



BASHNEFT

Bashneft Group petrochemical assets consolidation and divestment



This report contains a review of the financial position and operating results of JSOC Bashneft and includes operating results of Bashneft Group for the three months ended 31 March 2013. The terms “Bashneft”, “the Company”, “Bashneft Group” and “the Group” in various forms mean JSOC Bashneft and its subsidiaries and special purpose entities. The financial position and operating results analysed in this document are consolidated data on Bashneft Group.

Certain statements in this report may contain assumptions or forecasts with respect to forthcoming events within Bashneft Group. Such statements may contain the words “is expected”, “is estimated”, “intends”, “will”, “could”, negations of these expressions or other similar expressions. These statements are only assumptions, and actual events or results may differ materially from them. The actual results of Bashneft Group may differ substantially from what is declared in our assumptions and forecasts as a result of a large number of factors. Such factors may include general economic conditions, Bashneft’s competitive environment, risks associated with operating in Russia, rapid technological and market changes in the Company’s areas of business, as well as many other risks directly related to Bashneft Group.

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

OVERVIEW

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

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

The Group holds licences for the development of 192 oil and gas fields in the Republic of Bashkortostan, the Khanty-Mansi Autonomous District, the Nenets Autonomous District, the Orenburg Region and the Republic of Tatarstan. 171 of the Group’s fields are in commercial production.

According to the results of an audit conducted by Miller & Lents Ltd. using international PRMS (SPE) criteria, the Group’s proved oil reserves as of 31 December 2012 amounted to 282.1 million tonnes. Bashneft Group has a reserves-to-production ratio of 18.3 years. Proved and probable (2P) reserves totalled 356.4 million tonnes. Overall reserves of Bashneft Group (including possible reserves) amounted to 448.8 million tonnes. In the 1st quarter of 2013, production at the developed licence areas totalled 3.8 million tonnes.

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

In the 1st quarter of 2013, the Group’s refineries processed 5.2 million tonnes of hydrocarbons. The average refining depth amounted to 84.5%, which is one of the best results among Russian vertically integrated oil companies.

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

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

In the 1st quarter of 2013, Bashneft Group sold 2.4 million tonnes of petroleum products and petrochemicals on the domestic market and exported 2.0 tonnes of petroleum products and petrochemicals. The Group also sold 1.2 million tonnes of crude oil, including 1.1 million tonnes of exported crude oil.

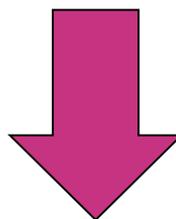
As of 31 March 2010, distribution base of Bashneft Group consists of 470 operating petrol stations, and 261 partner’s petrol stations operating under Bashneft brand.

Transition to a single share

- The historical complexity of the corporate structure had prevented the Group from fully achieving strategic goals;
- As part of streamlining its corporate structure, in 2012 the Group completed reorganization in Downstream segment through consolidation of five subsidiaries, OJSC Ufimsky refinery plant, OJSC Novoil, OJSC Ufaneftekhim, OJSC Bashkirnefteprodukt and OJSC Orenburgnefteprodukt, with JSOC Bashneft.

