



JOINT-STOCK FINANCIAL CORPORATION
SISTEMA

SISTEMA ACQUIRES CONTROLLING STAKE IN BASHKIR OIL AND ENERGY GROUP

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- **Factsheets and transaction rationale**
- Structure and financing of the deal
- Asset development strategy

Appendix: Bashkir companies profile

1.1. Facts at a glance



AIM OF TRANSACTION

To acquire a controlling stake in the Bashkir Oil and Energy Group:



Bashneft	Ufaneftekhim	Novoil	Ufaorgsintez	Ufimsky NPZ	Bashkirnefteproduct
55.04%	42.24%	60.26%	50.23%	53.68%	47.89%

THE SELLER

- Agidel-Invest LLC
- Ural-Invest LLC
- Inzer-Invest LLC
- Yuruzan-Invest LLC

TRANSACTION PRICE

USD 2.5 billion
(USD 2 billion on closing the deal; USD 0.5 billion 14 months later)

KEY UNDERTAKINGS

- 1) Acquisition of shares in Bashkir OEG (on closing deal)
- 2) Mandatory offer to minority shareholders to purchase shares

SOURCES OF FINANCING

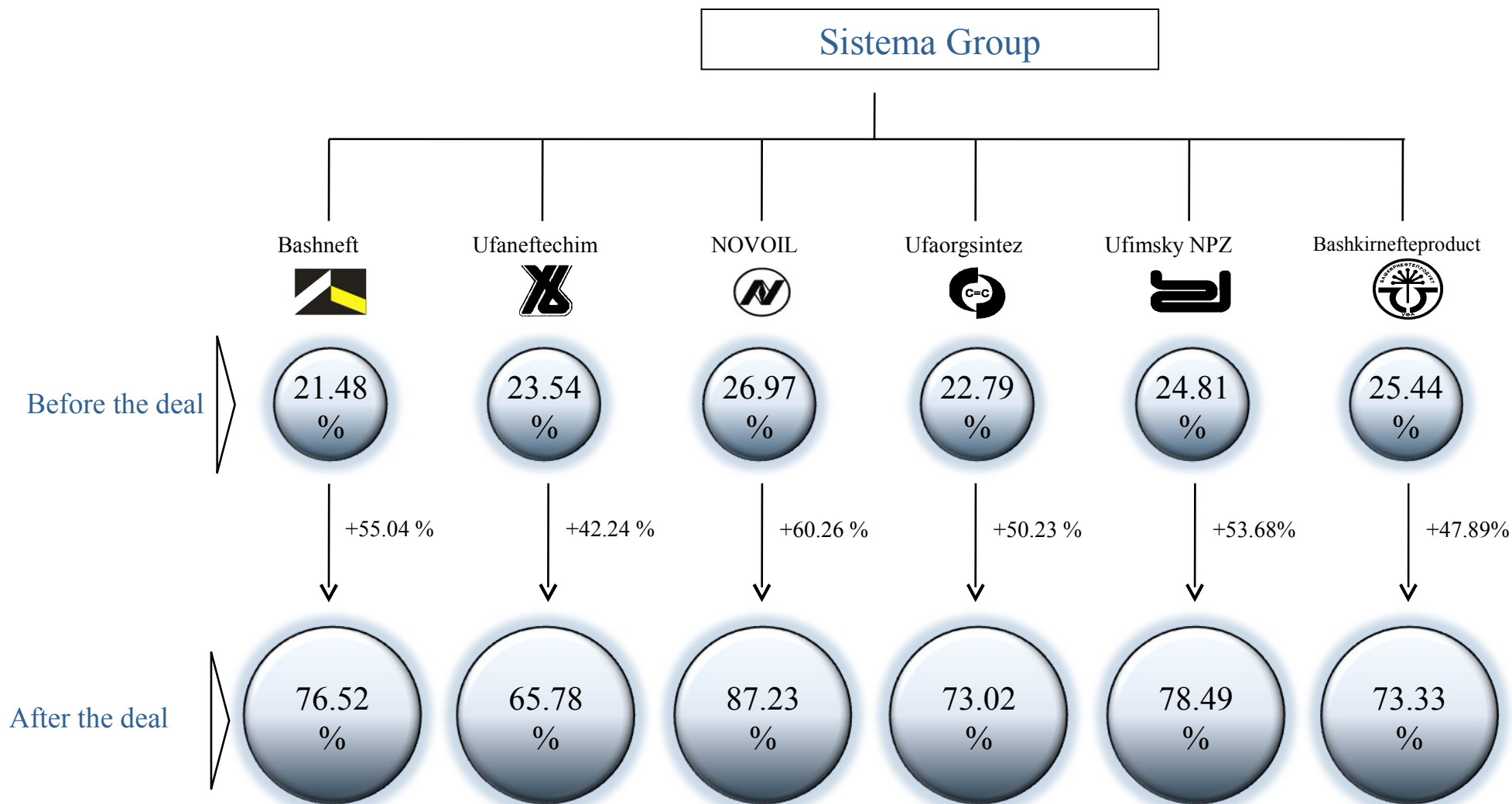
- 1) USD 2 billion loan from Bank VTB for a term of 7 years;
Deposit – the acquired shares in Bashkir OEG plus a 17% stake in MTS
- 3) Other loans amounting to USD 1 billion

