



JOINT-STOCK FINANCIAL CORPORATION  
**SISTEMA**

## **Bashneft under Sistema control: History and key achievements**



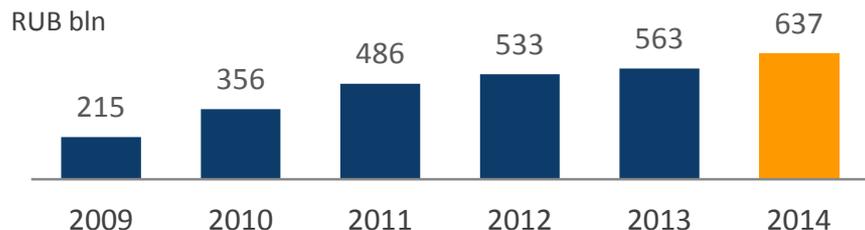
## Bashneft under Sistema control during 2009-2014: Key highlights

- **Threefold growth in revenue**
- **46% increase in oil production**
- **74% growth in reserves**
- **RUB 230 billion of capital expenditure and investments into expanding Bashneft's business**
- **Increased tax payments to local, regional and federal budgets nearly 3x in 2010-2014 (total tax payments: RUB 954 billion)**
- **Eightfold growth in market capitalisation from the moment Sistema acquired control**

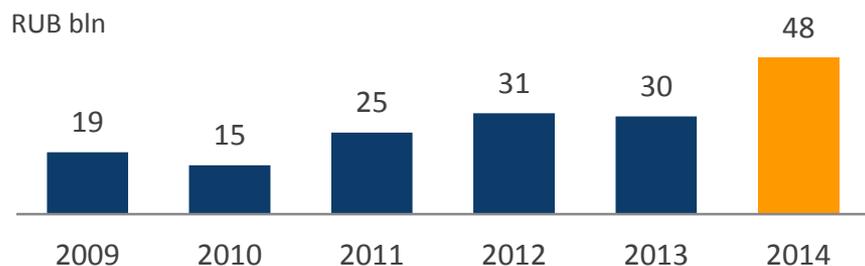


# Bashneft: financial measures

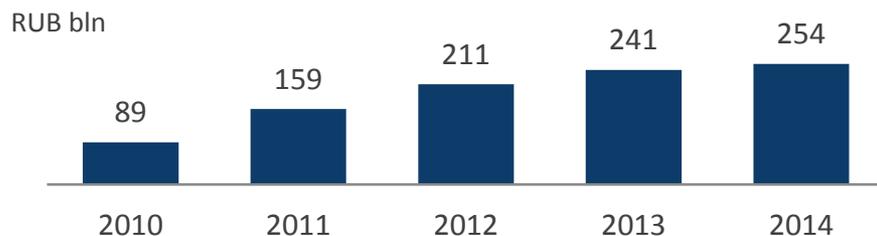
## Revenue



## Capital expenditures



## Tax payments



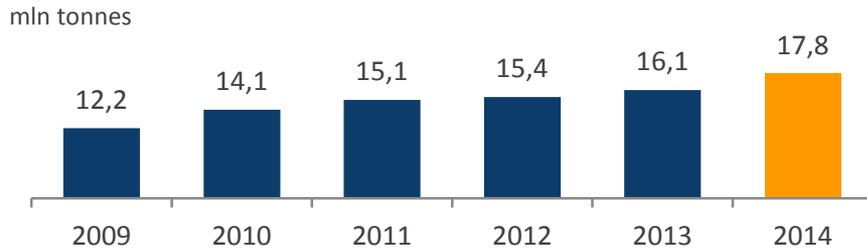
**Tripled revenue over five years, investment of more than RUB 230 bln, tax payments of nearly RUB 1 trln in 2010-2014**

- Revenue rose almost threefold between 2009 and 2014
- Total capital expenditures and other investments to expand the business in excess of RUB 230 bln, including:
  - Over RUB 120 bln invested in modernisation of assets
- Increased tax payments at all levels of the Budget by nearly threefold between 2010 and 2014 (totaling RUB 954 bln)

