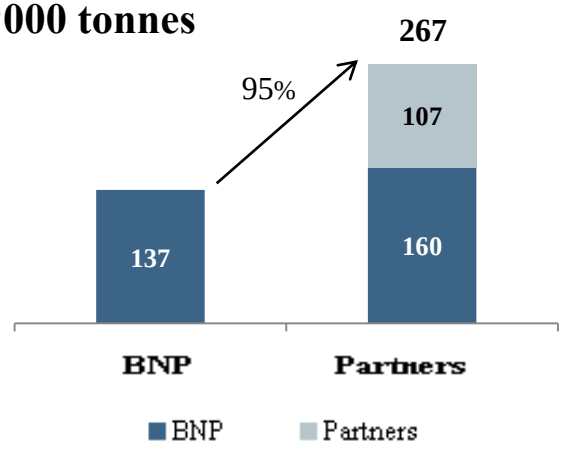
Drivers of oil and oil product sales:

- Discontinuation of tolling scheme
- Creation of own sales division
- Increase in refining volumes
- Expansion of filling station network by developing partner programs

Filling stations, number



Sales via filling stations, ‘000 tonnes



* The Group's partner networks are located in the Chelyabinsk, Rostov, Voronezh, Samara, Vladimir, Nizhny Novgorod, Leningrad and Yekaterinburg regions, Tatarstan, Mordovia, and other regions in Russia.

The Company is focused on increasing the margins in its main sales channels, primarily through the active development of its filling station network in the near term

Thank you!

Business Development and Competition Analysis Department
Bashneft
www.bashneft.ru

Appendices

Breakdown of key results by division for 2Q10 (US$ '000)

	Production	Refining	Sales and marketing	Other	Total
Sales of goods and services outside the Group	2,800,530	7,231	195,665	324,808	3,328,234
Sales of good and services between divisions	155,583	394,303	15,255	94,511	-610,877
Interest income	5,042	4,165	1,009	2	10,219
Interest expenses	-59,159	-1,503	-212	-1	-60,875
Amortization	-39,440	-100,070	-4,590	-29,415	-185,200
Operating profit	363,329	109,073	5,184	18,021	495,606
Profit tax	-89,547	-31,754	-1,615	-7,047	-129,963
Assets	409,177	-417,091	- 74,167	-119,323	-201,404
Loans and borrowings	-4,194,338	-989,388	-71,773	-264,653	-5,520,153
CAPEX	19,735	2,604	2,599	38,161	63,099

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

	Production	Refining	Sales and marketing	Other	Total
Sales of goods and services outside the Group	2,222,259	6,256	171,478	511,850	2,911,843
Sales of good and services between divisions	150,391	336,013	15,424	109,050	610,877
Interest income	5,643	7,668	2,030	2	15,343
Interest expenses	-58,717	-1,783	0	0	-60,499
Amortization	-37,823	-102,149	-4,280	-29,465	-173,717
Operating profit	365,020	-9,470	14,958	83,090	453,598
Profit tax	-62,723	-3,053	-3,434	-16,945	-86,156
Assets	5,961,372	5,167,036	488,487	1,990,837	13,607,733
Loans and borrowings	-1,664,044	-43,445	0	-43,780	-1,751,270
CAPEX	67,475	17,787	59	18,152	103,473

Breakdown of key results by division for 1H10 (US$ '000)

	Production	Refining	Sales and marketing	Other	Excluded	Total
Sales of goods and services outside the Group	5,022,789	13,487	367,143	836,658	0	6,240,077
Sales of good and services between divisions	305,974	730,316	30,678	203,562	-1,270,530	0
Interest income	10,685	11,834	3,039	4	0	25,562
Interest expenses	-117,875	-3,286	-212	-1	0	-121,374
Amortization	-88,975	-202,219	-8,870	-58,880	0	-358,943
Operating profit	728,349	99,603	20,142	101,111	0	949,204
Profit tax	-152,270	-34,807	-5,049	-23,993	0	-216,119
Assets	6,370,549	4,749,946	414,320	1,871,514	0	13,406,329
Inter-division assets and exclusions	44,859	316,544	21,081	855	-383,339	0
Loans and borrowings	-4,194,338	-989,388	-71,773	-264,653	0	-5,520,153
CAPEX	87,211	20,391	2,658	56,313	0	166,573

Breakdown of key results by division for 1H09 (US$ '000)

	Production	Refining	Sales and marketing	Other	Excluded	Total
Sales of goods and services outside the Group	948,021	482,762	219,474	593,295	0	2,243,551
Sales of good and services between divisions	200,336	5,888	23,237	164,169	-393,630	0
Interest income	5,707	9,523	2,206	912	0	18,348
Interest expenses	-6,226	-184	-182	-4,127	0	-10,717
Amortization	-77,706	-182,856	-7,940	-51,100	0	-319,602
Operating profit	77,766	-163,124	26,613	110,711	0	51,966
Profit tax	-21,394	5,717	-5,601	-25,579	0	-46,858
Assets	3,888,127	4,870,352	409,517	1,906,207	0	11,074,202
Inter-division assets and exclusions	50,139	22,028	28,441	473	-101,081	0
Loans and borrowings	-713,917	-1,021,779	-82,996	-331,342	0	-2,150,034
CAPEX	145,133	186,132	10,780	57,273	0	399,318