THE PURCHASER

AFK Sistema JSC

AFK Sistema acquires a controlling stake in Bashkir OEG

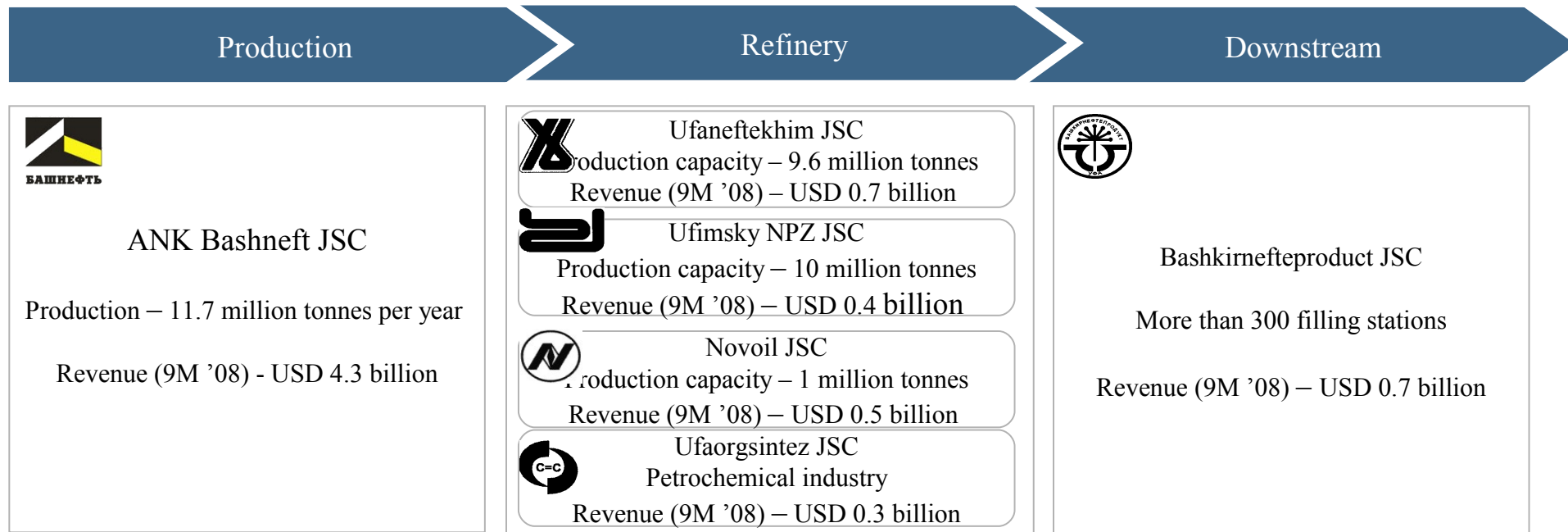
1.2. Sistema share in Bashkir OEG



Further increase in the share of Bashkir OEG could be obtained from minority shareholders

1.3. Bashkir OEG – general description

- Bashkir OEG is a leading Russian oil producer (Top-10) and oil refiner (Top-5)
- The group includes five oil producing and oil refining companies, as well as the filling station network situated in the Bashkortostan republic
- Bashkir OEG sells what it produces on the Russian market and also exports to Ukraine, Poland, the Czech Republic, Germany, Slovakia, and Hungary.



• Here and subsequently Bashkir OEG’s financial indicators are based on RAS accounting data and are given in USD

(at the USD rate of the Russian Central Bank as of 1 October 2008 – 25.3718)

Bashkir OEG comprises companies involved in the entire production cycle – from production through to the sale of the end product

1.4. Bashkir OEG operating review

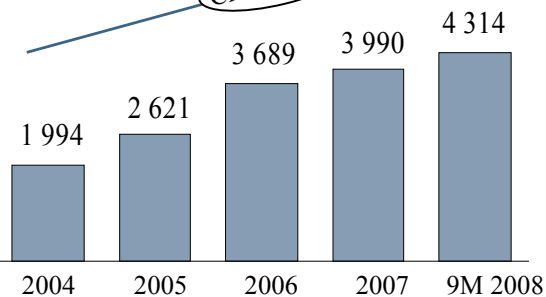


Production



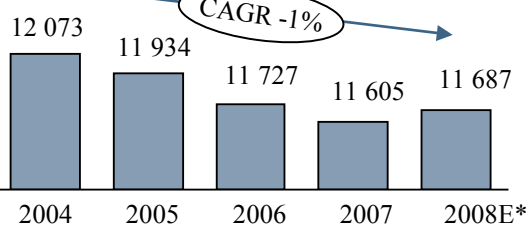
Revenue (USD mln)

CAGR +29%



Production '000 t

CAGR -1%



Refinery



Ufaneftchim



NOVOIL



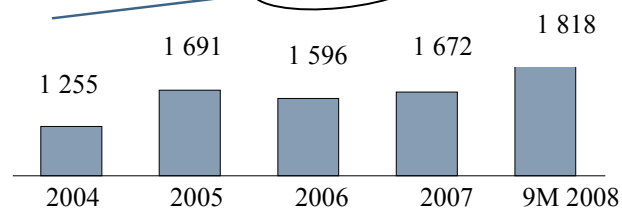
Ufimsky NPZ



Ufaorgsintez

Revenue (USD mln)

CAGR +11%



Capacity, '000 t

32 000

Utilization, %

64%

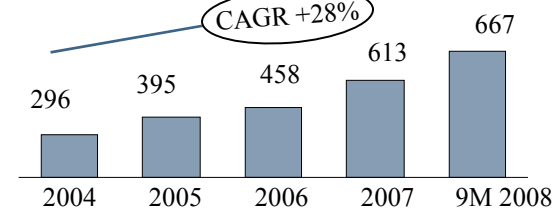
Downstream



Bashkirneftproduct

Revenue (USD mln)

CAGR +28%



Total number of filling stations

317

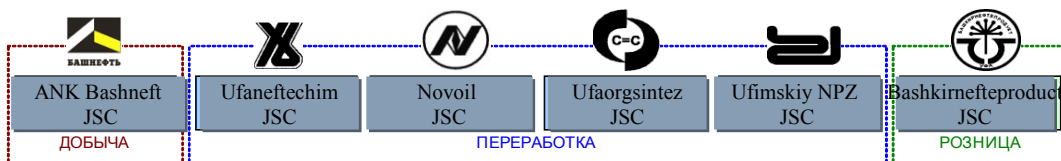
A share of oil products wholesale in the revenue

30%

* Here and subsequently, estimated operational results are provided by Sistema-Invest

Bashkir OEG's operational results are showing a steady upward trend

1.5. Bashkir OEG: daughter and affiliated companies

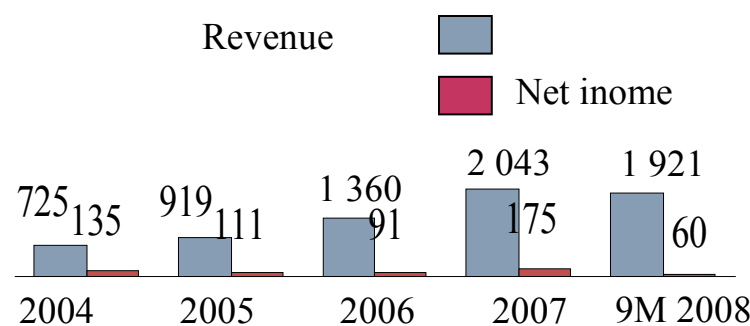


OAO Bashkirenergo



- 50.17% of ordinary shares belong to Bashkir OEG
- 2.59% of all electrical energy production in Russia (10.46% in the Urals)
- 2.29% of Russia's heating supply (61.15% in Bashkortostan)
- Listed 76th among Russia's top 400 companies*