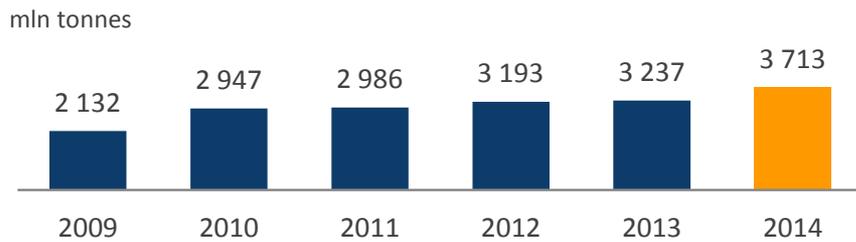
**In 2009-2014 Bashneft delivered breakthrough performance in business volumes and efficiency, creating significant value both for shareholders and for the state**

# Bashneft: production

## Production, 2009-2014



## Reserve\* growth 2009-2014



\*Proved + probable + possible reserves

## Reserve life



## Production grew by 46% over five years

- Increased the geographic reach of the business, created production clusters in new regions (as opposed to production that had been concentrated in one region and many years of stagnation), introduction of modern technologies.

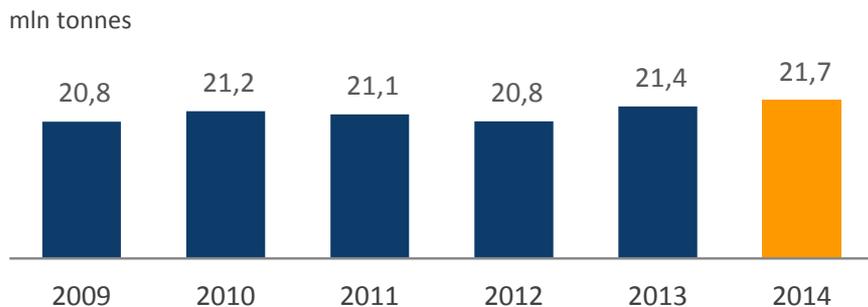
## Reserves increased by 74% over five years

- Launched large-scale exploration programme, followed by acquisition of large number of exploration licenses
- 2014: best reserve replacement ratio in the industry

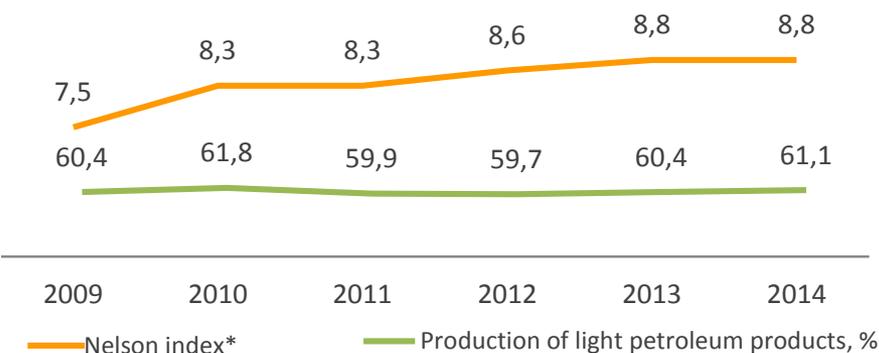
**The growth in Bashneft's reserves and production were achieved thanks to the correct choice and successful implementation of strategy in 2009-2014, as well as investments into new assets and modernisation**

# Bashneft: refining

## Refining volumes grew through 2014



## The most modern refineries



\* A measure of the quality of refinery assets that indicates their technological level and potential to produce higher value-added products