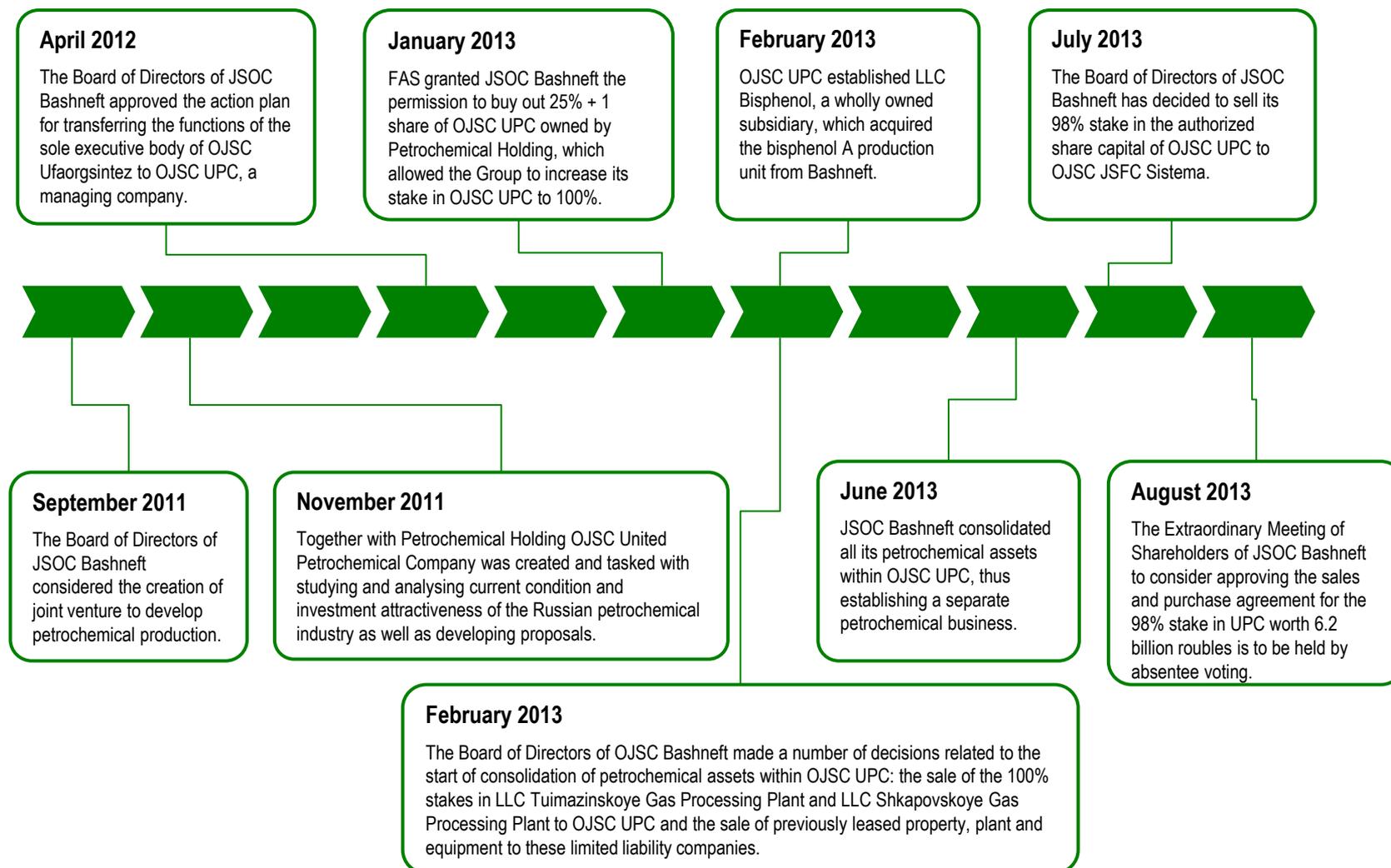
Petrochemical business

- OJSC Ufaogsintez was not included in reorganization through consolidation with Bashneft in order to develop petrochemical production as a separate business;
- Complex restructuring of petrochemical assets of Bashneft Group on the basis of OJSC United Petrochemical Company “UPC” was needed to develop separate petrochemical production business.