Revenue and net income (USD mln)



* Source: Expert magazine 2007

- Bashkir OEG in addition to oil companies has non-core assets (in transport, energy, telecommunications, the hotel business). The most significant of these non-core assets is OAO Bashkirenergo
- As a result of the deal Bashkir OEG has acquired all the above non-core assets



1.6. Investment feasibility

- ✓ Long term source of growth in AFK's share value
- ✓ A source of stable cash flow for AFK in the form of dividends; favourable impact on AFK's financial indicators
- ✓ Diversification of AFK's investment portfolio; risk reduction
- ✓ The ability to create additional share value using the core competencies of the company in the areas of corporate management and increased operational efficiency

The deal is aimed at enhancing the structure of AFK Sistema's investment portfolio and achieving stable growth in the value of its shares



1.7. Why the oil industry?

- Oil products remain an essential and non-renewable source of energy on a global scale; the consumption of oil products is steadily growing
- The recent fall in oil prices was unprecedented, and it is now most likely that prices will witness a period of long-term growth
- High profit margins within the industry
- Serious asset impairment represents an increased chance to gain access to and enter new investment projects inaccessible on the “ordinary” market
- Low correlation between the oil industry and consumer and telecommunications markets



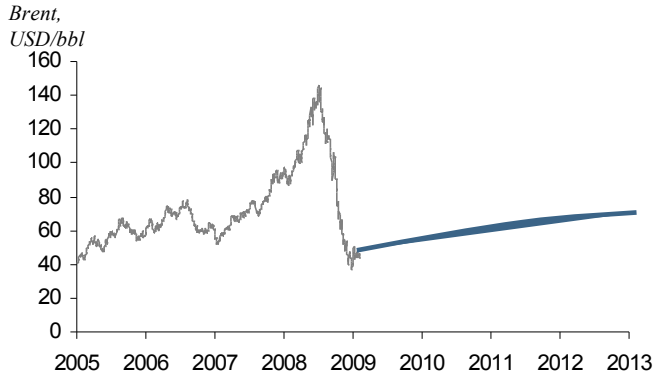
- ✓ Undisputed prospects for growth
- ✓ Oil prices forecast to increase from their current levels
- ✓ Stable source of profits
- ✓ Arm's length price
- ✓ Enhancement of investment portfolio

The oil industry provides a source of long-term growth in share value and also increases opportunities for acquiring assets in current market conditions

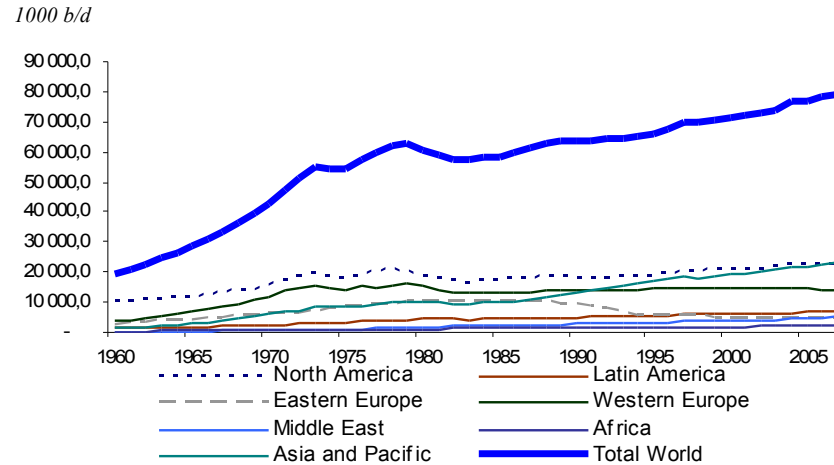
1.8. Key facts



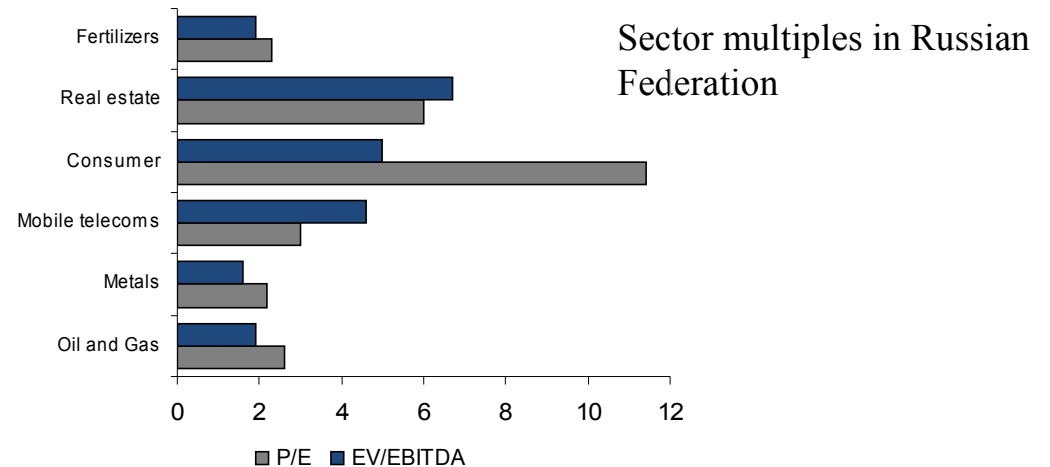
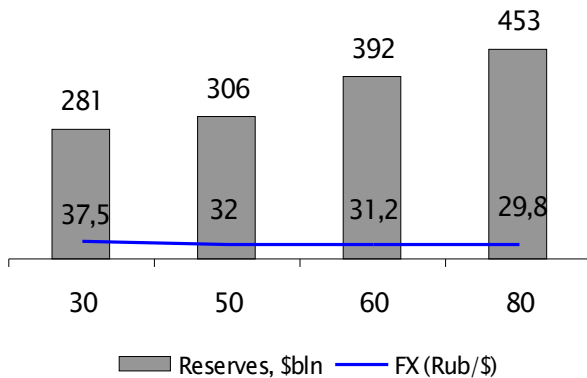
Oil price performance and estimates