## Sustainable growth in refining volumes (+4.3%). RUB 52 billion of investments into oil refinery modernisations

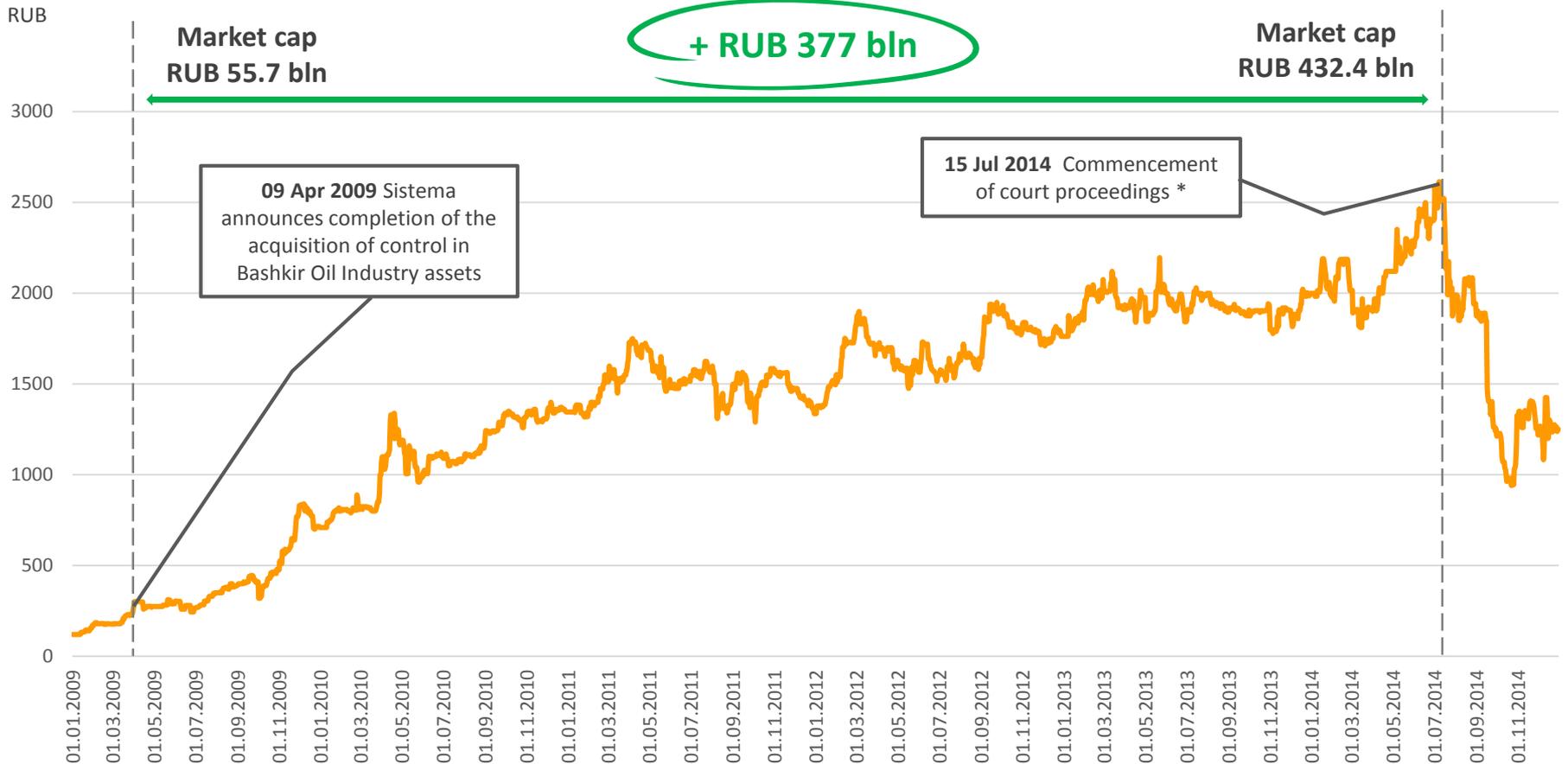
- Ceased tolling schemes and oil refining services for external suppliers. Following the merger of refining assets into Bashneft, their economic efficiency improved markedly
- Significant investments into the development and modernisation of refineries: RUB 52 bln invested into refinery modernisation over the 5-year period
- Leading positions in Russia in terms of depth of oil refining, Nelson index and production of light petroleum products
- Strategic focus on high-margin production and minimising output of cheap heavy petroleum products

**Vertical integration and significant investments into modernisation helped to create an industry-leading, fully-integrated oil refining complex with advanced technical infrastructure and high-quality products**



# Bashneft's market cap increased 8x in 2009-2014

## Bashneft's share price performance in 2009-2014



- **Between April 2009 and July 2014 Bashneft's market cap\*\* increased 7.8x**
- **As measured by total shareholder return Bashneft was the best performer in the oil and gas industry in Russia\*\*\***