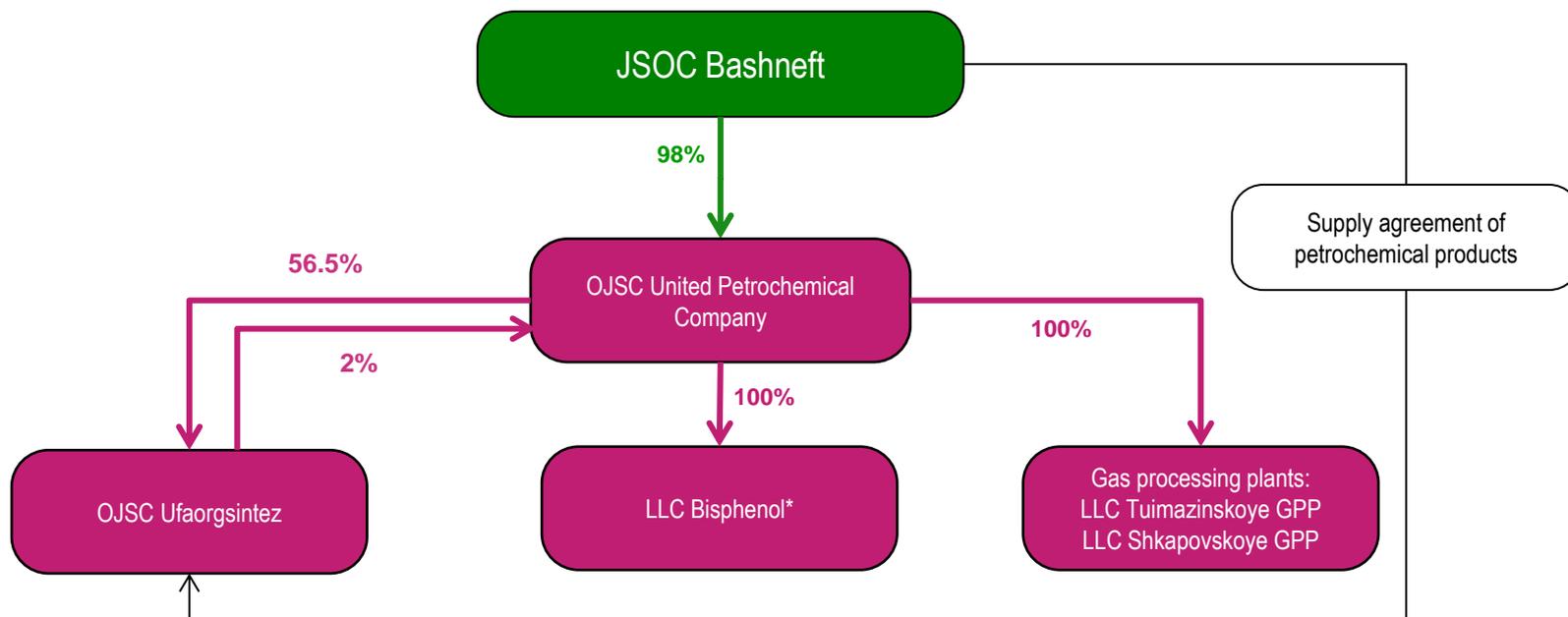


**Bashneft consistently simplifies the corporate governance structure
focusing on core assets development**





Bashneft has consolidated its petrochemical assets in order to develop petrochemical production as a separate business



Stages in restructuring Bashneft Group's petrochemical assets



* Bashneft-Ufimsky refinery plant Branch (bisphenol-A production unit)

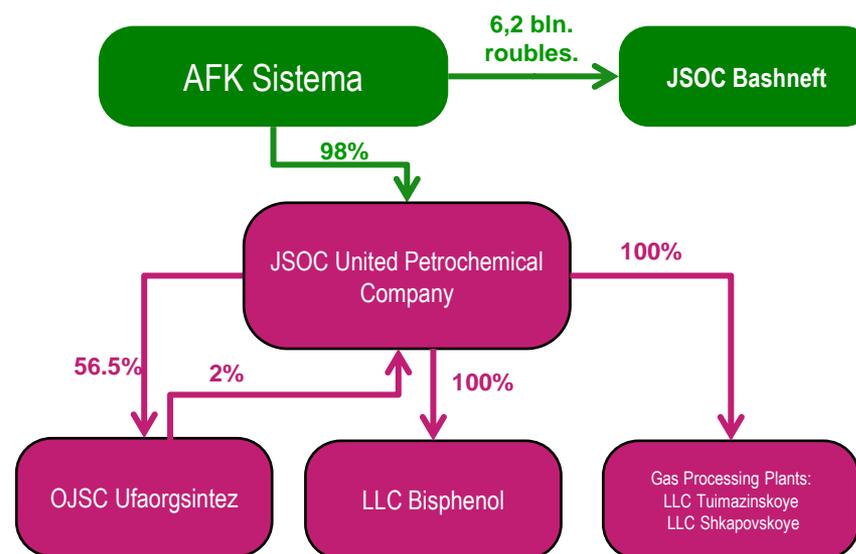
Rationale for the transaction

- Petrochemical business is a non-core business for JSOC Bashneft;
- Strategy of the Company does not envisage development of this segment as a separate line of business within Bashneft Group;
- Further development of the petrochemical segment for the purposes of optimization and enhancement of profitability requires significant capital investments.

The buyer and the structure of a possible transaction

- AFK Sistema (the controlling shareholder of JSOC Bashneft with the stake exceeding 75%) is interested in the development of the petrochemical business line of the Group;
- Price for 98% stake of UPC according to the independent valuation fulfilled by one of the Big Four audit firms equals to 6.2 bln. roubles;
- Meeting of Shareholders of JSOC Bashneft to consider approving the sales and purchase agreement.

Possible structure of the UPC sale



Sale of petrochemical assets will allow Bashneft to increase the operational efficiency of core businesses within the Group



BASHNEFT

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