World consumption of refined products



International reserves and USD/RUB exchange rate depending on oil prices, 2009 E



The Russian oil&gas sector still has strong growth prospects and remains an important part of the Russian economy



1.9. Deal corresponds with AFK Sistema's strategy

Increased Value

- ✓ Positive effect for AFK's total capitalization with prospects for continued growth
- ✓ Stable cash flow for AFK

Increased profitability

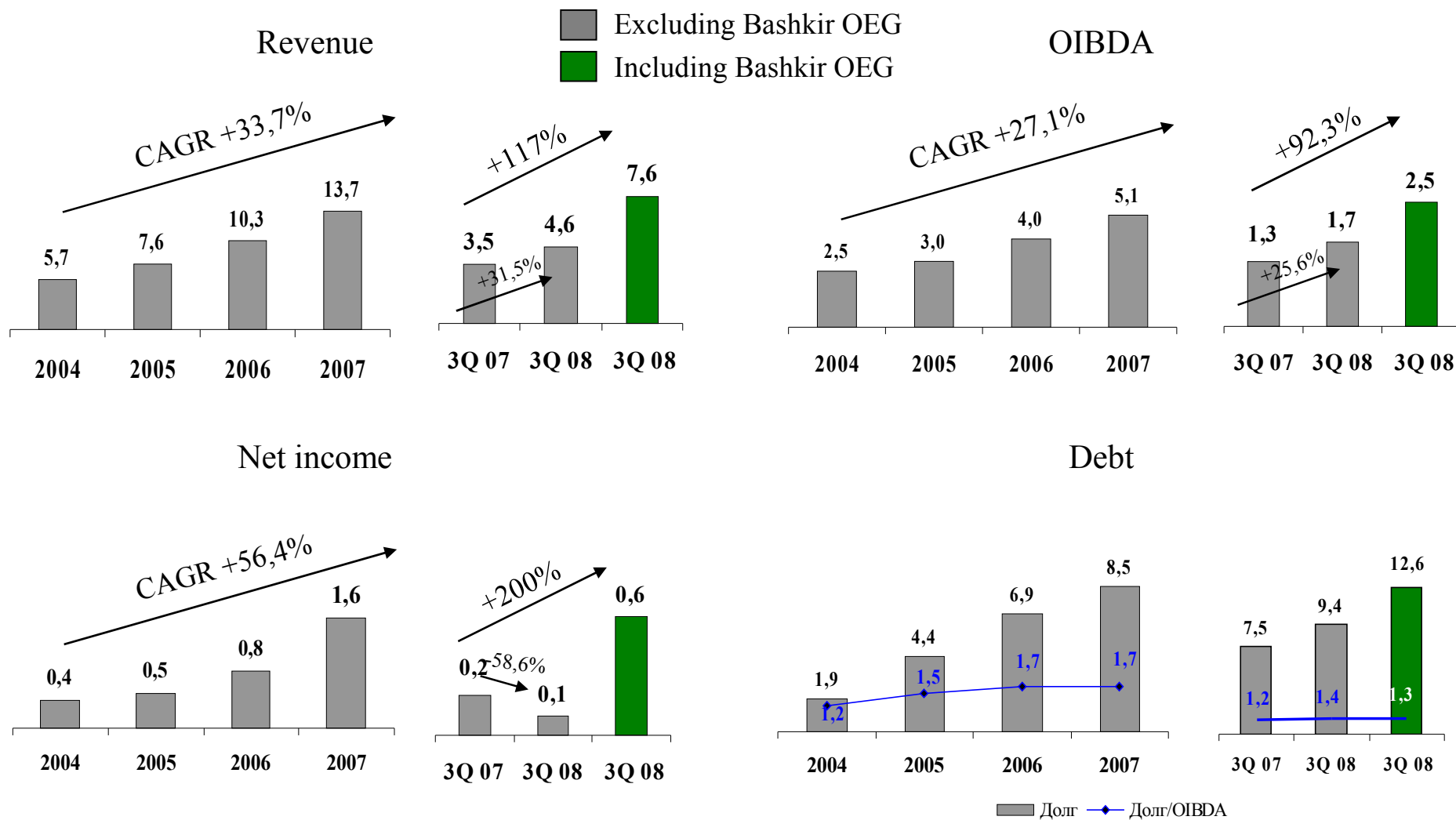
- ✓ The project's operating margins are higher than the average in AFK's portfolio

Diversification

- ✓ A reduction in the segment of telecommunications assets in the portfolio
- ✓ Improving the quality of AFK's sources of income

The acquisition of Bashkir OEG corresponds with AFK's portfolio strategy

1.10. Financial effect of the Bashkir OEG deal (pro-forma Q3 2008)



* OIBDA calculated: income before taxes plus amortization (RAS)

Acquisition of Bashkir OEG will show a positive effect on Sistema's consolidated financials



1.11. The deal from the point of view of AFK Sistema's minority shareholders

- ✓ Access to a unique investment project beyond the reach of normal investors
- ✓ Enhancing the ROIC of the entire portfolio
- ✓ Substantial economic benefit; prospects for stable growth
- ✓ Optimizing the portfolio structure
- ✓ Using debt instruments to finance the deal avoids reducing the stakes of existing shareholders by issuing additional shares

The deal to purchase Bashkir OEG increases share value and does not infringe on the interests of AFK's Sistema's minority shareholders



- Factsheets and transaction rationale

- **Structure and financing of the deal**

- Asset development strategy

Appendix. Bashkir companies profile



2.1 Sources of financing the deal

Source

- Total amount of financing: up to USD 3 billion
- Loan from VTB: up to USD 2 billion.
- Other forms of debt financing: up to USD 1 billion

Conditions

- VTB Loan term: 7 years
- Servicing the loan: with equal-sized installments from the second year
- Loan depreciation: using equal-sized installments from the fourth year
- Currency: US Dollars (USD)