\*Sistema received a notice from OJSC REESTR about restrictions on transactions with the shares of Bashneft owned by Sistema

\*\* Including preference shares

\*\*\*Morgan Stanley's data for 5 years at beginning of July 2014



# Value creation for shareholders: the market's view

**Morgan Stanley,  
July 2014**

- “With successful restructuring of Bashneft and substantial improvement of operational efficiency, Sistema has proven its capability to create value in acquired assets (a key investor concern in the past).”
- “Core shareholder's interest in line with minorities'. Sistema is focused on increasing valuation of its assets and dividends from subsidiaries. This has 3 benefits: (i) it aligns its interests with those of Bashneft's minorities; (ii) it suggests that a negative change in dividend policy in the medium term is unlikely; iii) the company is technically ready for a liquidity boost through and SPO if the markets are right. ”

**Renaissance Capital,  
October 2013**

- “We view Bashneft as one of the few opportunities remaining for investors seeking growth, dividends and looking to avoid corporate governance risks. The bulk of Bashneft’s production growth came after Sistema acquired a 50% stake in Bashneft for \$2.5bn in 2009 increasing its overall ownership in the company to 76%. The turnaround was achieved with the successful implementation of a new exploration and production strategy that the company continues to execute to this day.”

**Gazprombank,  
September 2012**

- “As strategic investor, AFK Sistema seeks from Bashneft both long-term appreciation of the company’s value through intensive business development and sustainable dividend flow, which effectively aligns the interests of minority and controlling shareholders.”
- “The completion of Bashneft reorganization expected in October 2012 opens the way to an SPO and ADR listing on an international exchange in the amount of 10-12% of Bashneft ordinary shares. This could substantially increase liquidity and the investment appeal of Bashneft stock.”

**Otkritie,  
October 2011**

- “Few analysts and investors imagined five years ago that the ‘dark horse’ of the Russian oil sector – Bashneft – would evolve from a relatively small regional player with stagnant oil output into a growing, vertically-integrated company with an ambition to reach up to Top-5 Russian producers in the next 5-10 years. We believe such a rapid and remarkable transformation would be hardly possible without AFK Sistema – Bashneft’s consolidator and its core shareholder since April 2009. Sistema's involvement and strategic vision, its way of 'thinking big', has been the key driving force behind the company’s evolution...”

**Renaissance Capital,  
October 2011**

- “Bashneft’s shares have increased 9.4x from 9 April 2009, since the new owner, Sistema, took control of the company; while shares in its Russian peers have risen just 64% during the same period – quite an achievement, in our view.”

**Independent investment analysts and investors highly rated the role Sistema played in transforming Bashneft into one of the most dynamic and attractive companies on the market**

# Appendix 1. History of Bashneft under Sistema control

## Sistema acquires Bashneft from private parties (2005 – 2009)

- Sistema acquired Bashkir Oil Industry assets in several phases between 2005 and 2009. The consolidation of the Corporation's assets was an open and transparent process, and the acquisition price was significantly higher than the market price of the assets:
  - The purchase price of \$2 bln paid for controlling stakes in April 2009 was on average 80% above the market value during the preceding six months
  - The multiple for the transaction was a P/E of 8.5, compared to multiples of 5.1 for similar publicly-traded companies

## Bashneft prepares for IPO (2013 – 2014)

- In June 2013, Bashneft management publicly announced its **plans to conduct an IPO** worth US\$ 1-2 bln
- In December 2013, Bashneft and Sistema-Invest announced a reorganisation aimed at **eliminating cross shareholding structures between Bashneft** and Sistema-Invest that had created a discount in the value of Bashneft shares, and that the company would spin off non-core assets

## Bashneft is transferred to Rosimushestvo (2014)

- As a result of court proceedings, Sistema's acquisition of Bashneft was declared invalid. Sistema transferred shares of Bashneft to Rosimushestvo
- **The court ruled that Sistema had been a good faith buyer of the assets**

**The purchase of Bashkir oil industry assets by the Corporation was done in an open and transparent way, and Sistema was determined by the court to have been a good faith buyer of the assets**



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