Guarantees

- 1) 17% of shares in MTS
- 2) Shares acquired in Bashkir OEG

The deal is financed using debt instruments

2.2 Plan to close the deal



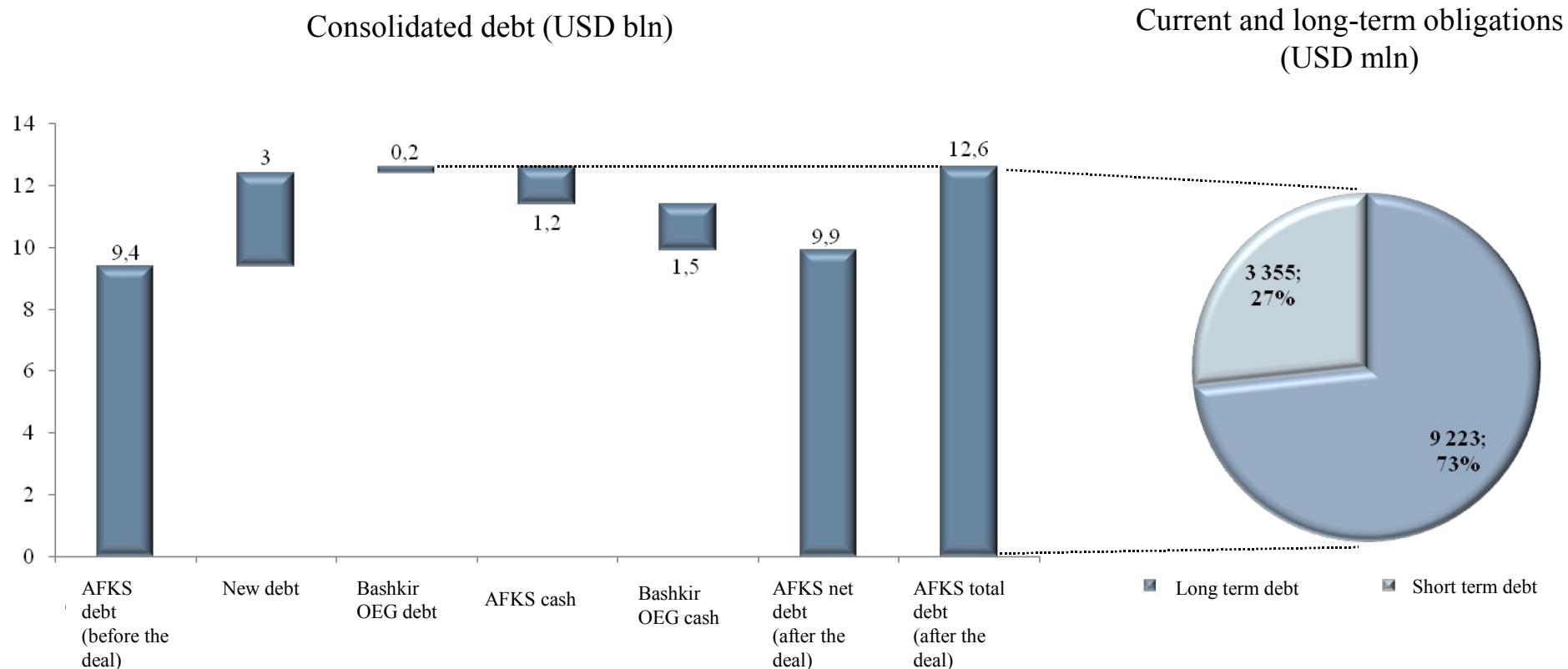
1. Signing of contracts	27 March 2009
2. Execution of contracts: payment of USD2 billion; provision of shares	Within one month after the signing of contracts
3. AFK Sistema makes a mandatory offering to Bashkir OEG's minority shareholders and purchases up to 100% of shares in Bashkir OEG	Within four months after the performance of the transaction
4. Payment of second tranche (USD\$ 0.5 bln)	Before 1 June 2010

AFK Sistema will consolidate the asset within second quarter 2009



2.3. Structure of debt before and after the deal

According to financial statement at end of 3Q 2008 (AFK Sistema + Bashkir OEG)



An increase in debt burden takes place as a result of consolidating with a new business: at the same time, AFK Sistema's net debt/OIBDA ratio is reduced



- Factsheets and transaction rationale
- Structure and financing of the deal
- Asset development strategy

Appendix. Bashkir companies profile



3.1. Strategic development aims

Target position in the industry:

CREATING THE MOST EFFICIENT AND TECHNOLOGICALLY ADVANCED COMPANY IN THE RUSSIAN OIL INDUSTRY, WITH AN EMPHASIS ON OIL REFINING AND PETROCHEMICALS

Line of business:

- Production:
- Refining:
- Downstream:

Strategic priorities:

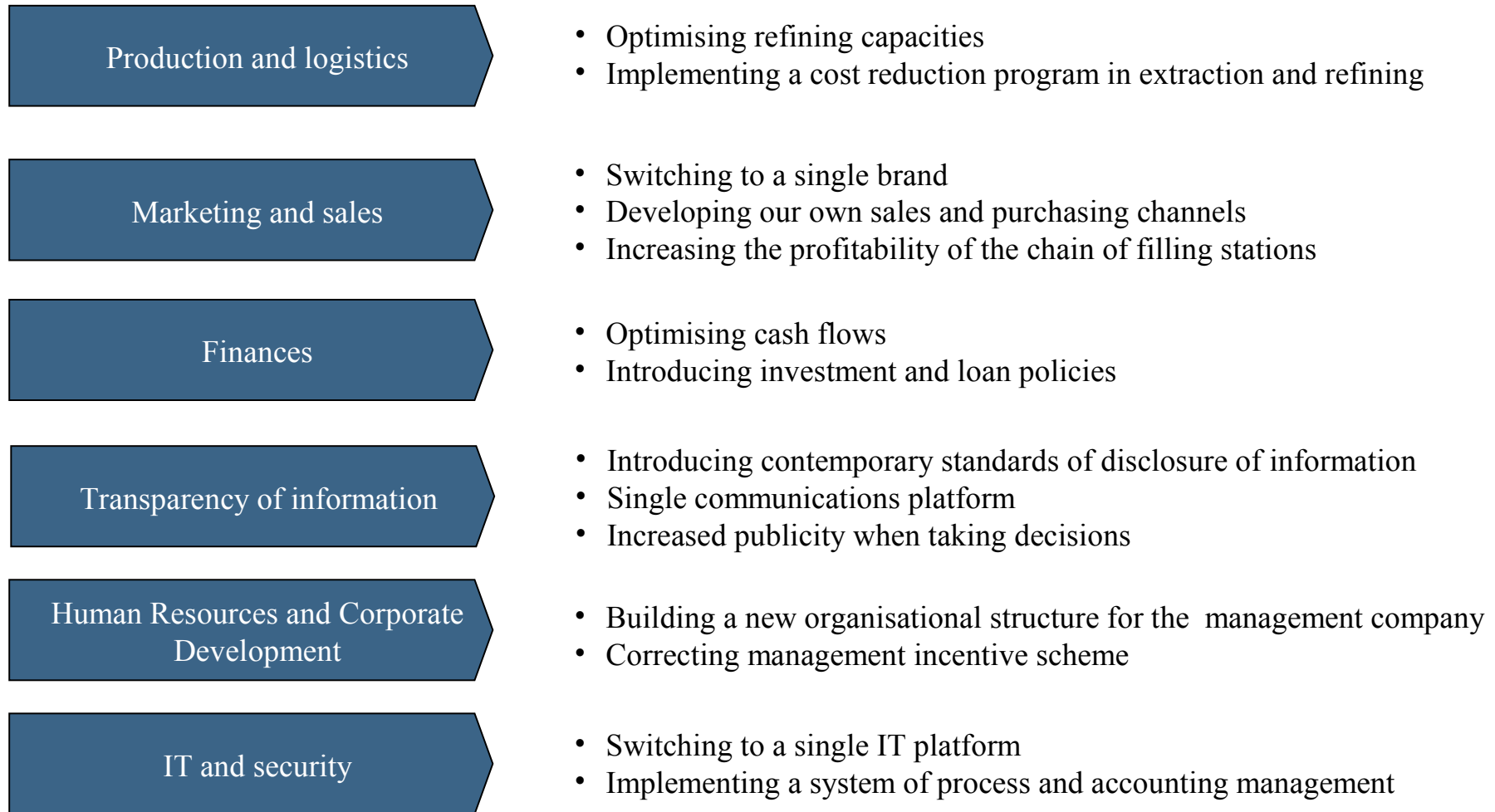
- Increasing production efficiency, optimizing expenses
- Developing new fields
- Optimal balance between the volume of Bashkir OEG's extraction and utilisation capacity of crude oil from other producers
- Increasing both processing depth and product development
- Developing petrochemicals
- Optimal balance between sales through partners and our own retail network
- Studying options for increasing exports of processed oil products



Strategic development consists of building on the base of Bashkir OEG – one of the biggest and technologically advanced players in the Russian oil industry



3.2. Priority steps to be taken

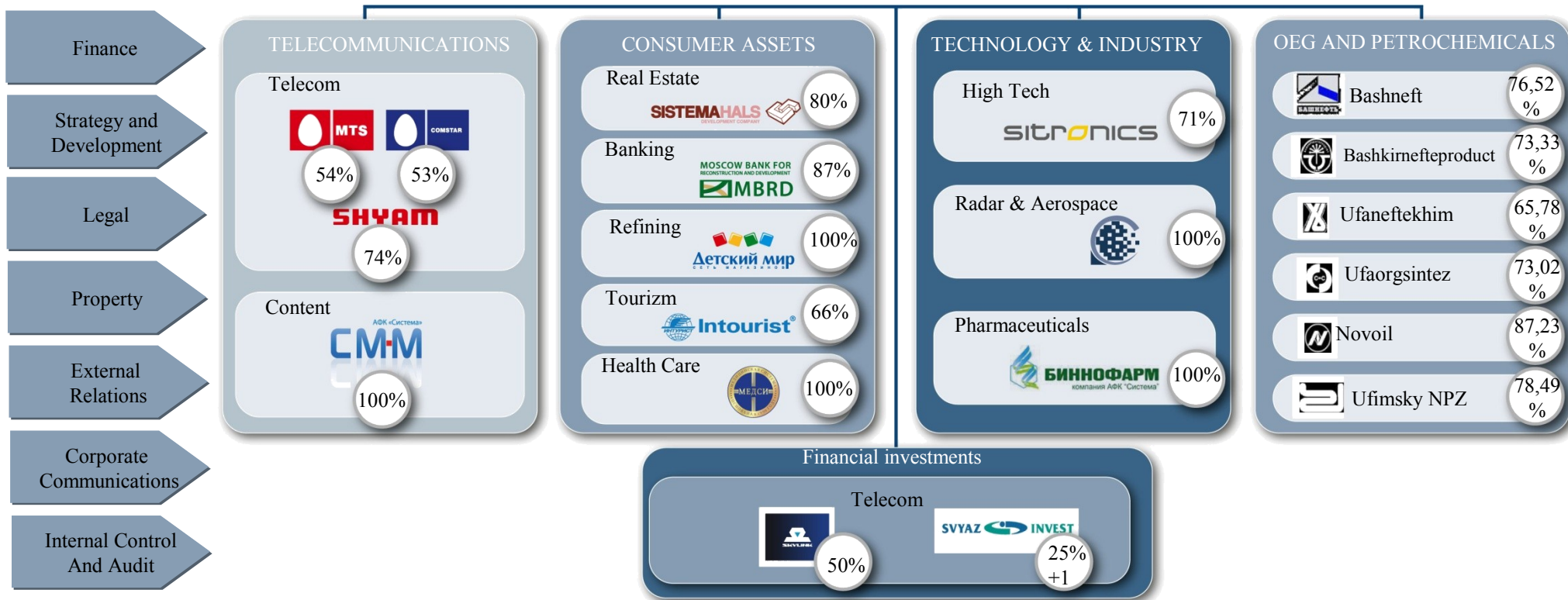


Concrete strategic actions will enable transparency and efficiency within Bashkir OEG to be increased

3.4. Target organizational structure



Functional Units:



The acquisition of Bashkir OEG will lead to a change in Sistema's organizational structure



- Factsheets and transaction rationale
- Structure and financing of the deal
- Asset development strategy

Appendix. Bashkir companies profile

Appendix: Bashneft



History

- 1932 – First pioneer well drilled in the Bashkiria Republic
- 1946 – Creation of Bashneft from Bashneftekhimbkombinata
- 1954 - Bashneft becomes the leading oil producing corporation in the USSR, producing around 13 million tonnes of oil a year
- 1995 - Creation of OAO Bashneft

Operational details

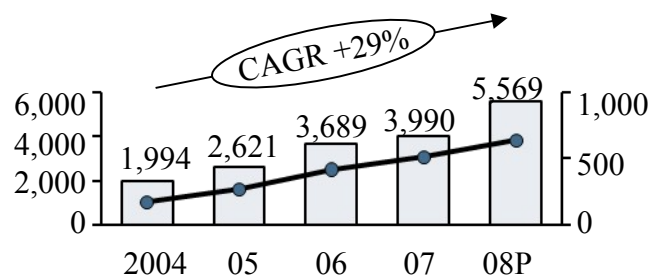
- Deposits are characterized by having a high water content (90%), sterility and a high sulphur content (2% and above)
- Total proven reserves of 300 million tonnes
- Number of employees: 8174



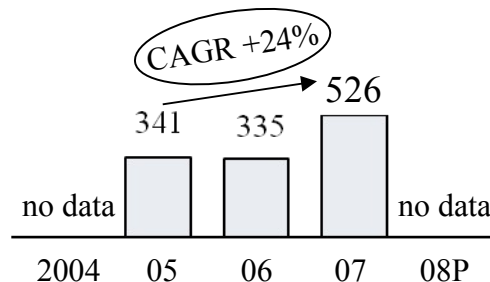
Financial and operational indicators

● Net profit (USD mln)

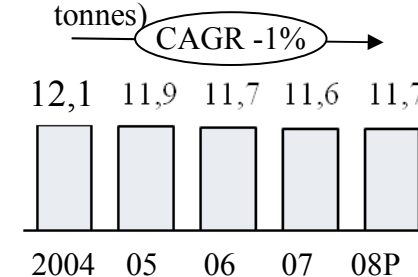
■ Revenue (USD mln)



Capitalisation (USD mln)



Production (mln tonnes)



Bashneft is a profitable company; nevertheless, increasing future production of the company's deposits will require considerable investment

Appendix: Ufaneftekhim



History

1956 – First oil refinery put into operation

End of 1990s – Large scale modernisation of the company

Operational details

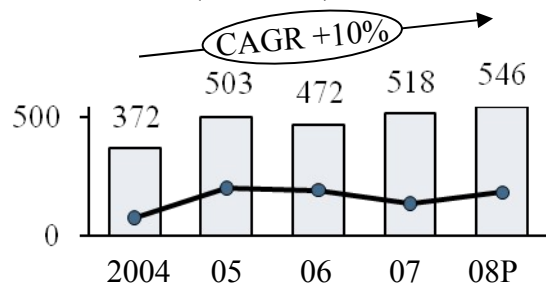
- The company has 90 processing installations, including for the production of aromatic hydrocarbons and fatty acids
- 40% of products are exported to 12 countries, including Germany, the US, Italy and Japan
- Number of employees: 2433



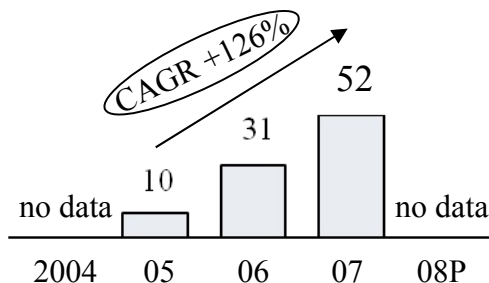
Financial and operational indicators

● Net profit (USD mln)

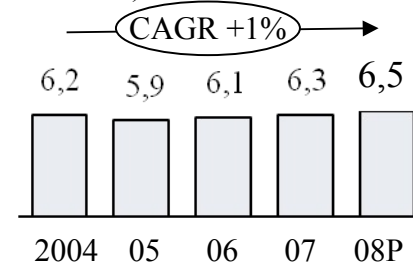
■ Revenue (USD mln)



Capitalisation (USD mln)



Refining (mln tonnes)



Ufaneftekhim is a technologically innovative company; nevertheless, it is operating at below production capacity, preventing the company's potential from being reached

Appendix: Ufimsky NPZ



History

1935 – Begins construction of its plant

1937 – Establishes its first installation

1938 – Produces its first 117 tonnes of petrol using straight-run distillation

Operational details

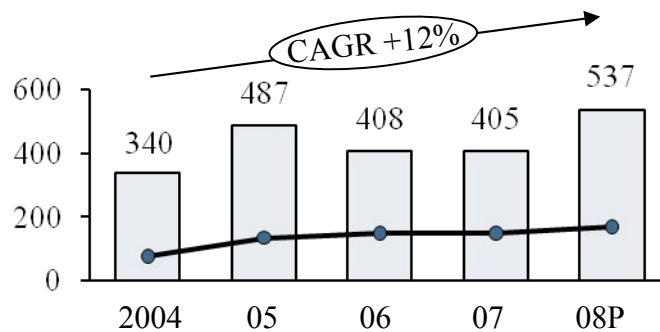
- Occupies 2.9% of the total Russian market share in refining
- Average annual work level: 75%
- Number of employees: 1742



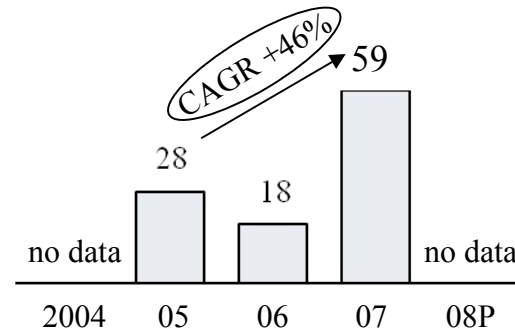
Financial and operational indicators

—●— Net profit (USD mln)

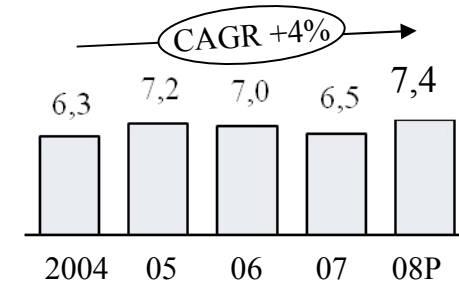
□ Revenue (USD mln)



Capitalisation (USD mln)



Refining (mln tonnes)



Ufimsky NPZ is by volume the largest oil refiner in Bashkiria

Appendix: NOVOIL



History

1951 – HovoUfimsky NPZ (Novoil) begins production

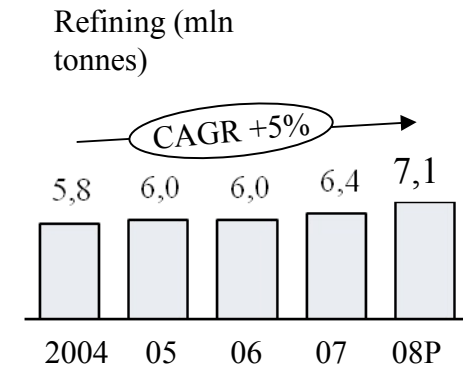
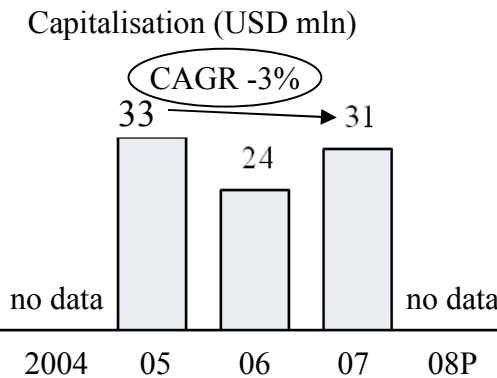
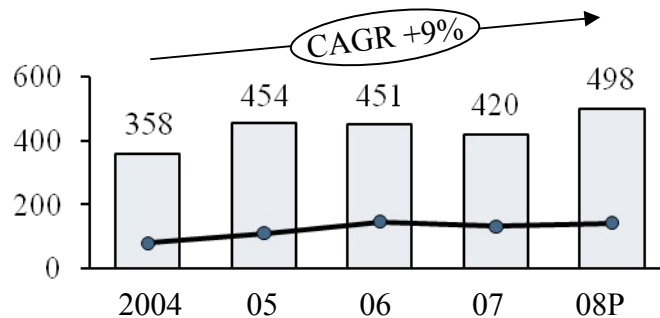
Operational details

- Occupies a 2.8% share of the Russian market in oil refining
- Average annual work level: 55%
- Number of employees: 2117



Financial and operational indicators

● Net profit (USD mln)
 □ Revenue (USD mln)



Novoil is considered one of the most hi-tech companies in the oil refining industry

Appendix: Ufaorgsintez



History

1956 – Year the plant was founded

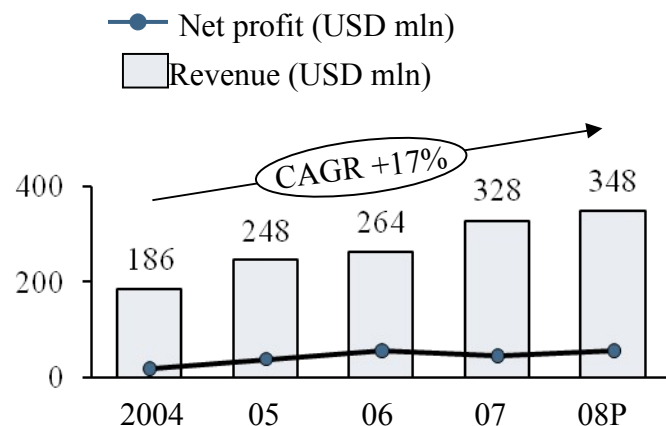
1997 – Production of polypropylene with an annual capacity of 100,000 tonnes put into operation

Operational details

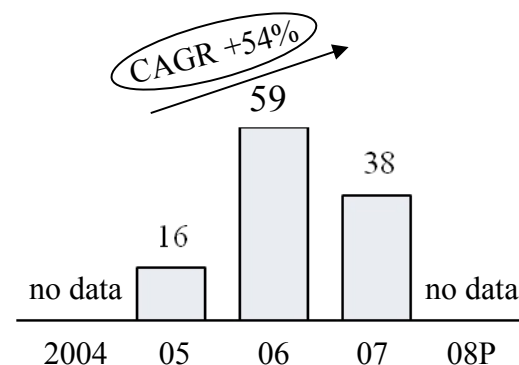
- One of the largest Russian companies producing organic synthetics and polymer materials
- Third Russian company to produce polypropylene
- 30-40% of the total Russian production of phenol, propanone, and polypropylene
- Annual average level of production: 660,000 tonnes
- Number of employees: 2742



Financial indicators



Capitalisation (USD mln)



Ufaorgsintez is the Russian market leader in producing a range of organic chemicals products

Appendix: Bashkirnefteproduct



History

1951 – Rapid construction of five oil depots

1959 – The USSR Council of Ministers rules that all common use filling stations be transferred to the oil system supply

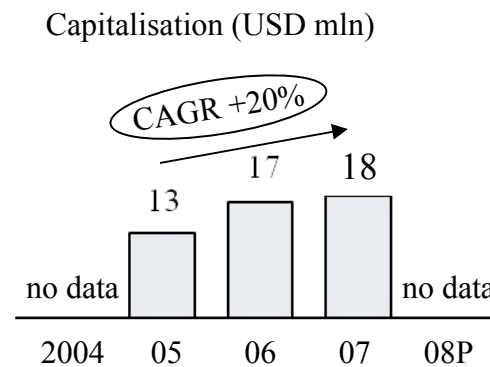
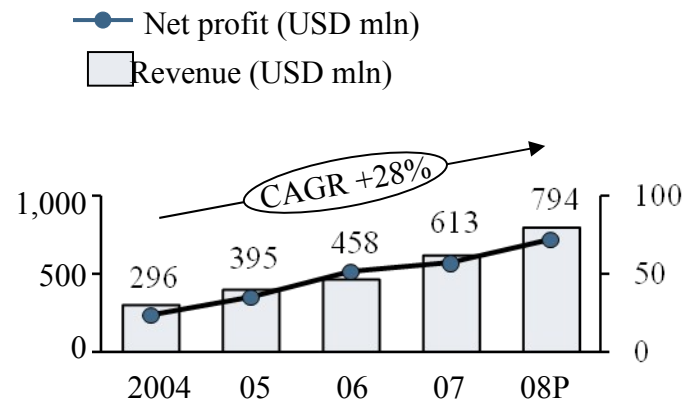
1994 – Creation of OAO Bashkirnefteproduct

Operating parameters

- Multiple economic features, including 20 branches across the republic
- Storage plant enables more than 600,000 cubic metres of oil products to be stored simultaneously
- The company owns 237 filling stations and rents a further 80 filling stations
- Number of employees: 4622



Financial indicators



Bashkirnefteproduct owns a large network of filling stations in the republic but has a limited presence in Russia



JOINT-STOCK FINANCIAL CORPORATION
SISTEMA

Thank you for your attention

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